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N.J. Deal to Star \$200M in 'Cinderella' Deal

By Adam L. Cataldo

The **New Jersey Turnpike Authority** has its own Cinderella story.

The authority next week will market **\$750 million of bonds**, including \$200 million of bonds that have the unique ability to morph into taxable debt and then back to tax-exempt securities—all without the help of a fairy godmother.

Lead manager **Citigroup Global Markets Inc.** successfully pitched the transaction to the authority and was selected to manage the deal in part because of its "Cinderella bond" component.

"This is where you already have tax-exempt bonds that have already been refunded once. We refund them as taxable until the date on which the call kicks in, then we current refund them as tax exempt," said **Dennis Enright**, principal at financial adviser **NW Financial Group**. "That is why they are called Cinderella bonds. They go from tax exempt to taxable, which is ugly, back to tax exempt again."

In addition to the Cinderella bonds, the authority is selling \$100 million of new-money debt and \$450 million of traditional refunding bonds. The new-money debt will have 30-year maturities.

Bear, Stearns & Co., Morgan Stanley, and **UBS Financial Services Inc.** will also market the bonds. **Financial Security Assurance Inc.** will insure the bonds, which will have the company's triple-A rating.

Enright said the authority expects the refunding to generate **net present value savings of \$30 million**. That would be used to pay for the restructuring, and would still leave the authority in today's market a net present value savings of **\$6 million to \$7 million**.

That debt can start to be called in 2010,

with additional maturities coming in 2012, 2013, and 2014.

"As each call date approaches, it rolls back into tax exempt," Enright said. "It's a very interesting deal and one where we didn't think we would be able to take advantage of the savings."

Enright said the authority faces a \$50 million spike in debt service payments in 2010 and into 2011.

"So we wanted to keep the 2010 calls that we had so we could address them in the normal course in 2009 and 2010 and do refundings at that time," Enright said. "If we did a refunding on those bonds that were callable in 2010 we wouldn't have the ability to do anything in 2010. So that's why we couldn't take advantage of the refunding unless we combined it with the ability to take care of the debt service pattern."

Enright said there would not be a retail order period. Since the deal contains few bonds with short maturities, most of the buyers will be institutional investors.

"It's not going to be tailored for any particular market segment," Enright said.

Enright said the authority is back in the market as part of its capital construction plan.

"They are planning a major capital project on the turnpike to expand the roadway

below Exit 8 on the central part of the roadway," Enright said. The project is expected to cost \$1 billion to \$2.5 billion.

"In preparation for that, they had to take any anomalies out of their debt service pattern, so that their debt service pattern would track their traffic growth," Enright said. "Getting the anomalies out of the debt service then allows for additional funding capacity for future projects."

"As roadway traffic grows in a normal pattern, which is about 2% a year, your revenues grow that way too," Enright said. "It's when a big item like debt service or some other expense can grow at a different rate than your revenues, it will cause financial pressure."

This deal, Enright said, will help the authority avoid that problem. The authority had not planned on entering the market until this deal came up.

"What happened was the market moved so much a portion of the issue, nearly \$400 million of the issue, has a 6% savings," Enright said. "It was very attractive, but in order to do that we had to give up the call in 2010 and we didn't want to do that because in 2010, we were going to take care of these debt service problems."

Enright said the authority received proposals from four firms, and then asked them to come up with a structure that would allow them to use the refunding savings to pay for the debt service restructuring. Citigroup then came back with a proposal to issue the Cinderella bonds. **DeCotiis, Fitzpatrick, Cole & Wisler LLP** is bond counsel, and **Wolff & Samson PC** is underwriters' counsel.

The authority operates the 148-mile New Jersey Turnpike, and the 173-mile Garden State Parkway. The authority currently has about \$5 billion in debt outstanding. □

New Jersey Turnpike Authority Bond Sales

Issuer	Amount*	Sale Date
Turnpike revenue capital appreciation bonds, Series 2004	\$101.3	Dec. 2004
Turnpike revenue bonds, Series 2004 A & C 1-2	\$441.1	Dec. 2004
Various turnpike revenue bonds, Series 2003	\$900.0	July 2003
Turnpike revenue bonds, Series 2003 A & B	\$1,529.0	June 2003
Turnpike revenue bonds, Series 2000 B-D & E-G	\$400.0	April 2000
Turnpike revenue bonds, Series 2000 A	\$1,467.4	April 2000
Turnpike revenue bonds, Series 1992 B	\$20.0	March 1992
Turnpike revenue bonds, Series 1992 A	\$741.1	Jan. 1992
Turnpike revenue bonds, Series 1991 C-D	\$1,618.9	Nov. 1991
Turnpike revenue bonds, Series 1991 B	\$79.3	Sept. 1991
Turnpike revenue bonds, Series 1991 A	\$423.2	Aug. 1991

*Dollars in millions

Source, Thompson Financial