



OKLAHOMA

water news

MONTHLY NEWSLETTER OF THE OKLAHOMA
WATER RESOURCES BOARD

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SQ 581 Offers Affordable Loans to Cities, Towns, RWDs

This article, reprinted in its entirety from the newsletter of the Department of Agricultural Economics at Oklahoma State University, is reproduced as a non-biased appraisal of the Financial Assistance Program which would be sanctioned by passage of SQ 581.

The OWRB reprints the article as a public service, although the Board does not necessarily concur in all respects with the views expressed by the authors. Oklahoma Water News expresses appreciation to authors James R. Nelson, Professor of Agricultural Economics; Kent W. Olson, Professor of Economics; and Rick A. Smith, former chief of the OWRB Planning and Development Division for their permission to reprint the following.

On August 28, 1984, Oklahoma voters will be asked, via State Question 581 (SQ 581), to decide whether the Oklahoma Water Resources Board (Water Board) will play a more active role in financing water and sewer projects of local units of government. This referendum proposes the addition of Section 39 to Article X of the Oklahoma Constitution, which would allow the Water Board to use monies in the Statewide Water Development Revolving

Fund as security and collateral for investment certificates issued to raise funds for local government (city, town, and rural water district) water and sewer projects. The purposes of this newsletter are to explain the origins of this referendum and to examine some of the economic implications of

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SQ 581 at a Glance

WHAT IS SQ 581?

It proposes a constitutional amendment to allow state funds to be used to help cities, towns, small communities and rural water and sewer districts finance construction and improvements to water and sewage treatment facilities, distribution lines, reservoirs and water wells.

WHEN IS THE VOTE ON SQ 581?

SQ 581 will be one of three state questions on the primary election ballot August 28.

WHY DOES OKLAHOMA NEED IT?

The Federal Government has drastically reduced assistance to communities for both sewer and water improvements. It is necessary for state and local entities to shoulder more responsibility.

In 1982, more than 400 cities, towns and rural water districts in Oklahoma were not able to meet local water demands. Today, several rural communities have *no* public water supply. They need help NOW. Communities in Oklahoma need more than \$500 million for water and wastewater improvements.

WHAT SQ 581 DOES NOT DO:

It proposes no new taxes. The money to back the program already exists in the \$25 million water development revolving fund. Approval of the State Question would allow the fund to be used as collateral for state revenue bonds so communities can obtain long-term loans at affordable interest rates for improvements to water and wastewater systems.

SQ 581 does not propose water transfer. Rather, it encourages local improvements. It would help Oklahoma communities become self-sufficient and better serve their residents and rural water customers with improved water and sewer facilities.



Oklahoma voters fail to endorse SQ 581 on August 28, emergency grants from the Board's Financial Assistance Program to assist communities will be jeopardized. Through the program, the Board awarded a grant to the Town of Morris for repairs to its water storage tank downed by a tornado earlier this year.

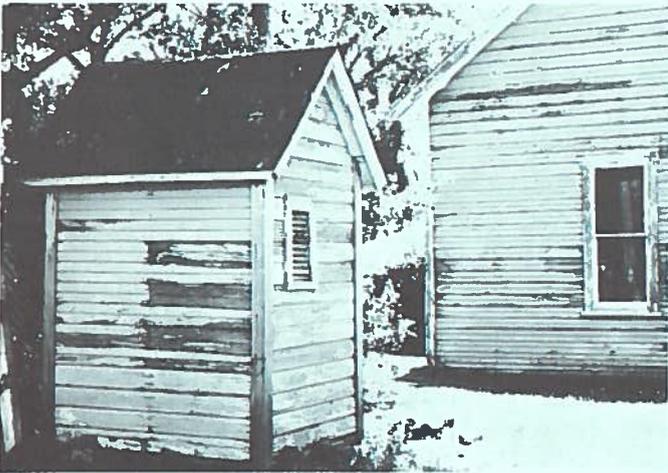
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the investment program that it would sanction.

Traditionally, local governments in Oklahoma have had to rely upon their own resources, or those of the Federal government, to finance water projects. However, a series of actions taken by the State Legislature in 1979, 1980, and 1982, greatly expanded the potential role of the state in the quest for funds at the local level.

In 1979 the Legislature passed SB 215 which authorized the creation of a Water Resources Fund (Water Fund) in the State Treasury. Although no money was appropriated for the Water Fund, this legislation granted the Water Board authority to issue investment certificates as a means of acquiring money for this fund and to use this money to make loans to local governments for a wide variety of water projects.

In 1980 the Legislature passed HB 1710 which amended SB 215 by adding sewer treatment facilities to the list of eligible projects and permitted the Water Board to award small grants (up to \$50,000) from the Water Fund to needy communities. However, the Legislature once again did not



Structures such as this one stand as reminders that many rural Oklahomans still lack adequate sewer and water facilities. Ironically, many of the problems occur in eastern Oklahoma, where water supplies are the most abundant, but treatment and distribution facilities are dramatically lacking.

appropriate any money for the grant portion of the program.

