A simple way to explain what we are talking about with Pension Relief Bonds:

Imagine needing to fix the debt your children racked up with the credit card you gave them as they went off to college. Even though you planned on paying off the debt each month, it became clear that your kids charged more than you can afford. So, you switch from a card that 8.5% in interest to one with a 5% interest rate and you limit your kids' purchases.

<u>The county is using its financial tools to pay for the $261 million pension debt that was racked up from the actions of Tom Ament and the old County Board back in 2000.</u> That pension debt is projected to grow to $350 million and will put county taxpayers at risk unless we face the reality of this debt and deal with it now.

Last year, the county put in $35 million more in tax levy to cover the pension system. Of that amount, $15 million went to pay the debt incurred from the pension debacle of 2000. Despite the denials of many on the County Board, this is a real debt that exists with or without the bonding. Pension Relief Bonds merely allow the county to cover the debt at a lower interest rate, thereby reducing the impact on county taxpayers and county services.

So how is this different than the borrowing that Governor Doyle is proposing in the 2005/2007 state budget?

First, the State of Wisconsin used Pension Relief Bonds back at the end of 2003 to ease the burden of their pension liability. In fact, the $1.8 billion plan actually won an award. The state also did the kind of refinancing that the county went through a year and a half ago. Each of those plans refinanced existing debts - just like the Pension Relief Bonds proposed for the county.

In contrast, the Governor's 2005/2007 budget includes many provisions to borrow for new spending. For example, it raids $500 million from the segregated transportation fund and shifts it to pay for new spending in the general fund. Then, it borrows to cover $780 million in spending in the transportation fund (on top of that, it raises transportation fees by $97 million). Other areas of the state budget include borrowing for new spending.

Why not cut government spending to cover the pension debt?

We will. In addition to the pension debt left over from the Ament era, we have union contracts that all look likely to head to arbitration. If we lose, the county will be hit with another big cost and the answer will come in the area of major cuts in spending. In addition, Governor Doyle's budget includes cuts to Milwaukee County government, too. In the last budget, Republican lawmakers did help to ease the impact of Doyle's cuts, but there will still be some. We will cut spending in response to those cuts, too.

Why not raise taxes to cover the pension debt?

First, County Executive Walker made a pledge not to raise the property tax levy. He kept that pledge for three years and he will do it again for the 2006 budget. Taxes are still too high in this area and they are driving seniors, working families and employees out of the area.

Second, with the union contracts, employee benefits and state aid cuts, the members of the County Board cannot raise the property tax levy high enough to cover all of these areas and not make some cuts to county government. They seem to forget that - even without a new property tax levy freeze - there are still state limits on how high the county tax levy can rise each year. They cannot tax their way out of this situation.

Isn't this a risky idea?

No. This plan is not unique to Milwaukee County. Since 1986, 140 jurisdictions have successfully used Pension Relief Bonds - including the state's $1.8 billion plan and MPS's $168 million plan. Unlike many others, however, we build in a reserve fund to protect against market changes.

Many governments issued bonds to capture upfront savings. Our conservative structure spreads the savings throughout the life of the issue while establishing a reserve fund to protect the county against market changes. We expect an interest rate of 5 to 6%. The funds would then be deposited into the pension fund and will begin to accrue investment income. The plan expects an 8.5% return.