Report of Debt & Debt Service For the Years 2003 through 2012 City of Milwaukee

As of August 5, 2008

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

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For the Years 2003 through 2012
August 12, 2008

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.

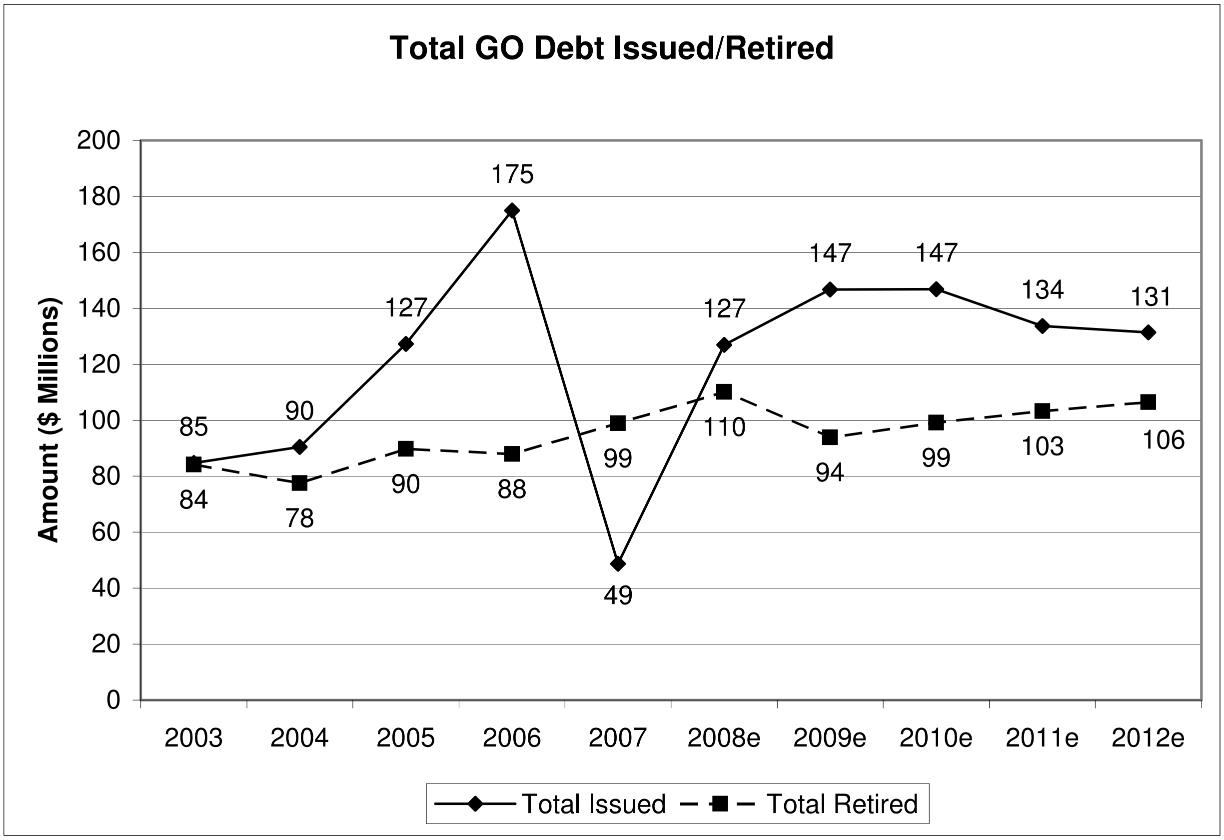
Trends 2003-2007

Over the period 2003-2007, the amount of General Obligation (GO) debt issued varied from $49 million to $175 million per year while the amount retired ranged from $78 million to $99 million per year. Part of the increase in 2006 debt issuances, and the decline in 2007 debt issuances was primarily due to timing of debt issuance, and not as a result of decreased authorizations/spending. The year-end 2006 issuance financed expenditures that would have normally waited until the Spring of 2007. In addition, some projects that would have normally been financed in 2007 were delayed into 2008 in anticipation of completing the City's first Commercial Paper issue. The 2006/2007 average issuance of $112 million per year would be a better estimate of the long-term trends.

