Report of Debt & Debt Service For the Years 2002 through 2011 City of Milwaukee August 14, 2007

Office of the Comptroller
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Comptroller
City of Milwaukee- Public Debt Commission

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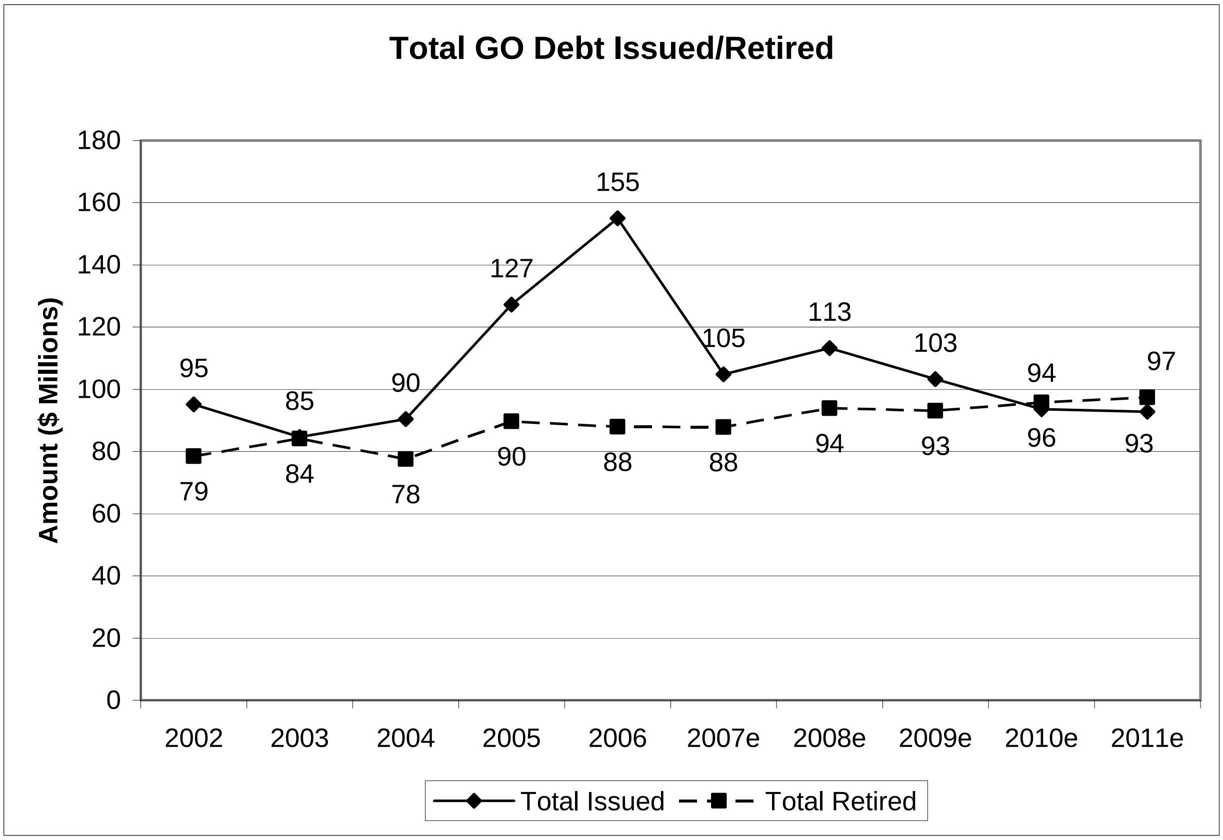
The Public Debt Commission *Adopted Statement of Policy for the Use of the (Public Debt Amortization) Fund Balance,* as approved September 3, 1997, calls for the Comptroller as Commission Secretary to annually prepare an estimate of Outstanding Debt and resulting annual Debt Service requirements for each of the succeeding five (5) years.

Trends 2002-2006

Over the period 2002-2006, the amount of General Obligation (GO) debt issued varied from $85 million to $155 million per year while the amount retired ranged from $78 million to $90 million per year.

