



Issuance of Bonds for Financing Water-Related Projects

REFERRED QUESTION NO. 1

(Referred to the People by the General Assembly)

POPULAR NAME: Arkansas Water, Waste Disposal, and Pollution Abatement Facilities Financing Act of 2007



BALLOT TITLE: Shall the Arkansas Natural Resources Commission be authorized to issue General Obligation bonds under the authority of the Arkansas Water, Waste Disposal and Pollution Abatement Facilities Financing Act of 2007, for the financing and refinancing of the development of water, waste disposal, water pollution control, abatement and prevention, drainage, irrigation, flood control, and wetlands and aquatic resources projects to serve the citizens of the State of Arkansas, in total principal amount not to exceed Three Hundred Million Dollars (\$300,000,000), with no more than One Hundred Million Dollars (\$100,000,000) of such bonds to be issued to finance and refinance the development of irrigation facilities, in series from time to time in principal amounts not to exceed, without prior approval of the General Assembly, Sixty Million Dollars (\$60,000,000) in any fiscal biennium, which bonds shall be secured by a pledge of the full faith and credit of the State of Arkansas?

Why is the issue on the ballot of a general election?

Act 631 of the 2007 Regular Session of the 86th Arkansas General Assembly authorizes the Arkansas Natural Resources Commission to issue water, waste disposal and pollution abatement financing bonds, subject to the approval of voters in a statewide election. By passing Act 631, the state legislature has suggested there is an

immediate need for continued funding to improve water, waste disposal and pollution abatement infrastructure throughout Arkansas. The legislature has identified a bond issue as the best way to generate the needed revenue. Because these bonds are backed by the full faith and credit of the state and could require the use of general revenue funds, authority to issue bonds must be approved by Arkansas voters in a statewide election.

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Has this issue been on a statewide ballot before?

Yes. Act 607 of 1997 allowed similar bond authority as a ballot question in the 1998 general election. The previous authority included two different bond issues under the management control of the Arkansas Soil and Water Conservation Commission. Previous bond issues operated independently and were managed for two specific purposes – water or waste disposal and pollution abatement.

The proposed Question No. 1 in 1998 consolidated the initiatives, resulting in one fund managed for both purposes. Arkansas voters approved the measure in the 1998 general election.

What is being proposed?

Act 631 of 2007 allows a new bond authority question to be put before Arkansas voters and assigns the administrative authority to the Arkansas Natural Resources Commission (formerly known as the Arkansas Soil and Water Conservation Commission). If approved, the measure would extend the current program, approved by voters in 1998. The 1998 ballot question provided a financial commitment to water, waste disposal and pollution abatement facilities financing for a projected 10-year period. 2008 marks the 10th anniversary of that program. The Arkansas General Assembly has reviewed the performance of the programs financed by the bonds over the last 10 years and, with Referred Question No. 1, is asking Arkansas voters to consider continuing the bond finance authority.

Bond issues are often complicated ballot questions that can lead voters to oppose them because they lack a clear understanding of both their purpose and cost. The following questions and answers are an attempt to address some of the potentially complex aspects of a bond issue question.

Why are citizens voting on this bond issue?

The Arkansas Constitution requires that Arkansas voters approve all General Obligation bonds. The bond issue is pledging the full faith and credit of the state to the repayment of the bonded indebtedness. The state's citizens must vote to assume that debt responsibility.

Does an assumed debt by the state mean higher taxes for me as an Arkansas citizen?

Not generally. The repayment of bonded debt is the responsibility of those persons or businesses benefitted by the improvement created by the bond financing. Development entities (cities, improvement districts, water associations, etc.) borrow low-interest financing from the state and repay the loans from revenues generated from water and waste management user fees. State general revenues are used to pay initial debt service on the bonds. There is always a slim chance that a borrower will default and the state must assume responsibility for the outstanding debt. The advantage of a state-issued bond is a higher bond classification than normally available to smaller entities. The results are better financing rates and state coordination with other sources of project funding.

What is the status of bonds issued under the 1998 authority?

The Water and Pollution Abatement Bonds to date have funded 200-plus water and waste disposal projects without default. Funds generated by the bond issues have leveraged additional local, state and federal funds at a level of two-to-one, meaning that two additional dollars in project funds were committed for every bond dollar generated. Projects in 65 of the state's 75 counties have received benefits from the current water and pollution prevention bond funds.

What happens if this bond issue does not pass?

The Arkansas Natural Resources Commission's current source of funds, through voter-approved bond authority, is in its final year. Thus funds for water development, waste disposal and pollution abatement projects for the state are uncertain. The loss of state-supported financing may result in significantly higher cost for future development financing, translating to potentially higher rates for water and wastewater utility customers.

How are bonds issued and what financing opportunities result?

The Arkansas Natural Resources Commission with the support of bond counsel issues the bonds for competitive bid, usually in \$10 million to \$20 million

increments. This allows for a very competitive bid process and interest rates to the borrower that are among the best available at the time. In this case (the Act's authority), the agency is limited to no more than \$60 million during any given biennium, without prior legislative approval. Using this formula and noting current financing demand, the bond issue could provide water and pollution abatement funding for at least the next 10 years.

How will the state pay the costs of new bonds?

