

## Industrial-Revenue Munis Wilt in Tough Summer

**Good investment ideas** don't always guarantee good results – a lesson industrial-revenue muni bond investors around the country are still paying to learn.

A Texas renewable energy plant and an Alaskan sports complex sounded promising in their early stages, but tough times and excessive debt contributed to municipal bond defaults by Microgy Holdings and the Alaska Sportsplex, both of which had issued tax-free, unrated municipal bonds to finance the projects.

Robert Kane, chief executive officer of BondView, a New York municipal bond data tracking company, says industrial revenue bonds, tax-free debt issued with government or public agency help, are among the most potentially problematic munis. Because they're linked to the success of specific projects and are often issued against revenue from those projects, they can be vulnerable to default.

"In the last couple of years, you have public policy officials trying to get into private development, and the fact that typically these bonds are tax free has an attraction for the marketplace," he says. "But it's the opposite of a safe-sector investment."

Safe-sector munis, debt issued by governments and backed by tax revenues, rarely default, according to data from Municipal Market Advisors. Today, there are 39 safe-sector bond issues in some form of default, which includes making payments from bond reserves. Here's a look at two:

**Alaska Sportsplex**, the nonprofit corporation that operates The Dome, an inflatable domed sports complex in Anchorage, filed for bankruptcy protection in June. The \$11.5 million bond issue launched in 2006 went into default Sunday, according to MMA data. When issued, the bond was sold at par, or 100 cents on the dollar, with a yield of 6%, but by July 12, it had fallen to just over 19 cents on the dollar, giving it a yield of 35.4%, according to data from the Municipal Securities Rulemaking Board.

"It's probably more typical of a public policy industrial project gone bad," Kane says.

Dome officials couldn't be reached for comment, but an official statement on the Chapter 11 bankruptcy cited lower usage during the summer – when sports teams from the University of Alaska aren't using the complex, but its bond debt must still be serviced – as a major factor. Local news reports said the complex will stay open as Sportsplex restructures its debt.

About 4,000 miles south, the technical default of \$129 million in a set of bond issues illustrates some of the same pitfalls of this riskier piece of the muni market.

In Texas, **Microgy**, a subsidiary of now-bankrupt Environmental Power Corporation, sought to turn manure into natural gas, and issued bonds to build a biogas conversion plant, the Huckaby Ridge facility, in Stephenville, southwest of Dallas. After mounting debt woes forced a bankruptcy reorganization that put the plant into receivership and the bonds into technical default, its corporate parent went into Chapter 7 bankruptcy on July 29, listing assets of \$804,373 and liabilities of \$12.4 million. A voicemail greeting at the company's Tarrytown, N.Y. headquarters says the office is closed.

In a statement issued before the Chapter 7 filing, Environmental Power chief executive Richard Kissel said, "We are obviously disappointed by the developments at Huckabay Ridge and hoped that the bondholders would follow up on proposals made by the company for restructuring of the debt to bondholders, without having to resort to receivership."

Kane said that in this case, there's a solid asset backing the bonds, and investors of distressed debt may be circling these 30-year bonds, issued in 2006 at par with a 7% yield, in hopes that the tangle of litigation will be settled and the plant's revenue stream is again directed toward repayment.

The last recorded trade on the bonds, in April, saw a purchase at 40 cents on the dollar with a 17.7% yield.

"There might be an investor looking for a cheap pickup, because there are real assets here," Kane said. "If more industrial development bonds are backed by solid assets that have real value, then even if the bonds did go bad, there'd be a way to be paid back."

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