THE BOND BUYER

REPRINTED FROM JULY 27, 2020

Siebert Williams Shank anticipates record underwriting year in Texas

By Richard Williamson

Despite pandemic and upheaval in the Texas economy, Siebert Williams Shank & Co. is anticipating a record year in the state for the minority and women-owned firm that senior managed several major deals recently.

"A minority or women-owned firm has never done more than $2 billion in Texas, and we're on pace for more than $3 billion of senior managed par," said Keith Richard, managing director and head of Texas Region for SWS. "In my 20-plus years in public finance, this is the strongest demand I've seen for municipal bonds."

Statewide, volume from all issuers was up nearly 54% in the first half of the year to $25.5 billion, according to the data collection firm Refinitiv. Texas ranked second among states behind California. With 12 transactions valued at more than $1.75 billion, SWS ranked fourth in the state among senior managers for the first half.

"While we had a pause in April, our market has been surprisingly strong," Richard said. "I'm actually surprised. Our deals have been incredibly robust."

As the second half of the year began, Siebert was senior manager on a Dallas-Fort Worth Airport refunding of $391.7 million of tax-exempt revenue bonds that produced net present value savings of 27%, so significant that the airport advanced the sale of two other deals valued at roughly $1.6 billion.

A downgrade to the airport from S&P Global Ratings to A from A-plus, with a negative outlook, did not appear to hinder investor appetite.

"We had multiple investors who said they thought DFW was under-rated," Richard said. "They felt it was a very strong credit."

DFW chief financial officer Chris Poinsatte said that SWS's reading of the market led the airport to expedite two other refunding deals worth $1.6 billion to July. A second tax-exempt refunding on Thursday, in which Ramirez & Co. ran the books, saw similar savings.

"In my 20- plus years in public finance, this is the strongest demand I've seen for municipal bonds," said Keith Richard, managing director at Siebert Williams Shank & Co.

"Siebert does a really good job of reading the tea leaves," Poinsatte said of the July 13 deal. "I think they have a good sense of the market and have always done a good job for DFW."

An earlier landmark deal for SWS came July 6 when the firm led a $350 million tax-exempt issue for the Texas Water Development Board. It was the largest transaction for a state of Texas issuer by any minority or women-owned business firm, officials said.

The triple-A-rated bonds were structured to generate an aggregate $430 million project fund, with principal maturing serially through 2040 with a 10-year call option at par.

With 80% of the total principal subscribed within the first 30 minutes of being offered, the SWS-led syndicate generated more than $1.7 billion in orders from 61 institutional investors, making the overall transaction nearly five times oversubscribed.

The deal was moved to May 18 from May 19.

"We thought we were starting at a pretty aggressive point, and even through that, there was a lot of interest," Richard said. "After the initial order period, we adjusted 6 to 13 basis points lower in yield. So, we decided to take advantage of the momentum we already had. We felt we had investors ready to buy at that moment. We recommended let's get it done."

SWS recommended reduced yields across all maturities except 2029, ranging from 1 to 9 basis points, bringing a true interest cost of 1.988%.

"By closely analyzing rapidly-developing bond market conditions, Siebert Williams Shank priced the issuance to reduce yields and save money for taxpayers across our state," said TWDB chairman Peter Lake.

"The first five maturities of the transaction 2021 to 2025 priced at negative spreads to MMD," Richard said, referring to the Municipal Market Data yield curve. "I've never seen that for a Texas transaction. I've seen that in other regions.

On June 30, SWS senior managed San Antonio's $450 million of refunding bonds. The deal was SWS' 11th as senior manager for the city and its first exceeding $450 million.

Originally scheduled to price on April 20, the transaction was delayed twice due to the effective market shutdown that began on March 9 and the unprecedented lockdowns across the country due to the COVID-19 pandemic.

The $28 million tax-exempt series was issued to current refund outstanding bonds while the $444 million taxable series was issued to current refund and advance refund outstanding bonds for debt service savings.

Initially the preliminary par amount of both series came to $264 million, but as pricing week approached, lower interest rates provided an opportunity to upsize the refunding transaction to about $472 million, an increase of $208 million.

SWS began the indications of interest on the taxable series about 2 to 15 basis points lower than the underwriting syndicate's average price views for the first nine maturities through 2029.

At the end of the indications of interest period, those maturities were between 1.22 to 5.34 times oversubscribed, for an average of 3.3 times. Every maturity was oversubscribed except for the 2033 maturity which was 70% subscribed.

More than 50 investors had priority orders of $1.15 billion.

After the reduction in spreads, the bonds generated present value savings of $51.79 million or 12.09% of the refunded par, the firm said. On an average annual basis, the refunding bonds produced gross debt service savings of $3.9 million from FY2020 through FY2034.

The record-low yields that issuers are enjoying come in a major recession brought on by the COVID-19 crisis accompanied by weak oil prices that have tripped up the fast-growing Texas economy. The current crisis comes 12 years after the 2008 global financial crisis, when Richard was at Bank of America Securities, having left ill-fated Lehman Brothers in 2007.

Richard said his decision to leave Lehman was not due to signs of trouble but just his readiness for a change. He recalls the "crazy turbulent" second week of September 2008 when his newborn child had to be hospitalized in Houston for an ailment just as Hurricane Ike was coming ashore.

"I was getting constant calls about what was happening in New York. It was like, 'Wow, Bank of America just bought Merrill Lynch!'"

Richard rejoined SWS in 2016. His first job in public finance was with the firm's predecessor Siebert Brandford Shank & Co., which evolved into Siebert Cisneros Shank & Co. in 2016. SWS was formed in a 2016 merger with The Williams Capital Group, L.P.

Richard still lives in the Houston area near his hometown of Clear Lake City, home of NASA's main operations.

"There was an astronaut living on every street, and there was no problem getting help with your math homework," Richard, 45, recalls.

"I was brainwashed to believe I had to be a doctor, so I enrolled in biomedical engineering," he said. "After about a year of that I realized I was more inclined to business and finance."

Richard's wife Jennifer Christensen, a doctor of pharmacy, works under contract for NASA. The couple have three children, ages 7, 9 and 11.

With the coronavirus wreaking havoc on the Houston area, Richard has adjusted to working from home while being a father to children unable to attend school.

"We're naturally concerned about how that affects their growth," Richard said. "In terms of doing our jobs, it's definitely doable. I think we're no different than a lot of couples."