

THE BOND BUYER

Bonds may pay for higher costs on Red River flood control project

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The Metro Flood Diversion Authority of Fargo, North Dakota and Moorhead, Minnesota may turn to the bond market to cover \$200 million in extra costs for a flood control project.

Projected costs went up to fund an alternative proposal for the project that its backers hope will satisfy Minnesota regulators.

The project is promoted as a permanent solution to flooding in the two metropolitan areas

The cost estimate for plan to protect Fargo, Moorhead and surrounding areas from a 100-year flood on the Red River is now \$2.4 billion, up from an original projection of \$2.2 billion, according to Diversion Authority officials. Minnesota officials opposed the original plan.

On March 16, the Diversion Authority submitted a permit application to the Minnesota Department of Natural Resources on a new proposed alignment for the southern embankment of the project.

In 2016, the Minnesota DNR denied a permit application for the original proposal. In September 2017 a federal injunction temporarily blocked construction until the Army Corps of Engineers obtained the necessary Minnesota permits.

“We are excited,” said Fargo Mayor Tim Mahoney in a phone interview. “If we get the permit then there is no reason not to go forward. People in the bond market should be a lot happier because it’s a more pure thing. We are going right ahead with the project and if we are permitted by Minnesota, we shouldn’t have more hiccups. Then we get to the hard facts of figuring out how we are going to pay for it.”

Mahoney said that at this stage two options have been floated for financing the extra costs. The first is going back to the state of North Dakota and asking

legislators for more money. "The state has funded other water projects at 50% and this project they've only funded at 26%," Mahoney said. "So some people have said that we may be able to go back to the state to get the additional \$200 million."

Another option is tapping the state's voter-approved Legacy Fund, which receives 30% of state petroleum revenues. It has collected deposits exceeding \$4.25 billion since it began accumulating in 2011. Including investment earnings, the fund has a balance of more than \$5.42 billion.

A proposal that will be decided by the 2019 North Dakota Legislature would use up to 15% of the Legacy Fund's principal balance — now \$780 million — to lend to cities, counties, water resource districts, rural water systems and airport authorities for infrastructure projects.

As proposed by Republican lawmakers, loans to political subdivisions would be available at a rate of 1.56% for up to 50 years. The program would have a minimum loan amount of \$10 million for new projects and \$1 million on refinanced debt, which can comprise 20% of total capital.

Mahoney said that the idea would be to try to get a favorable rate of 1.5% over a longer term of 30 to 40 years.

"It would see the state investing in infrastructure with a favorable rate over a longer period of time," Mahoney said. "That would subject to legislative approval and so it's more challenging to get done."

North Dakota Treasurer Kelly Schmidt is against the proposal to tap the Legacy Fund to create a revolving loan fund to finance public works projects.

"The principal of this fund should be left to grow for generations and the interest income used for special funding needs," Schmidt said in a statement.

Mahoney said the hope is to have the funding options in order over the next three to six months.

There is still a chance that the final additional costs could exceed the current \$200 million estimate. The estimate is based on a recalculation of cost variables that went into the previous \$2.2 billion projection from 2015 and doesn't account for increased construction costs.

Tony Grindberg, a Fargo city commissioner who chairs the Authority's Finance Committee, said he expects any increase in costs beyond the already \$200 million calculated in overruns would be in the \$100 million to \$150 million range.

The biggest changes plan B makes to the diversion project are a new route for the dam designed to slow the flow of water into downstream communities, as well as higher flood elevations expected on the Red River through Fargo-Moorhead. These features are meant to reduce the project's impact on upstream counties, especially in Minnesota.

Under the plan, the dam is 25% longer at 16.1 miles and requires construction of additional dikes in Fargo and Moorhead that are needed to handle a river elevation of 37 feet, an additional two feet.

The DNR denied a permit to build a dam across the Red River in October, arguing that emergency measures like those used during a devastating 2009 flood and new dikes should be enough. The Corps however, acting on congressional authorization, began construction on the diversion inlet structure near Horace, North Dakota in April 2017.

Mahoney said that they are looking at a public-private partnership being bid by the end of 2018, six months behind the original schedule. "We'd still like to be on the ground in 2019," he said. "With this plan B we have to apply for a new permit which we put in on March 16," he said. "It's 99.9% completed. We may have some results by June or July."

Mahoney said that once the permits are in the plan is to go full blast with the project.

The project marks the first use of a P3 to help fund a project overseen by the Corps, which under the original plan was expected to save \$400 million and reduce the project delivery timeline by more than 50% compared with traditional approaches. "Even with the additional costs it is still anticipated that the P3 will expedite delivery and result in significant project cost savings, Corps spokesman George Stringham said.

"The Corps will work with the Diversion Authority, Minnesota Department of Natural Resources and other interested parties to try and identify a mutually agreeable project that is within the federal authorization. This includes assessing the proposed changes," Stringham said.

Approximately \$900 million of project costs would be financed through the issuance of sales tax revenue bond issued by the Diversion Authority, which was created by an inter-governmental agreement among five member entities: the city of Moorhead, Clay County, Minnesota, Cass County, North Dakota, Fargo, and the Cass County Joint Water Resources District.

The U.S. Army Corps of Engineers has fixed its contributions at \$450 million plus inflation. The project has received \$20 million in federal funding through the Corps work plan for fiscal year 2017. The project previously received a federal “new start” status and \$5 million in federal appropriations for construction in the fiscal year 2016 Corps work plan. The fiscal year 2016 funding is being used for construction of the diversion inlet and control structure south of Horace.