

With Two Upgrades, Harris County, Tex., to Sell Toll Road Bonds

By Elizabeth Albanese

DALLAS — With rating upgrades from **Standard & Poor's** and **Moody's Investors Service**, the **Harris County, Tex., Toll Road Authority** will go to market on Monday with \$480 million of toll road senior-lien refunding bonds.

Citigroup Global Markets Inc. is the deal's lead manager, with **Bear, Stearns & Co.** serving as co-senior. The rest of the underwriting team is composed of **A.G. Edwards & Sons Inc.**, **Banc of America Securities**, **J.P. Morgan Securities Inc.**, **Morgan Stanley**, **Piper Jaffray**, **Samuel A. Ramirez & Co.**, and **Siebert Bradford Shank & Co.**

First Southwest Co. is the authority's financial adviser, and **Fulbright & Jaworski** serves as its bond counsel. **Andrews & Kurth** is special disclosure counsel, and

Locke Liddell & Sapp will serve as underwriters' counsel for the transaction.

Included in the deal are \$335 million of Series 2004B-1 toll road senior-lien revenue refunding bonds and \$145 million of Series 2004B-2 toll road senior-lien revenue refunding bonds. All of the debt will refund bonds sold in 1994.

The Series 2004B-1 bonds will be priced as fixed-rate securities in a serial structure with a final maturity of 2021. The Series 2004B-2 bonds will be priced as variable-rate securities with a five-year put structure, said Harris County finance director **Edwin Harrison**.

"We might fix those out in five years, depending on the short-term interest situation," he said, adding that the debt service savings from the refunding fall anywhere between \$40 million and \$70 million.

The bonds are likely to be insured, al-

though Harrison said a final determination about insurance would not be made until pricing.

"It usually is efficient to use insurance, but we'll decide that when we price the bonds," he said.

This week **Standard & Poor's** upgraded the toll road authority's rating to AA-minus from A-plus, citing high demand for the roads in the system and sound fiscal management by county officials. **Moody's** yesterday raised the authority's debt rating to A1 from A2.

Fitch Ratings rates the authority's debt A.

"We really thought that **Standard & Poor's** would raise our rating to AA," said Harrison, adding that he believes **Fitch** and **Moody's** rate the bonds too low. "They seem to be looking for a reason not to upgrade us to AA. Compare us and other toll roads in the United States — coverage, mileage, the whole nine yards. We are usually head and shoulders above the others, with coverage rates around 5.23 times on our senior-lien revenue bonds. But they are talking about our pooled projects, and we lose out there."

Harris County commissioners in the 1990s approved a pool of projects that the toll road authority could take on at some point in the future. **Fitch** analyst **Cherian George** said that the lack of a capital plan outlining when those projects would be built creates concern that the authority might take on too

much debt at some point in the future.

"We have acknowledged for some time that their profile is stronger than the traditional A benchmarks," George said, but he added that such factors as a lack of any policy about variable-rate debt exposure levels is one cause for concern. "They also have no clearly defined capital planning process, and that raises the possibility that they could undertake some projects that would cause their current financial flexibility to shrink."

Moody's analyst **Edward Roche** said that his agency upgraded the toll road authority's debt for a number of reasons.

"The fact is that traffic on the system's roads has consistently increased over the years," he said. "In addition, they increased toll amounts last November and saw little material impact on traffic and a positive impact on revenues."

The toll road authority increased tolls by 25 cents in November, a move that, based on current estimates, will increase overall revenues by about \$75 million a year.

Strong cash flow was a major impetus for **Standard & Poor's** upgrade of the toll road bonds.

"They have a whole lot of cash," said analyst **Laura MacDonald**. "The fact is their track record has been very strong. We talked with them about how they proceed with capital projects. They won't build a project unless they believe it will be self-supporting. We felt comfortable with their process." □

Trustee for Vigo County, Ind., Agency Taps Reserve Fund for Debt Service

By Elizabeth Carvlin

CHICAGO — A material event notice was filed this week for the \$19 million of outstanding 1998 taxable bonds issued through the **Vigo County, Ind., Redevelopment Authority** after the trustee tapped into reserves to pay debt service because of the lateness of the county's tax collection, which was tied to a statewide tax reassessment.

Old National Trust Co., the trustee, paid its February debt service payment from the debt service reserve fund for the economic development lease rental bonds that the authority issued for **Heartland Steel Inc.**, then a startup company, in 1998.

As with most Indiana counties, Vigo received its 2002 tax payments late in 2003 because of a statewide change in the way property taxes are assessed. The state changed its assessment to a market value system rather than a depreciation system, which meant the county had no tax rate for 2002 until late in 2003, said **Steve Witt**, the county's director of the Department of Redevelopment.

The tax assessment change has affected at least one other bond deal in the state. **Standard & Poor's** yesterday lowered its rating on about \$12 million of outstanding general obligation bonds issued for **Shelby County** through the **Shelby County Courthouse Annex Building Corp.** The rating was dropped to BBB-plus from A largely because of a "structural imbalance between revenues and expenditures that has been exacerbated by the late mailing of 2003 tax bills," the agency said.

Shelby County's outlook is negative, based on the agency's expectation of short-term problems because of the late property tax payments after the 2003 reassessment.

Shelby lacks a long-term plan to bring revenues back into line, analyst **Michael Zinman** stated in a news release.

"Without regaining balance over the near term and demonstrating the ability to maintain balance over the long term, further rating action could be warranted," he said.

Vigo County completed its tax bills by December, and taxes, which are normally

collected in May and November, were collected by the end of December, said Vigo County auditor **Jim Bramble**. Because of the short timeframe, the county paid bills late, including a lease payment to the trustee, Witt said.

The debt service on the bonds was due in February, and the debt service reserve has since been replenished, according to the material event notice. The bonds were issued when **Heartland Steel** was a startup company, Witt said. **Heartland**, which filed for bankruptcy, is now owned by **CSN**, a Brazilian steel company.

Many Indiana counties, cities, and schools, including those in Vigo in the west central part of the state, have turned to tax anticipation warrants to bridge the gap between tax collection and bills coming due, Witt said.

Indiana localities issued \$440 million of short-term tax anticipation warrants in 2003, up from \$203.8 million sold in 2002, according to data from Thomson Financial. The first year for the new assessment was 2002, affecting the 2003 tax collection. The unpredictability of the outcomes of assessment meant that counties had to estimate their tax bills, and then issue the final amount when the assessments were completed.

Of the 92 counties in the state, more than 80 have sent out tax bills for 2002, said **Kostas Poulakidas**, deputy commissioner for the **Indiana Department of Local Government and Finance**. Another seven counties' budgets, which list their needs from property taxes, have been approved, he said.

"We anticipate in the next month or so, a large chunk of the remaining counties will send out their bills" for 2003 payments, Poulakidas said, referring to 2002 assessments. "Right now we have 15 budgets approved for the ... 2004 [payments]. This year we're anticipating that by the November pay date, everyone would be on track."

In addition to the **Heartland Steel** bonds, Vigo County issued other bonds for a **Staples** distribution center, Witt said. **Staples** made up the most recent shortfall to pay the trustee, he said. □

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