Alternate plan to finance sewerage work proposed

By JIM McDONELL
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East Baton Rouge Parish now has the option of crafting its $55 million sewer revenue bond issue and issuing about $225 million in general obligation bonds to finance sewerage improvements required by federal law and give the taxpayers more construction dollars for the money they put up.

That was the message delivered by Mayor Pat Screen, bond counsel Jerry Osborne and financial adviser Bob Phelps of Howard Welz Labbe duplexes to city-parish officials Tuesday as they gathered in the mayor's conference room for one working session before the Metro Council votes on the issue Wednesday.

Osborne said his advice would be for the Metro Council to allocate the $225 million general obligation bond issue on the April 4 ballot and, if it wins public approval, take advantage of the opportunity to scuttle the existing revenue bond issue.

By doing so, Osborne said, the city-parish would be able to obtain better financing terms and save about $3.75 million in bond redemption costs.

The council also has the option of placing a $175 million general obligation bond issue on the ballot and leaving the revenue bond issue intact -- provided the courts do not void it, Osborne said.

Screen said he will put both proposals before the council.

The $55 million revenue bond issue was intended to pay for roughly $50 million in construction and engineering

the north and south wastewater treatment plants. The council approved that bond issue last fall, but the bonds never could be sold because of a lawsuit challenging the legality of the issue.

the council would agree to cancel the contract if that's what the city-parish decides to do.

DLJ is owed more than $800,000 under the terms of the contract, but Chief Administrative Officer Bobby Gaston said he believes the fee could be negotiated.

A 20-year, $225 million general obligation bond issue at 6 percent interest would require about $26 million a year in property taxes if nothing but property taxes were used to pay for it, Phelps said.

However, if the $5 million a year

Sewerage

from the sewer fund currently committed to revenue bond redemption remains committed to bond redemption in the general obligation issue, the millage requirement drops down to about 17 mills, Phelps said.

Phelps stressed that those figures are strictly estimates and it is impossible to know precisely how much the bond issue will cost to pay off until the bonds are sold.

Screen and Mayor Pro Tem Mike Robiche said both they would like to be present with the public with an Ironclad legal document certifying that the $5 million in question can be used for nothing but bond redemption.

Without such a guarantee, the council would have the option of paying off the bond issue exclusively with property tax revenue. Whether a legally binding guarantee is legally possible remains an open question Tuesday night.

While money generated by the sewer user fee can't legally be used for anything but sewer operations or improvements, the sewer fund contains an $8 million annual general fund component with which the council can do as it pleases.

The $8 million from the general fund offsets the roughly $11.5 million a year cost of operations and maintenance of roughly 40 million gallons of user-fee revenue for bond redemption and generating what is, for now, a cash surplus that can be used to pay for some capital improvements in cash and reduce the need for borrowing.

As the system grows and its operating costs increase, the cash surplus will have to be used to pay those increased annual costs, Public Works Director Bill Howe said.

Last week, Osborne said the parish tax base was insufficient to support a bond issue that would pay for all the

improvements required by federal law. The total improvement program, according to official estimates, will cost upwards of $240 million.

But the parish is limited by state law to bonding no more than 15 percent of its assessed valuation for sewer improvement purposes, and that 15 percent debt limit provides a ceiling of less than $333 million.

But Phelps said that since last week, he has determined the city-parish could handle a $240 million program with only $225 million in bonds. The work not paid for directly by the bond proceeds could be paid for out of the sewer fund's cash surplus in the early years, thus reducing the need for borrowing.

By using that approach, Phelps said, the city-parish can keep the bond issue within statutory limits and use general obligation bonds exclusively rather than a mix of general obligation and revenue bonds.

The difference in types of bonds is important since the bond market treats general obligation bonds more favorably than it treats revenue bonds. A revenue bond issue, bond lawyers have said, must be structured to provide bond buyers with certain safety or coverage factors.

The revenue stream used to guarantee bond payments must generate substantially more than is needed in any given year to make the payments, and an amount equal to a year's bond redemption cost must be set aside in a reserve fund. Thus, the $55 million revenue bond issue will pay for only about $30 million in actual work.

But those requirements do not apply to general obligation bond issues.

Toward the end of a lengthy controversy last year involving sewerage improvement financing, former bond counsel Fred Benton told