WISCONSIN LEGISLATIVE COUNCIL
AMENDMENT MEMO

2003 Senate Bill 77	Assembly Substitute Amendment 1 and Senate Amendment 1
Memo published: **July 1, 2003**	*Contact*: **William Ford, Senior Staff Attorney (266-0680)**

Senate Bill 77

Senate Bill 77 contains a number of provisions designed to facilitate the payment by Milwaukee Public Schools (MPS) of its unfunded prior service liability to the Wisconsin Retirement System (WRS). (Because debts to the WRS are subject to interest at the assumed rate of 8%, and because local governments can borrow money at less than 8% interest, it is expected that MPS will save money by borrowing the funds to pay off its unfunded prior service liability early.) Senate Bill 77 contains the following provisions:

1. The bill would delete the statutory authorization for MPS to require the City of Milwaukee to issue promissory notes to pay unfunded prior service liability to the WRS and instead would authorize MPS to request the City of Milwaukee to do so.

2. The bill would provide that any promissory notes issued may be repaid over a 20-year period, rather than the 10-year period authorized under current law.

3. The bill would provide that any promissory notes issued by the City of Milwaukee to pay the unfunded prior service liability for MPS would not count against the statutory limitations that debt may not exceed 5% of equalized valuation. Instead, the promissory notes would be subject to a separate statutory limitation that debt issued for capital projects for school purposes and debt to pay unfunded prior service liability may not exceed 2% of equalized valuation.

4. The bill would require the MPS board to include in its budget transmitted to the City of Milwaukee Common Council the amount necessary to pay the principal of and interest and redemption premium on the notes as they become due. In addition, the bill would specify that the City of Milwaukee Common Council may issue the notes at a public sale (current law says they may be issued only at a private sale).

Assembly Substitute Amendment 1

Assembly Substitute Amendment 1 would retain the provisions of Senate Bill 77 relating to the issuance of promissory notes by the City of Milwaukee upon the request of MPS. In addition, the substitute amendment would increase the City of Milwaukee's budgetary authorization for borrowing in 2003 by $200 million for the purposes of issuing promissory notes under the substitute amendment and would provide that the notes may be omitted from the city's 2003 budget.

The substitute amendment would also provide an alternative means by which MPS could pay off its unfunded prior service liability early. Under this alternative, the Redevelopment Authority of the City of Milwaukee will be authorized to issue up to $200 million in bonds to finance or refinance the payment of unfunded prior service liability of MPS, if requested by the MPS board. The substitute amendment would authorize these bonds to have a maturity of up to 40 years.

In addition, the substitute amendment provides that MPS may not request the City of Milwaukee Common Council to issue promissory notes or request the Redevelopment Authority of the City of Milwaukee to issue bonds for the purpose of paying unfunded prior service liabilities unless it develops information on both options and chooses the option that is in the best public interest.

The substitute amendment also authorizes, but does not require, the Redevelopment Authority to secure the $200 million of bonds under the substitute amendment with a state moral obligation pledge.

If the Redevelopment Authority chooses to designate special debt service reserve funds for repayment of the bonds, a number of separate provisions would apply. These provisions are summarized below.

1. The Redevelopment Authority would be required to establish a special debt service reserve fund to apply to each bond issue secured by a state moral obligation pledge.

2. The Secretary of Administration determines that:

   a. The bond proceeds will be used to pay unfunded prior service liability.

   b. There is a reasonable likelihood that the bonds will be repaid without the necessity of drawing on funds in a special debt service reserve fund.

   c. The principal amount of all bonds, other than refunding bonds, that would be secured by all special debt service reserve funds will not exceed $200 million.

   d. All refunding bonds to be secured by the special debt service reserve fund are issued to fund, refund, or advance refunding bonds secured by a special debt service reserve fund and that the refunding will not adversely affect the risk that the state will be called on to make a payment under its moral obligation pledge.

   e. All outstanding bonds of the Redevelopment Authority have been approved by the Secretary of Administration.

   f. The Redevelopment Authority has agreed to provide to the Department of Administration all financial reports of the authority and all regular monthly statements of any trustee of the bonds on a direct and ongoing basis.

