MADISON METROPOLITAN SCHOOL DISTRICT

BUSINESS SERVICES DEPARTMENT

545 West Dayton St. ● Madison, Wisconsin 53703-1995 ■ 608.663.1634 ▼ www.mmsd.org

Erik J. Kass, *Assistant Superintendent for Business Services* Daniel A. Nerad, *Superintendent of Schools*

APPENDIX LLL-4-19
Original Memo, Revised Attachment

To: Members of the Board of Education

From: Daniel A. Nerad, Superintendent

Date: October 5, 2009

Subject: Re-Financing and Re-Organizing District Debt

Background:

During the August Operational Support Committee meeting, administration set the expectation that we could provide approximately $6.7 million of property tax relief through decreasing the districts levy for debt service in the 2009-10 school year. The idea at the time was to use remaining funds from Olson Elementary School ($1,195,872), along with a combination of Fund Balance and Re-financed debt. Working with Baird over the past month, we believe we have put together an effective way of creating a little over $3 million in property tax relief in 2009-10 by simply re-financing and re-structuring existing debt for MMSD. This amount will go directly to offset any amount necessary to be used from Fund Balance in 2009-10 to pay for existing debt.

During the September Operational Support meeting, administration along with Brian Brewer from Robert W. Baird provided further information on this strategy. This information was a breakdown of exactly how the re-financing/re-structuring of the district's debt will look like.

Program Costs/Funding/Consultation Service Employment Contract

Estimated total fees at this time for this future recommendation are $214,040. As we get closer to the October Board of Education cycle, we will provide more finalized numbers for the board and community. These estimated fees include: Underwriting, financial advisor, bond counsel, rating agency, and escrow related fees.

Salary Savings

None

Recommendation(s)

None at this time.

Updated as of 10/8/09

BAIRD

Great outcomes.
Done well.

Madison Metropolitan School District

Final Pricing Summary

Sale Date:	**Thursday, October 8, 2009**
Award Date:	**Monday, October 12, 2009**
Closing Date:	**Friday, October 23, 2009**

Brian C. Brewer, Director
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777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
800-792-2473 / 414-298-7354 Fax

Madison Metropolitan School District

Results of Competitive Bids

Bids Received by 10:00 A.M. (CT)

Thursday, October 8, 2009

Award – Monday, October 12, 2009

$18,880,000* General Obligation Refunding Bonds

Rank	Bidder	True Interest Rate
1	***Hutchinson, Shockey, Erley & Co.***	***2.473089%***
2	Piper Jaffray	2.498432
3	Raymond James & Associates, Inc.	2.625122
4	Southwest Securities, Inc.	2.745121

* Note: Subsequent to the bid opening, the par amount was changed to $17,490,000 which resulted in a new purchase price of $18,800,078.62 with a net interest cost of $2,620,778.60 and a true interest rate of ***2.4547614%.***

BAIRD

Madison Metropolitan School District

Issue Summary

Description:	General Obligation Refunding Bonds
Amount:	$17,490,000
Dated Date:	October 23, 2009
Settlement Date:	October 23, 2009
Maturity:	March 1, 2011-2020
First Interest Payment:	March 1, 2010
First Call Date:	Noncallable
Moody's/S & P Rating:	"Aa1"
True Interest Rate:	2.4547614%
Winning Bidder:	Hutchinson, Shockey, Erley & Co.

Savings Summary

	9/14/09 Estimate	10/5/09 Estimate	**FINAL - Actual**
Total Savings:	$162,000	$460,000	**$925,000**