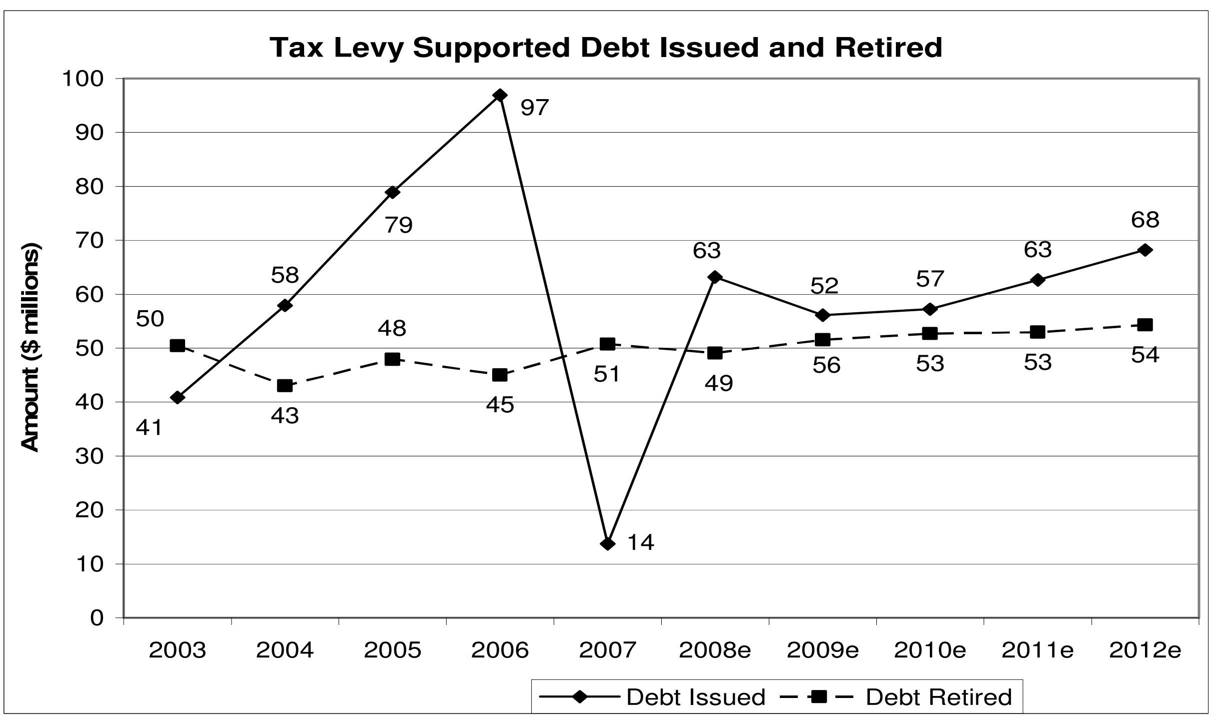
GO debt issuance is projected to be $100 million - $147 million annually through 2012. The majority of the new debt, especially when retirement of debt is considered, is projected to be for Tax Incremental Districts. The issuance of Tax Incremental Debt is highly variable since many of the projects are in their beginning stages. The issuance of other city debt is more predictable since that debt is authorized when projects are close to construction, or are part of an ongoing program. Although large, the issuance of Tax Incremental District Debt has a minor impact on the tax levy for debt service. Of more direct concern is the issuance of tax-levy supported debt.

In 2004, the issuance of tax levy supported debt exceeded debt retired. The $60 million renovation of the exterior of City Hall caused the issuance of tax levy supported debt to average $55 million per year in 2006 and 2007, or about $7 million more per year than was retired. Based upon the 2008-2013 Capital Improvement Plan, the issuance of tax levy supported debt is expected to exceed debt retired through 2012. The increase in debt is due to increases in the Street Programs and other one time projects, such as $15 million for City Hall Hollow Walk and $15 million for Fire Repair Shop.

