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June 12, 2006

Honorable Joe Davis, Sr., Chairman
Community and Economic Development
City Hall - Room 205
Milwaukee, WI 53202

Re: File #060079 is a resolution appropriating \$50,000 from the Development Fund to the League of United Latin American Citizens.

Dear Chairman Davis:

File Number 060079 provides a \$50,000 grant towards a national 2006 League of United Latin American Citizens Convention in Milwaukee. The grant is funded by the Development Fund.

The Development Fund is funded by City General Obligation borrowing "For providing financial assistance to blight elimination, slum clearance, redevelopment and urban renewal projects". An implicit assumption is that an expenditure is a "capital improvement". In 2005, similar convention grants were provided to the NAACP, and the United States Hispanic Chamber of Commerce. At that time, the City Attorney's office opined that, under State Law, the convention grants were a permitted use of the Development Fund.

While permitted under State Law, the convention grants are considered "working capital" expenditures for Federal tax-exempt borrowing purposes. Under IRS rules, debt for working capital expenditures is limited to one to two calendar years (next fiscal year).

Should the Council decide to fund the convention grant using borrowed funds (including the Development Fund), the financing would have a one (1) year maturity, similar to the grants for the NAACP and the United States Hispanic Chamber of Commerce. The net effect is that the City will pay next year for an expenditure incurred this year. This is not a sound financial practice as it merely defers current costs into the future, and therefore we would recommend against it. The City does not normally borrow for operating expenditures. Limited exceptions have included unanticipated costs for police overtime, retroactive wage settlements, and property tax refunds. City grants to assist visiting conventions costs which can be anticipated should be included in the City's operating budget, or the Contingent Fund.

Very truly yours,

W. MARTIN MORICS
Comptroller

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