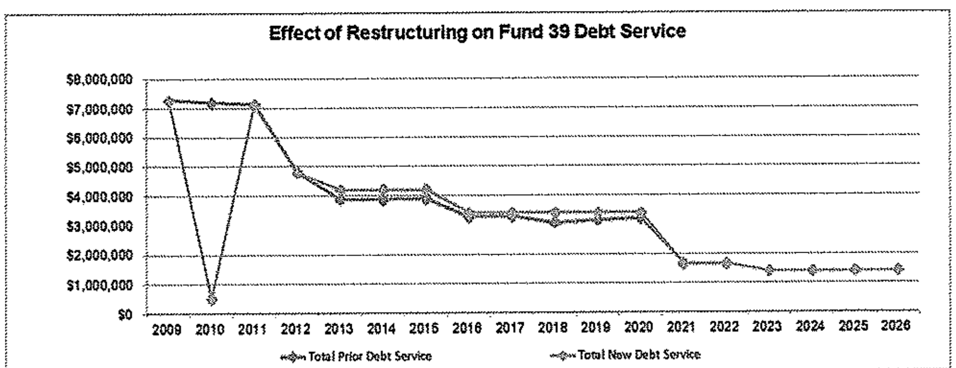
BAIRD

Madison Metropolitan School District
Summary of Restructuring

	BEFORE RESTRUCTURING			AFTER RESTRUCTURING										
	Prior Issue Debt Service (a)			Remaining Debt Service (a)			$17,490,000 General Obligation Refunding Bonds (AR) Dated: October 23, 2009				LESS: FUNDS APPLIED		TOTAL NEW DEBT SERVICE	DEBT SERVICE SAVINGS
Calendar Year	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL (3/1)	RATE	INTEREST (3/1 & 9/1)	TOTAL	Olson Ref.	General Fund		
2009	$5,160,000	$2,101,531	$7,261,531	$5,160,000	$2,101,531	$7,261,531							$7,261,531	***$0***
2010	$5,305,000	$1,870,794	$7,175,794	$2,655,000	$1,002,800	$3,657,800			$553,395	$553,395	($1,200,000)	($2,525,000)	$486,195	***$6,689,599***
2011	$5,475,000	$1,633,081	$7,108,081	$4,225,000	$857,706	$5,082,706	$1,410,000	5.000%	$611,575	$2,021,575			$7,104,281	***$3,800***
2012	$3,350,000	$1,430,775	$4,780,775	$1,775,000	$723,681	$2,498,681	$1,745,000	5.000%	$532,700	$2,277,700			$4,776,381	***$4,394***
2013	$2,585,000	$1,286,775	$3,871,775	$960,000	$662,450	$1,622,450	$2,110,000	2.000%	$467,975	$2,577,975			$4,200,425	***($328,650)***
2014	$2,700,000	$1,156,463	$3,856,463	$1,000,000	$623,250	$1,623,250	$2,155,000	2.000%	$425,325	$2,580,325			$4,203,575	***($347,113)***
2015	$2,865,000	$1,018,300	$3,883,300	$1,040,000	$582,450	$1,622,450	$2,205,000	2.500%	$376,213	$2,581,213			$4,203,663	***($320,363)***
2016	$2,360,000	$890,056	$3,250,056	$1,085,000	$539,950	$1,624,950	$1,445,000	3.000%	$326,975	$1,771,975			$3,396,925	***($146,869)***
2017	$2,510,000	$772,013	$3,282,013	$1,135,000	$495,550	$1,630,550	$1,495,000	5.000%	$267,925	$1,762,925			$3,393,475	***($111,463)***
2018	$2,405,000	$649,031	$3,054,031	$1,180,000	$446,300	$1,626,300	$1,570,000	4.000%	$199,150	$1,769,150			$3,395,450	***($341,419)***
2019	$2,610,000	$523,031	$3,133,031	$1,235,000	$395,050	$1,630,050	$1,640,000	5.000%	$126,750	$1,766,750			$3,396,800	***($263,769)***
2020	$2,815,000	$388,775	$3,203,775	$1,290,000	$344,550	$1,634,550	$1,715,000	5.000%	$42,875	$1,757,875			$3,392,425	***($188,650)***
2021	$1,345,000	$291,850	$1,636,850	$1,345,000	$291,850	$1,636,850							$1,636,850	***$0***
2022	$1,400,000	$236,950	$1,636,950	$1,400,000	$236,950	$1,636,950							$1,636,950	***$0***
2023	$1,205,000	$184,850	$1,389,850	$1,205,000	$184,850	$1,389,850							$1,389,850	***$0***
2024	$1,255,000	$135,650	$1,390,650	$1,255,000	$135,650	$1,390,650							$1,390,650	***$0***
2025	$1,310,000	$83,531	$1,393,531	$1,310,000	$83,531	$1,393,531							$1,393,531	***$0***
2026	$1,370,000	$28,256	$1,398,256	$1,370,000	$28,256	$1,398,256							$1,398,256	***$0***
	$48,025,000	$14,681,713	$62,706,713	$30,625,000	$9,736,356	$40,361,356	$17,490,000		$3,930,857	$21,420,857	($1,200,000)	($2,525,000)	$58,057,213	***$4,649,499***

