THE BOND BUYER

Green label backs retail push on Illinois revolving fund deal

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The Illinois Finance Authority is teeing up its latest state revolving fund issue in a $450 million sale that offers investors the combination of a rare, high-grade Illinois state bond and a first-time green bond label.

The bonds will get a retail order period Tuesday, even though interest on the bonds is not exempt from state income tax. Past sales have seen decent retail participation so the hope is to improve the results when the bonds are priced for institutions on Wednesday, IFA officials said.
Bank of America Merrill Lynch and Citi are senior managers.

“We are delighted to float the first Illinois Green Bonds, especially during Water Week, when our nation focuses its attention on the unique need for drinking water and clean water utilities,” IFA executive director Chris Meister said, referencing the national policy event promoted by advocacy groups that includes congressional lobbying efforts over the course of the week.

“These AAA-rated bonds will lower costs for local governments to build these essential water projects, while saving Illinois citizens money. For these reasons, we hope that these bonds will appeal to an even broader group of investors,” Meister added.

The funded projects, approved by the Illinois Environmental Protection Agency, which administers the SRF program, adhere to federal Clean Water Act and Safe

Drinking Water Act rules and “green bond principles” that require annual reporting.

Proceeds will fund loans to finance eligible wastewater treatment and sanitary sewerage facilities and drinking water facilities and cover $23 million in state matching funds needed to leverage federal funds.

Fitch Ratings and S&P Global Ratings affirmed their AAA ratings on the SRF bond program. The bonds mature through 2041. Five firms are co-managers. Acacia Financial Group Inc. and Sycamore Advisors LLC are advising the authority. Katten Muchin Rosenman LLP is bond counsel.

The deal marks the IFA’s fourth under an expanded program dubbed the Clean Water Initiative with previous financings in 2013, 2016, and 2017. The IFA’s predecessor authority sold SRF bonds in 2002 and 2004.

IFA expects issues every 12 to 15 months going forward.

“While demand for the program will drive our issuance schedule, the Illinois Environmental Protection Agency expects loan demand in fiscal year 2020 for both Clean Water and Drinking Water loans of similar magnitude,” the IFA said.

The revolving fund is promoted as an affordable means for local governments and utilities across the state to overhaul aging clean water and wastewater infrastructure with the current base interest rate at 1.84% for both the clean water and drinking water programs.

A total of 883 loans totaling $3.68 billion in principal are outstanding or are pledged. About 79% are secured by local borrower revenue pledges and most others by a general obligation property tax supported pledge. After the deal, about $1.48 billion of bonds will be outstanding.

The clean water and drinking water funds are cross-collateralized providing for over-collateralization and to date there have been no pledged loan defaults in any of the IEPA state revolving fund programs.

“With this issue, the total program size will be expanded which, in turn, will lead to improved diversity,” Fitch said.

The 10 borrowers with the largest outstanding loans account for 57% of the total outstanding balances of pledged loans.

The Metropolitan Water Reclamation District of Greater Chicago is the largest participant, with $686 million in loans outstanding, about 21.4% of the pool. MWRD carries double-A to triple-A ratings.

Chicago is second with a $630 million loan balance that accounts for 19.7% of total loans.

The IFA approved the financing at its February monthly meeting. Other deals signed off at the February or March meetings include $35 million for the Ferrell Hospital Community Foundation to finance renovations and an expansion of its 25-bed critical access designed hospital in Eldorado.

The critical access designation is provided by the Centers for Medicare and Medicaid to support rural hospitals and it allows for higher reimbursement levels. Old National Bank in Evansville, Indiana will purchase the bonds directly.

The unrated National Louis University, which operates campuses in Chicago and suburban Chicago, received approval for its $27 million new money and refunding issue. The bonds are being purchased directly by PNC Bank NA.

The IFA board also signed off on Provident Group – UIUC Properties LLC’s $100 million issue to finance a Campus Instructional Facility and Feed Technology Center at the state flagship University of Illinois at Urbana-Champaign. RBC

Capital Markets is the senior manager and ratings are expected from Moody’s Investors Service and S&P.

The 32-year bonds are not an obligation of the university. Provident Group – UIUC Properties LLC will send facility lease payments made by the university directly to the bond trustee Wilmington Trust NA.

The project ownership and financing structure is similar to seven prior state conduit financings for facilities developed at state universities as public-private partnership projects dating back to 1997.

Steppenwolf Theater Co. received approval for its $40 million transaction to help finance its recently unveiled expansion project. The bonds will be a secured by a direct pay letter of credit from Northern Trust Co. and underwritten by PNC Capital Markets LLC.

“The facility expansion to be partially financed with IFA bond proceeds will enable Steppenwolf to serve an increased annual audience and an increased number of students served from Chicago area high schools by providing dedicated space for education supporting both Steppenwolf for Young Adults and The School at Steppenwolf,” IFA documents state.

The board also signed off on a $200 million taxable Property Assessed Clean Energy revenue bond that will initially be purchased by Counterpointe Sustainable Real Estate LLC, which is serving as capital provider. Proceeds will be lent to owners of privately owned commercial, industrial, nonresidential agricultural, or multifamily properties to finance qualified energy projects.