Reply to Common Council File No. 090814
From DOA-Budget and Management Division

November 23, 2009

Ref: 09008

Common Council File 090814 contains a resolution authorizing the Commissioners of Public Debt to market general obligation notes and bonds of the city for school purposes.

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 is supposed to provide a credit estimated to be sufficient to investors to provide the issuer with a 0% interest rate.

Earlier this year, the Common Council has approved Files 090555 and 090777. These files approved the initial intent statement with respect to using $48 million of city general obligation borrowing authority to enable Milwaukee Public Schools (MPS) to use the QSCB provisions to improve school facilities, and authorized the appropriate city officials to enter into an Intergovernmental Cooperation Agreement (IGA) with MPS that governs the parameters and financial responsibilities associated with the borrowing. The IGA includes several provisions that protect the city's financial interests and the taxpayers' interests with regards to ensuring reimbursements to the city to cover all borrowing costs and avoiding a destabilizing impact on the MPS tax levy. Actual borrowing is subject to approval of a third resolution that authorizes the Commissioners of the Public Debt to market debt for these purposes.

Subsequent to these decisions, Comptroller staff have determined that marketing these bonds at a discount, as opposed to issuing a supplemental coupon, is the most cost-effective means of implementing this borrowing. Based on current market conditions, staff has projected that the borrowing would need to include a supplemental coupon of 1% to 1.5% in order to yield $48 million of proceeds for projects. This approach is estimated to require between $56.16 million and $60.2 million of reimbursements from MPS to the city over a 17-year time period.

As an alternative, issuing the bonds at a discount to yield $48 million of proceeds, and establishing a sinking fund with said proceeds and crediting sinking fund interest to MPS, can reduce the net total cost to MPS to approximately $42 million. These savings result from the fact that (a) the federal government will subsidize a portion of the discount cost and (b) the application of interest earnings from the Sinking Fund offset some of the remaining debt reimbursement costs.

Comptroller staff project that $53.5 million of borrowing will be adequate to generate $48 million of proceeds at the current market discount. This resolution authorizes up to $57 million which provides sufficient flexibility to ensure $48 million of proceeds should market conditions require that the bonds be issued at a greater-than-expected discount. The city will issue an amount not to exceed what is necessary to generate $48 million in net bond proceeds for school projects. In any event, the net taxpayer cost of issuing QSCB is less than under an unsubsidized General Obligation borrowing of $48 million with a supplemental coupon.

RECOMMENDATION: ADOPT COMMON COUNCIL FILE NUMBER 090814

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