Council approves $92 million in bonds

BY ADAM WALLWORTH Northwest Arkansas Times

Posted on Wednesday, October 5, 2005

URL: http://www.nwanews.com/story.php?paper=nwat&storyid=32928

The Fayetteville City Council unanimously approved an ordinance Tuesday allowing the issuance of $92 million in bonds to be used towards the Wastewater System Improvement Project.

The bonds are the last that can be issued against the 3/4-cent sales tax approved in 2001 that authorized up to $125 million toward the construction of a new sewer treatment plant and improvements to the existing plant and sewer transmission lines. The ordinance also authorizes refinancing $27 million left from the 2004 series bonds and issuing an additional $65 million.

Originally, the city had planned to use $65 million from the Revolving Loan Fund administered by the Arkansas Natural Resources Commission, formerly called the Arkansas Soil and Water Conservation Commission, but changed plans when the bids on the westside sewer plant came in $14 million higher than anticipated.

City officials decided to use a new state law that allows cities to negotiate with a company rather than rebid the project. The council is set to approve a $61 million contract with Brasfield & Gorrie of Birmingham, Ala, which is the result of the negotiations.

The city could not use the negotiated procurement process authorized by the recent state law if it were to fund the sewer project with the money from the Revolving Loan Fund, explained Steve Davis, director of finance and internal services.

Davis said the loan program includes money from Environmental Protection Agency grants, which would require the use of the standard, sealed bid process. The city had been prepared to close on the $65 million loan, he said, but transferred the money to market bonds.

The city has been approved to borrow up to $100 million in funds, which are still available by transferring the money to market bonds, Davis said after the meeting.

The city is planning to use the loan to finance the line work that is included in the overall project, but has not determined how much it will borrow. The loan will be repaid out of money generated from monthly sewer rates and potentially from sewer impact fee revenue.

Davis said it will be impossible to know whether monthly sewer rates will have to increase to repay the loan until the city knows how much loan money it will need.

Other conditions, such as improved interest rates, warrant using market bonds instead of the loan, said Dennis Hunt, senior vice president and manager of the northwest office of Stephens Inc.

Hunt explained that the city generates more money from the tax now than it did when he recommended using the loan, roughly $11 million compared to $8 million. Additionally, the interest rates on short-term investments have grown nearly to the level of longterm investments, he said, which makes the use of market bonds more appealing.

While there is always the possibility the market could change before the bonds are issued, Hunt said, the city is still on track to generate another $6.7 million from the use of market bonds, though it will cost taxpayers another $5.4 million because it will cause the tax to last 120 days longer.

The debt is expected to be paid off in the first half of 2014, though the bonds shall mature no later than Dec. 1, 2011, for the $27 million, and Dec. 1, 2019, for the $65 million.

The city repaid the 2002 series bonds earlier than expected and had to issue the $35 million in 2004 to keep the sales tax going, Davis explained in an earlier interview.

Another $8 million is expected to be applied to the series 2004 bonds, which will leave $27 million being refinanced, Davis said.

As of Sept. 30, the city had spent a total of $16,094,991, based on a report provided by the city budget office.

Another $22,324,574 million is encumbered, which means a purchase order has been submitted for the expense, explained Kevin Springer, the city's budget manager.

Based on the report, the city has $86,589,432 remaining to be spent from the $125 million.

The proposed $61 million construction contract does not include the construction of Broyles Road or the mitigation of wetlands that will be disrupted on the 300-acre site, which was included in the rejected low bid of $62 million. The bid had to be rejected because it exceeded the city's certified amount of $48 million by more than 25 percent.

The Sewer Committee was given an estimated cost of $58-59 million for construction of the plant without the road or wetlands mitigation and Brasfield & Gorrie is looking into potential cost savings, such as sales tax exemptions.

When voters approved the sales tax, the sewer plant had an estimated completion date of last month, but is now expected to be complete in 2008. The project is also currently running about $170 million, not including the entire estimated $12 million expense to build a new sewer lift station in Farmington, which may be built if the two cities can reach an agreement.