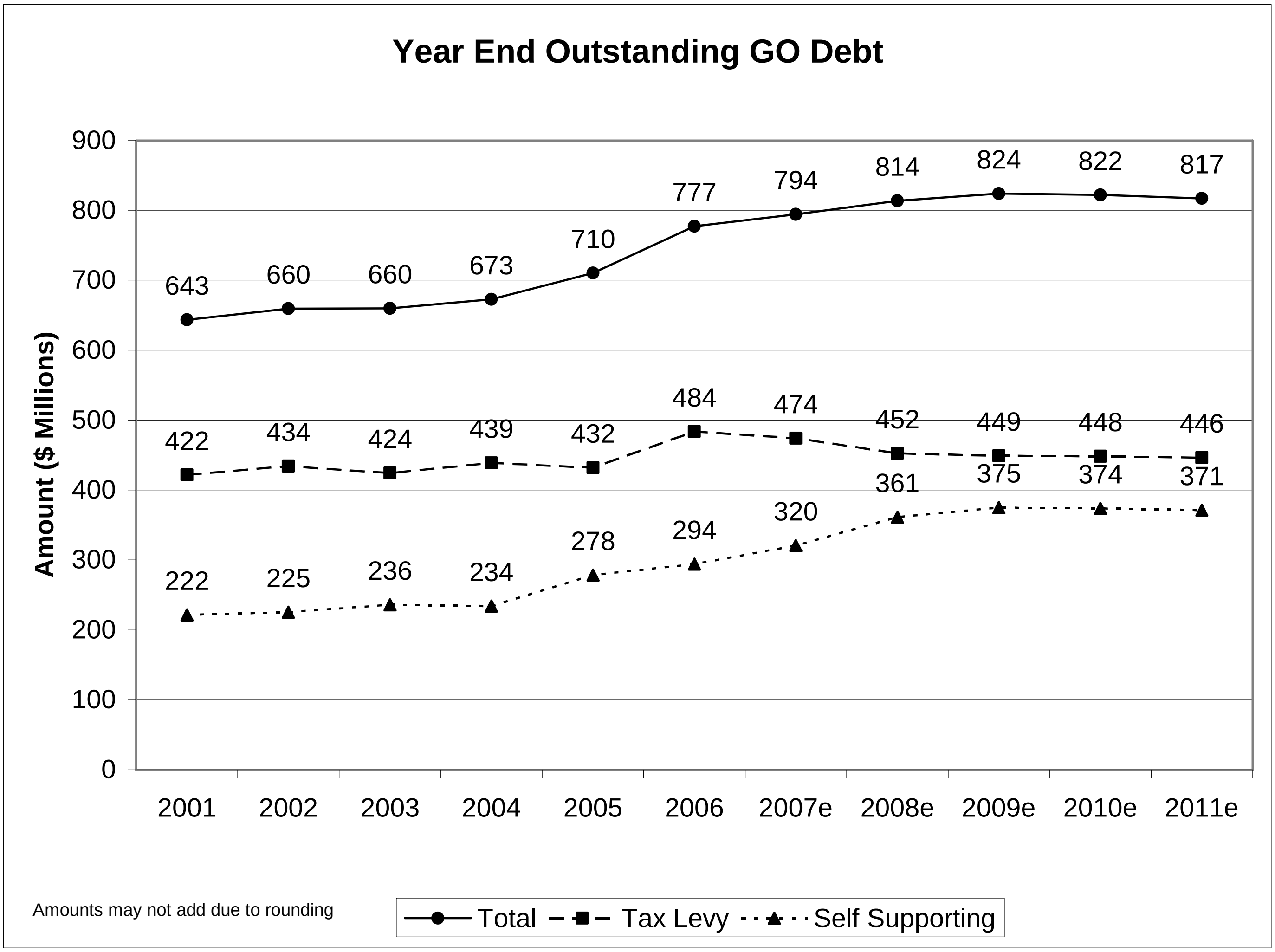
CHART 1



GO debt issuance is projected to be $93 million - $113 million annually through 2011. The increase in debt issuance between 2005-2009 is primarily attributable to the Renovation of the Exterior of City Hall, a new Public Works facility on a portion of the Tower Automotive site, and Tax Incremental Districts (self supporting debt). Chart 3, on page 3, shows past and projected outstanding debt by category. The City of Milwaukee 2006-2011 Capital Improvements Plan (CIP) projects that future tax levy supported debt will maintain a level amount of tax levy debt. That is reflected in 2010, where debt issued approximates the amount of debt retired. Only nominal amounts of long-term GO debt for Sewer purposes are projected. The assumption is that the majority of the Sewer debt can be sold to the State's Clean Water Fund on a revenue bond basis.

GO debt outstanding has increased to $777 million at the end of 2006 (excludes $30 million of Sewer Debt issued on an interim basis in anticipation of a Clean Water Fund Loan from the State). This amount represents a $134 million increase (+21%) from $643 million at the end of 2001. Tax-levy supported debt increased by $62 million (+15%) and Self-supporting debt increased by $72 million (+33%). It should be noted that in 2005, $37 million of Sewer debt was reclassified from Tax-levy supported to Self-supporting debt. This was due to a new $7 million per year transfer from the Sewer Fund to the Debt Service Fund to pay a portion of the GO debt relating to Sewers. In 2007, all Sewer Debt was reclassified to Self-supporting debt in anticipation of the Sewer Fund fully providing for Sewer GO Debt in 2008.

CHART 2

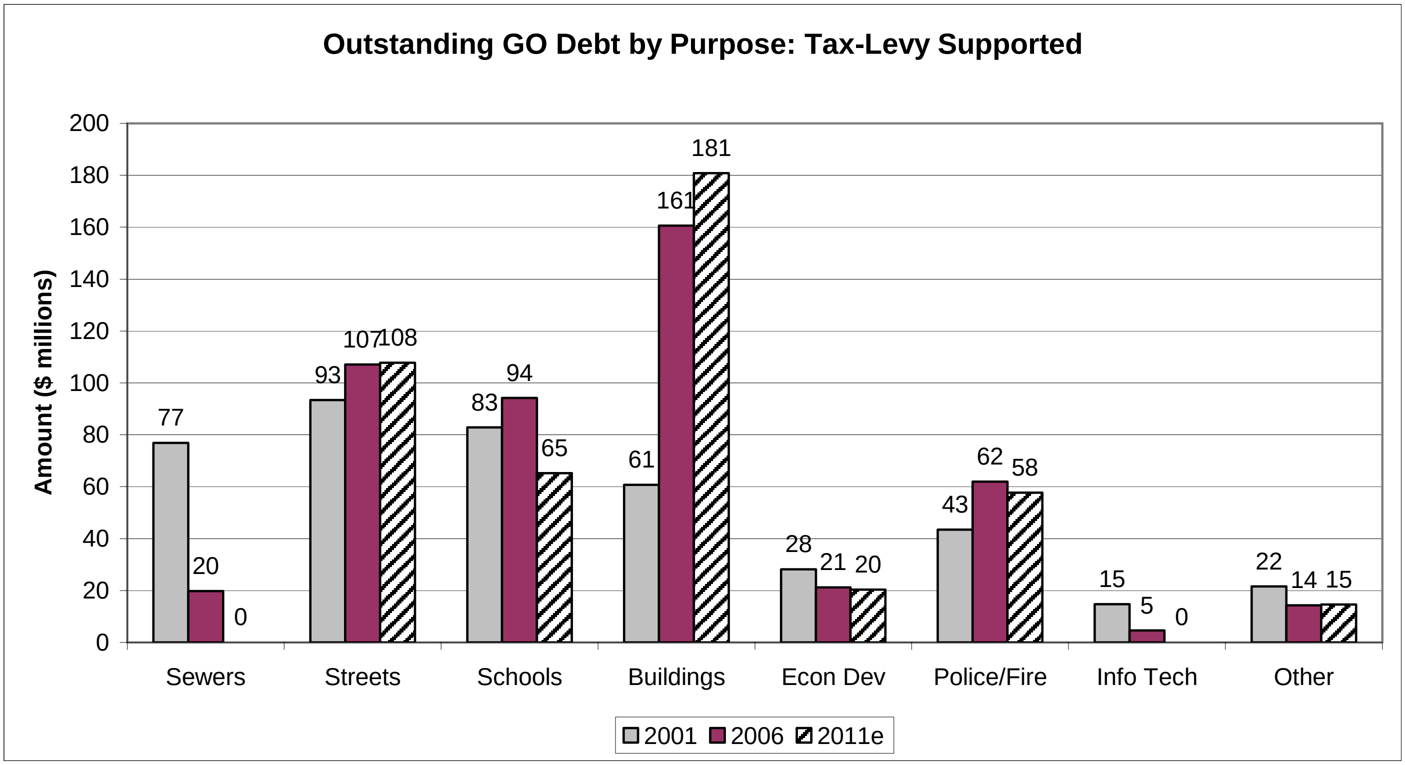


Assuming that annual GO debt issuance ranges between $93 million to $113 million, outstanding GO debt will increase from $777 million by year-end 2006 (excluding $30 million for interim Sewer Borrowing) to $824 million by year-end 2009 (+6%).

