

THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

Nashville Convention Deal Waits On Change to State's Usury Law

Wednesday, March 3, 2010

By [Shelly Sigo](#)

BRADENTON, Fla. — The bond financing for Nashville's proposed new convention center has been delayed pending action on a bill by the Legislature that, if passed, would grant an exception to Tennessee's usury law regulating interest rates on municipal debt.

The Metropolitan Government of Nashville and Davidson County Convention Center Authority, a new credit, plans to sell \$564 million, or 90%, of the revenue bonds for the project as taxable Build America Bonds. It was initially thought that the bonds would price the week of Feb. 22 with Goldman, Sachs & Co. as senior manager.

But Nashville has asked lawmakers for an exception to the usury law because it is unclear whether the 35% interest interest subsidy for BABs from the U.S. Treasury can be included in the interest-rate calculation, said Jeff Oldham, the authority's bond counsel at Bass Berry & Sims PLC.

"This is just a clarification of state law to make sure BABs and their higher stated coupons don't trip up against a technical usury statute," he said. "BABs offer us a good deal and because of the way they are structured with a taxable interest rate, we don't want to go into a market with any doubts."

Tennessee has had a usury law since 1979 regulating the maximum interest rate on muni bonds. The law was instituted when the prime and interest rates were much higher. The current rate is 4% over the prime rate, or 7.25%, said Mary-Margaret Collier, director of the state's Division of Bond Finance.

"I've been here for 13 years and never had a problem with anyone coming in with a problem on the usury rate," Collier said. "But BABs are taxable and normally we sell tax-exempt bonds. In the past, until this market became so volatile, I haven't had a problem with taxable bonds either."

Most BABs sold to date by Tennessee issuers have been general obligation bonds, which tend to be higher-rated credits. Since BABs were authorized in February 2009, 16 issuers in Tennessee have sold a total of \$344.2 million of them, according to Thomson Reuters. Of the total sold, 13 were general obligation BABs for a total of \$284.7 million.

Knoxville sold the most recent BABs on Jan. 20, which were wastewater system revenue bonds rated in the double-A category by Moody's Investors Service and Standard & Poor's. The city sold \$10 million of BABs maturing in 2043 with an interest rate of 6.50%, and \$20 million maturing in 2045 with an interest rate of 6.30%.

Oldham said even GO BABs have sold in the last 12 months with some stated coupons just below the usury cap.

The Nashville authority is selling revenue bonds, most of which will be secured by volatile hotel and motel taxes, as well as some other taxes dependent on the economy and tourism. The current structure of the deal is not known, but Moody's has rated the senior bonds to be sold at A2 and assigned a higher Aa3 with a negative outlook to the subordinate revenue bonds because they will receive a general fund backup pledge.

Standard & Poor's assigned an A rating and stable outlook to all the bonds. Fitch Ratings has not rated the convention center bonds, but the agency did place Nashville's AA GO rating on negative watch primarily because of the additional fiscal strain of the convention financing.

Nashville City Council member Emily Evans said she only recently learned that bills were pending in the state Legislature to create an exemption for the interest rate on the convention center's bonds.

“This signals to me that we may get higher than expected interest rates, and that doesn’t surprise me given the risk-averse nature of the bond market,” said Evans, who used to work in the municipal bond underwriting business.

Evans said she is concerned about the higher rates because a major portion of the upcoming deal will have the general fund backup pledge. “That’s more pressure on our non-tax revenues, which puts more pressure on the general fund pledge that we were promised would not be used,” she said.

Bills granting the usury exemption are making their way through committees in both houses now.

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