

**LRB- RESEARCH AND ANALYSIS SECTION**

**FINANCE & PERSONNEL COMMITTEE    MAY 15, 2008    ITEM 14, FILE # 071637**

**Supplemental Analysis**

**File # 071637 is a resolution relative to the sale and issuance of up to \$95,000,000 Sewerage System Second Lien Revenue Bonds.**

**Background**

1. This resolution authorizes the sale and issuance of subordinate bonds to implement budgetary decisions to provide sufficient funds for capital projects and to continue a process of converting general obligation bonding issued in prior years to bonding through the State of Wisconsin Clean Water Fund at lower interest costs.
2. Common Council File # 991863, as amended by File # 021776, constitutes the "Master Resolution" for Sewerage System Revenue Bonds. The Master Resolution provides the authority, when utilized in conjunction with separate "series resolutions", for the issuance of Sewerage System Revenue Bonds with debt service on such bonds to be payable from the revenues of the Sewerage System.
3. Common Council File # 060091, the "Second Lien Resolution," authorized the issuance of nearly \$60 million in subsidiary bonds. There was an outstanding aggregate principal amount of \$13,806,590 issued under this authorization as of May 1, 2008.
4. The Clean Water Fund Program is administered by the Wisconsin Department of Natural Resources (DNR) providing loans to municipalities for wastewater treatment and urban storm water projects. These state subsidized loans are funded by the Environmental Improvement Fund.

**Discussion**

1. The Office of the Comptroller reports an anticipated closing on a loan from the DNR's Clean Water Fund of approximately \$36,000,000 in early June of 2008. Sufficient authority continues to exist under the resolution in File # 060091 for this planned borrowing. Once adopted, the intent of the Office of the Comptroller is to rely on the proposed resolution in File # 071637 for future borrowing accomplished through the issuance of Second Lien Revenue Bonds
2. The attachment in File # 071637, incorporated into the resolution by reference, also authorizes the issuance of additional First Lien Bonds without limit as to principal amount upon meeting specified municipal bond ratings.
3. The 2008 Budget included \$22,100,000 in temporary borrowing in 2008 General City Debt for the Sewer Maintenance Fund due to the unanticipated length of time necessary to process applications to the Wisconsin Clean Water Fund. It is anticipated that Second Lien Bonds providing revenue from the DNR's Clean Water Fund will supplant short-term borrowing.

4. The 2008 Budget for the Sewer Maintenance Fund anticipated the proposed borrowing from DNR's Clean Water Fund. The proposed resolution implements budget determinations.
5. It is estimated by the Office of the Comptroller that debt service on borrowing authorized by this resolution will not exceed \$6.4 million annually for a 20-year period. This is based upon an estimate of 3% annually for each of 20 years. Actual amounts may be less. The proposed resolution provides that bonds may mature at the end of a period not exceeding 40 years from the date of issuance.
6. Expenditures for debt are funded through Sewer Maintenance Fees and Storm Water Management Charges payable to the Sewer Maintenance Fund "System." Declining water usage, together with the continued costs of borrowing for necessary maintenance and capital projects, will likely require a restructuring of these fee rates and charges in future budgets.

### **Fiscal Impact**

1. It is anticipated that not more than \$6.4 million will be expended annually for service of the new debt, to be paid entirely from the Sewer Maintenance Fund and not from the Tax Levy.
2. If the present fee rate and charge structures of the Sewer Maintenance Fund remain constant in future years, alternative sources for payment of debt service may become necessary,

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