Aycha Sawa, CPA, CIA
Comptroller

Joshua Benson
Deputy Comptroller

Toni Biscobing
Special Deputy Comptroller

Office of the Comptroller

September 4, 2020

Alderman Michael J. Murphy
City of Milwaukee
City Hall, Room 205
Milwaukee, WI 53202

RE: 2021 Debt Service Budget

Dear Alderman Murphy:

At your request, I have outlined the history of the Debt Service Fund and Debt Budget as it relates to the 2009 and 2010 Qualified School Construction Bond Issues for Milwaukee Public Schools. I would like to state up front that there are no City dollars that will be used to pay for the bond issues described below. In addition, the principal repayments for these bond issues will not occur in 2021.

MPS Bond Issues

In 2009 the City issued $12,000,000 General Obligation Corporate Purpose Bonds, Qualified School Construction Bonds, Series 2009 M6. In 2025, a balloon payment of $12,000,000 will be due to retire these Bonds.

In 2010 the City issued $37,300,000 General Obligation Corporate Purpose Bonds, Qualified School Construction Bonds, Series 2010 M6. In 2027, a balloon payment of $37,300,000 will be due to retire these Bonds.

MPS began making annual Sinking Fund payments to the City in 2013. These deposits will be sufficient to make the balloon payments in 2025 and 2027 respectively. These funds have been routed to a Fiscal Agent, which will release the funds in order to make the payments. The funds are reported in the City's Debt Service Fund in accordance with Generally Accepted Accounting Principles (GAAP). As of 12/31/2019, MPS has deposited $21,150,000 in Sinking Funds with the City, which the City has routed to the Fiscal Agent, in order to make these payments.

In summary – there will be no increased payment in 2021 for the MPS balloon payments, none of the MPS Sinking Fund payments have been spent to date, and no City funds will be used to pay for said balloon payments when they come due.

2021 Debt Budget

The accounting for the above referenced bond issues was misunderstood during the preparation of the City Debt Budget. The MPS Sinking Funds related to the Qualified School Construction Bond issues are recorded within the City's Debt Service Fund. When the prior Comptroller reviewed the Debt Service Fund balance each year, it was not understood that a portion of the fund balance was related to the MPS Sinking Funds.

Below is a table which shows the Debt Service Fund balance as well as the MPS Sinking Fund portion of the same.

	MPS Sinking Fund Deposits			
Year	2009 M6	2010 M6	Total Deposit	Running Balance
2013	$ 900,000	--	$ 900,000	$ 900,000
2014	925,000	$ 2,450,000	3,375,000	4,275,000
2015	925,000	2,450,000	3,375,000	7,650,000
2016	925,000	2,450,000	3,375,000	11,025,000
2017	925,000	2,450,000	3,375,000	14,400,000
2018	925,000	2,450,000	3,375,000	17,775,000
2019	925,000	2,450,000	3,375,000	21,150,000*

* The 2019 Debt Service Fund Balance, including the MPS Sinking Funds was $33.5 million.

The previous Comptroller's preference was to utilize Debt Service Fund balance in order to limit the increase to the tax levy that has come with an increased debt burden. There is now an insufficient fund balance to continue the practice of drawing down on reserves. The direct result for 2021 is an increased tax levy for debt service of $8.6 million, which was the budgeted draw on reserves for the 2020 Debt Budget.

The Comptroller's Office has made the Budget Office aware that the Debt Service Fund balance also includes MPS Sinking Fund deposits for the Qualified School Construction Bonds, and is therefore not able to be utilized to the same degree to which it has been in the past. Adequate fund balances are essential to protecting the City against the risk of reduced debt service revenues and the risk of increased debt service costs due to a rapidly increasing interest rate environment. Therefore, the City will need to restore the Debt Service Fund balance to a higher level, which may take several years. When the Debt Service Fund balance is restored to a more prudent level, the reserves may be utilized to smooth tax levy increases, albeit to a lesser extent than has been relied upon in the past several years. The City's debt retirement will not be slowed as a result of this.

No State statute or City code or ordinance was violated regarding the treatment of the Debt Service Fund, nor any Government Accounting Standards Board (GASB) pronouncement or Generally Accepted Accounting Principles (GAAP) for the City's Comprehensive Annual Financial Report. However, while no MPS funds have been spent and are all properly segregated for payment of these bond issues when they come due, the fund balance has dropped to a level that is too low to support additional draws at this time. Future debt levies will not see increases of this magnitude as it is a one-time correction.

We accept this oversight on the part of the Comptroller's management team in years past. The financial reporting, budget preparation, and debt management functions are handled by separate divisions within the Comptroller's Office. However, moving forward, my leadership team and I are rectifying these procedures by creating a better intra department process. I have and am committed to leading the office in a transparent and fiscally prudent manner. I am accountable to the taxpayers now and in the future. This is the reason that the Debt Service Fund balance reserves cannot be drawn down any further at this time. This would be taking from the future generation of taxpayers to pay for today.

Sincerely,

Aycha Sawa, CPA, CIA
Comptroller

AS/JB