

LRB-FISCAL REVIEW SECTION ANALYSIS

JUNE 30, 2004 AGENDA

ITEM 18, FILE 040197

FINANCE & PERSONNEL COMMITTEE

JAMES CARROLL

File #040197 is a resolution authorizing the issuance of short-term promissory notes under sec. 67.12(1) Wis. Stats., for the purpose of financing the operating budget of the Milwaukee Public Schools (MPS) on an interim basis.

Background

1. The City of Milwaukee is required under state law to issue debt for the Milwaukee Public Schools.
2. The City of Milwaukee annually issues short-term promissory notes (cash flow borrowing) on behalf of MPS in anticipation of MPS receiving general aid revenue payments from the State of Wisconsin and property tax levy.

Discussion

1. This resolution authorizes the City of Milwaukee to issue short-term (1 year or less) promissory notes to interim finance MPS's operating budget until MPS receives general aid revenue payments from the State of Wisconsin and property tax levy.
2. MPS anticipates receiving \$611 million in state general aid revenue payments for the School Operations Fund for fiscal year 2004-2005 from the State of Wisconsin. MPS operates on a fiscal year commencing July 1st, through June 30th. MPS expects to receive state aid payments in September 2004, December 2004, March 2005 and June 2005. MPS receives property tax levy in January 2005.
3. State general aid revenue payments from the State of Wisconsin represent approximately 67% of the anticipated revenue for the MPS School Operations Fund for fiscal year 2004-2005.
4. The maximum amount of the sale of the promissory notes will total no more than \$200 million. While \$200 million in borrowing is authorized by the adoption of this resolution, the Comptroller's Office estimates the actual borrowing will be approximately \$175 million. This is a \$25 million increase from the \$150 million borrowed for the 2003-04 fiscal year. The major reason for the increase is that virtually all of MPS revenues are received in the second half of the fiscal year (December- June). Normal inflationary increase in the approximate \$1 billion budget requires increased borrowing to fund operations during the first half of the fiscal year.
5. The sale of the notes is scheduled for August 24, 2004.

Fiscal Impact

The resolution authorizes and directs the segregation of school aid revenues due and payable during June 2005 to pay the principal at maturity and pledges surplus revenues in the Debt Service Fund to pay the accrued interest.

Assuming an issuance of \$200 million at an interest rate of 1.5% for one year and the City earning 1% on an average balance of ½ of the issue during the same period, the Public Debt Commission estimates the resolution will have the fiscal impact shown in the table below:

Category	Expenditure	Revenue
Debt Service	\$3,000,000	
General Fund–Interest Earnings		\$1,000,000
Issuance Expenses*	\$175,000	
Net**	\$2,175,000	

* Reimbursed by MPS

** Expenditure is paid from surplus revenue in the Debt Service Fund

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LRB-Fiscal Review
June 29, 2004