

## **LRB – RESEARCH AND ANALYSIS SECTION**

**NOVEMBER 24, 2009 AGENDA**

**ITEM 12, FILE 090814**

**FINANCE & PERSONNEL COMMITTEE**

**JAMES CARROLL**

File #090814 is a substitute resolution authorizing the Commissioners of the Public Debt to market general obligation notes and bonds of the City for school purposes.

### **Background**

1. The American Recovery and Reinvestment Act of 2009 included authorization for Qualified School Construction Bonds (QSCB). This tax credit bond program is intended to allow state and local governments to finance public school construction projects and other eligible costs for public schools with interest-free borrowings. This tax credit bond program provides a federal subsidy by giving those who buy the bonds a federal tax credit that essentially allows state and local governments to issue the bonds without interest cost.

The Comptroller's Office indicates that although the legislation intended that local government be allowed to borrow at no interest cost, the tax credit rate set by the IRS has not been high enough. As such, QSCBs have been sold with supplemental interest or at a discount from face (maturity) value. Because the interest is fully paid by MPS, but a discount is subsidized by the Federal Government, the Comptroller's Office indicates that it is more advantageous for the City to issue bonds at a discount than with supplemental interest.

2. MPS sought City approval for the issuance of Qualified School Construction Bonds. MPS had originally submitted a request for \$53 million in funding for eligible projects. The request was reduced to \$48 million for deferred maintenance projects (\$30 million), science and mathematics program/curriculum enhancements (\$6 million), the Longfellow/Journey House project (\$4 million), and funding (\$8 million) for major maintenance projects as they arise.
3. On July 28, 2009, the Common Council Approved an initial resolution (File #090555) expressing the City's intent to sell and issue general obligation bonds in the aggregate amount of \$48,000,000 for school purposes.
4. On November 3, 2009, the Common Council adopted a substitute resolution (File #090777) approving an Intergovernmental Cooperation Agreement (IGA) 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. According to the Budget and Management Division's, October 27, 2009, reply to File #090777, the IGA contains the following provisions:
  - MPS will present its final list of approved projects and information related to operational plans for facilities to the Common Council prior to expending the borrowing proceeds.
  - Expenditures for deferred maintenance and major maintenance is limited to those items whose condition rating at the time of expenditure is rated "fair" or "poor". (The District supplied information to File #090777 regarding how these

ratings were derived.) This is intended to ensure maximum benefit from the expenditures.

- MPS ensures that for projects in the curriculum enhancement category, it will operate, or continue to operate educational programs consistent with the stated purpose of the enhancements within one year of the completion of improvements.

In addition, the IGA includes the following provisions that protect the City's interests:

- MPS will reimburse the City for all debt service (principal and any interest not covered by the federal government.) and debt issuance costs.
- MPS agrees to reduce the construction levy each year (relative to statutory maximum of .6 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 shortfall directly on the MPS levy should the Board fail to include its budget the full amount of reimbursement due 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 curriculum in early childhood programs, technology, mathematics and science, and vocational education. The Community Learning Center 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.

### **Discussion**

This resolution authorizes the Commissioners of the Public Debt to issue and sell City of Milwaukee contingent borrowing general obligation school bonds in the maximum amount of \$57,000,000 at a discount in order to receive \$48,000,000 of net proceeds for various school construction projects.

### **Fiscal Impact**

This resolution will result in annual debt service expenditures of \$4 million for 2013 to 2026, to be offset by \$4 million revenue for the same time period from MPS.

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