



**WISCONSIN LEGISLATIVE COUNCIL
AMENDMENT MEMO**

2003 Senate Bill 77

Senate Amendment 1

Memo published: May 7, 2003

Contact: Richard Sweet, Senior Staff Attorney (266-2982)

2003 Senate Bill 77 amends the statutes under which the Milwaukee Common Council issues promissory notes for the Milwaukee Public Schools (MPS) for the purpose of paying unfunded prior service liability contributions under the Wisconsin Retirement System. Under the bill, if the common council issues these notes, the MPS board must include in its annual budget transmitted to the common council a written notice specifying an amount necessary to pay the principal of and interest and redemption premium on the notes as they become due.

Senate Amendment 1 modifies the language described in the previous paragraph to delete references to a written notice and to substitute "sufficient" (which is used in the current law) for "necessary." Therefore, under the amendment, the annual budget transmitted from the MPS board to the common council must include an amount sufficient to pay the principal of and interest and redemption premium on the notes as they become due. In addition, the amendment changes "city of Milwaukee" and "Milwaukee Public Schools" to "1st class city" and "1st class city school district," respectively, in the bill's "relating clause."

Senate Amendment 1 was introduced by Senator Darling. On April 30, 2003, the Senate Committee on Homeland Security, Veterans and Military Affairs and Government Reform recommended adoption of the amendment, and passage of the bill as amended, both on votes of Ayes, 5; Noes, 0. On May 6, 2003, the Senate adopted the amendment, and passed the bill as amended, both on voice votes.

RNS:jal:kms;tlu

Assembly Republican Majority

Bill Summary

SB 77: Promissory Notes Issued by the City of Milwaukee

Relating to: Promissory notes issued by the city of Milwaukee to pay for unfunded prior service liability contributions of the Milwaukee Public Schools under the Wisconsin Retirement System (WRS).

By Senators Darling, Reynolds, Lazich and Moore; co-sponsored by Representatives Stone, Montgomery, Bies, Grothman, Hines Gielow and McCormick.

Date: June 24, 2003

BACKGROUND

Current law allows the Board of the Milwaukee Public Schools to direct the Milwaukee Common Council to issue promissory notes for the purpose of paying unfunded prior service liability contributions under the Wisconsin Retirement System (WRS). The notes must be repaid within 10 years.

SUMMARY OF SB 77 (AS AMENDED BY THE SENATE)

Senate Bill 77 states that the Milwaukee Common Council is not required to issue the notes. If the common council does so, the notes must be repaid within 20 years. The bill also provides that the sum of the amount of the notes that are outstanding and the amount of bonds issued by the common council to construct school buildings or purchase school sites that are outstanding at any time may not exceed 2% of the total value of all taxable property in the city of Milwaukee. Under current law, the latter amount alone is subject to the 2% limit.

Under SA1, the annual budget transmitted from the MPS board to the common council must include an amount *sufficient* to pay the principal of and interest and redemption premium on the notes as they become due. In addition, the amendment changes "city of Milwaukee" and "Milwaukee Public Schools" to "1st class city" and "1st class city school district" respectively, in the bill's relating clause.

FISCAL EFFECT

A fiscal estimate prepared by the Department of Employee Trust Funds (ETF) indicates that SB 77 will have no fiscal impact on WRS administration, nor does it affect any local costs pertaining to ETF.

PROS

1. The flexibility to allow MPS a 20-year repayment schedule for new notes issued could allow MPS the ability to structure their debt service cost of the new issue in such a way as to stabilize the district's total annual debt service cost in future years.
2. It would be beneficial for MPS to borrow at interest rates lower than 8% to repay the unfunded prior service liability to WRS.

CONS

1. Senate Bill 77 extends the number of years for paying back the notes from 10 years to 20.

2. Senate Bill 77 also provides that the sum of the amount of the notes that are outstanding and the amounts of bonds issued by the common council to construct school buildings or purchase school sites that are outstanding at any time may not exceed 2% of the total value of all taxable property in the city of Milwaukee. Under current law, the latter amount alone is subject to the 2% limit.

