

Reply to Common Council File No. 001671  
From DOA-Budget and Management Division

July 26, 2001

Ref: 01010(17)

Common Council File 011671 is a communication from the Comptroller's Office relating to a presentation by Stifel, Nicolaus & Company regarding water utility refunding options. The Comptroller's Office is transmitting a report by the Public Debt Commission's Financial Advisor, Robert W. Baird & Co. Inc.

Baird's analysis of Stifel's financing plan concludes that:

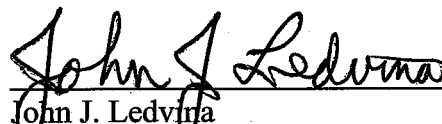
1. There is no economic advantage to the proposal. Taxable bond rates, low investment rates, and issuance expenses associated with the New Issue component of the proposal eliminate any economic advantage.
2. Water Works net revenue must be \$12.0 million per year to service the debt arising from Stifel's proposal. This is almost three times the \$4.5 million per year under the current debt structure.
3. In Baird's judgement, the \$60 million taxable New Issue is not an efficient method of leveraging Water Works revenue.

Baird suggests the following alternative:

- a. Refund the current Water Works debt to make \$3.3 million additional funds available for use.
- b. Transferring any available Water Works surplus to the General Fund would be a more efficient method of utilizing available Water Works revenue.
- c. Write a policy regarding the joint interests of the Water Works and the City for making these Water Works revenue transfers to the City's Tax Stabilization Fund.

Separate from the Baird analysis, the Water Works requested guidance from the Public Service Commission regarding public utility borrowing for non-utility purposes. In a May 25, 2001 letter, the Public Service Commission stated that Wis. Stats. Sec. 66.0621(4)(b) clearly prohibits the use of utility revenue bonds for a non-utility purpose. The letter quotes the statute, "All moneys received from bonds issued under this section shall be applied solely for purchasing, acquiring, leasing, constructing, extending, adding to, improving, conducting, controlling, operating, or managing a public utility, and in the payment of the cost of subsequent necessary additions, improvements, and extensions."

**RECOMMENDATION: PLACE ON FILE**



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