3. The Redevelopment Authority would be required to pay into the special debt service reserve fund any moneys available to the authority for the purpose of the special debt service reserve fund and all moneys held in the fund would be required to be used solely for the payment of the principal on the bonds, the making of sinking fund payments with respect to the bonds, the purchase or redemption of the bonds, the payment of interest on the bonds, or the payment of any redemption premium required to be paid when the bonds are redeemed prior to maturity.

4. If at any time of valuation the special debt service reserve fund requirement exceeds the amount of money in the special debt service reserve fund, the redevelopment authority is required to certify to the Secretary of Administration the amount necessary to make up the difference. The substitute amendment would require the Joint Committee on Finance to introduce a bill appropriating the amount certified by the Redevelopment Authority. The substitute amendment states that the Legislature expresses its expectation and aspiration that, if ever called upon to do so, it shall appropriate this money.

Senate Amendment 1 to Assembly Substitute Amendment 1

Senate Amendment 1 to Assembly Substitute Amendment 1 deletes from the substitute amendment the option for the Redevelopment Authority to secure the $200 million of bonds with a state moral obligation pledge.

Legislative History

Assembly Substitute Amendment 1 was introduced by Representative Michael Lehman and was adopted by the Assembly on June 25, 2003 by a vote of Ayes, 51; Noes, 41. As amended, Senate Bill 77 was approved by the Assembly on June 25, 2003 by a vote of Ayes, 78; Noes, 13; and Paired, 2.

Senate Amendment 1 to Assembly Substitute Amendment 1 to 2003 Senate Bill 77 was introduced by Senator Cowles and was adopted by the Senate on July 1, 2003 by a vote of Ayes, 32; Noes, 1. The Senate concurred in Assembly Substitute Amendment 1 as amended.

WF:jal:tlu:wu;ksm

WISCONSIN LEGISLATIVE COUNCIL
ACT MEMO

2003 Wisconsin Act 43 [2003 Senate Bill 77]	Bonding to Pay Pension Debts of Milwaukee Public Schools
2003 Acts: www.legis.state.wi.us/2003/data/acts/	Act Memos: www.legis.state.wi.us/lc/act_memo/act_memo.htm

2003 Wisconsin Act 43 (Act 43) contains a number of provisions designed to facilitate the payment by Milwaukee Public Schools (MPS) of its unfunded prior service liability to the Wisconsin Retirement System (WRS). (Because debts to the WRS are subject to interest at the assumed rate of 8%, and because local governments can borrow money at less than 8% interest, it is expected that MPS will save money by borrowing the funds to pay off its unfunded prior service liability early.) Act 43 contains the following provisions:

1. It would delete the statutory authorization for MPS to require the City of Milwaukee to issue promissory notes to pay unfunded prior service liability to the WRS and instead would authorize MPS to request the City of Milwaukee to do so.

2. It would provide that any promissory notes issued may be repaid over a 20-year period, rather than the 10-year period authorized under current law.

3. It would provide that any promissory notes issued by the City of Milwaukee to pay the unfunded prior service liability for MPS would not count against the statutory limitations that debt may not exceed 5% of equalized valuation. Instead, the promissory notes would be subject to a separate statutory limitation that debt issued for capital projects for school purposes and debt to pay unfunded prior service liability may not exceed 2% of equalized valuation.

4. It would require the MPS board to include in its budget transmitted to the City of Milwaukee Common Council the amount necessary to pay the principal of and interest and redemption premium on the notes as they become due. In addition, the Act would specify that the City of Milwaukee Common Council may issue the notes at a public sale (current law says they may be issued only at a private sale).

This memo provides a brief description of the Act. For more detailed information, consult the text of the law and related legislative documents.

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5. It would increase the City of Milwaukee's budgetary authorization for borrowing in 2003 by $200 million for the purposes of issuing promissory notes under the Act and would provide that the notes may be omitted from the city's 2003 budget.

Act 43 would also provide an ***alternative*** means by which MPS could pay off its unfunded prior service liability early. Under this alternative, the Redevelopment Authority of the City of Milwaukee is authorized to issue up to $200 million in bonds to finance or refinance the payment of unfunded prior service liability of MPS, if requested by the MPS board. The Act would authorize these bonds to have a maturity of up to 40 years.

Act 43 provides that MPS may not request the City of Milwaukee Common Council to issue promissory notes or request the Redevelopment Authority of the City of Milwaukee to issue bonds for the purpose of paying unfunded prior service liabilities unless it develops information on both options and chooses the option that is in the best public interest.