SUPPORTERS

Sen. Alberta Darling, author; Rep. Jeff Stone, lead co-sponsor; Danelle Clement, Milwaukee Public Schools; Mike Daun, City of Milwaukee and Richard Li, City of Milwaukee.

OPPOSITION

No one registered or testified against Senate Bill 77.

HISTORY

Senate Bill 77 was introduced on March 20, 2003, and referred to the Senate Committee on Homeland Security, veterans and Military Affairs and Government Reform. On April 29, 2003, the Committee voted 5-0 to recommend SB 77 for passage as amended. On May 6, 2003 the Senate passed SB 77 as amended on a voice vote. Senate action on SB 77 was messaged to the Assembly, and SB 77 was referred to the Assembly Committee on Ways and Means. A public hearing was held on the Assembly companion bill, AB 238 on May 14, 2003. On May 28, 2003, the Committee voted 12-0 [Reps. W. Wood and Young absent] to recommend concurrence of SB 77.

CONTACT: Vicky Halverson, Office of Rep. Mickey Lehman

Halverson, Vicky

From: Petri, Tom
Sent: Monday, May 12, 2003 10:24 AM
To: 'Danielle Clermont'; 'Audra Millen'; Dolezalek, Corey; Dake, Marsha; Tormey, Jessica; Halverson, Vicky; Pfaff, Bruce
Subject: SB 77 & AB 238

This is where we're at with our MPS refinance bills:

- SB 77 is through the Senate ~~unamended~~ *1 amendment*
- AB 238 will get a public hearing on Wednesday
- Vicki from Mickey Lehman's office told me this morning that AB 238 will get it's hearing and that SB 77 will most likely get exec'd at their next committee meeting
- Everyone is aware of the sub amendment Sen. George might attempt to attach to AB 238 and that he tried to attach to SB77.

We have two options with George's amendment;

- The first option is to change the Assembly bill. Since Alberta told him last week that she would support his amendment, we could toss around some goodwill and let him attach it to AB 238. In that case, we would ask that Rep. Lehman keep it in committee until SB77 is through the Assembly unamended.
- The second option is to table his amendment and ask Rep. Lehman to move AB 238 unamended as quickly as possible.

See you all on Wednesday. Let me know if you need anything.

TOM-

*Tom Petri
Office of State Senator Alberta Darling
608-266-5830 / 1-800-863-1113
317 East*

Halverson, Vicky

From: Audra Millen [AMILLE@milwaukee.gov]
Sent: Monday, May 12, 2003 10:36 AM
To: Bruce.Pfaff@legis.state.wi.us; Corey.Dolezalek@legis.state.wi.us;
Jessica.Tormey@legis.state.wi.us; Marsha.Dake@legis.state.wi.us;
Tom.Petri@legis.state.wi.us; Vicky.Halverson@legis.state.wi.us;
clermody@milwaukee.k12.wi.us
Subject: Re: SB 77 & AB 238

Just one clarification -

By "unamended", Tom I believe is referring just to the Substitute amendment potentially being offered by Senator George. The simple technical amendment being offered by Senator Darling to AB238 is still critical and needs to be included in Wednesday's hearing. SB77 when engrossed in the Senate included an identical amendment.

Thanks, Audra

Audra D. Millen
Intergovernmental Relations Division
414-286-5593

>>> "Petri, Tom" <Tom.Petri@legis.state.wi.us> 05/12/03 10:24AM >>>

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- * AB 238 will get a public hearing on Wednesday
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- * Everyone is aware of the sub amendment Sen. George might attempt to attach to AB 238 and that he tried to attach to SB77.

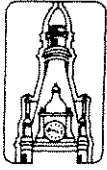
We have two options with George's amendment;

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- * The second option is to table his amendment and ask Rep. Lehman to move AB 238 unamended as quickly as possible.

See you all on Wednesday. Let me know if you need anything.

TOm-

Tom Petri
Office of State Senator Alberta Darling
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of
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Intergovernmental Relations Director

**Committee on Ways and Means
Wednesday, May 14, 2003**

Testimony on Assembly Bill 238

- Thank you Chairman Lehman and committee members for this opportunity to testify in support of Assembly Bill 238. Thank you also to Senator Darling and Representative Stone 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 AB238, 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 Assembly Bill 238 and thank you again for your time.