(a) The following Issues will be Refunded:
$18,400,000 G.O. Capital Improvement Bonds, Dated: March 1, 1993 (2010-2012 Maturities at 4.00%)
$17,525,000 G.O. Capital Improvement Bonds, Dated: July 1, 1995 (2010-2015 Maturities at 5.45-5.625%)
$6,475,000 G.O. School Building Bonds, Dated: June 1, 1997 (2010 & 2012-2017 Maturities at 5.25%)
$11,000,000 G.O. School Building Bonds, Dated: April 1, 2000 (2010 & 2013-2020 Maturities at 5.40-5.80%)
$30,365,000 G.O. School Building & Refunding Bonds, Dated: March 15, 2007 (Partial 2010 Maturity, or $675,000, at 4.00%)

LESS: FUNDS APPLIED	***($3,725,000)***
ROUNDING AMOUNT	***$1,455***
GROSS SAVINGS	***$925,954***
PRESENT VALUE SAVINGS $	***$1,164,812***
PRESENT VALUE SAVINGS %	***6.694%***



Madison Metropolitan School District, WI

MOODY'S ASSIGNS Aa1 RATING TO MADISON METROPOLITAN SCHOOL DISTRICT'S (WI) $18.9 MILLION GO REFUNDING BONDS

Aa1/STABLE OUTLOOK APPLIES TO $50.5 MILLION OF OUTSTANDING GOULT DEBT

Madison Metropolitan School District, WI Primary & Secondary Education Wisconsin

Moody's Rating

Issue	Rating
General Obligation Refunding Bonds	Aa1
Sale Amount $18,880,000	
Expected Sale Date 10/08/09	
Rating Description General Obligation	

NEW YORK, October 6, 2009 -- Moody's Investors Service has assigned a Aa1 rating to Madison Metropolitan School District's (WI) $18.9 million General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the Aa1 rating and stable outlook on the district's outstanding general obligation debt, affecting $31.6 million. The bonds are secured by the district's general obligation unlimited tax pledge and proceeds will be used to advance refund certain maturities of the district's 1993, 1995, 1997, 2000, and 2007 bonds for an estimated savings of 3.8%. The refunding will also reduce the fiscal 2010 principal payment by almost $2.7 million, thereby mitigating the taxing burden on taxpayers given the increase in the district's operating levy. The district's Aa1 rating and stable outlook is based on the sizeable tax base that derives support from one of the state and nation's most stable economies, improving financial operations that will continue to face budget challenges, and a modest level debt.

LARGE AND DIVERSE TAX BASE SUPPORTED BY ONE OF THE NATION'S MOST STABLE ECONOMIES

Moody's expects modest growth in the district's substantial and diverse $23.6 billion tax base will continue due the area's relatively stable employment base, residential and commercial properties that are demonstrating slight appreciation and available of land for future development. The district serves the City of Madison (general obligation rated Aaa) along with all or portions of several surrounding communities. As the city annexes neighboring areas to foster development, the school district also enters into border agreements with the affected school districts, which has helped to provide growth in both taxable valuation and service area population. In recent years growth in the periphery has helped to offset declining enrollment in the older city core.
Enrollment has averaged a 0.5% decline over the last five years, though officials anticipate the start of a 4-year old kindergarten in fiscal 2011 will turn this trend around.

New construction has slowed in line with the national economy, resulting in a 3.4% change from 2007 to 2008 compared to a historical trend of over 8% to 9%.
From 2004 to 2008, inclusive, the district has averaged a sound 7.5% annual growth in its tax base. The city's 2009 valuation did reflect positive growth, indicating the district's valuation will also see positive movement given the City of Madison accounts for 90% of the district's tax base. Management reports that residential development in particular has slowed, indicating that growth will be more moderate over the medium term. Complementing the public sector's sizeable local presence, with the University of Wisconsin's main campus and the state capital, private concerns such as CUNA Mutual Group, with over 6,500 employees, and high technology, software development, and bio-medical research have become a larger component of the city's economy in recent years. Of the district's ten largest employers, eight are either government entities or large health care providers. Despite current economic conditions, the Madison metropolitan area continues to exhibit one of the most stable economic environments in the country. Annual unemployment levels have fluctuated around 2% to 3% since 1992, due to the stable and increasingly diverse nature of the local economy. In recent months, the city's unemployment rate has doubled that of historical trends but remains notably lower than the state and nation at 5.9% as of May 2009.