CHART 1

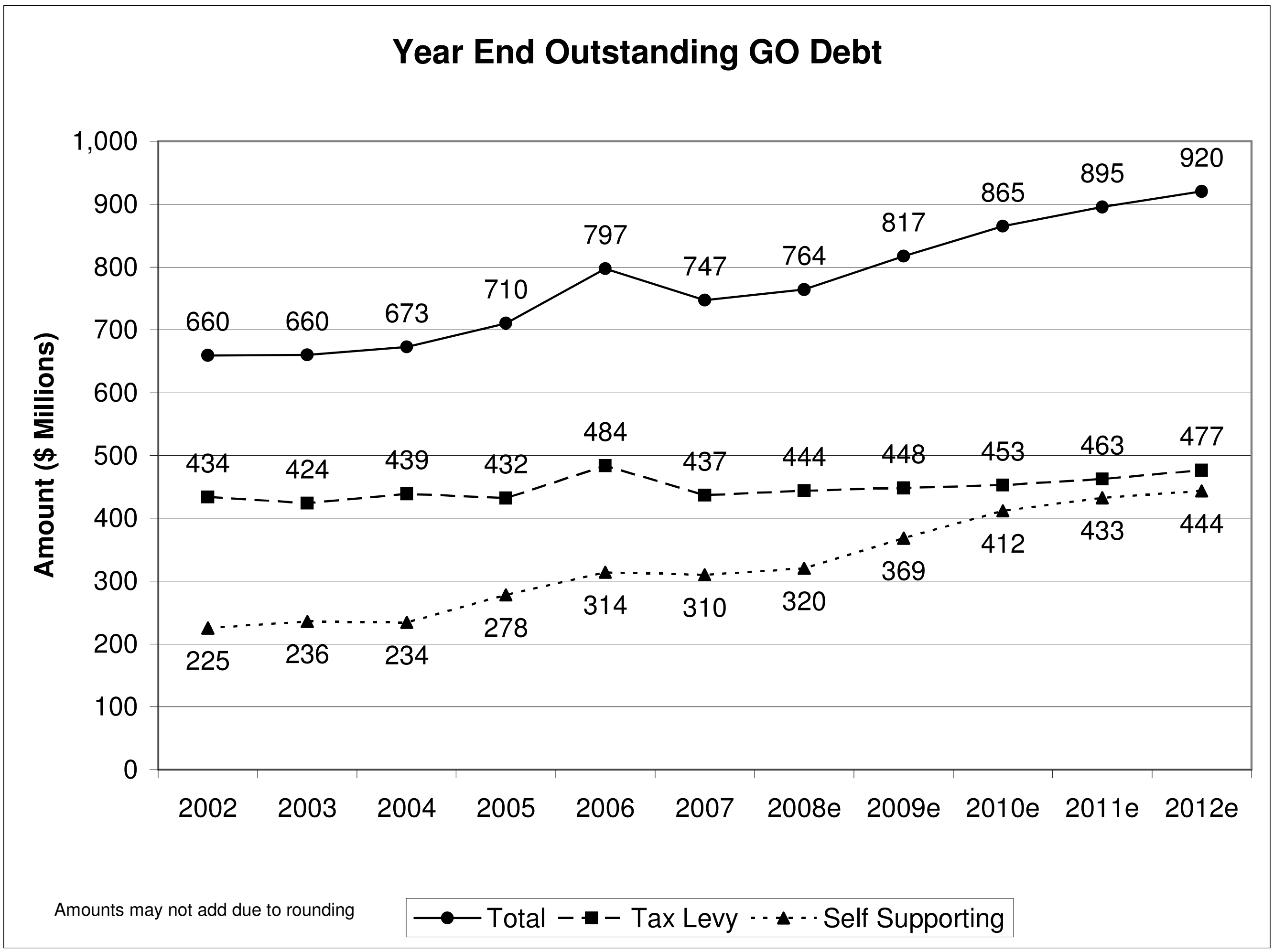


Note: In the 2007 report, the 2006 Issued Debt was reported as $155 million excluding $20 million of temporary borrowing for Sewer purposes. Due to the length of time required to execute a permanent financing of the Sewer Debt, the tables now reflects all debt.



GO debt outstanding has increased to $747 million at the end of 2007 (includes $20 million of Sewer Debt issued on an interim basis in anticipation of a Clean Water Fund Loan from the State). This amount represents an $88 million increase (+13%) from $660 million at the end of 2002. Tax-levy supported debt increased by $3 million (+1%) and Self-supporting debt increased by $85 million (+38%). 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 already existing 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

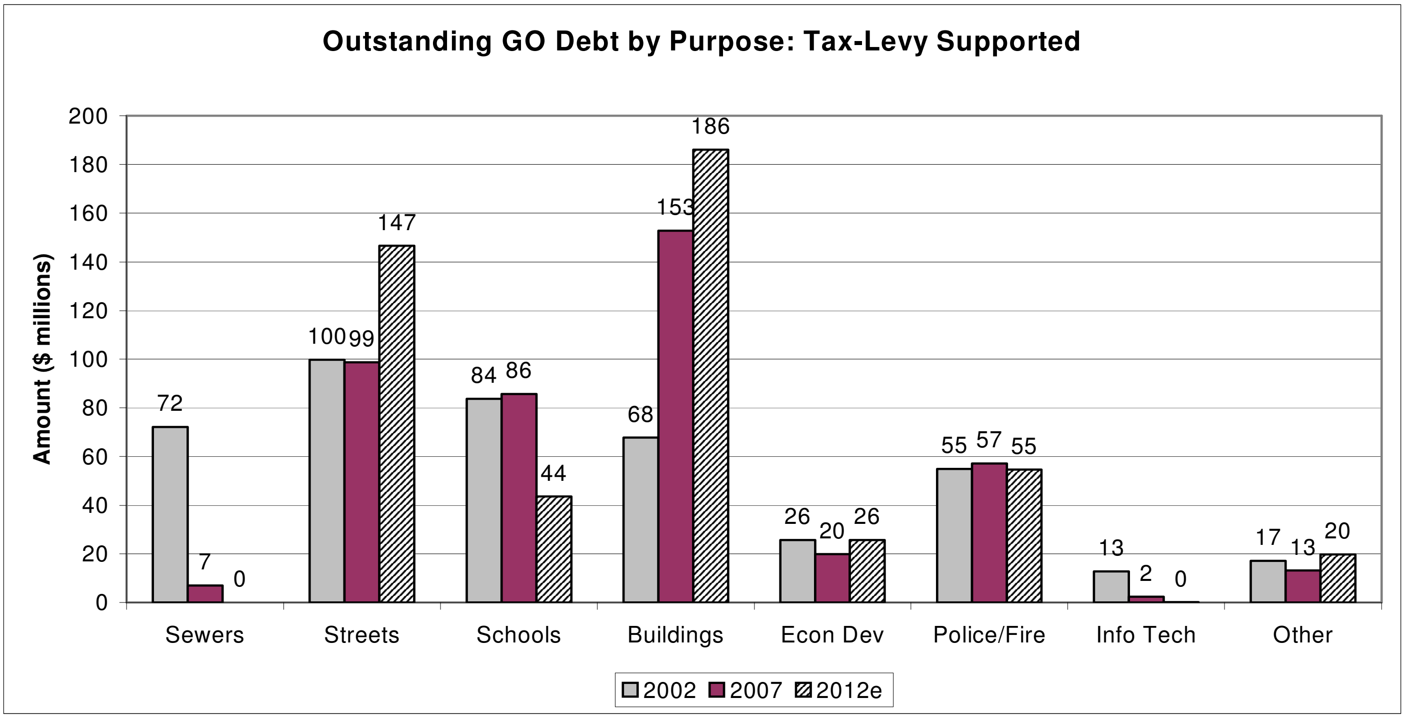


Based upon the 2008-2013 Capital Improvement Plan, total Outstanding GO debt is projected to increase from $747 million in 2007 to $920 million in 2011 (+23%).

