

Reply to Common Council File No. 091668
From DOA-Budget and Management Division

April 27, 2010

Ref: 10008

File 091668 contains a substitute resolution authorizing the Commissioners of the Public Debt to market up to \$38,000,000 of general obligation corporate purpose bonds of the city for school purposes.

In 2009, the Common Council adopted File Number 090814 which authorized the Public Debt Commission to market general obligation notes for school purposes. This action also authorized the proper city officials to enter into an intergovernmental agreement (IGA) with the Milwaukee Board of School Directors (MPS) that governs the reimbursement for debt service of up to \$57 million of borrowing related to qualified school construction bonds (QSCB). 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 is supposed to provide a credit estimated to be sufficient to investors to provide the issuer with a 0% interest rate. Previous Council resolutions during 2009 enabled Milwaukee Public Schools (MPS) with the authority to use the QSCB provisions to improve school facilities with city borrowing, subject to several provisions that protect the city's financial interests and the taxpayers' interests with regards to ensuring reimbursements to the city to cover all borrowing costs and avoiding a destabilizing impact on the MPS tax levy. These proceeds are intended to finance \$48 million worth of projects.

As of now, the city has issued \$12 million of QSCB tax credit bonds at a discount which yielded \$11.3 million of proceeds for projects. The Comptroller has now determined that issuing up to \$38 million additional borrowing as direct pay bonds, not tax credit bonds, is the most cost-effective manner of generating sufficient additional proceeds in order to reach the \$48 million project total. Under the direct pay structure, the federal government pays the entire interest amount, regardless of the coupon, so there is no need to issue at a discount or provide a supplemental coupon.

If the Council approves this resolution, the maximum level of \$50 million of total borrowing is within the limit of \$57 million established by File 090814. As envisioned at the time the Council adopted File 090814, the city will establish a sinking fund to enable MPS to generate interest earnings via arbitrage, which will reduce the net cost of the transaction to a level below \$48 million.

This resolution also authorizes city officials to enter into a Fiscal Agency Agreement, similar to the one approved by Resolution Number 090814, with such changes to reflect particulars of this transaction.

RECOMMENDATION: ADOPT FILE NUMBER 091668



Mark Nicolini
Budget and Management Director