In 1982, the Legislature passed SB 145, which established the Statewide Water Development Revolving Fund (Revolving Fund) and also appropriated \$25 million to the Revolving Fund from that year's surplus balances in the General Revenue Fund. According to SB 145 the monies in the revolving fund can be used for three principal purposes: 1) to produce interest earnings, part of which would be deposited in the Water Fund to finance the small grants program (now up to a \$100,000 limit), 2) to serve as collateral for the investment certificates issued to finance loans to local governments, and 3) to make expenditures, subject to Legislative approval, for the planning and development of State water projects.

Although SB 145 gives the Water Board a great deal of authority, the Board's interest is in the use of the Revolving Fund as collateral for investment certificates. From the beginning, however, there was the possibility that this

feature constituted a violation of Article X of the State Constitution which prohibits the lending of the State's credit to any other political unit in the state. To help clear up this question, the Legislature requested the public to approve this practice via SQ 558—put to vote, and narrowly defeated by the voters in November, 1982. Finally, in 1984 the State Supreme Court declared the use of the fund for collateral as unconstitutional, and the money in the Revolving Fund remains largely unspent.

SQ 581, scheduled for a vote August 28, 1984, is another attempt for the Water Board to use State monies to provide guarantees for state revenue bonds, the proceeds from which will be loaned to local governments for water and sewer projects. If this question is approved, key provisions of a new law, SB 156, will become effective. These provisions authorize the Water Board to use money in the Revolving Fund for the purposes outlined in SB 145. SB 156 provides further that any State liability arising from the investment certificate program will be limited to monies in the Revolving Fund, and that a share of the loans financed by each issuance of investment certificates must go to small cities, towns, and rural water districts in proportion to their share of total need.

Thus, if SQ 581 passes, the Water Board will be able to use state appropriated funds to back revenue bonds to generate funds for lending to local governmental units. The Board will retire the bonds from loan payments received from these units. In event of default at the local level funds in the Revolving Fund would be used to retire the State's investment certificates. However, since the probability of default is quite low, the Water Board should be able to borrow an amount far in excess of the \$25 million originally appropriated for the Revolving Fund—up to \$250 million, according to some accounts.

There are several relevant issues which should be considered by the citizens of Oklahoma as they decide whether to vote for or against SQ 581. Some of these issues are discussed below.

Anytime money is borrowed by any entity there is some risk that the money will not be repaid. So there exists some likelihood of default on the part of local units of government which might borrow money based on the bonds which will be allowed if SQ 581 is passed.

There is evidence, however, that such likelihood of default is quite low. The local units of government with the least documentable ability to pay back borrowings are small communities and rural water districts. These types of governments would be eligible to borrow funds provided by the sale of bonds which would be made legal by the passage of SQ 581. Farmers Home Administration (FmHA) in the United States Department of Agriculture has for many years been the primary lender to such small units of government for purposes of water and sewer system development. FmHA has a national default rate on water and sewer loans of considerably less than 1 percent. FmHA has never had a water or sewer loan default in Oklahoma.

If defaults should occur, what are the limits of State liability? This question is specifically answered in SB 156 which states, "Any State liability...shall be limited to

those monies in the Statewide Water Development Revolving Fund which have been reserved as backing for the outstanding investment certificates."

There would be some costs to the state to administer and operate a program of major water and sewer loans to local governments. This program administration and operation would be carried out by the Water Board. If the loan program goes into effect, Water Board staff will almost certainly find it necessary to become involved in providing management advice and assistance to borrowers. Budgetary support for such personnel could come from state general fund budget appropriations or in the form of increased bond insurance costs ultimately repaid by the borrowers.

Local units of government and their constituents from throughout Oklahoma will be the prime beneficiaries if SQ 581 is passed in August. These benefits will come from cost savings in the financing of water and sewer system developments and from the availability of funds to local governments in situations where there were no funds available before.

Cost savings which will accrue to local units of government which finance water and sewer projects with bonds guaranteed by the Revolving Fund will include interest savings and bond underwriting and marketing cost savings. If \$250 million in bonds is backed by the Revolving Fund and thus receives a AAA bond rating rather than a B bond rating the annual interest savings will be about \$3.5 million per year. Over an assumed 30-year time stream and assuming a 10 percent discount rate, this equates to an interest savings over the thirty years equal to 33 million in today's dollars.

Researchers estimate that savings in the costs of bond underwriting and marketings are about 50 percent of first years savings in bond interest costs. Thus, total savings to local units of government which finance water and sewer projects with bonds backed by Revolving Fund would also include about \$1.75 million in underwriting and marketing cost savings to yield a total 30 year savings of 34.75 million in today's dollars.