In addition to GO Debt, the City has other obligations including TID loans from developers for their projects and lease obligations. The City has also provided additional security enhancement through repayment pledges to City Redevelopment Authority bond issues secured by TID revenues.

Major increases in tax-levy supported debt were for Public Buildings and Public Safety (Police/Fire). The major increases for Self-supporting debt were for Tax Increment District and Sewer (reclassification) purposes.

CHART 3



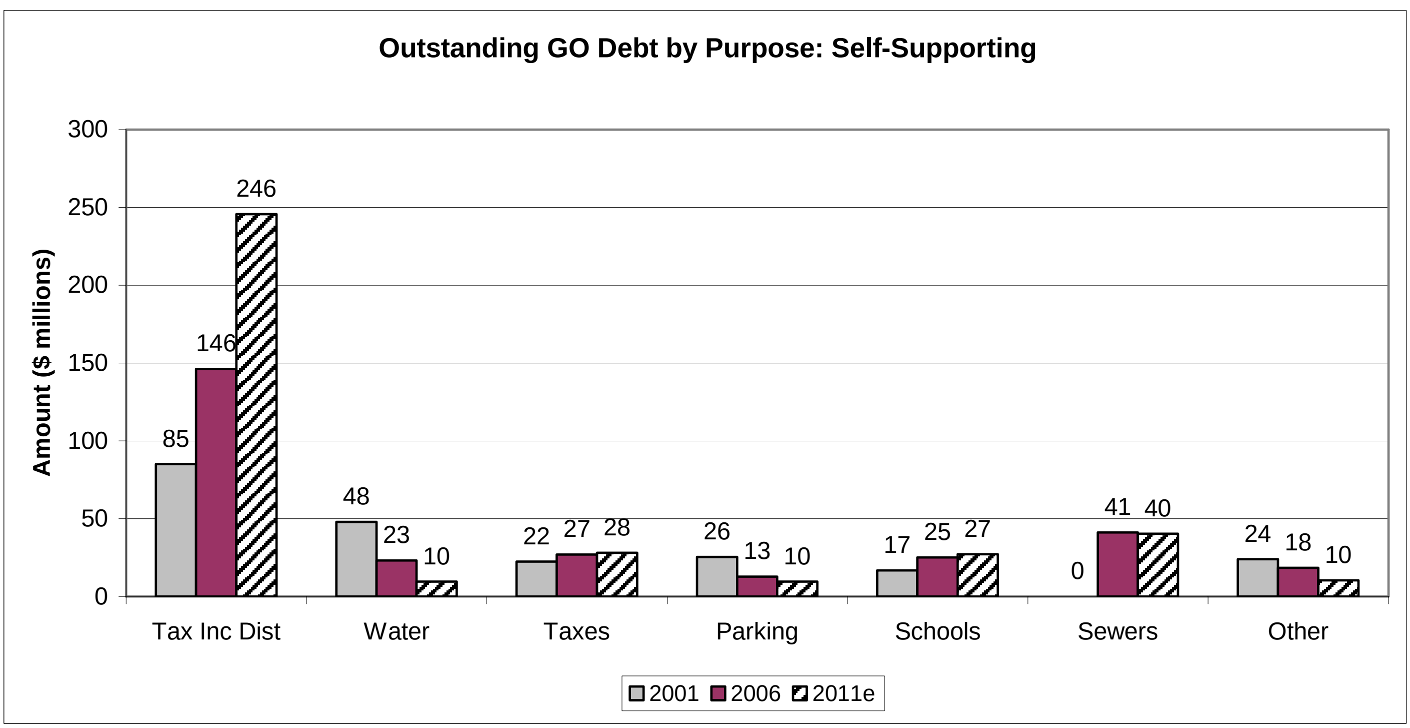


CHART 4

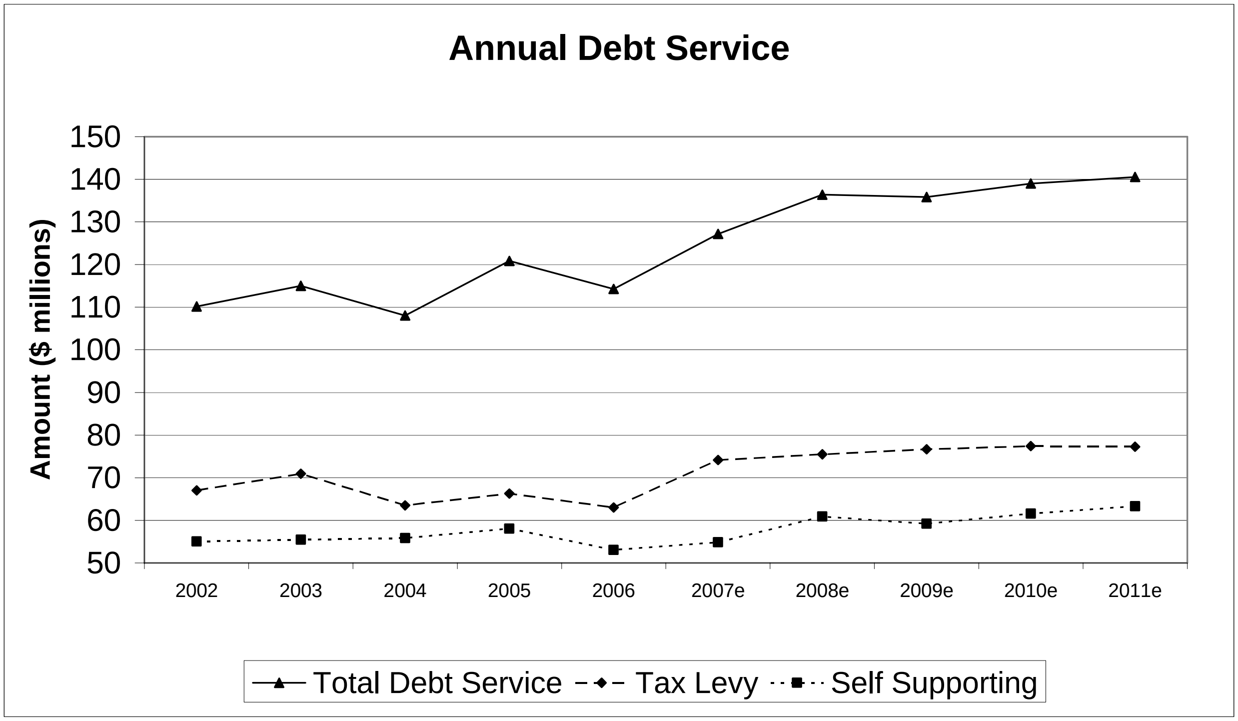
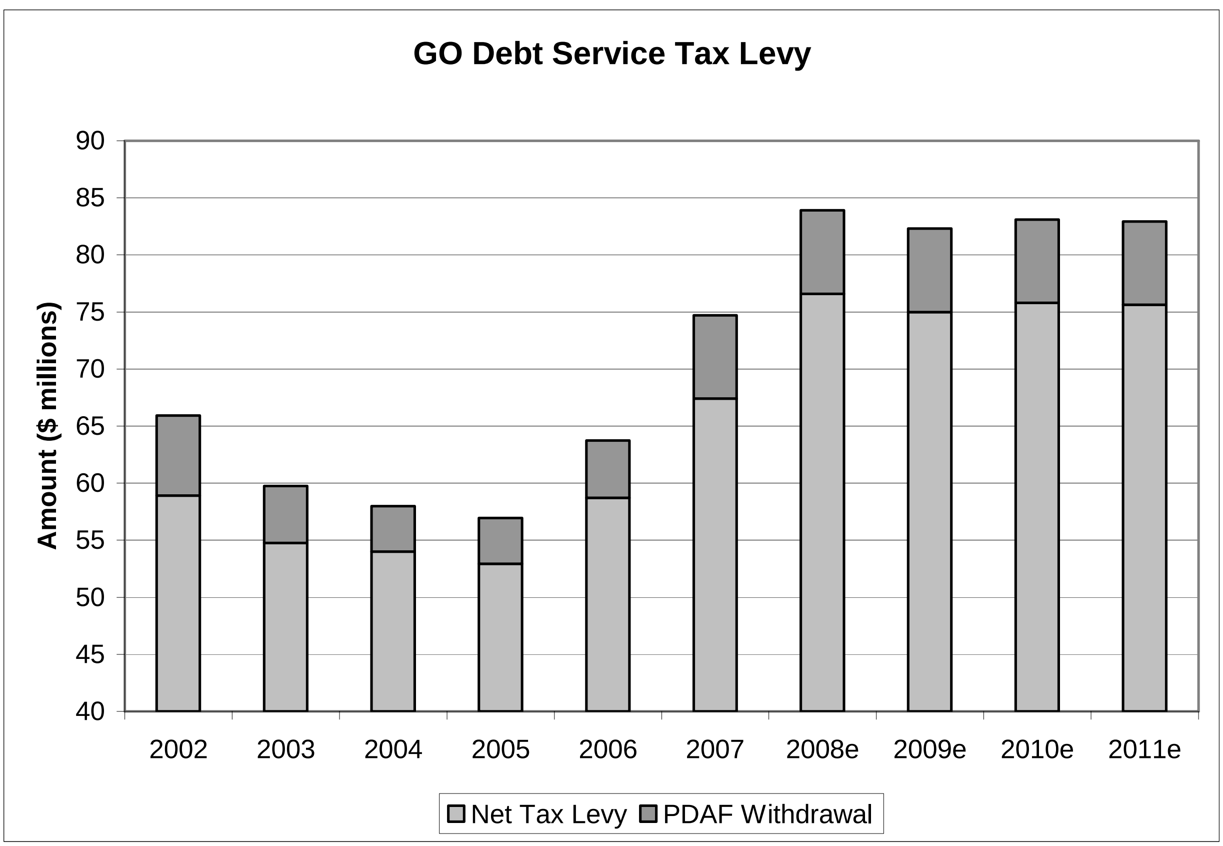


