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## NAVAJO NATION CLOSES ITS FIRST BOND DEAL

By Kyle Glazier

PHOENIX — The Navajo Nation this week closed its first-ever bond transaction, selling \$52.9 million of investment-grade tax-exempt general obligation bonds in a private placement.

Tuesday's closing on the bond transaction, rated BBB-plus by Standard & Poor's, represents the climax of a process that began about five years ago.

"The Navajo Nation has entered a new era of leveraging its financial assets to fund infrastructure projects," Navajo Nation President Russell Begaye said in a statement. "This is a step we must take on the path to achieving AAA rating and having the investor community develop confidence in the Navajo Nation."

KeyBanc Capital Markets, the corporate and investment banking arm of Cleveland-based KeyCorp, was underwriter. Orrick, Herrington & Sutcliffe was bond counsel. The 15-year securities will refinance a \$60 million loan KeyBank made to the nation in 2010 to finance judicial and public safety facilities.

Headquartered at Window Rock, Ariz., and covering 27,000 square miles of Arizona, New Mexico, and Utah, the Navajo Nation is the largest federally recognized tribe both in terms of the size of its reservation and by its population of 285,000 members. As a sovereign nation, it performs virtually all traditional public functions for its members, including the administration of government and the protection of the public welfare.

Tribes are often heavily reliant on



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federal funds for their infrastructure needs, and projects are structured to qualify for grants. Ethel Branch, the Navajo Nation attorney general, said accessing the capital market provides the nation with more freedom to meet its infrastructure needs.

"It's a fresh new expression of tribal sovereignty," Branch said.

The process began in 2010, when the Navajo, working with KeyBanc Capital Markets, began the process of obtaining a credit rating, ultimately receiving a Standard & Poor's issuer credit rating of A in 2011.

Earlier this month, S&P affirmed the issuer credit rating, and assigned a BBB-plus rating to the bond issue.

The two-notch distinction reflects

the nation's decision not to include "sizable assets" in the indenture, including the majority of the nation's unencumbered reserves.

"In effect, the nation is pledging its general fund revenues," the ratings report says.

Geoff Urbina, a managing director at KeyBanc Capital Markets, said the placement was highly successful.

"This landmark transaction confirms investors' confidence in the Navajo Nation," Urbina said. "It allows the Nation to diversify its financing options by expanding access to public markets at attractive rates."

Unlike typical municipal issuers, American Indian tribes are not exempt from the registration requirements under the federal securities laws. That means they can either issue their bonds under corporate bond rules, or find another exemption.

The Navajo bonds were placed under the Securities and Exchange Commission's Rule 144A, which allows sales to qualified institutional buyers without triggering the registration requirements.

Standard & Poor's notes, in its report, that the parties agreed that the indenture and the bonds will be governed by New York state law and applicable federal law.

"Achieving this milestone positions the Navajo Nation well to finance its infrastructure needs," said Doug Goe, a partner in Orrick's Portland, Ore., office.

Urbina said the deal was unusual for a tribal bond because it is unrelated to gambling. The Navajo Nation collects revenue from 12 different taxes as well as oil and gas revenue.

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“That is very unique in the tribal space,” Urbina said.

According to Securities Data Corporation, from 2000 to 2015 \$3.4 billion of bonds were issued by tribal governments or tribal entities.

Of that amount, \$2.37 billion are investment-grade credits and \$300 million were general obligation-type credits.

KeyBanc Capital Markets said it believes the Navajo Nation general obli-

gation bond issue was the only unsecured general obligation bond credit and believes it to be the first of its kind in the capital markets.

Robert Willie, interim controller for the nation, said the experience of the deal was exciting for his team and will leave future Navajo with more options. The nation had a long history of using bank loans to finance its projects, but Willie said the short-term nature of bank loans and the current low interest

rates made bonding more attractive.

“We paved the way for future generations,” Willie said. “If they want to do another bond, we have the framework.”

Branch said the Navajo Nation wanted to be conservative with its first deal, and so opted for the relatively small \$52.9 million transaction. There have been discussions, she added, of doing a much larger bond in the next three to five years.

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