

LRB- RESEARCH AND ANALYSIS SECTION

FINANCE & PERSONNEL COMMITTEE JUNE 4, 2008 ITEM 21, FILE # 071637

Analysis of the Proposed Substitute

A proposed substitute resolution has been placed in File # 071637 which is a resolution relative to the sale and issuance of up to \$95,000,000 Sewerage System Second Lien Revenue Bonds. The proposed substitute reduces the authorization for sale and issuance to \$59,000,000.

Background

1. This resolution authorizes the sale and issuance of subordinate Sewerage System Revenue bonds to implement budgetary decisions to provide funds for capital projects through the State of Wisconsin Clean Water Fund at lower interest costs.
2. Common Council File # 991863, as amended by File # 021776, constitutes the "Master Resolution" for Sewerage System Revenue Bonds. The Master Resolution provides the authority, when utilized in conjunction with separate "series resolutions", for the issuance of Sewerage System Revenue Bonds with debt service on such bonds to be payable from the revenues of the Sewerage System.
3. Common Council File # 060091, the "Second Lien Resolution," authorized the issuance of nearly \$60 million in subordinate Sewerage System Revenue bonds. There was an outstanding aggregate principal amount of \$13,806,590 issued under this authorization as of May 1, 2008.
4. The Clean Water Fund Program is administered by the Wisconsin Department of Natural Resources (DNR) providing loans to municipalities for wastewater treatment and urban storm water projects. These state subsidized loans are funded by the Environmental Improvement Fund.

Discussion

1. Current authority, together with the proposed authorization for sale and issuance of \$59,000,000 (proposed substitute resolution) in second lien revenue bonds, appears to be sufficient to implement the expenditures budgeted for the Sewer Maintenance Fund in the 2008 and prior years' budgets.
2. The Office of the Comptroller reports an anticipated closing on a loan from the DNR's Clean Water Fund of approximately \$36,000,000 in early June of 2008. Sufficient authority exists under the resolution in File # 060091 for this planned borrowing.
3. The attachment in File # 071637, incorporated into the resolution by reference, also permits the continued issuance of additional First Lien Bonds upon meeting specified municipal bond rating conditions.

4. Currently outstanding General Obligation debt includes \$19,631,000 of temporary borrowing for Sewer Maintenance purposes pending a permanent borrowing for the projects from the State's Clean Water Fund program.
5. The 2008 Budget for the Sewer Maintenance Fund anticipated the proposed borrowing from DNR's Clean Water Fund. The proposed resolution implements budget determinations.
6. It is estimated by the Office of the Comptroller that debt service on borrowing authorized by this resolution will not exceed \$6.4 million annually for a 20-year period (based upon the original \$95,000,000 request). This is based upon an estimate of 3% annual interest rate on the debt. Actual amounts may be more or less. The proposed resolution provides that bonds may mature at the end of a period not exceeding 40 years from the date of issuance; however, the Clean Water Fund program currently provides loans for only 20 years.
7. Expenditures for debt are funded through Sewer Maintenance Fees and Storm Water Management Charges payable to the Sewer Maintenance Fund. Declining water usage, together with the continued costs of borrowing for necessary maintenance and capital projects, will likely require a restructuring of these fee rates and charges in future budgets.

Fiscal Impact

1. The current fiscal note projects not more than \$6.4 million will be expended annually for debt service on the new debt, to be paid entirely from the Sewer Maintenance Fund and not from the Tax Levy. The proposed substitute will likely result in a reduced expenditure for debt service.
2. If the present fee rate and charge structures of the Sewer Maintenance Fund remain constant in future years, alternative sources for payment of debt service on future debt may become necessary,

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