CHART 5

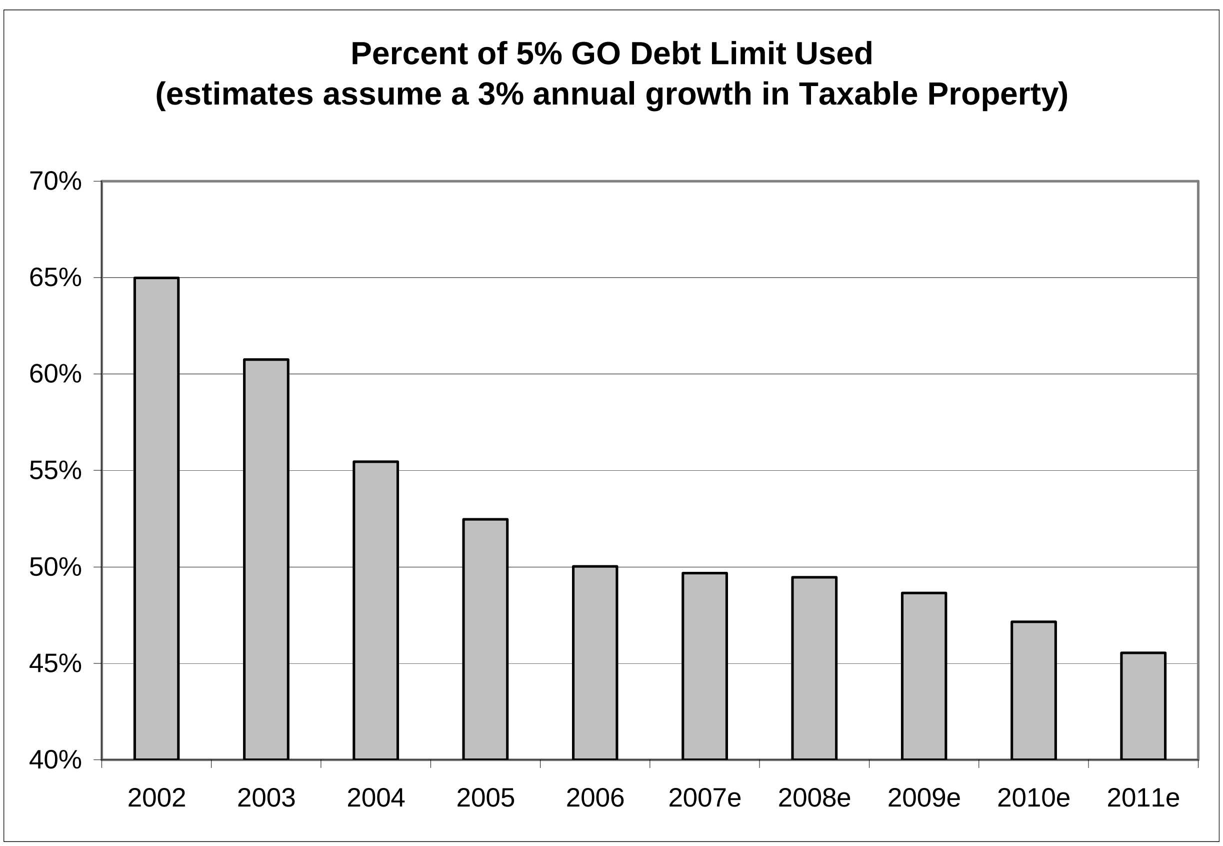


In spite of growing GO debt levels, the City's tax levy for debt service did not start increasing until 2006, and is anticipated to grow significantly through 2008. Debt service tax levies were restrained by growing Tax Increment District (TID) revenues, use of debt reserves, developer financed (non-GO) loans to the City, and one-time refinancings of City debt to lower interest rates. Large bond issue premium revenues have also helped to delay debt service tax levy increases. Unfortunately, these premium revenues will be offset by higher debt service expenditures over the life of the related bond issues and cannot be relied upon to recur in the future for new bond issues. Also, rapidly increasing developer financed loans to the City will require repayment, reducing the net TID revenues available to offset future debt service tax levies.

The tax levy for debt service is projected to be $76.6 million in 2008, a 14 percent increase over the 2007 tax levy. Assuming capital spending as projected in the 2006-2011 City Capital Improvements Plan, the tax levy for debt service is projected to remain at the $76 million level. This also assumes that the draw on the PDAF remains at the $7.3 million draw in 2006.

One measure of the City's ability to repay debt is its wealth (property tax base). The relationship between year-to-year debt trends and comparable property tax base trends is monitored closely by the national bond rating agencies. The Wisconsin Constitution limits the amount of debt a municipality can issue to five percent of its equalized (market) property value (e.g., the property tax base). Since 2002, outstanding debt has grown by 18%, whereas property values have grown by 49%, resulting in a decreasing use of its legal debt capacity from 65% in 2002 to 50% in 2006. Over the last five years, the City tax base growth has averaged over ten percent annually.

CHART 6



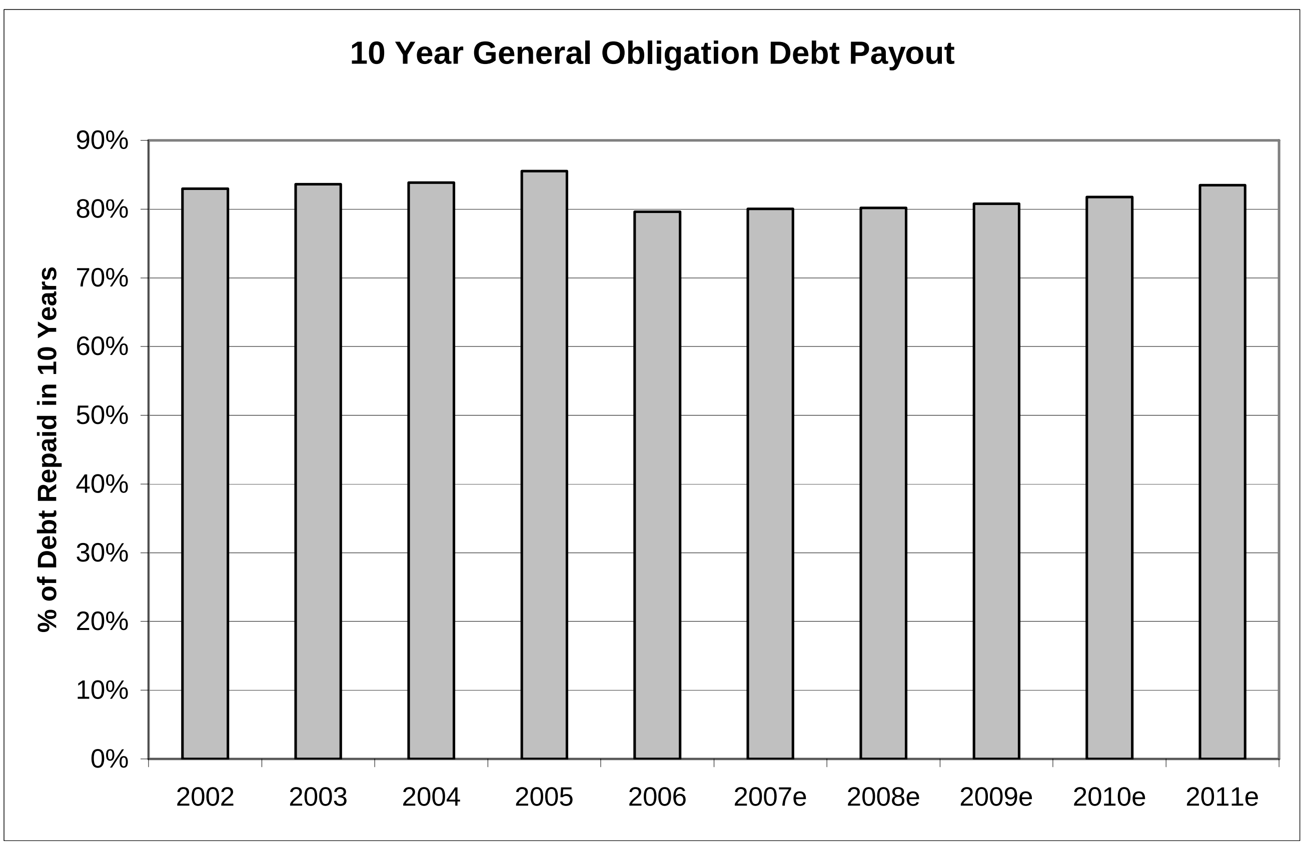
At the end of 2006, the City used about 50% of the debt limit. Given the City's strong real estate market, projections include an estimated tax base growth of three percent annually. Through 2011, it is projected that the percentage of debt limit used will decline to 46% (see Chart 6).