Effective Date: Act 43 took effect on August 26, 2003.

Prepared by: William Ford, Senior Staff Attorney September 18, 2003

WF:jal:tlu:wu:rv;ksm

Alberta Darling

Wisconsin State Senator

Co-Chair, Joint Committee on Finance

TESTIMONY BEFORE THE SENATE COMMITTEE ON HOMELAND SECURITY, VETERANS AND MILITARY AFFAIRS AND GOVERNMENT REFORM
WEDNESDAY APRIL 8, 2003

SENATE BILL 77

THANK YOU CHAIRMAN BROWN AND COMMITTEE MEMBERS FOR SCHEDULING SENATE BILL 77, AND ALLOWING ME THE OPPORTUNITY TO TESTIFY ON ITS BEHALF. I'M TOM PETRI, AIDE TO SENATOR ALBERTA DARLING, THE BILLS AUTHOR. SENATOR DARLING IS UNABLE TO TESTIFY HERSELF TODAY, AS SHE IS MEETING WITH HER JOINT FINANCE TEAM, PREPARING FOR TODAY'S PUBLIC HEARING ON THE BUDGET.

IN REGARDS TO SENATE BILL 77, I WILL BRIEFLY SPEAK TO THE MERITS OF THE BILL, AND THEN DEFER TO REPRESENTATIVES FROM THE MILWAUKEE PUBLIC SCHOOL SYSTEM AND THE CITY OF MILWAUKEE. SPEAKERS FROM MPS AND THE CITY WILL THEN DESCRIBE THE BILL IN DETAIL AND OFFER TESTIMONY TO SUPPORT ITS PASSAGE. SENATOR DARLING WAS APPROACHED EARLIER THIS YEAR TO BE THE AUTHOR OF A BILL THAT HAS PARTNERED THE SCHOOL DISTRICT AND THE CITY IN A **MONEY SAVING** PLAN. YOU WILL HEAR TESTIMONY ABOUT THE POSITIVE FISCAL EFFECTS THIS BILL CONTAINS FOR THE MILWAUKEE PUBLIC SCHOOL SYSTEM, SO I WLL NOT GO INTO DETAIL. SUFFICE IT TO SAY, SENATOR DARLING WAS DELIGHTED TO BECOME INVOLVED IN THE PROCESS.

SENATOR DARLING HAS THROWN HER COMPLETE SUPPORT BEHIND THIS LEGISLATION FOR THREE REASONS:

1) IT WILL SAVE MPS MONEY, WHICH THEY'VE PROMISED TO REINVEST INTO THE CLASSROOM, THEREFORE OFFSETTING SOME OF THE EXPECTED CUTS IN STATE AID THE DISTRICT WILL SOON SUFFER.

2) THE LEGISLATION REVEALS THAT POSITIVE, WORKING PARTNERSHIPS BETWEEN SCHOOL DISTRICTS AND MUNICIPAL GOVERNMENTS ARE HAPPENING, AND ARE NEEDED IN THESE POOR ECONOMIC TIMES.

AND FINALLY,

3) THERE IS NO ADVERSE FISCAL EFFECT ON THE STATE, OR ON ANYONE ELSE, AND NO ONE HAS VOICED OPPOSITION. THIS BILL IS ABOUT SAVING MONEY, NOT SPENDING MONEY.

I WOULD LIKE TO REQUEST SENATE BILL 77 BE APPROVED BY THE COMMITTEE AT IT'S EARLIEST CONVENIENCE. AT THIS TIME, ON BEHALF OF SENATOR DARLING, I WOULD BE HAPPY TO ANSWER ANY QUESTIONS THE COMMITTEE MAY HAVE. IF NOT, I WILL DEFER TO THE REPRESENTATIVES FROM MPS AND THE CITY OF MILWAUKEE.

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Committee on Homeland Security, Veteran and Military Affairs & Government Reform
Wednesday, April 9, 2003

Testimony on Senate Bill 77

- Thank you Chairman Brown and committee members for this opportunity to testify in support of Senate Bill 77. Thank you also to Senator Darling for sponsoring this legislation.

- The City of Milwaukee (the "City") and Milwaukee Public Schools ("MPS") are both committed to utilizing our limited resources to maximize the educational opportunities for our families. Lowering the effective interest rate that MPS is paying on its pension liability is an opportunity to do exactly that.