IMPROVING FINANCIAL OPERATIONS; NEAR-TERM CHALLENGES MITAGATED BY PASSAGE OF LEVY OVERRIDE

Moody's believes that district's financial operations will continue to strengthen given the recent passage of a levy override and management's ongoing commitment to maintaining structural balance. In fiscals 2001 through 2006, the district's General Fund posted annual deficits, bringing reserves down to $20.3 million at the close of fiscal 2006 from $46.6 million recorded in fiscal 2000. Significant improvement in these shortfalls came in fiscal 2004 in which the district's shortfall was reduced to $2.7 million from $8.3 million in the prior year. Notably, in fiscal 2007 the district posted significant positive budget variances by closing the year with a $335,000 General Fund surplus indicating that the district successfully closed a $9.5 to $10.5 million budget gap. Fiscal 2008 marked another year of improvement due to lower than expected health insurance costs, staffing adjustments and a $6 million TIF closeout payment received by the district. At year end, the district had a $4.3 million surplus that increased reserves to $24.9 million, or 8.5% of revenues. Officials estimate fiscal 2009 year end results will reflect a significant surplus of $10.4 million, a result of several expenditure control measures and contingency planning. Favorably, in fiscals 2010, 2011 and 2012 the district will benefit from an operating levy override (of $5 million, $4 million, $4 million, respectively) that was passed by 70% of voters in November 2008. Management reports that the fiscal 2010 budget is balanced and revenues and expenditures year-to-date are tracking the budget. Due to a 15% reduction of state aid in fiscal 2010, the district is increasing its property tax levy by $6 million to make up a portion of the lost revenues; including the levy override, the total levy increase will be $11 million. During this fiscal year the district will also undergo a full scale organizational review to seek out efficiencies that could result in annual savings. While the district does not maintain a formal fund balance policy, management is targeting $30 million, or 10% of operations, which it should exceed at the close of fiscal 2009.

Although the district's recent trends demonstrate marked improvement due to management's effort to maintain expenditures in line with revenues, it is expected that the district's financial operations will continue to face budgetary challenges due to state-imposed per-pupil revenue limits. Unlike most Wisconsin school districts, the majority (72.5%) of revenues is derived from local sources, with state the second largest source (23.1%). Management reports the district's other post-employment benefits (OPEB) liability is limited to its implicit rate subsidy of $27.2 million. The district is currently financing OPEB related costs on a pay-go basis.

MANAGEABLE DEBT LEVELS; NO NEAR TERM CAPITAL BORROWING NEEDS

Moody's believes the district's debt profile will remain favorable as current debt burden is low, there are no near term capital needs, and direct obligations are rapidly retired. The district's overall debt burden is below average at 1.8%, while direct debt is very modest for a school system of this size at 0.3% of valuation. Annual debt service comprised only 4.0% of core expenditures in fiscal 2008, even though principal amortization remains average at 75.2% in ten years. While the current issuance does extend the majority of the principal due in fiscal 2010, the ten year amortization rate remains unchanged. The district has no other near-term borrowing needs as it has been authorized by referendum to exceed the revenue limit by $5 million annually through fiscal 2010 to address maintenance needs. The district spends
$8 million to $10 million annually out-of-pocket on capital and maintenance needs. Management reports that a facility assessment study is currently underway and so the district will have a better sense of any future borrowing needs over the next year.

KEY STATISTICS:

2000 Census population: 217,677 (+5.6% since 1990)
2008 Full value: $23.6 billion
Estimated full value per capita: $107,895
1999 Per capita income as a % of state: 111.0
1999 Median family income as a % of state: 111.0
Debt burden: 1.8% (0.3% direct)
Payout of principal (10 years): 75.2%
FY2008 General Fund balance: $24.9 million (8.5% of General Fund revenues)

Post-sale outstanding general obligation debt: $50.5 million The principal methodology used in rating the current issue was "Local Government General Obligation and Related Ratings," which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action on the district was on September 4, 2009 when the district's GOULT rating of Aa1 with a stable outlook was affirmed.

ANALYSTS:
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