File #: 93981, **Version:** 1

Fiscal Note

This resolution authorizes the issuance of up to $173,830,000 in general obligation promissory notes for new money and refunding purposes and an irrevocable property tax sufficient for the purpose of paying principal and interest on the notes.

New Money
These notes will be used to finance current year projects and programs authorized in the 2026 adopted capital budget. A description of the specific expenditure purposes is included in the resolution. The total amount includes cost of issuance of approximately $390,000.

The notes will be structured with a tax-exempt series of approximately $112 million with 10- and 20-year amortization periods, and an estimated taxable series of approximately $32 million, for projects related to affordable housing and other purposes that do not meet the criteria for tax exemption under federal tax law. Of the $112 million of tax-exempt debt, approximately $85 million will be repaid over a 10-year period and $27 million over a 20-year period. Projects supported with 20-year debt include the new Fire Station 6 and South Madison Public Health Clinic to be included in the Park-Badger CDA housing development, as well as the John Nolen Drive reconstruction project.

As was the case with the 2024 and 2025 debt issuances, the 2026 debt issuance is utilizing a recent change to state law that authorizes municipalities to issue promissory notes with a maturity of up to 20 years. The previous maximum allowable maturity for promissory notes was 10 years; borrowing with a longer maturity was considered to be bonds under prior state law. Issuing the debt as promissory notes allows municipalities to forego the initial resolution and other requirements associated with issuing bonds.

The resolution establishes parameters for maximum amount issued (described above) and a maximum true interest cost (interest rate) of 5.0 percent for tax-exempt debt and 6.0 percent for taxable debt. Under the resolution, the Finance Director is authorized to certify that the qualifying low bid based on the parameters. The Mayor and City Clerk are authorized to approve the sale as certified by the Finance Director. It is expected that the sale will occur around August 25, 2026 with closing and delivery prior to September 30, 2026. The authority granted in the resolution expires on December 31, 2026.

Interest on the $144 million of debt for new money needs is estimated to total $44 million over the repayment period of the notes. Annual principal and interest payments (debt service) on the notes are estimated to be $20 million in 2027 and gradually decline to $14 million by the last year of repayment in 2036 for the 10 year portion of the borrowing. The remaining 10 years on the 20 year notes will have annual debt service payments of approximately $1.7 million. The city repays debt on a level principal basis (equal principal amounts each year). This approach reduces the overall interest cost compared with a level debt service basis (equal principal and interest costs each year).

The final sale is expected to include a reoffering premium, especially for the tax-exempt series. For over a decade, the final purchasers of the city's debt have been willing to pay cash upfront in order to receive higher interest payments from the city in future years. Reoffering premiums reflect purchasers' interest in hedging against a low interest rate investment if interest rates rise in the future. The city has placed parameters on bids in recent years in order to limit the amount of premium received to approximately 5% to 10% of the par value

of the debt and avoid associated higher coupon interest rates.

The premium from the amount of tax-exempt debt issued for capital projects in this issuance, net of issuance costs and underwriter's discount, are estimated to be approximately $9.5 million. The premium represents approximately 8.5% of the par value and compares favorably to the ratio of premium to par values in prior years:

2025 - 9%
2024 - 10%
2023 - 7%
2022 - 9%
2021 - 8%
2020 - 8%
2019 - 5%
2018 - 5%
2017 - 7%
2016 - 5%
2015 - 6%
2014 - 9%
2013 - 7%
2012 - 11%

The estimated net premium received will be used to pay debt service, as required under Wisconsin Statutes. While premium may be received for the taxable debt, investors typically will purchase such debt at a price at or just above par and without the larger amount of purchase premium seen in tax-exempt transactions.

Refunding
Up to approximately $30 million of refunding notes are included in this resolution in the event that market conditions at the time of the competitive sale provide for economic savings from reduced debt service. Certain maturities from three series of debt issued in prior years are being monitored for refunding. At the time of this memo, the refunding opportunity is minimal but will continue to be monitored up to the tentative sale date of August 25th.

Title
Authorizing the Issuance and Establishing the Parameters for the Sale of Not to Exceed $173,830,000 General Obligation Promissory Notes, of the City of Madison, Wisconsin, and Directing the Final Approval of the Terms Thereof.

Body
Please see Legistar File No. 93981 Body in Attachments