In addition to GO Debt, the City has other obligations including $21 million of TID loans from developers for their projects and lease obligations. The City has also provided additional security enhancement through repayment pledges to $20 million of City Redevelopment Authority bond issues secured by TID revenues.

Major increases in tax-levy supported debt were for Public Buildings and Streets. The major increases for Self-supporting debt were for Tax Increment Districts.

CHART 3



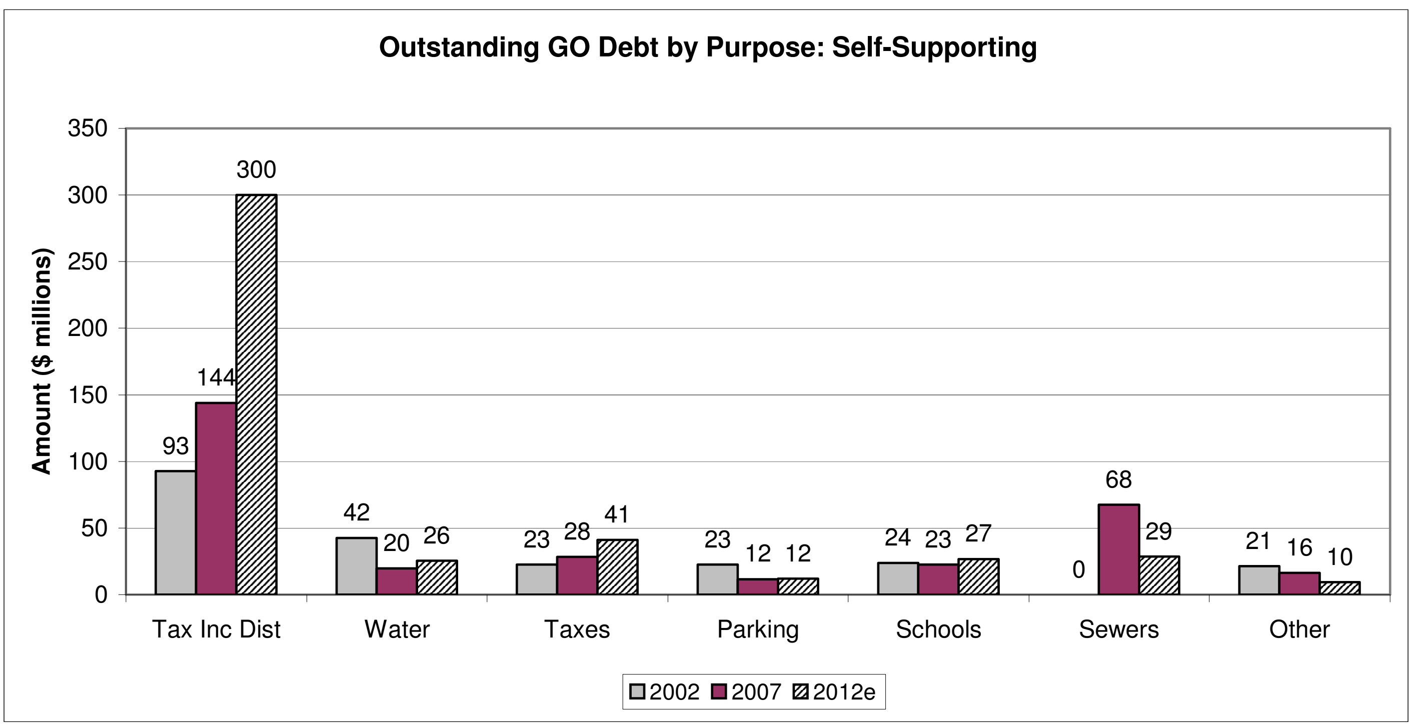


CHART 4

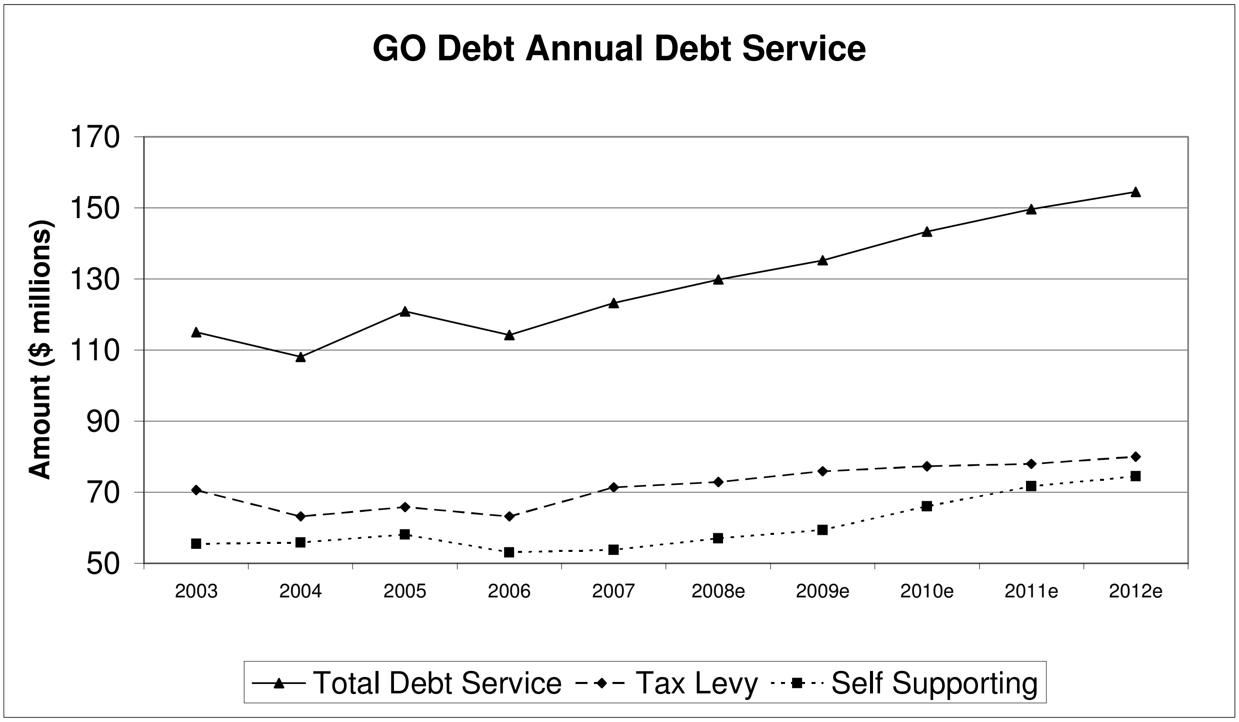
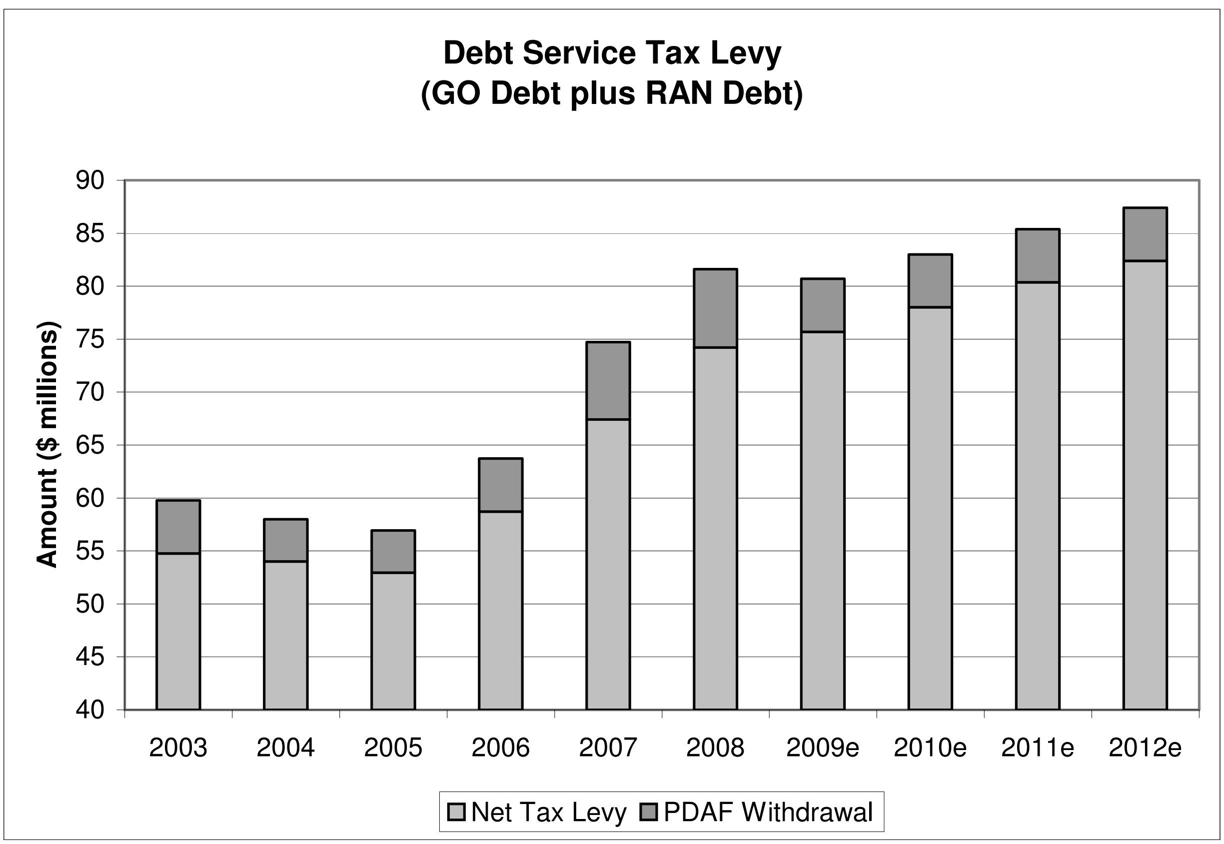


