

Reply to Common Council File No. 090777
From DOA-Budget and Management Division

October 27, 2009

Ref: 09008

File Number 090555 contains a substitute resolution approving an Intergovernmental Cooperation Agreement between the City of Milwaukee and the Milwaukee Board of School Directors regarding city borrowing for school purposes pursuant to the provisions of the American Recovery and Reinvestment Act of 2009.

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 provides a credit estimated to be sufficient to investors to provide the issuer with a 0% interest rate. Actual market circumstances may in fact demand an additional return through a discount that would raise the effective interest rate somewhat above 0%. The borrowing term is expected to be between 14 and 17 years, depending on the tax credit rate at the time of sale.

Earlier this month the Common Council adopted Resolution File Number 090555, which authorizes the sale and issuance of the aggregate amount of \$48,000,000 for school purposes. This "initial intent" resolution is not sufficient in and of itself for borrowing to occur. Actual borrowing authorization requires an additional Council authorization.

The initial intent resolution also specified that borrowing authorization is subject to the execution of an intergovernmental cooperation agreement (IGA) between the City and the Board of Milwaukee School Directors. The Committee discussed a draft IGA at its October 7, 2009 meeting. Based on input at that hearing, this file contains as an attachment a revised IGA that contains the following provisions, in addition to those contained in the original draft:

- MPS will present its final list of Approved projects, and information related to operational plans for the facilities, to the Common Council prior to expending the borrowing proceeds.
- Expenditures for deferred maintenance and major maintenance would be limited to those items whose condition rating at the time of expenditure is rated as "fair" or "poor". (The District has supplied information to the file regarding how these ratings are derived.) This is intended to ensure maximum benefit from the expenditures.
- MPS ensures that for projects in the curriculum enhancements category, it will operate, or continue to operate, educational programs consistent with the stated purpose of the enhancements within one year of completion of the improvements.

The term of the debt would be 14-17 years, depending on the tax credit rate at the time of sale.

In addition, the IGA continues to include the following provisions that protect the city's interests:

1. The intergovernmental cooperation agreement protects the city's and the taxpayers' interests via an MPS capital financing plan that the Budget Office has reviewed and believe is feasible and reasonable:
 - MPS will reimburse the city for all debt service and debt issuance costs;
 - MPS agrees to reduce its construction fund levy each year (relative to the statutory maximum of .6 of a mill) by the amount of QSCB debt service reimbursement; this protects against an MPS levy-destabilizing impact from the QSCB borrowing;
 - MPS will make its reimbursement for the first year's projected debt service one year in advance of the city's initial debt payment, in effect serving as a debt service advance;
 - The IGA provides the city, consistent with state statute, the ability to place any debt service reimbursement shortfall directly on the MPS levy should the Board fail to include in its budget the full amount of reimbursement due to the city.
 - The use of the borrowing proceeds protects city taxpayers' investments in school buildings by the preservative impact of deferred maintenance elimination and major maintenance expenses. The borrowing will also enhance the District's ability to improve its curriculum in early childhood programs, technology, mathematics and science, and vocational education, which are critical areas necessary to improve the competitive position of our young people as they enter college and the workforce. The Community Learning Center (CLC) funding enables the implementation of a public/private partnership with the Zilber Foundation that will result in significant after-school programming and community education opportunities.

A separate Common Council resolution is required to authorize the borrowing. This resolution serves as a pre-condition for that future authorization.

**RECOMMENDATION: ADOPT COMMON COUNCIL FILE NUMBER
090777, Substitute 1**



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