- In the early 80's, three pension funds were merged together into the Wisconsin Retirement System ("WRS") and teacher retirement benefits were increased. As a result of the additional benefits, MPS was assessed a roughly $80 million merger liability, which grows at an 8% interest rate until it is repaid. At the time of the merger, WRS projected that an additional 2% payroll contribution would be sufficient to pay the liability over a 40-year period. However, actual results have differed from the original projections, and MPS now owes WRS approximately $170 million due to the merger liability. MPS has made all payments when due and has no other outstanding unfunded liability to the WRS.

- It would be beneficial for MPS to borrow at interest rates lower than 8% to repay the unfunded prior service liability to WRS. Over the past few years, many school districts across the State have done just that. Even the State is considering such a plan in the budget presented by the Governor.

- As a City of the First class, we have a unique relationship with MPS. In particular, MPS is not authorized to issue its own debt; rather, the City is authorized to issue debt for MPS for school purposes.

- However, general obligation debt issued by the City is statutorily limited to 5% of our property value. Currently the City has used about two-thirds of this debt capacity. This includes approximately $95 million of non-referendum debt for school purposes.

- Under current law, an additional 2% debt limit is available for capital projects for school purposes, however such debt must first be approved by referendum. Currently, the City has no debt outstanding subject to the 2% additional debt limit. By comparison, all cities have a 5% debt limit, and school districts, other than schools of a 1st class city, have a separate 10% debt limit.

- Under current law, the City could borrow to refinance MPS's unfunded prior service liability to the WRS. However, there are three problems with doing so under current law.

  1) The borrowing would count against the City's 5% debt limit; not the additional 2% debt limit for capital projects for school purposes. As a result, the City would reach approximately 82% of our total allowable debt under this limit, leaving the City with insufficient capacity to address future borrowing needs including a reasonable margin of safety. This would likely result in a downgrading of the City's current high investment grade bond rating, increasing the cost of any future debt incurred for the City for general or school purposes.

  2) Such debt is limited to 10 years, which is not a sufficient time to amortize the $170 million obligation without materially impacting educational services.

  3) State law does not include any requirement on the part of MPS to include in its budget funds sufficient to cover the resulting debt service costs to the City.

- In order to achieve the refunding and redirect significant dollars to the teachers and classrooms in MPS, the City and MPS have agreed that the legislative changes included in SB77, as amended, are necessary. These changes include:

  1) Removing the ability of MPS to mandate that the City borrow for the payment of MPS's unfunded prior service liability to the Wisconsin Retirement System.

  2) Making the borrowing for the payment subject to the City's additional 2% debt limit for school purposes, instead of the City's 5% debt limit for general purposes.

  3) Allowing the borrowing for the payment to be repaid over 20 years instead of 10 years.

  4) Providing a requirement that MPS includes in its annual budget amounts sufficient to pay, when due, debt service on the bonds. {This is the provision that is addressed by Amendment 1 and is critical to our support of the legislation.}

This legislation will allow MPS and the City of Milwaukee to continue our shared efforts to be responsible to our taxpayers by using our precious education dollars directly on our teachers and students. We encourage you to support Senate Bill 77 and thank you again for your time.

Wawrzyn, James

From:	Sweet, Richard
Sent:	Wednesday, April 09, 2003 2:01 PM
To:	Wawrzyn, James; Meyer, Amber
Cc:	Ford, William; Offerdahl, Mary
Subject:	SB 77 question

At this morning's hearing on Senate Bill 77, Sen. Wirch asked a question about referral of the bill to the Joint Survey Committee on Retirement Systems. I spoke with Bill Ford of our staff (who works with that committee) and he mentioned that the LRB drafter typically puts in a bill's analysis a statement about referral of the bill to that committee if the drafter feels that it has an effect on the Wisconsin Retirement System. That wasn't done for SB 77.

Also, Bill is the person who prepared the fiscal estimate on SB 77 that indicated that there would be no effect on the WRS. Bill said that the assumed rate of return for the WRS is 8%, as is the interest rate on the money owed by Milwaukee Public School (since Milwaukee's interest rate is tied to the assumed rate). Therefore, it should make no difference whether the WRS receives a lump sum as the result of a refinancing or a stream of payments over time.

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