CHART 5

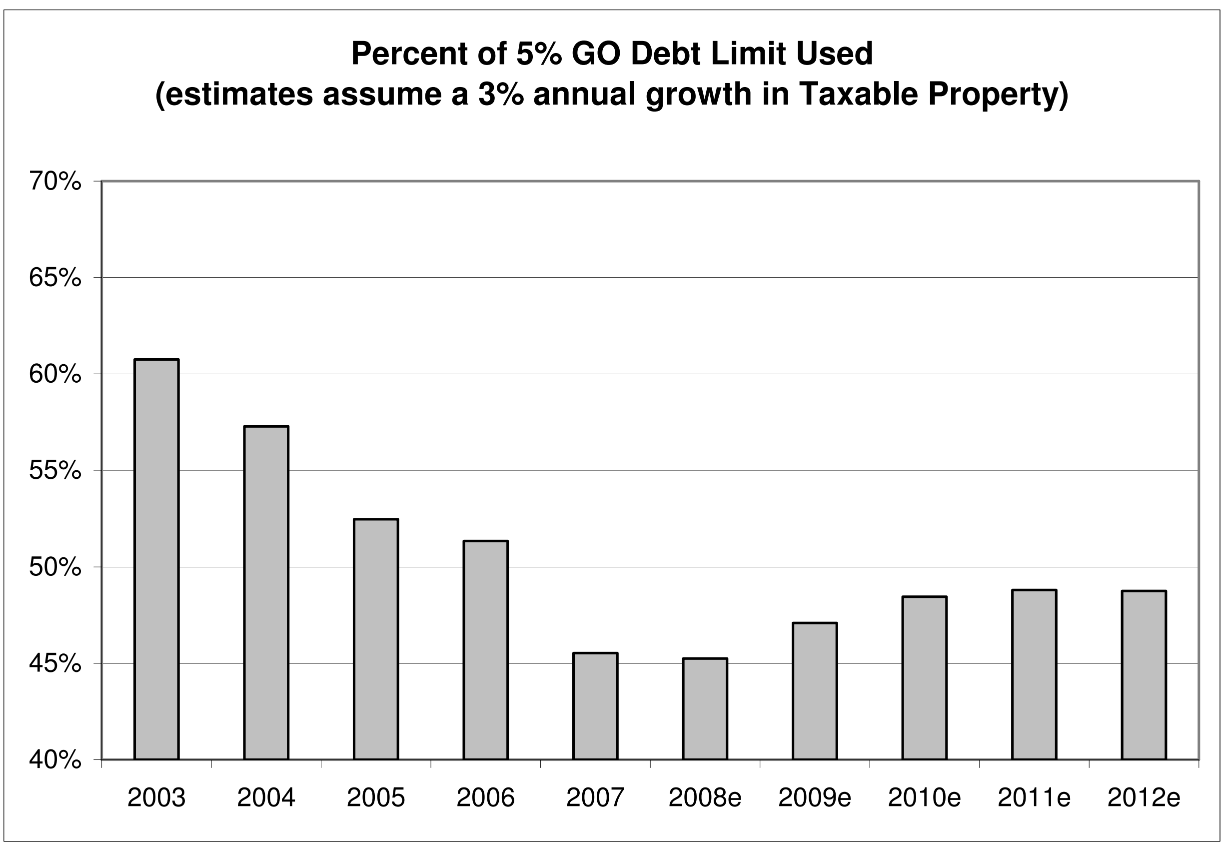


In spite of growing GO debt levels, the City's tax levy for debt service did not start increasing until 2006, and grew significantly through 2008. Debt service tax levies were restrained by growing Tax Increment District (TID) revenues, use of debt reserves, developer financed (non-GO) loans to the City, 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.

Assuming capital spending as projected in the 2008-2013 City Capital Improvements Plan, the tax levy for debt service is projected to grow from $74 million in 2008 to $82 million in 2012. This assumes an annual draw of $5 million on the PDAF.

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 2003, outstanding debt has grown by 13%, whereas property values have grown by 47%, resulting in a decreasing use of its legal debt capacity from 61% in 2003 to 46% in 2007. Over the last five years, the City tax base growth has averaged over 10% annually. Assuming a 3.0% growth in property values, the projected increase in outstanding debt will result in 49% of the debt limit being used by 2012.