The rate of debt payout is another important facet of debt management (see Chart 7). The term "10 Year Debt Payout" is defined at a point in time as that percent of total GO debt that will be retired/repaid within the succeeding 10 years. It is a measure of how aggressively the City is repaying its debt. The higher the percentage, the faster debt will be paid off. The City's 10 Year Debt Payout percentage remains very high, ranging from 83% to 86% in 2003-2005. It currently stands at 80%. It is projected to grow back to the 83% level by 2011, well above the industry guideline of 50%.

In 2005, the percentage dropped by 5%, and can be equally attributed to: 1) 2005 Refunding which included $18 million of long-term school debt; and 2) $25 million in Variable Rate Debt. Savings on the 2005 Refunding was enhanced by the issuance of school debt with no maturities in years 1-10. For the next few years, future school debt will be issued in the 1-10 year range in order to "rebalance" the outstanding debt. The projections shows improvement to the ratio as debt is issued.

In order to manage the interest rate risk on the $25 million 2005 V8 Variable Rate debt, the issue was structured with long maturities. The anticipated savings in interest expense is projected to amortize the debt in the normal 15 year range for City debt. However, the official Payout Ratio does not take into account the early amortizations. In 2010, the Payout Ratio recovers as the stated maturities enter the 10 year payout range.

CHART 7



On September 3, 1997, the Commission adopted a revised "Statement of Policy" which targets an Unrestricted PDAF balance between 15 to 20% of non-self supporting (tax levy) General Obligation debt (the "Balance Ratio"). At the time the policy was adopted, the Balance Ratio was approximately 20%. As of December 31, 2006, Balance Ratio was 10.1% compared to 10.8% in 2005, well below the 15% minimum target. Chart 8 shows the historical Balance Ratio for the past 10 years. Chart 9 compares the PDAF Balance with Total GO Debt.

CHART 8

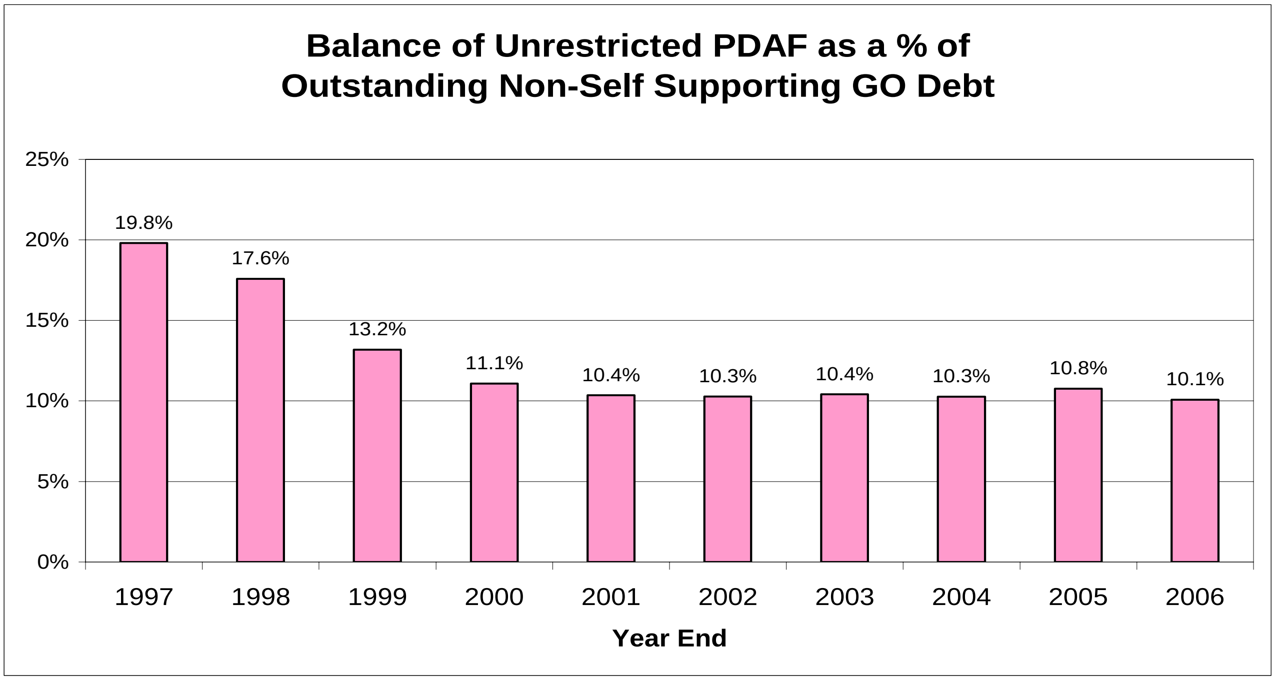
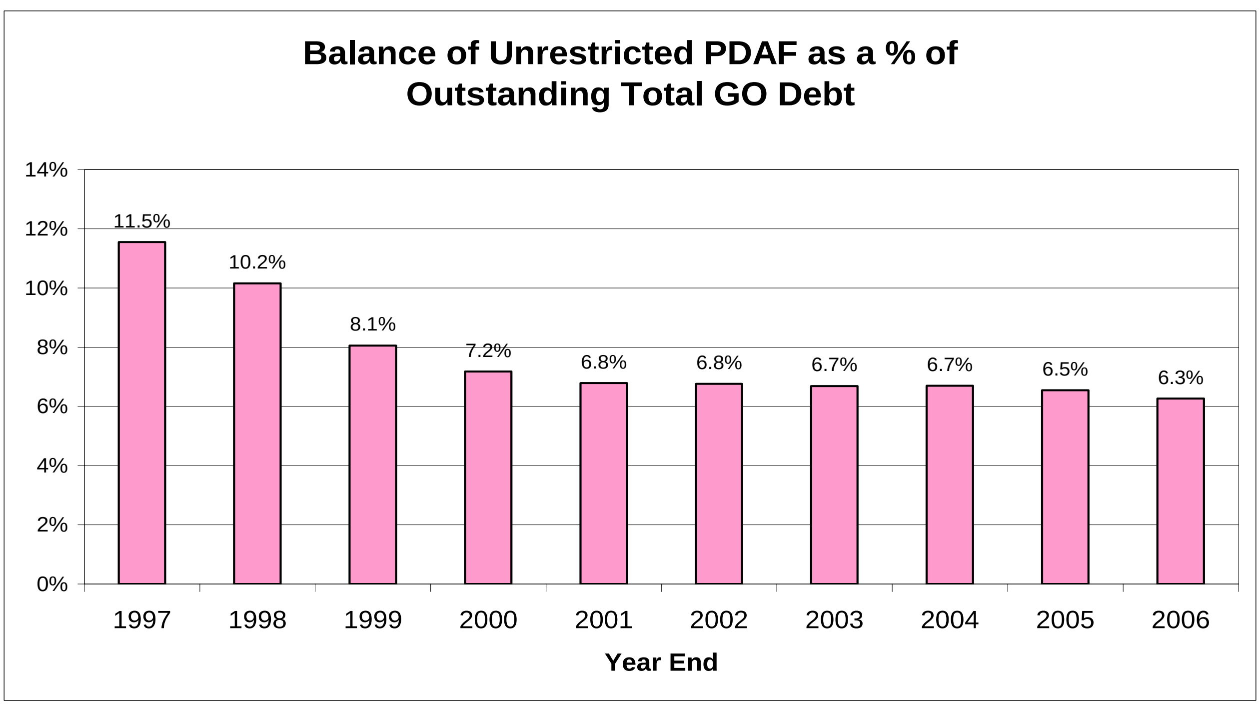


