

# THE BOND BUYER

## Lions and tigers and municipal bonds

By

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Only 1.3 miles from the Gulf of Mexico on flood-prone land, the Alabama Gulf Coast Zoo has endured multiple hurricanes that forced the evacuation of hundreds of animals.

A new facility, financed with \$27 million of municipal bonds, is being built outside of the flood zone with buildings that can withstand severe category 5 hurricanes.

“It’s so exciting to have the new zoo being built,” said zoo director Patti Hall.

The deal to build the new zoo was structured as \$23.73 million of tax-exempt bonds and \$3.4 million of taxable bonds. It closed on Feb. 27.

Hall said she was ecstatic when Nuveen purchased the bonds.

“We must be really small potatoes to them,” she said. “I feel a lot of gratitude.”

Bond attorney David Ringelstein said it was his first time financing a zoo built from the ground up, although he worked on three other deals over the past 15 years that funded improvements at existing zoos.

The Alabama borrowing was unique because munis typically finance infrastructure such as roads, schools, and governmental buildings, said Ringelstein, a shareholder at Maynard Cooper & Gale.

“A zoo is pretty rare,” said Ringelstein, who calls himself “an animal lover” by every measure of the word. “It’s not every day I get to finance animal habitats.”

Even though the Gulf Coast Zoo bond issue was small by market standards, he said concerns arose during the preparation of the deal, notably late last year when it appeared that Congress would bar the use of private activity bonds after Dec. 31.

With the threat on the table that tax-exempt nonprofit entities could lose the ability to issue tax-exempt debt, Ringelstein said the financing team, including underwriter Raymond James & Associates, “hit overdrive” to put the deal on a fast track.

The Public Finance Authority in Wisconsin was chosen to be the conduit issuer because of its established experience.

“We thought our ability to get it in front of [the PFA] quickly was greater than trying to identify a local issuer,” Ringelstein said. “They have a workable platform that could work for us given the timeframe we had.”

When the final Tax Cuts and Jobs Act preserved private activity bonds, the pressure was off to sell the zoo’s bonds as quickly.

There were also complexities structuring the deal, Ringelstein said, because the zoo is an Alabama nonprofit corporation exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

The deal included financing for a sit-down restaurant that will be accessible to patrons from outside the zoo. It will also be open when the zoo is closed.

Ringelstein said that element raised concern about whether the restaurant’s activities would be considered unrelated trade or business that could jeopardize the zoo’s 501(c)(3) status.

In an “abundance of caution,” he said, an Alabama corporation called the Gulf Coast Zoo Food & Beverage Inc. was created as a taxable affiliate of the zoo to operate the food and beverage businesses. The structure also provides the zoo an option to have a third party operate the food and beverage businesses.

That structure led to the issuance of taxable bonds to finance the restaurant.

“We took the most conservative approach,” Ringelstein said.

The tax-exempt bonds were sold with an interest rate of 6.5% and have a final maturity in 2048. The taxable bonds sold with a 6.75% interest rate and final maturity in 2029. Both have annual mandatory principal redemption requirements.

The underwriter certified the unrated deal as a limited offering exempt from Rule 15c2-12 disclosure requirements, according to information posted on the Municipal Securities Rulemaking Board's EMMA website.

As equity for the project, the zoo initially placed \$1 million of its money into an operating reserve as required by the indenture.

Bond proceeds are being used to construct and equip the new zoo on a 25.46-acre donated site and to purchase 71.6 acres of unimproved property adjacent to the zoo for parking. The additional land can also be used to expand the zoo but Ringelstein said there are no plans to do that now.

The debt is a special, limited obligation of the PFA secured by payments from The Zoo Foundation doing business as the Alabama Gulf Coast Zoo under a loan agreement.

The bonds are secured by a first priority lien on gross revenues of the zoo and the taxable affiliate, which include revenues from admission, food and beverage sales, and merchandise, as well as a first priority mortgage on the new zoo and adjacent property.

“A zoo is pretty rare” in municipal bond finance, said bond counsel David Ringelstein, a shareholder at Maynard Cooper & Gale.

Local and state officials are also supporting the project.

The city of Gulf Shores agreed to contribute \$1 million for the operating reserve once the zoo opens. When that happens, Ringelstein said the zoo will be reimbursed the \$1 million it placed in reserve initially.

Alabama Gov. Kay Ivey signed House Bill 118 on April 6, which exempts the zoo from paying state and municipal sales taxes over next four years.

“It’s really a push to help a local nonprofit,” said Ringelstein. “It will help the zoo reinvest that savings back into operations.”

Hall, the zoo director, said after Hurricane Ivan struck in 2004 followed by hurricanes Dennis and Katrina in 2005, the zoo couldn’t move forward with a replacement facility until last year.

The hurricanes, the recession, and Deepwater Horizon oil spill in 2010 were among the events that “tapped us out as far as trying to get \$27 million to build a new zoo,” she said.

Although no oil from the Deepwater Horizon spill reached the zoo, the disaster severely dampened tourism in Gulf Shores. Hall said the zoo received \$425,000 for economic damages from BP.

Animal Planet produced “The Little Zoo That Could,” a 14-part behind-the-scenes [documentary](#) that tells the story of the zoo's efforts to endure the

hurricanes, which prompted evacuations of 300 animals. Episodes are still available for purchase online and a portion of the sales go to the zoo.

After the first episode aired, Hall said a contributor donated 25 acres for the new zoo.

The new site is located between large municipal sports complexes owned by Gulf Shores, Foley and Orange Beach, which represent a growing tourism segment for the region,

In July 2017, the Park at OWA opened about 10 miles north of Gulf Shores. The 21-ride amusement park offers shopping and dining and is a joint venture between the Poarch Band of Creek Indians and the city of Foley.

The existing zoo has grown to 600 animals since the early 2000s. It is expected to close in September 2019 to move animals to their new home.

The new zoo is projected to open in December 2020, and will be first one built in the U.S. in about two decades.

The timeline means the zoo will go through at least one June-through-November hurricane season at the existing location. But if an evacuation is necessary, Hall said a shelter was built five years ago at the new site using donations and funds from the Animal Planet series.

“I’m just hoping the good Lord will give us another year,” she said.