CHART 6

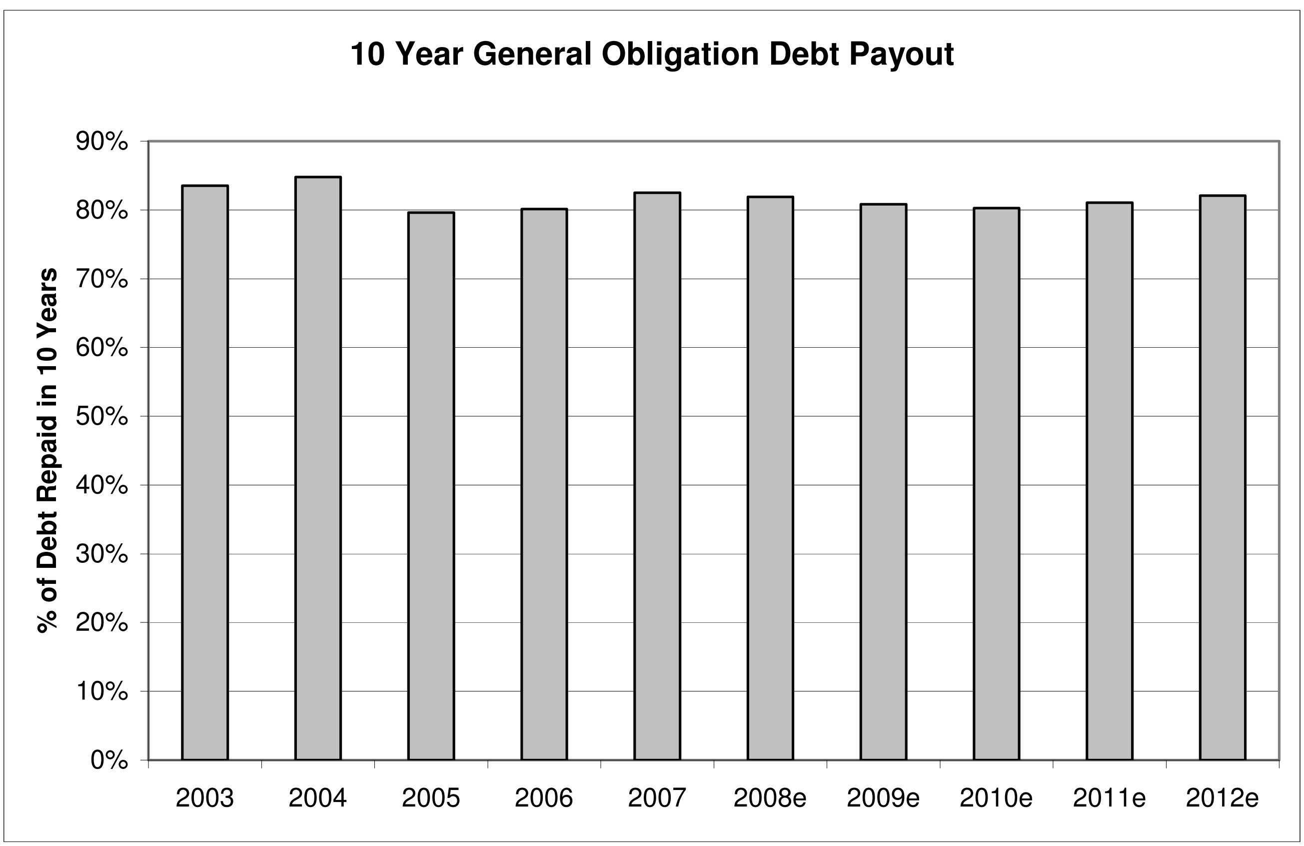


The rate of debt payout is another important facet of debt management (see Chart 7). The term "10 Year Debt Payout" is defined at a point in time as that percent of total GO debt that will be retired/repaid within the succeeding 10 years. It is a measure of how aggressively the City is repaying its debt. The higher the percentage, the faster debt will be paid off. The City's 10 Year Debt Payout percentage remains very high, ranging from 80% to 85% in 2003-2007. It currently stands at 82%. It is projected to stay in the 80-85% range through 2012, 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.

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. The Payout Ratio does not fully recover over time, primarily due to the large amount of Tax Incremental Debt anticipated to be issued. TID debt has a longer average life than regular City borrowing.

CHART 7



The Commission's "Statement of Policy" (adopted 9/3/97) 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, 2007, the Balance Ratio was 11.6% compared to 10.1% in 2006, well below the 15% minimum target. The 2007 ratio improved from the prior year because of a one-time reduction in non-self supporting debt from the reclassification of Sewer Debt to self-supporting. Chart 8 shows the historical Balance Ratio for the past 10 years. Chart 9 compares the PDAF Balance with Total GO Debt.