Good morning, Chair Lehman and members of the Assembly Committee on Ways and Means. My name is Marsha Dake and I am the Research Assistant for Representative Jeff Stone. Representative Stone extends his apologies for not appearing here today on behalf of Assembly Bill 238, and has asked me to briefly summarize the significant aspects of this legislation.

There are three specific provisions within the bill proposal –

- a) Permit, rather than require, the Milwaukee Common Council at the request of the Milwaukee Public School Board to issue promissory notes for the purpose of paying the unfunded prior service liability contributions under the WRS for the district's employees.
- b) If the Milwaukee Common Council takes such action, the promissory notes must be repaid over a 20-year period rather than the current law 10-year period.
- c) Finally, make the borrowing subject to the city's additional 2 percent debt for school purposes.

Representative Stone believes these actions will help the Milwaukee Public School System address its unfunded prior service liability without impacting the quality of education to its district's students.

The district currently has an unfunded prior service liability contribution under the WRS of approximately \$167 million and incurs an interest rate of 8% per year under its present repayment plan. As you know, current interest rates are well below 8 percent, thereby allowing the district to refinance its debt at a much lower rate. Financing over an extended time period will ensure that the refinancing costs will still allow the district to meet its other obligations, such as the education of its students, maintenance of its facilities and any unforeseen challenges that may occur in the future.

Much has been made in recent years about the need for local units of government to cooperate on the delivery of services. While this bill does not directly address the delivery of service, the cooperative efforts of the Milwaukee Common Council and Milwaukee Public Schools to reduce debt costs will benefit both district students and local property taxpayers.


Alberta Darling
Wisconsin State Senator
Co-Chair, Joint Committee on Finance

TESTIMONY BEFORE THE ASSEMBLY WAYS AND MEANS COMMITTEE
WEDNESDAY MAY 14, 2003

ASSEMBLY BILL 238

THANK YOU CHAIRMAN LEHMAN AND COMMITTEE MEMBERS FOR SCHEDULING ASSEMBLY BILL 238, AND ALLOWING ME THE OPPORTUNITY TO TESTIFY ON ITS BEHALF. I'M TOM PETRI, AIDE TO SENATOR ALBERTA DARLING, WHO IS THE AUTHOR OF THE SENATE COMPANION BILL. SENATOR DARLING IS UNABLE TO TESTIFY HERSELF TODAY, AS SHE IS MEETING WITH HER JOINT FINANCE TEAM.

IN REGARDS TO ASSEMBLY BILL 238, 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 WILL 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 ASSEMBLY BILL 238, OR IT'S SENATE COMPANION BILL, SB77, 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.

Capitol Office: P.O. Box 7882 □ Madison, Wisconsin 53707-7882 □ Phone: 608-266-5830 □ Fax: 608-267-0588 □ Toll-free: 1-800-863-1113

District Office: N88 W16621 Appleton Avenue □ Menomonee Falls, Wisconsin 53051

Email: Sen.Darling@legis.state.wi.us □ Web page: www.legis.state.wi.us/senate/sen08/news/

Vote Record

Committee on Ways and Means

Date: 5/28/03

Moved by: Morris

Seconded by: Lothian

AB _____

SB 77

Clearinghouse Rule _____

AJR _____

SJR _____

Appointment _____

AR _____

SR _____

Other _____

A/S Amdt _____

A/S Amdt _____ to A/S Amdt _____

A/S Sub Amdt _____

A/S Amdt _____ to A/S Sub Amdt _____

A/S Amdt _____ to A/S Amdt _____ to A/S Sub Amdt _____

Be recommended for:

- Passage Adoption Confirmation Concurrence Indefinite Postponement
 Introduction Rejection Tabling Nonconcurrency

| <u>Committee Member</u> | <u>Aye</u> | <u>No</u> | <u>Absent</u> | <u>Not Voting</u> |
|-----------------------------------|-------------------------------------|--------------------------|-------------------------------------|--------------------------|
| Representative Michael Lehman | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Jeffrey Wood | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Stephen Nass | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Eugene Hahn | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Frank Lasee | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Suzanne Jeskewitz | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Samantha Kerkman | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Thomas Lothian | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Wayne Wood | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| Representative Leon Young | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| Representative Terese Berceau | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Robert Ziegelbauer | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Johnnie Morris | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Representative Tom Hebl | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Totals: 12 0 2 _____

