

July 3, 2006

Mr. Rocky Marcoux, Commissioner  
Department of City Development  
809 North Broadway, 2<sup>nd</sup> floor  
Milwaukee, WI 53202

Re: Debt Financing of Operating Grants

Dear Commissioner Marcoux:

File Number 060298 provides an \$114,000 grant towards operating a bus route in the Monomonee Valley area. The grant is funded by the Development Fund, and 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 the Development Fund expenditure is a "capital improvement". In 2005, the City Attorney's office opined that, under State Law, convention grants (an operating grant), are a permitted use of the Development Fund.

The original purpose of the Development Fund was to provide support for capital projects that were too small to be included in a stand alone Tax Increment District type project. It was not intended to provide operating grants. It is also poor financial practice to defer the payment of current operating expenditures into future years by using borrowed Development Fund proceeds. We hope that some other funding source for operating grants can be found, and not use borrowed funds that are intended for capital investments.

In addition, under IRS tax-exempt borrowing regulations, the maturity on debt for operating expenditures is limited to one to two calendar years (next fiscal year). Should the Council decide to fund the operating grant using borrowed funds, the financing would have a one (1) year maturity in 2007. The expenditure circumvents the normal budget process by pre-committing the 2007 Budget to paying the total debt cost for the operating grant in one year, rather than a significantly smaller annual debt cost over a period of 15 years, as originally anticipated for a capital expenditure.

Very truly yours,

W. MARTIN MORICS  
Comptroller

WMM:RL  
cc: Mark Nicolini  
Martha Brown

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