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A STIMULUS FOR STADIUM, SEWERS?
New U.S. bonds boost local projects
Midlands governments and public utilities rush to cash in on lower interest rates.

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The Nebraska Public Power District recently tapped a little-publicized provision in President Barack Obama's stimulus bill to upgrade its electrical system, saving its ratepayers millions of dollars in the process.

The utility is paying for the project with Build America Bonds, a newly created way for state and local governments to borrow money for construction projects.

The federally subsidized bonds, intended to spur job growth, are proving attractive, providing more favorable interest costs than the tax-exempt bonds that government entities tradi-tionally have issued.

Build America Bonds could become a factor as Sarpy County works to pull together a financing plan for a new baseball stadium. The bonds also could provide lower local borrowing costs for projects such as the financially daunting sewer separation mandate that Omaha faces and Lincoln's proposed downtown arena.

Over the bonds' repayment period, the savings on such projects could easily total millions of dollars.

"It's subsidized money that could make a difference between doing a project and not doing a project,'' said Curtis Christensen, an Omaha attorney who serves as the City of Omaha's bond counsel. "It's a new arrow in the quiver, and one a city should be looking at.''

Indeed, Sarpy County officials are looking into whether the bonds could aid their plan for a new stadium for the Omaha Royals. Although the proposed stadium is expected to cost $25 million, projected borrowing costs raise the total price tag to $48 million.

That $48 million estimate was based on use of traditional tax-exempt bonds, said Kermit Brashear, a former state senator leading the ballpark effort. Though final projected interest costs wouldn't be known until the stadium bonds were ready to go to market, Brashear said it seems possible that Build America Bonds could allow the county to either lower the $48 million cost or upgrade the stadium plan.

"This is like additional money, depending on when you go to market,'' Brashear said. "And going to the market now is attractive, as demonstrated by NPPD.''

Build America Bonds aren't the only new financing tool for cities and counties contained in the $787 billion economic stimulus package.

The bill also created two types of bonds for public or private projects specifically situated in depressed areas. Cities and counties are limited in the amount of such bonds they can issue, but Omaha, Lincoln and Des Moines and some Midlands counties were authorized to issue millions of dollars' worth of those new bonds.

Many Republicans have criticized the stimulus plan, saying it will balloon the federal debt without providing much boost to the economy.

But more than an economic development tool, Build America Bonds represent a whole new way to finance government building projects.

Traditionally, states and local governments have been able to get advantageous borrowing rates for such projects by issuing tax-exempt bonds. The buyers of the bonds are willing to accept lower interest rates on their investment because the income they receive is exempt from federal income taxes. The lower interest rate, in turn, lowers the borrowing costs for the government entity and its taxpayers.

Some economists and public finance professionals have argued that it would be simpler, and perhaps less costly to the U.S. Treasury, to have the federal government directly subsidize bond payments rather than doing so indirectly through the tax code.

That's the approach Obama and Democrats in Congress took with Build America Bonds. Instead of tax-exempt bonds, local governments have the option of issuing fully taxable bonds, with the federal government directly paying 35 percent of the interest costs.

Given the subsidy and the interest rates the bonds have been attracting on the market so far, Build America Bonds are allowing governments to borrow at costs measurably below tax-exempt bonds. It's believed that NPPD became the first bond issuer in Nebraska — and among the first in the country — to use Build America Bonds. The electrical utility earlier this month sold $50 million in Build America Bonds to finance an overhaul of substations and transmission lines.

With the Build America subsidy, the utility was able to net an interest rate on taxable bonds that was six-tenths of 1 percent below that of tax-exempt bonds. Over the 25-year life of the bonds, that amounts to $4 million in savings for NPPD ratepayers.

“Every little bit helps,’’ said Traci Bender, NPPD’s chief financial officer. “We will certainly look at utilizing them again next year.’’

Given the savings on the NPPD project, Build America Bonds could make an even bigger splash if Omaha is able to use them for some of the sewer separation work mandated by federal environmental regulators. The total tab for that project is estimated at $1.6 billion.

“We are looking pretty closely at them, and we feel they may make sense for some of our deals,’’ said Carol Ebdon, Omaha’s finance director.

On some construction projects, Omaha might have an even more attractive option than Build America Bonds: recovery zone economic development bonds. Also created by the stimulus bill, they offer an even bigger interest rate subsidy of 45 percent but can be used for public projects only in areas designated by the city as having more economic distress.

Private companies can tap another type of recovery zone bond available for business developments within distressed areas. Such bonds could come into play, for example, as Mayor Jim Suttle seeks to meet his pledge to attract 1,000 new jobs to north Omaha.

The Treasury Department recently allocated $225 million in recovery zone bonds to cities and counties in Nebraska and Iowa, including $29 million for Omaha, $44 million for Lincoln and $14 million for Des Moines. Dozens of counties also got allotments, including Douglas ($5 million), Buffalo ($9 million), Dodge ($7 million), Lincoln ($12 million), Platte ($12 million), Sarpy ($10 million) and York (more than $19 million).

Allocations were based on job losses during 2008. Because of the states’ favorable job climates, the overall allocations to Nebraska and Iowa were among the lowest in the country.

As Lincoln continues its push to build a $250 million arena, it is looking at both recovery zone bonds and Build America Bonds, said Don Herz, the city’s finance director. The 15,000-seat arena is proposed for a part of down-town that could be considered economically distressed.

“Either of these vehicles could provide us some savings,’’ Herz said. “It could be a difference maker as far as getting the project done.’’