CHART 9



Projections 2007-2011

The following table presents the data supporting the historic trends and projections presented above. These projections are based on the CIP prepared by the City Budget Office, and the adopted 2006 Budget. A major assumption is that all future City borrowing for water and sewer replacement purposes will be accomplished through revenue supported obligations. No future GO debt for these purposes is assumed.

TABLE 1

Report of Past & Projected Debt and Debt Service
For the Years 2002 to 2011
($ in millions)

	Actual					Act/Proj	Projected			
Outstanding General Obligation Debt - Year End	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Self-Sustaining Debt	$225.4	$235.8	$234.1	$278.4	$293.9	$320.5	$361.4	$375.0	$373.7	$371.1
Non Self-Sustaining (Tax Levy) Debt	434.1	424.3	438.9	432.0	483.6	473.9	452.5	449.1	448.2	446.2
Total Oustanding G.O. Debt	$659.5	$660.1	$672.9	$710.4	$777.5	$794.4	$813.8	$824.1	$821.9	$817.3

	Actual					Act/Proj	Projected			
Debt Service for the Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total G.O. Debt Service	$110.1	$115.0	$108.1	$120.9	$114.3	$127.2	$136.4	$135.9	$139.0	$140.6
Plus: Net RAN Debt Service	4.6	2.6	1.9	4.0	7.9	8.7	9.9	9.9	8.5	8.5
Total Debt Service	$114.7	$117.7	$110.0	$124.9	$122.1	$135.9	$146.2	$145.7	$147.5	$149.0
Debt Service Revenues	(48.8)	(57.9)	(52.0)	(68.0)	(58.4)	(61.2)	(62.3)	(63.4)	(64.4)	(66.1)
Debt Levy Requirements before PDAF Draw	$65.9	$59.8	$58.0	$56.9	$63.7	$74.7	$83.9	$82.3	$83.1	$82.9
Application of PDAF Draw	$7.0	$5.0	$4.0	$4.0	$5.0	$7.3	$7.3	$7.3	$7.3	$7.3
Debt Service Levy after PDAF Draw	**$58.9**	**$54.8**	**$54.0**	**$52.9**	**$58.7**	**$67.4**	**$76.6**	**$75.0**	**$75.8**	**$75.6**