As with the existing bonds, the initial cost associated with new bonds is normally paid from the state's general revenue fund. Debt servicing costs for general obligation bonds have first priority on general revenue funds. State agencies cannot receive any appropriated money until debt service costs on outstanding general revenue bonds are paid. Repayment of bonds issued under this authority is made possible by the interest and debt service payments made by water, waste management user fees.

The following statements are what supporters and opponents have made public either in media statements and literature or on web sites. The University of Arkansas does not endorse or in any way validate these statements.

What do supporters say?

The bond financing program has been important to the development of water sources, waste water management systems and water quality protection efforts across the state of Arkansas. The funds are often used to match federal grant funds available for water and sewer projects. If such bond funds were not available, access to the grants would be limited or additional state general revenues would be necessary. Supporters have stated that without this bond issue, the cost of financing the water and wastewater needs of cities across Arkansas would increase. Interest rates for conventional loans are significantly higher than bond-based financing.

Supporters note that there are more than a billion dollars worth of unmet demands for water and wastewater project development in the state of

Arkansas. Supporters say funds made available through this bond financing program would be valuable in leveraging additional resources to meet this identified financial need.

What do opponents say?

Opponents argue that bond financing places a debt burden on the state and would require some debt service from state revenue sources. Issuance of bonds makes the state responsible for repayment of the debt and, say opponents, undermines the state's ability to finance other important infrastructure needs.

Opponents have stated that passage of the bond issue would encumber the state's future tax revenues as the basis for bond and interest payments and would give the Arkansas Natural Resources Commission extraordinary power and financial capability with regard to the management and ownership of the state's water resources. Opposition has also noted that the Arkansas Natural Resources Commission has not demonstrated due diligence in the stewardship of its previous bond issuing authority.

Some opponents have registered concern about the state using bond funds to finance irrigation projects. Of primary concern is the Grand Prairie Irrigation project. The bond issue enabling authority limits the funds available for the purposes of supporting irrigation projects (\$100 million for the life of the bond issue), but that amount concerns some irrigation project opponents.

What does a "FOR" vote mean?

A "FOR" vote supports allowing the state to pledge its future faith and credit as the basis for issuing new bonds to finance the development of water, waste disposal and pollution abatement facilities in Arkansas. The amount pledged cannot exceed \$300,000,000 total or \$60,000,000 per biennium.

What does an "AGAINST" vote mean?

A vote "AGAINST" Referred Question No. 1 indicates a citizen does not approve of the issuance of new water, waste disposal and pollution abatement

facilities bonds under the administrative guidance of the Arkansas Natural Resources Commission.

Where can I find more information?

The complete and official text of each ballot measure can be obtained through the Arkansas Secretary of State's Office:

- Phone: 501-682-1010
- Web site: <http://www.votenaturally.org>

For additional information, including links to major support and opposition groups, please visit the University of Arkansas Division of Agriculture's Public Policy Center web site at <http://ppc.uaex.edu> or contact your county Cooperative Extension Service office.

The following is information regarding this referred question as it will appear on the state's November 4 general election ballot.

Referred Question No. 1

Act 631 of 2007
(Referred to the People by the General Assembly)

(Popular Name)

ARKANSAS WATER, WASTE DISPOSAL, AND POLLUTION ABATEMENT FACILITIES FINANCING ACT OF 2007

(Ballot Title)

“SHALL THE ARKANSAS NATURAL RESOURCES COMMISSION BE AUTHORIZED TO ISSUE GENERAL OBLIGATION BONDS UNDER THE AUTHORITY OF THE ARKANSAS WATER, WASTE DISPOSAL AND POLLUTION ABATEMENT FACILITIES FINANCING ACT OF 2007, FOR THE FINANCING AND REFINANCING OF THE

DEVELOPMENT OF WATER, WASTE DISPOSAL, WATER POLLUTION CONTROL, ABATEMENT AND PREVENTION, DRAINAGE, IRRIGATION, FLOOD CONTROL, AND WETLANDS AND AQUATIC RESOURCES PROJECTS TO SERVE THE CITIZENS OF THE STATE OF ARKANSAS, IN TOTAL PRINCIPAL AMOUNT NOT TO EXCEED THREE HUNDRED MILLION DOLLARS (\$300,000,000), WITH NO MORE THAN ONE HUNDRED MILLION DOLLARS (\$100,000,000) OF SUCH BONDS TO BE ISSUED TO FINANCE AND REFINANCE THE DEVELOPMENT OF IRRIGATION FACILITIES, IN SERIES FROM TIME TO TIME IN PRINCIPAL AMOUNTS NOT TO EXCEED, WITHOUT PRIOR APPROVAL OF THE GENERAL ASSEMBLY, SIXTY MILLION DOLLARS (\$60,000,000) IN ANY FISCAL BIENNIUM, WHICH BONDS SHALL BE SECURED BY A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OF ARKANSAS?”

FOR Issuance of State of Arkansas Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds

AGAINST Issuance of State of Arkansas Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds

Exercising your voting privilege

We live in a democratic society where voting is a privilege of citizenship. Democracy works best when informed citizens exercise their voting privilege. Please vote November 4, 2008.

Reference

Water bond issue among three measures already on November ballot. *The Morning News*. July 5, 2008.

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