Benton says sewerage work can be done without fee, tax hikes

By JIM MCDONNELL and GIBBS ADAMS

Advocate staff writers

Advocate, 10-9-86

The entire $100 million in sewerage system improvements that must be completed by July 1, 1986, to satisfy federal environmental requirements can be paid for with little or no increases in user fees or taxes, city-Parish bonding counsel Fred Benton said Tuesday.

Also Tuesday, Moody's Investment Service, a major nationwide bond rating service, rated Baton Rouge's proposed $60 million sewer revenue bond issue the same as bonds for the Central Park garages, which were built in 1973. The Ba3 rating assures the sale of the bonds at an interest rate of 8 percent or less, Mayor Pat Screen said.

But Benton said that by going down a different route the taxpayers can secure a much better deal and quite possibly eliminate the need for tax or fee hikes.

Benton said that, assuming a 25-year bond issue at 7.8 percent interest, the entire $100 million program could be paid off in annual installments of slightly less than $8 million.

According to an engineering evaluation by Black & Veatch of Kansas City based on an assumption of no economic growth, existing revenue sources will generate about $21 million a year for the Consolidated Sewerage District, a special district that consists of all of East Baton Rouge Parish except for the Industrial Area.

The largest portions of the CSD's budget come from user fees (about $12 million a year) and a general fund contribution (about $8.3 million a year). Benton said that by using a general obligation bond issue rather than a revenue bond issue the CSD's bonding capacity would be boosted from $60 million to $100 million.

The additional bonding capacity develops due to the different nature of the financing, Benton said. The bond market requires revenue bonds to be paid off out of revenue instead of user fees. 

SEE SEWERAGE, DA
stream producing at least 120 percent of the amount needed to actually make the payments, Benton said.

In addition, the market requires such things as a contingency fund amounting to one year's bond redemption cost.

For general obligation bonds, however, Benton said these coverage requirements do not exist and 100 percent of the money generated can be used for bond redemption.

In addition, Benton said he is confident a general obligation bond of the type he describes could secure an A rating rather than the lesser Baa, and thus secure lower interest rates.

Benton said the money is already there as long as the sewerage system costs only the current $11.4 million a year to operate.

The Black & Veatch report indicates that costs of the expanded and improved system will increase to $15.6 million a year by 1991.

Without revenue growth, Benton noted, that operating cost increase will require the council to find additional money for the sewer fund.

But under a general obligation bond, approved by the public and backed by the full faith and credit of the CSD, the council would have several options in raising that extra money.

It could raise the sewer user fee, increase the general fund contribution, or levy a property tax that could be only as large as absolutely necessary to make the required annual payments.

Revenue growth from an improved economy could eliminate the necessity for any user fee rate hike or tax increases at all, Benton noted.

Benton said he discovered the $100 million general obligation bond potential by accident while exploring assorted financing options in his office Tuesday afternoon.

Benton opposes immediate issue of the $60 million in revenue bonds and has been trying to persuade Screen and the Metro Council to see things his way — so far unsuccessfully.

Benton favors use of temporary financing to tide the project over until after the April 4 election.

The Metro Council is scheduled to take several actions to provide for issuance of the bonds to finance contracts already under way for upgrading both the north and south sewage treatment plants.

Fred Chavalier, attorney for Donaldson, Luften & Jenrette, said the Baa rating is what had been expected, despite controversy surrounding the city-parish issuance of the bonds.

He said DLJ will start to market the bonds by Friday of this week and will meet with the Metro Council sitting as members of the Baton Rouge Sewerage Commission next Wednesday in a special session.

At that time, the interest rate on the proposed sale of the bonds will be known, and it will be up to the council to let the bonds go to market.