Reply to Common Council File No. 090555
From DOA-Budget and Management Division

October 6, 2009

Ref: 09008

File Number 090555 contains a substitute resolution authorizing the sale and issuance of general obligation bonds in the aggregate amount of $53,070,000 for school purposes. This action is often referred to as the initial resolution; additional Common Council action is needed to approve the borrowing.

The American Recovery and Reinvestment Act (ARRA), aka "the federal stimulus" contains a provision pertaining to Qualified School Construction Bonds (QSCB). Under this provision, the federal government provides a credit estimated to be sufficient to investors to provide the issuer with a 0% interest rate. Actual market circumstances may in fact demand an additional return through a discount that would raise the effective interest rate somewhat above 0%. The borrowing term is expected to be between 14 and 17 years, depending on the market's response to the issue.

Earlier this year the Milwaukee Board of School Directors requested that the Administration support action to use city general obligation (GO) borrowing authority for school purposes in the amount of $53,069,187 so that MPS could utilize the stimulus provision and undertake a variety of building improvements. Under state law, the District has no statutory borrowing authority and generally relies on the city's school purpose authority for school-related debt finance.

The Board's proposal included reimbursement by MPS to the city for all debt service and related issuance costs. The Board and the city have entered into similar debt service reimbursement arrangements in the past, which have been implemented successfully.

During the past three months city staff have reviewed the proposal and worked with district staff in the development of an intergovernmental cooperation agreement (IGA) to ensure that the city's interests are protected should the Common Council approve this borrowing. The basics of the IGA are as follows:

1. The total borrowing amount has been amended to $48 million. $30 million would be directed to eliminating deferred maintenance; $6 million would be directed to program/curriculum enhancements in science and math; approximately $4 million to the Longfellow/Journey House Community Learning Center project; and the remaining $8 million to fund major maintenance.

2. The term of the debt would be 14-17 years; the market response to the issuance will determine the specific term.

3. The intergovernmental cooperation agreement protects the city's and the taxpayers' interests via an MPS capital financing plan that the Budget Office has reviewed and believe is feasible and reasonable:

- MPS will reimburse the city for all debt service and debt issuance costs;

- MPS agrees to reduce its construction fund levy each year (relative to the statutory maximum of .6 of a 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 reimbursement shortfall directly on the MPS levy should the Board fail to include in its budget the full amount of reimbursement due to the city;

- The MPS financing plan is feasible under modest assumptions about tax base growth and moderate sales of MPS surplus property. In addition, the projected end of $1.5 million in annual debt service related to the MPS Grand Avenue School project after 2013 provides a significant bolstering of reimbursement capacity. (If one assumes a 15-year debt term and a 0% effective interest rate, the annual reimbursement would be approximately $3.26 million, assuming 2% issuance costs are folded into the financing.) MPS absorbs the impact of any premiums by dealing with reduced proceeds.

- 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 its curriculum in mathematics and science, which are two critical areas necessary to improve the competitive position of our young people as they enter college and the workforce. The Community Learning Center (CLC) 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.

Additional Common Council action is required to authorize the city borrowing. This substitute resolution references the proposed IGA as a condition for the borrowing in order to provide a complete and transparent presentation of the nature of this proposed transaction.

RECOMMENDATION: ADOPT COMMON COUNCIL FILE NUMBER 090555

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