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Bonds can save money or cost taxpayers

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By CHELSEA McDOUGALL - cmcdougall@shawmedia.com

Used properly, they've saved taxpayers hundreds of thousands of dollars in interest rates. When something goes wrong, opponents decry that they're too risky, skirt taxpayers and bust through tax caps.

Alternate revenue bonds are a funding mechanism used by some local governments in Illinois to help pay for projects ranging from sewer improvements to land purchases.

McHenry County College has considered issuing alternate revenue bonds if a $42 million expansion to its health and wellness programs moves forward. But a college official said last week that it's too early in the process to outline a cost or possible funding opportunities.

MCC Chairwoman Mary Miller declined Thursday to comment on whether taxpayers should have a say when it comes to offering the college's bonding authority to finance the proposed project.

"I'm not going to comment on that. We're not even at that stage," Miller said.

But at least one board member said he would support going to the taxpayers.

"I think when we're ultimately being supported by the taxpayers, we ought to be totally transparent – we ought to be asking the taxpayers," said Trustee Ron Parrish, who serves as a board liaison to the committee working on the project feasibility study.

Every taxing entity in Illinois – from the state to the smallest park district to the largest municipality – has the power to borrow money, but statutes govern how they can do so.

For non-home-rule communities, or those with fewer than 25,000 residents, alternate revenue bonds usually are the cheapest way to borrow money without first getting taxpayer approval. General obligation bonds — which have the full backing of taxpayer dollars — offer the least expensive interest rates. Only home-rule municipalities can issue them without asking for permission: Other local governments have to go to a referendum.

Known to their Wall Street buyers as double-barreled bonds, alternate revenue bonds have low interest rates because they offer taxpayer dollars as a backstop, or the so-called "second barrel."

Alternate revenue bonds pledge a funding stream that presumably will cover the costs of a project. Many projects paid for by these bonds are water, sewer or road infrastructure repairs, and the revenue stream could be user fees or motor-fuel taxes, for example.

But if the revenue doesn't materialize, governments have the legal authority to increase taxes to cover the bond payments.

These bonds are attractive to investors for the security of knowing they'll get repaid. For a local government, alternate revenue bonds promise low interest rates and are not limited by the tax cap.

"What that does for a community is it lowers their interest rate that they have to pay on that debt," Woodstock's Finance Director Roscoe Stelford said.

Others see them as a way of sidestepping taxpayers or as a legislative "loophole" that allows smaller governments to shift the risk onto local taxpayers.

“The government uses alternate revenue bonds so they don’t have to go to referendum to ask citizens for permission to do these things,” said Brian Costin of the Illinois Policy Institute, a conservative, nonpartisan think tank.

It’s the taxpayers who have the most to lose, he said.

“If anything were to go wrong with the project, the taxpayers back it up. Bond holders wouldn’t lose their money and they will continue to get investment returns,” Costin said.

Local government officials note that alternate revenue bonds are not issued in a cloak of darkness. A notice must be published in a local newspaper, and public hearings must be held.

“There is a process already intended to inform the public that we’re going forward with alternate revenue bonds,” Stelford said.

Still, attend many local government meetings and see how many people attend. Ever.

Concerned residents can file a petition to get a bond issuance on the ballot by collecting 7.5 percent of the registered voters in a given taxing district. They have 30 days to do so.

If revenue projections don’t add up or something goes wrong, there are adverse effects for the borrowers and it takes a toll on its future borrowing abilities.

“It’s going make it hard for you to issue debt in the future, and it’s going to raise your interest rates,” Stelford said. “Public opinion is probably even bigger than that because it’s going to end up on their property tax bills. Generally people don’t like to see their property taxes increase even in a good economy.”