City refinancing WRS debt: Proposal will save more than $1 million in interest costs

By Kyle Rogers
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The city of Rhinelander can save nearly $2.3 million over the next 20 years under a proposal to refinance its outstanding Wisconsin Retirement System (WRS) liability.

Alderman Alex Young has been the one pushing for the city to address its WRS liability which will be approximately $1.1 million at the end of the year following the 2013 interest payment of $81,972. Young called the refinancing proposal a "no-brainer" when the numbers put together by the city's financial advisors, Ehlers and Associates, were revealed to officials last week.

Young

"I guess this is why a lot of other municipalities have already done this," Young said.

The WRS debt goes back to the 1980s when most local government employees first came under the umbrella of the state retirement fund. Existing employees coming into the system were credited for their past years of work for a municipality. Since most local governments didn't have the funds on hand to make that past payment, the money was loaned to them from the state. That and changes in retirement benefit levels over the years are what has led to the city of Rhinelander's $1.1 million WRS debt. The problem over the years is that the debt has been accruing interest at a high rate and the city's annual payments have not been covering the new interest. The result is an ever-growing burden for the city and thus area taxpayers.

"It's like making the minimum payment on a credit card," Young said in August when city officials were developing goals they wanted to achieve during the 2014 budget process.

Young pushed for creating a plan to finally tackle the WRS debt, something he said he's mentioned in the past — as have the city's auditors — yet no action has been taken.

But now the city has a plan. Ehlers and Associates proposes refinancing the remaining $1.1 million of WRS debt with a state trust fund loan early next year. Payments would begin in 2015 and while they would be higher than what the city is currently paying, it would also put the city on track to have the entire debt paid off by the end of 2033.

If no changes are made, the debt would accrue nearly $1.8 million of interest over the next two decades and the balance would still sit at more than $1 million. The city would be no closer to paying it off than it is now. The figure of nearly $2.3 million of savings can be derived from the $1.1 million balance the city will have paid off in 20 years as well as the more than $1 million reduction in interest costs over that same period. The city is currently paying 7.2 percent interest on the WRS debt. That would drop to 4.5 percent with the state trust fund loan.

"I think there was a hope that the state would just wipe this off," City Administrator Blaine Oborn said of why the WRS debt problem wasn't addressed years earlier. "I think the likelihood of that happening is not there anymore."

He said the city will have to use some of its borrowing capacity to do the refinancing, but there is room to handle the $1.1 million state trust fund loan. With other debts being paid off in the coming years, the city will also be in a good position to take on the new loan without significantly affecting the tax rate, Oborn said.

"We're using borrowing capacity but in talking with Sean (Lentz from Ehlers and Associates) our auditors have been bugging us about this for a while and saying, 'When are you going to deal with this?'" Oborn said, adding that he believes addressing a long-term issue like this will also look good to bond rating agencies and could help the city's rating.

"It's a very slight increase in debt service now but you ultimately pay it off," Young said. "If over 20 years we're saving more than $2 million by doing this, I don't want to think about what we could have done with that money had we done this sooner."

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