Vote Record

Committee on Ways and Means

Date: 5/28/03

Moved by: Morris

Seconded by: Lothian

AB _____

SB 77

Clearinghouse Rule _____

AJR _____

SJR _____

Appointment _____

AR _____

SR _____

Other _____

A/S Amdt _____

A/S Amdt _____ to A/S Amdt _____

A/S Sub Amdt _____

A/S Amdt _____ to A/S Sub Amdt _____

A/S Amdt _____ to A/S Amdt _____ to A/S Sub Amdt _____

Be recommended for:

Passage

Adoption

Confirmation

Concurrence

Indefinite Postponement

Introduction

Rejection

Tabling

Nonconcurrency

Committee Member

Representative Michael Lehman

Aye No Absent Not Voting

Representative Jeffrey Wood

Representative Stephen Nass

Representative Eugene Hahn

Representative Frank Lasee

Representative Suzanne Jeskewitz

Representative Samantha Kerkman

Representative Thomas Lothian

Representative Wayne Wood

Representative Leon Young

Representative Terese Berceau

Representative Robert Ziegelbauer

Representative Johnnie Morris

Representative Tom Hebl

Totals: 12 0 2 _____



MILWAUKEE PUBLIC SCHOOLS
Office of Governmental Relations

FAX COVER SHEET

For your information

TO:

Name: REP. Lehman

Fax Number: 608-282-3699

Date: Monday June 2, 2003

Time Sent: 9:25 am

Total pages (including this page): 2

FROM:

Name: Donielle Clermont

Office: Governmental Relations - Room 216

Fax Number: 414-475-8270

Address: Milwaukee Public Schools
Central Services Building
5225 W. Vliet Street
PO Box 2181
Milwaukee, WI 53201-2181

Phone: 414-475-8731
(cell) 414-507-1091

Comments _____

Rep. Lehman - Here are the answers to the
questions asked at the Ways + Means Committee
regarding SB77. Sorry for the delayed
response. If you have any further questions,
Please do not hesitate to contact me.
Thank you,
Donielle Clermont

**Milwaukee Public Schools Unfunded Pension Liability
Questions and Answers from Ways and Means Committee
SB77/AB238**

1) Please explain the MPS District's pension benefits, which go beyond the benefits mandated by the WRS system? What are these benefits? How are these benefits funded?

Milwaukee Public Schools employs Classified and Certificated employees.

- Classified Employees are covered under City of Milwaukee – Employees' Retirement System. Classified Employees covered under the ASC union or Exempt from the ASC union have Special Supplemental pension benefit from age 60 to 65 under the MBSD – Early Retirement Supplement and Benefit Improvement Plan (ASC Plan). MPS have very few classified employees covered under the ASC Plan. All Special Supplemental Benefits are funded by MPS.

- Certificated employees are covered under the Wisconsin Retirement System (WRS) for pension benefits.

- Substitute Teachers and Employees covered under the PAMPS union (eg. school psychologists) are Certificated Employees covered under the Wisconsin Retirement System and are NOT entitled to any Supplemental Pension benefits.

- Certificated Employees covered under the MTEA contract (eg. Teachers) are covered under the Wisconsin Retirement System and MBSD – Supplemental Early Retirement Plan for Teachers (Teacher's Plan) for pension benefits. All contributions to Teacher's Plan are funded by MPS.

- Certificated Employees covered under the ASC union or Exempt from the ASC union (eg. Principals and Certificated Administrators) are covered under the Wisconsin Retirement System and MBSD – Early Retirement Supplement and benefit Improvement Plan (ASC Plan). Contributions to the ASC Plan are funded 20% by covered employees and 80% by MPS.

- In general, Supplemental Pension Plan benefits are payable to eligible employees (as stated above) after participant's age 55 and receiving benefits under the WRS Plan.

2) How do the above supplementary benefits compare to the supplementary benefits (beyond WRS requirements) granted to State employees?

We are not aware of any supplementary pension benefits offered to the State employees.