Council to decide sewerage financing plan

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Metro Council members will be taking a necessary step if they approve a sewerage system improvement financing plan backed by Mayor Pat. Screen, bonding counsel Fred Bent-on said Monday.

Benton said the Screen-backed plan would be due by the end of the month.

The first thing to be decided is the fate of a sewer service 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 independent engineering evaluation and maintenance of the system, with the remainder to be used to pay off the bond issue.

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

If the $8.3 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 would 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, because the bond issue is in two phases.

The reason is a requirement cited in independent engineering evaluation by Black & Veatch of Kansas City that the 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 of the various single and multiple bonds then proposed to be outstanding each year."

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

Immediate increase of the user fee to the high level of all at once might make bond buyers feel secure might mean bringing it up to a higher level than 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 lowering of revenue sources to generate more money and thus keep rates from being increased as much as the engineers predict they will.

That, Benton said, is to use temporary financing to tide the major sewer plant construction project over until after the April 8 election.

If the tax passes, he says, the property tax revenue if generated 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 Benton has proposed.

If it fails, the user fee will have to be increased according to the gradual increase proposed by Screen. If Screen's plan is adopted, 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 counsel 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 for some time.

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 for the mistake.