

LRB – FISCAL REVIEW SECTION ANALYSIS

MAY 18, 2005 AGENDA

ITEM 3, FILE 050102

FINANCE & PERSONNEL COMMITTEE

JAMES CARROLL

File #050102 is a resolution approving the form and authorizing the execution and delivery of an Amendatory Loan Agreement Among the Redevelopment Authority of the City of Milwaukee, the Milwaukee Board of School Directors and the City of Milwaukee, and other related documents.

Background

1. The Milwaukee Public Schools (MPS) had an approximately \$167 million unfunded prior service liability (UPSL) with the Wisconsin Retirement System (WRS). The UPSL accrued interest at the rate set by WRS, which was set at 8%. Given the low interest rates, MPS developed an alternative financing option for the UPSL.
2. On July 2, 2003, the State Legislature adopted 2003 Wisconsin Act 43 that provided MPS the statutory borrowing authority through the City and the Redevelopment Authority of the City of Milwaukee (RACM) to finance the UPSL. The legislation permitted the use of General Obligation (GO) promissory notes through the City and up to \$200 million of revenue bonds through RACM for the financing. The revenue bonds are secured by MPS pledging general state aid revenues (approximately \$600 million a year.) The legislation also authorized that these GO notes be counted against the 2% statutory limit for general school bonds, and not the 5% statutory limit for general City purposes.
3. On August 1, 2003, the Common Council approved a cooperation agreement (File #030519) between the City, RACM and MPS regarding the preparation of a financing plan to address the MPS unfunded pension liability.
4. On November 25, 2003, the Common Council approved a loan agreement (File #031036) between the RACM, MPS, and the City of Milwaukee.
5. Of the \$167 million borrowing, approximately \$21 million was financed through the City's Public Debt Amortization Fund and approximately \$146 million was financed through RACM.

Discussion

1. This resolution amends a loan agreement with MPS relating to their 2003 pension obligation financing through the RACM. This resolution pertains to \$131 million of the \$146 million borrowed through RACM.

2. The amendment creates the ability to convert the bonds from Auction Rate Securities to Index Linked bonds. The conversion will permit MPS to reduce interest rate risk and save interest expense.

Fiscal Impact

This resolution has no fiscal impact on the City of Milwaukee. It is estimated that the conversion to Index Linked Bonds will save MPS \$60,000 a year in real savings and \$200,000 a year in budgeted savings.

Cc:	Marianne Walsh Mike Daun Mark Nicolini W. Martin Morics Richard Li Craig Kammholz
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