Thanks to a fast-growing population out in the country and rural water districts working hard to stretch their water lifelines to new customers, scenes like this abandoned land are hard to find. However, the FmHA loan money that financed rural water development in the past has been drastically cut back by the feds. RWDs must now look to the state and other sources for financing.

**ACTIVE CONSERVATION STORAGE IN SELECTED
OKLAHOMA LAKES AND RESERVOIRS
AS OF JULY 25, 1984**

PLANNING REGION LAKE/RESERVOIR	CONSERVATION STORAGE (AF)	PERCENT OF CAPACITY
SOUTHEAST		
Atoka	91,700	73.9
Broken Bow	871,741	95.0
Pine Creek	77,700	100.0
Hugo	147,874	93.8
CENTRAL		
Thunderbird	103,958	98.1
Hefner	68,300	90.6
Overholser	12,900	81.1
Draper	72,800	72.8
SOUTH CENTRAL		
Arbuckle	61,388	98.1
Texoma	2,342,908	88.8
Waurika	193,429	95.2
SOUTHWEST		
Altus	45,117	40.0
Fort Cobb	74,117	94.5
Foss	152,923	62.7 ²
Tom Steed	74,435	83.7
EAST CENTRAL		
Eufaula	2,234,208	96.0
Tenkiller	600,993	95.8
Wister	27,100	100.0
Sardis	299,404	99.0
NORTHEAST		
Eucha	74,900	94.1
Grand	1,444,000	96.8
Oologah	531,590	97.7
Hulah	29,004	94.8
Fort Gibson	356,785	97.0
Heyburn	6,337	96.0
Birch	18,635	97.0
Hudson	200,300	100.0
Spavinaw	30,000	100.0
Copan	41,097	94.5
NORTH CENTRAL		
Kaw	414,368	96.7
Keystone	616,000	100.0
NORTHWEST		
Canton	95,913	98.4
Optima	2,653	---
Fort Supply	13,774	99.1
Great Salt Plains	30,424	96.9
STATE TOTALS	11,456,122³	93.1³

1. In initial filling stage
2. Temporarily lowered for maintenance
3. Conservation storage for Lake Optima not included in state total

Data courtesy of U.S. Army Corps of Engineers, Bureau of Reclamation, Oklahoma City Water Resources Department, and City of Tulsa Water Superintendent's Office.

Most local units of government in Oklahoma which are involved with development of water and sewer projects (town and rural water districts) can, in some manner, issue revenue bonds. However such bonds issued by most small towns and rural districts are generally not marketable. So revenue bond financing is typically not an option for these small units of government. The benefits which would accrue to small units of government in Oklahoma from

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passage of SQ 581 are not measured solely in the estimate of cost savings presented above. Rather, such units of government would benefit by having a valuable financing opportunity (bond borrowing) made available to them which for all practical purposes, is currently unavailable.

The overriding question of concern to citizens of Oklahoma concerning the vote on SQ 581 on August 28 is, "Does helping local communities finance water and sewer projects represent the 'best use' of \$25 million in State funds?". Although these funds would not be spent, they would be used as collateral for bonds, and therefore could not be used for any other purposes. Most of the interest from the \$25 million would be used to make assistance grants to especially needy local governments with water and sewer system problems.

There are documentable needs for water and sewer system development funds in Oklahoma. Small towns and rural water districts generally cannot go to the bond market to generate water and sewer system development funds, since their bonds generally are not marketable. FmHA has traditionally been the primary funding source for such system development. Due to federal budget cutbacks, there has been about a 70 percent decrease in the last 5 years in the FmHA funds available for water and sewer system development in Oklahoma. For the current fiscal year, FmHA in Oklahoma has available about \$4 million in loan funds and about \$2 million in grant funds. They have applications for about \$23 million for loans and about \$2 million in grant funds. Applicants come to FmHA for funding because credit is unavailable to them from other sources.

Larger cities and towns in Oklahoma also have substantial need for funds to improve water and sewer systems. A

report prepared by Peat, Marwick, Mitchell and Co. in 1983, for the Water Board identified 131 communities, with total capital needs of \$250 million, interested in participating in the state program. Although these entities usually have the capability to issue their own bonds, it is likely that they could obtain a more favorable rate from the State-backed program. The report demonstrated the largest portion of needs exists in central and northeastern Oklahoma. However, numerous needs were documented throughout the state.

The governor of Oklahoma, decision makers with the Oklahoma Water Resources Board and many State legislators believe that the use of the Statewide Water Development Fund as collateral for bonds to help local communities finance water and sewer projects is an appropriate use for State Funds.



Drought typifies summer in Oklahoma, and this dried and cracked stock pond brings bitter memories of the summer of 1980 when more than 300 communities sought assistance for repairs to water treatment and distribution systems overtaxed by heat and drought.

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