Council to decide sewerage financing plan

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Metro Council members will be taking needless risks if they approve a sewerage system improvement financing plan backed by Mayor Pat. Screen, bonding counsel Fred Benton said Monday.

Benton said the Screen-backed plan could require higher, faster increases in the sewer-user fee than going an alternate route be proposed.

The city-parish is faced with about $240 million in federally required sewer system improvements. About $100 million of the work must be completed by July 1, 1988.

What the council will be deciding Wednesday is what the first steps should be to finance all this. The first thing to be decided is the fate of the sewer revenue bond issue of up to $60 million.

The bond issue, if approved by the council, would be paid off out of the Comprehensive Sewerage System Fund. That fund is made up of about $12 million a year generated by sewer user fees and another $8.3 million a year from the city-parish general fund.

About $11.4 million a year is needed for sewer finance operations and maintenance of the system, with the remainder to be used to pay off the bond issue.

Screen, following the advice of the majority of the team working on the sewerage system improvement financing problem, wants to go ahead with the revenue bond issue immediately and then call an election April 4 to ask the public to approve a general obligation bond issue to finance the remainder of the improvements.

If the bond issue fails, the sewer user fees will have to be increased to complete the first $100 million of the program.

If the $6.3 million from the general fund is left alone, the user fee will still have to come up by about 47 percent to generate a net revenue increase of 26 percent in the sewer fund as a whole.

Benton insists that doing things Screen's way will require higher, faster increases in the sewer user fee than using his own alternate strategy.

If the entire $100 million is to be financed by a revenue bond issue, Benton said, it would be more expensive and would increase the debt in two phases, than it would be to issue them in one phase.

The reason is a requirement cited in independent engineering evaluation by Black & Veatch of Kansas City that net earnings of the sewer fund for each of the five years following the delivery date of the second bond issue would have to be "at least 120 percent of the annual principal and interest payments and all outstanding and parity bonds then proposed to be outstanding each year."

And what that means, Benton said, is that instead of a gradual increase of the user fee in annual increments up to the necessary amount, the public would be hit with most of the increase at one time.

Immediate increase of the user fee to the anticipated level of all of the sewer improvements may make bond buyers feel secure might mean bringing it up to a higher level than really necessary under prevailing economic conditions a few years down the road, Benton noted.

The Black & Veatch revenue projections are based on an assumption of no growth, just to be on the safe side. An improved economy would cause an increased sewer user fee, more money and thus keep rates from being increased as much as the engineers predict they will.

Another point is to use temporary financing to tide the major sewerage system construction project over until after the April 4 election.

If the tax rates, he says, the property tax revenue it generates will be enough to make up the difference between what the sewer fund generates now and what is needed to pay for the improvements that the Screen plan requires.

If it fails, the user fee will have to be increased according to the gradual process Benton said it should be, Benton said, because the long-term bonds can be sold as one issue at that time.

The temporary bonds could be sold under the Louisiana Public Facilities Authority's local government capital funding program for just over 5 percent interest, Benton said.

The bond council for the opposing mayor, Fred Chevalier, has said repeatedly that going to market now would be the best course of action to take because interest rates now are as low as they are likely to be.

Benton said they will probably drop further. Chevalier noted that if the council follows Benton's advice and Benton is wrong, the taxpayers will have to pay the mistake.