
Texas Sets $8 Billion Bond Deluge for Water Works After Drought.

The worst Texas drought in half a century has ended, with storms flooding downtowns and once-parched prairies. A deluge of $8 billion of bond sales for water works in the Lone Star state is just getting under way.

The Texas Water Development Board is planning to sell $800 million of municipal debt this year, beginning a decade-long borrowing spree for projects like reservoirs, pipelines and plants that make saltwater fit to drink.

No state is growing as much as Texas, whose infrastructure is being taxed by a population that's swelling by more than 1,000 a day. The water supply is no exception: It's projected to decline over the next 50 years, while global warming is raising the risk of droughts like the one still gripping the far West. So Texas is borrowing to lend cities money for needed work, using $2 billion of its reserves to subsidize the cost.

"It's very hard to capture the funds needed to ensure large supplies," said Randall Gerardes, vice president for municipal research at Wells Fargo Securities LLC in New York. "This could be a model for how states work with smaller jurisdictions."

The Texas economy expanded at the second-fastest pace in the U.S. last year, even as a slide in the price of oil began rippling through the energy industry. With an influx of residents, the state is pouring billions into construction to keep up. Texas and its localities have sold $23 billion of debt this year, 47 percent more than the same period a year earlier, according to data compiled by Bloomberg.

Drought Racked

In November 2013, voters approved tapping the state's reserves for the water program, following the onset of a drought that devastated its farms. Texas forecasts that the amount of available water will decline by about 10 percent by 2060, while its population will grow by some 20 million.

Under the program, top-rated Texas will sell bonds and lend the proceeds to local governments. Those loans will be cheaper than issuing debt on their own: Texas will charge as much as 36 percent less than what it pays to borrow.

The state expects to sell $8 billion of bonds over the next 10 years, with the first coming in September or October, said Amanda Lavin, assistant deputy executive administrator with Texas's water board. Over the next five decades, the program may finance as much as $27 billion of work.

The agency has received applications for about 25 projects that will cost a total of $3.9 billion, said Merry Klonower, its spokeswoman. It will decide by the end of July which to fund with the first round of bond money.

Dallas Saves

Dallas is among those looking to borrow. It's working on a $2 billion pipeline with the neighboring Tarrant Regional Water District, which supplies more than 1.7 million people. Terry Lowery, assistant director of business operations for Dallas's water utility, said the subsidies would cut costs by about $1 million a year.

"It helps us, but it also helps utilities that don't have a lot of funding," Lowery said.

Texas already enjoys low borrowing costs because it's one of just nine states with the highest general-obligation bond rating from both Standard & Poor's and Moody's Investors Service. Its 30-year bonds yield 3.57 percent, or 0.16 percentage point above benchmark municipal debt, according to data compiled by Bloomberg.

Unlike other water programs funded with Texas general-obligation bonds, the new securities will be backed by the revenue it receives when the loans are repaid.

Brandon Ratzlaff, a financial adviser with Carter Financial Management in Dallas, said he expects yields to be around 3 percent, based on estimates from its affiliate, Raymond James Financial Inc. That's equivalent to about 5 percent for an investor in the top federal tax bracket.

"It's not going to come with a coupon that will get everyone excited," said Ratzlaff, whose firm manages $850 million. "But the social impact appeals to some of our investors because they want to make a difference."

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