LRB – RESEARCH AND ANALYSIS SECTION

APRIL 28, 2010 AGENDA **ITEM 12, FILE 091668**

FINANCE & PERSONNEL COMMITTEE **JAMES CARROLL**

File #090814 is a substitute resolution authorizing the Commissioners of the Public Debt to market general obligation notes and bonds of the City for school purposes.

Background

1. The American Recovery and Reinvestment Act of 2009 included authorization for Qualified School Construction Bonds (QSCB). This tax credit bond program is intended to allow state and local governments to finance public school construction projects and other eligible costs for public schools with interest-free borrowings. This tax credit bond program provides a federal subsidy by giving those who buy the bonds a federal tax credit that essentially allows state and local governments to issue the bonds without interest cost.

2. During 2009, MPS sought City approval for the issuance of Qualified School Construction Bonds. MPS had originally submitted a request for $53 million in funding for eligible projects. After discussions with the City's Budget Office, MPS reduced the request to $48 million for deferred maintenance projects ($30 million), science and mathematics program/curriculum enhancements ($6 million), the Longfellow/Journey House project ($4 million), and funding ($8 million) for major maintenance projects as they arise.

3. On July 28, 2009, the Common Council Approved an initial resolution (File #090555) expressing the City's intent to sell and issue general obligation bonds in the aggregate amount of $48,000,000 for school purposes.

4. On November 3, 2009, the Common Council adopted a substitute resolution (File #090777) approving an Intergovernmental Cooperation Agreement (IGA) between the City of Milwaukee and the Milwaukee Board of School Directors regarding city borrowing for school purposes pursuant to the provisions of the American Recovery and Reinvestment Act of 2009. According to the Budget and Management Division's, October 27, 2009, reply to File #090777, the IGA contains the following provisions:

- MPS will present its final list of approved projects and information related to operational plans for facilities to the Common Council prior to expending the borrowing proceeds. (A list of approved projects was included as an attachment to File #090777.)

- Expenditures for deferred maintenance and major maintenance is limited to those items whose condition rating at the time of expenditure is rated "fair" or "poor". (The District supplied information to File #090777 regarding how these ratings were derived.) This is intended to ensure maximum benefit from the expenditures.

- MPS ensures that for projects in the curriculum enhancement category, it will operate, or continue to operate educational programs consistent with the stated purpose of the enhancements within one year of the completion of improvements.

In addition, the IGA includes the following provisions that protect the City's interests:

- MPS will reimburse the City for all debt service (principal and any interest not covered by the federal government.) and debt issuance costs.

- MPS agrees to reduce the construction levy each year (relative to statutory maximum of .6 mill) by the amount of QSCB debt service reimbursement; this protects against an MPS levy-destabilizing impact from the QSCB borrowing.

- MPS will make its reimbursement for the first year's projected debt service one year in advance of the city's initial debt payment, in effect serving as a debt service advance.

- The IGA provides the city, consistent with state statute, the ability to place any debt service shortfall directly on the MPS levy should the Board fail to include its budget the full amount of reimbursement due the City.

- The use of the borrowing proceeds protects city taxpayers' investments in school buildings by the preservative impact of deferred maintenance elimination and major maintenance expenses. The borrowing will also enhance the District's ability to improve curriculum in early childhood programs, technology, mathematics and science, and vocational education. The Community Learning Center funding enables the implementation of a public/private partnership with the Zilber Foundation that will result in significant after-school programming and community education opportunities.

5. On December 1, 2009, the Common Council adopted a resolution (File #090814) authorizing the Commissioners of the Public Debt to issue and sell City of Milwaukee contingent borrowing general obligation school bonds in the maximum amount of $57,000,000 at a discount in order to receive $48,000,000 of net proceeds for various school construction projects. At that time, the Comptroller's Office indicated that although the legislation intended that local government be allowed to borrow at no interest cost, the tax credit rate set by the IRS was not high enough to accomplish the objective. As such, QSCBs had been sold with supplemental interest or at a discount from face (maturity) value. Because the interest is fully paid by MPS, but a discount is subsidized by the Federal Government, the Comptroller's Office indicated that it was more advantageous for the City to issue bonds at a discount than with supplemental interest. Of the $57 million of bonds authorized to be issued $12 million of bonds were issued to finance $11.3 million of projects.

6. H.R. 2847 - the Hiring Incentives to Restore Employment Act (the HIRE Act), signed into law on March 18, 2010, allowed Qualified School Construction Bonds, to be issued as tax-credit bonds or taxable direct-payment subsidy bonds.

Discussion

1. Because it is more advantageous (a reduction of approximately 1.5% in the interest rate paid), MPS has requested the remaining QSCB be sold as taxable direct-payment subsidy bonds.

2. This resolution authorizes the Commissioners of the Public Debt to issue and sell City of Milwaukee 2009 carryover contingent borrowing general obligation

corporate school bonds in the maximum amount of $38 million ($36 million from File #090555 and $2 million from File #091323) for various school construction projects. (Of the $48 million in contingent school borrowing authorized in File #090555, $36 million has been issued and of the $14,360,000 in contingent school borrowing authorized in File #091323, $11,020,000 has been issued.)

3. The resolution also amends the IGA to permit the issuance of taxable direct-payment subsidy bonds.

Fiscal Impact

This resolution will result in annual debt service expenditures of $4 million for 2013 to 2026, to be offset by $4 million revenue for the same time period from MPS.

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