US consultant finds obstacle in landfill bond

MONDAY, 13 APRIL 2009 01:39 BY THERESE HART | VARIETY NEWS STAFF

THE United States government is not too optimistic about the viability of the landfill funding mechanism under Public law 30-7.

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Documents filed by the U.S. government at the federal district court on Friday stated that "the likelihood of GovGuam successfully issuing the $202.4 million in landfill revenue bonds is hampered" because it is tied to the $236.8 million deficit financing bonds.

The law states that these bonds "must be issued at the same time or earlier than the landfill bonds and two, to the extent that the government uses Section 30 revenue to secure the deficit financing bonds, it will be unavailable for the landfill bonds."

Governor Felix Camacho and the Office of the Attorney General believe P.L. 30-7 satisfies the financing mechanism that the court seeks to fund the consent decree projects. The AGO invokes the law to support its request for the suspension of the $1 million weekly payments to the federal receiver. An expedited hearing on this request has been set for tomorrow.

U.S. consultant, Jonathan Shefftz, who was contracted to conduct an analysis of P.L. 30-7, stated the law meets some attributes for a successful landfill bond issue, but it's simply not enough.

Obstacle

Shefftz said no governmental purpose is served by tying the fate of the landfill bonds to that of the deficit financing bonds.

He said P.L. 30-7 indicates that the deficit financing bonds are to take priority over the landfill bonds.

Shefftz noted that the law significantly hampers the government's ability to secure a landfill bond if the deficit financing bond is sold first on the bond market with the backing of Section 30 revenues.

Shefftz's analysis also stated that with the deficit financing bonds, GovGuam is "taking on new additional debt merely to pay off existing debts for past actions.

"Given that Guam's debt rating has been below investment grade—and therefore at 'junk' status since 2001-- the feasibility of selling these bonds is questionable in today's more stringent lending climate," he said.

Citibank, the bond's lead underwriter, is optimistic that improved market conditions, combined with an authorized interest rate cap of 10 percent, would allow the entire amount of the deficit financing bonds to be sold in a timely manner.

While agreeing that the prospects for the sale of the $236.8 million deficit financing bonds may be assisted with interest ceiling, Shefftz predicted that the bonds will receive a "junk" rating as did the other general obligation bonds issued in prior years.

It was noted that in December 2008, GovGuam "failed to sell a portion of these bonds."

Suspension

Schefftz, nevertheless, agreed that a "limited suspension of weekly payments could assist the marketing of the bonds."

However, he qualified that any such suspension should not be provided unless the conditions recommended by the federal receiver, Gershman, Brickner & Bratton are imposed by the court.

If at least $120 million of bond funding is not made available for the consent decree projects by June 30, then the weekly payments should be reinstated and catch-up payments should be required, to compensate for any missed weekly payments during the suspension period.

The rest of the recommendations made by Schefftz mirrored the ones presented by GBB.

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