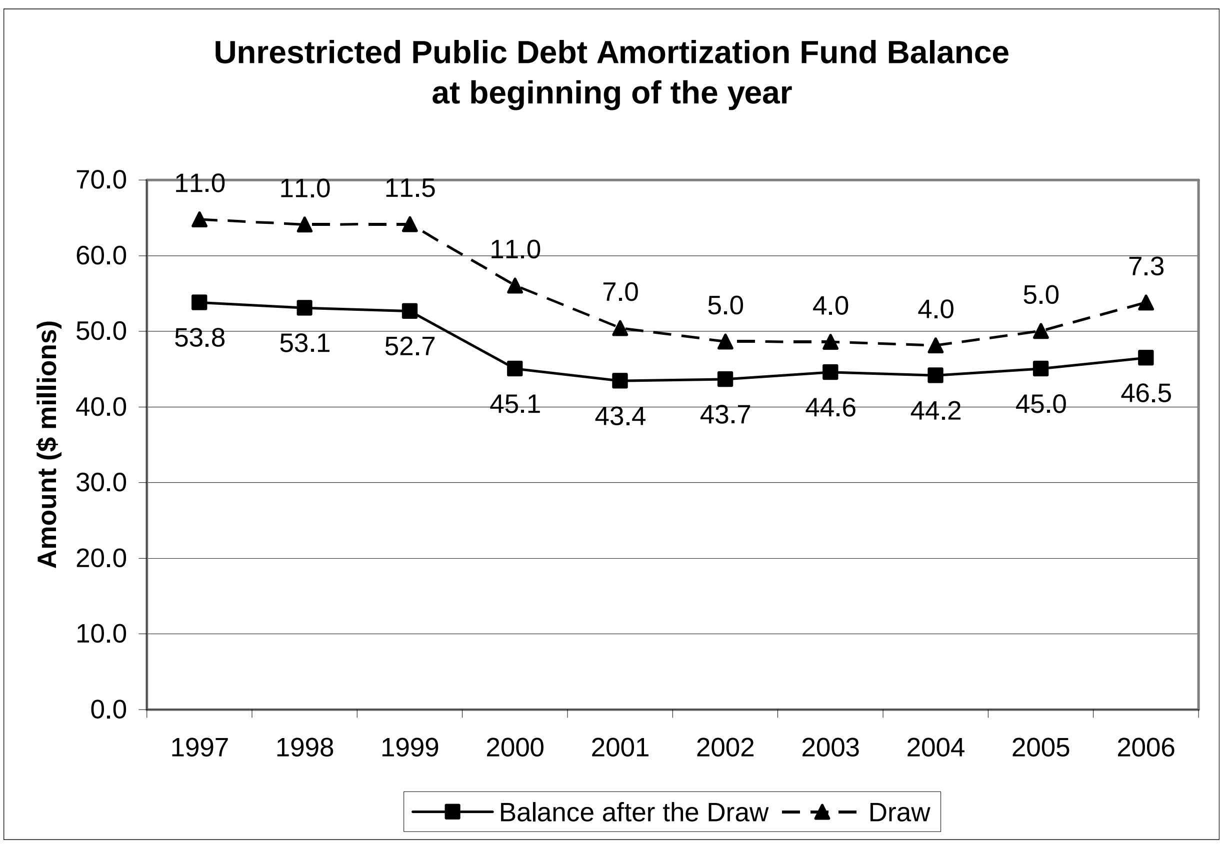
Amounts may not add due to rounding

Trends in the Public Debt Amortization Fund Balance

Each September, the Public Debt Commission determines the amount to be withdrawn from the "unrestricted" (unreserved) balance in the Public Debt Amortization Fund (PDAF). In making this decision, the Commission balances the competing goals of reducing the next year's debt service tax levy versus maintaining a reserve balance sufficient to help preserve the City's bond rating and meet potential debt related budget issues in future years.

Chart 10 below shows the trend in annual PDAF withdrawals and the remaining unrestricted reserve balance levels since 1997. Withdrawal amounts ranged from $11.0 million down to $4 million. After the reserve withdrawal for 1997 budget purposes, **the PDAF unrestricted balance at the start of 1997 totaled $53.8 million. The current balance totals $48.7 million, a decline of $5.1 million (- 9%) over the last ten years. However, this unrestricted PDAF balance has remained relatively stable over the last seven years.**

CHART 10



Glossary of Terms

In examining this data, please note the definitions and assumptions contained in the following pages. These statements are essential elements leading to the projections appearing in Table 1 and Charts 1-8.

Self-Supporting (Non-tax levy) Debt: Borrowing repaid from sources other than the general property tax levy. Such borrowing is limited to the following purposes as defined in the Public Debt Commission “Statement of Policy” as follows: financing of delinquent property taxes; special assessment financing; parking; tax incremental district financing (TID); Water Works capital borrowing; and non-property tax supported school borrowing. In 2005, a $7 million per year transfer from the Sewerage Maintenance Fund to the Debt Service Fund was implemented in order to support debt issued for Sewerage purposes. As such, a portion of the Sewerage debt was reclassified to Self-supporting.

Tax Levy Supported Debt: General obligation borrowing for streets, new sewers, public schools, bridges, etc. - all purposes other than that as defined as “Self-Supporting”. For Tax levy Supported debt, the City tax levy is the primary source of debt repayment.

Outstanding Debt: Incurred General Obligation borrowing (both bonds and promissory notes, principal only) for which repayment has yet to occur. Only the outstanding principal amount is included in this figure, excluding all future interest payments due.

Annual Debt Service: Total of principal and interest due for a specified year. In addition, interest on non-general obligation Revenue Anticipation (Cash Flow) Notes is included within Annual Debt Service requirements in the City Debt Service budget.

Debt Service Revenues: Any funding provided to meet Annual Debt Service needs other than ad valorem property tax receipts (Debt Service Levy). Examples of such revenues include TID tax increment revenues, transfer payments from the Water utility and interest earned by the Debt Service Fund.

Debt Service Levy: Funding directly received from an ad valorem property tax levy for purpose of meeting Annual Debt Service needs.

Assumptions

1. All future borrowing for water and sewer replacement purposes will be accomplished through revenue supported bonds and notes. No future GO borrowing is assumed to be needed for these purposes. Without significant Sewer Rate increases, this assumption may not be realized.

2. GO Borrowing Projections – For 2007 through 2011, capital borrowing is based upon anticipated levels as appearing in the <u>City of Milwaukee 2006 - 2011 Capital Improvements Plan</u> (the "Plan").

3. Borrowing Levels - Delinquent Taxes: This borrowing level is as estimated by Comptroller and is based on recent historical experience.

4. Interest Rates: Are based upon Comptroller estimates and reflect the specific structuring of each type issue. For instance, Tax Incremental District related interest levels are structured for 17 year level principal debt service while a regular capital projects borrowing interest level relates to a 15 year level annual principal retirement structuring.

5. No borrowing or debt service is included for the use of any contingent borrowing authority not already borrowed as of December 31, 2006.

6. No new borrowing or debt service is included to finance City or MPS pension contributions, or Other Post Employment Benefits, beyond what has already been issued.

7. General Debt Service revenues will not be subject to any material unanticipated change in interest rates, borrowing amounts or other major changes.

8. Revenues for enterprises, schools, and tax incremental districts, are adequate to reimburse the Debt Service Fund for debt service payments on self-supporting debt.