

Frequently Asked Questions about Municipal Bonds

What is a municipal bond?

Municipal bonds are a long-term funding mechanism that allow municipalities to develop various types of infrastructure, such as roads, utilities, and facilities.

How do municipal bonds work?

Municipalities receive a credit rating from a third-party agency who reviews their financial history and publish an opinion detailing various aspects of the municipality so investors can make an educated decision on purchasing bonds from that particular municipality. (Moody's recently upheld their rating for San Leon as a mid-level, long-term investment.) When a municipality wants to sell bonds, they are advertised on the open market for a period of time and different investors or investing groups supply bids for those bonds. After the financial advisor has reviewed the bids, a recommendation is given for the best deal that grants the municipality the funds requested without being burdensome on repayment schedule or interest rates. Once sold, the bond funds are placed in a special account that can only be utilized for work detailed in the bond. The bonds are then repaid over time through tax revenues. Bonds also include a period of capitalized interest in the total amount to delay the impact on taxes, allowing for development to increase the tax base and additionally decrease the impact of the additional debt obligation.

Why is San Leon asking for additional bonds?

Over the years, the development of San Leon has resulted in increased flows at the wastewater plant. The deterioration of our aging sewer pipes has also allowed a significant amount of rainwater and groundwater, called inflow and infiltration (I&I), to get into the wastewater plant. This has caused us to exceed the amount of permitted flow we're granted by the state regulatory agency, the Texas Commission on Environmental Quality (TCEQ). While the District has done significant amounts of repair to the system using funds from the 2017 bond in an effort to hold off expansion of the wastewater plant, we've only seen minimal decreases in the amount of I&I at the plant. As a result, we've been required by the state to begin design and development of a wastewater expansion to accommodate the flows we're currently processing. The proposed plant expansion will cost nearly \$20 million, with additional bond funds to be used for projects such as \$5 million dedicated to upgrade the 2" water lines that have been a hindrance on tap capacity and development, \$5 million for rehabilitation and replacement projects on much of our sewer system to continue reducing the I&I, and close to \$3 million for improvements at our facilities to increase efficiency. The remaining bond funds cover the legal and regulatory origination fees plus one year of capitalized interest payments for the bond.

What happens if the bond election doesn't pass?

In the event the District is unable to secure funding for the expansion, TCEQ will begin imposing fines on the District for non-compliance. (They've not done so to date as they know we're in the process of finding a solution for the excessive flows.) Additionally, they will most likely exercise their right to come down to the District and use state funding to design, construct, and bill the District for the expansion of the wastewater plant. San Leon will have no control over the development process or terms of the repayment, which would have to be repaid however and whenever the state feels appropriate. This debt obligation differs from bond debt because it would have to be repaid via our water and sewer rates, potentially tripling them.

Where can I get more information?

The District will be holding town hall meetings at the San Leon Fire Station April 9th & April 22nd at 6:30 PM and all residents are encouraged to attend to hear from and ask questions of the District's board members and consultants. Residents can also attend the monthly meeting the District holds at the San Leon Fire Station every third Wednesday at 6:30 PM.