

LRB – FISCAL REVIEW SECTION ANALYSIS

NOVEMBER 19, 2003 AGENDA

ITEM 16, FILE 031037

FINANCE & PERSONNEL COMMITTEE

JAMES CARROLL

File #031037 is a resolution approving the terms and authorizing the execution and delivery of an interest exchange (swap) agreement of the City on behalf of the Milwaukee Board of School Directors.

Background

1. File # 31035 (Agenda Item #14) authorized the City of Milwaukee to issue up to \$125 million of General Obligation notes for the purpose of paying a portion MPS's \$167 million unfunded prior service liability to the Wisconsin Retirement System. The notes are to be issued along with RACM pension bonds that are anticipated to be issued for the same purpose.

Discussion

1. Approval of the interest exchange (swap) agreement will reduce MPS's debt service costs. Part of the RACM Bonds will be issued as variable rate Auction Rate Securities. The proposed interest exchange agreement will convert the variable rate obligation into a fixed rate obligation. MPS will pay the exchange agreement a fixed rate of interest, and MPS will receive from the exchange agreement a variable rate of interest. The variable rate of interest received on the interest exchange agreement will approximate the variable rate of interest paid on the Auction Rate Securities. The variable rate received and paid substantially offset each other, and the net effect is a fixed rate obligation to the agreement.

Fiscal Impact

This resolution has no fiscal impact on the City of Milwaukee. Under an agreement between MPS and the City, MPS will reimburse the City for all expenses relating to the interest exchange agreement. The Public Debt Commission's staff estimates the interest exchange agreement will provide MPS with financing flexibility and save approximately \$2 to \$3 million in debt service costs over the 40 years it will take MPS to pay off the bonds.

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