CHART 8

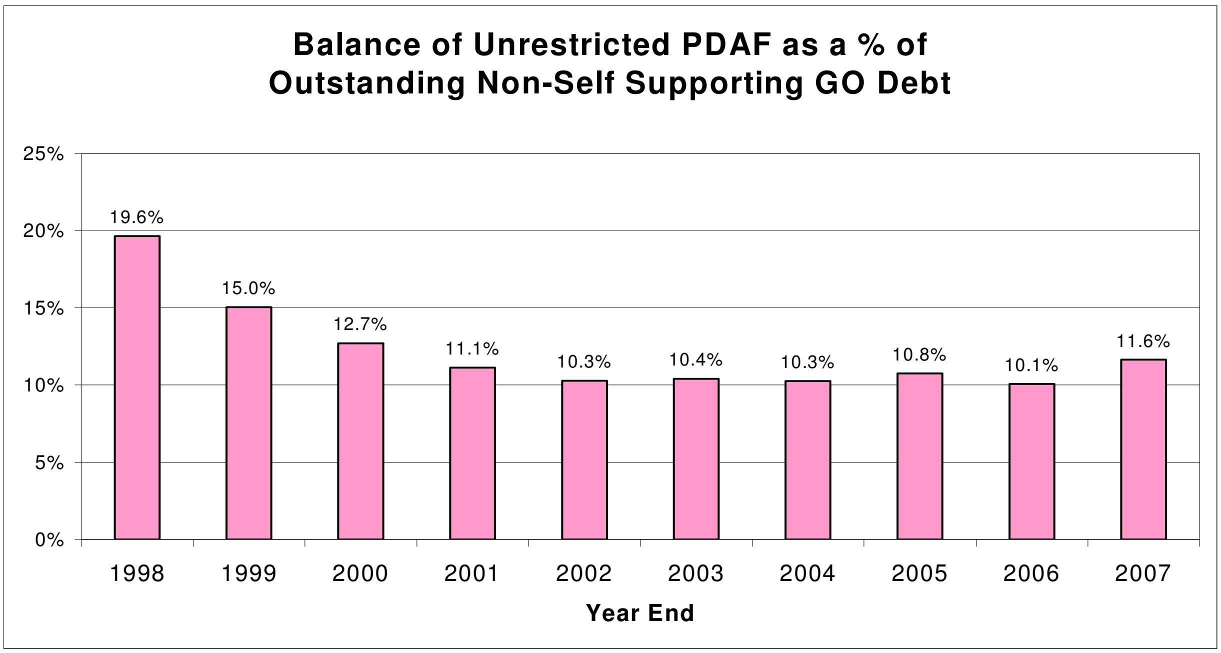
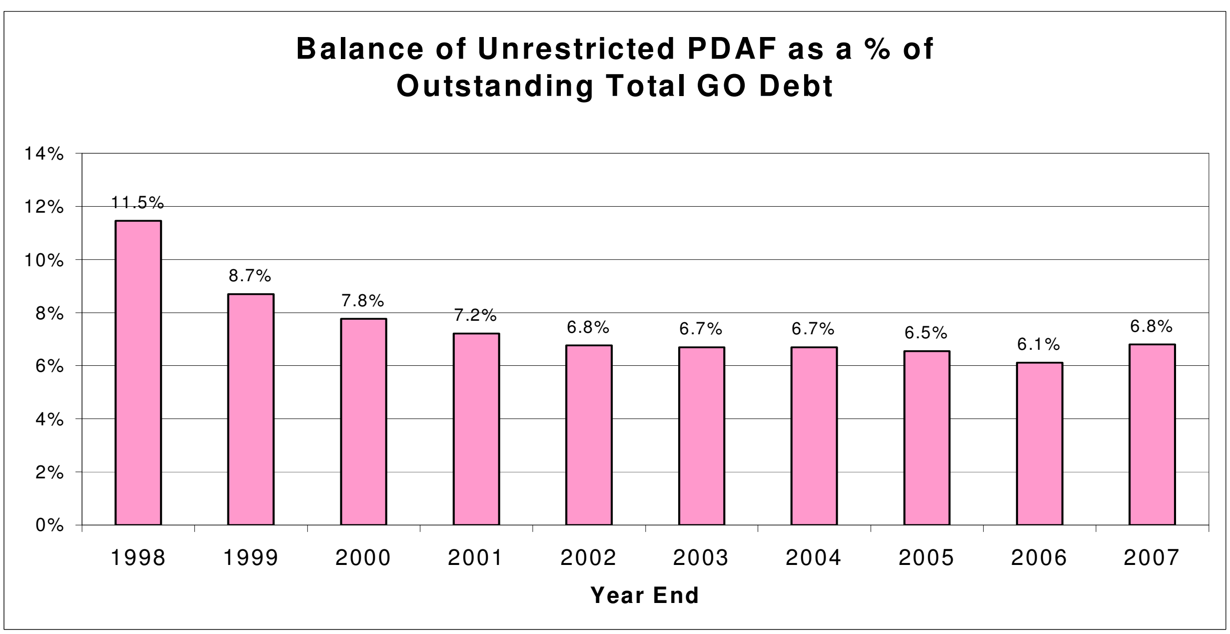


CHART 9



Projections 2008-2012

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 2008 Budget. A major assumption is that most future City borrowing for water and sewer replacement purposes will be accomplished through revenue supported obligations. A nominal amount of future GO debt for these purposes is assumed.

TABLE 1

Report of Past & Projected Debt and Debt Service
For the Years 2003 to 2012
($ in millions)

	Actual					Act/Proj	Projected			
Outstanding General Obligation Debt - Year End	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Self-Sustaining Debt	$235.8	$234.1	$278.4	$313.9	$310.4	$320.3	$368.7	$411.9	$432.7	$443.8
Non Self-Sustaining (Tax Levy) Debt	424.3	438.9	432.0	483.6	436.9	443.9	448.4	453.0	462.6	476.5
Total Oustanding G.O. Debt	$660.1	$672.9	$710.4	$797.5	$747.3	$764.2	$817.1	$864.9	$895.4	$920.3

	Actual					Act/Proj	Projected			
Debt Service for the Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total G.O. Debt Service	$115.0	$108.1	$120.9	$114.3	$123.2	$129.9	$135.3	$143.4	$149.6	$154.5
Plus: Net RAN Debt Service	2.6	1.9	4.0	7.9	8.7	8.0	5.1	10.2	10.2	10.2
Total Debt Service	$117.7	$110.0	$124.9	$122.1	$131.9	$137.9	$140.4	$153.6	$159.8	$164.7
Debt Service Revenues	(57.9)	(52.0)	(68.0)	(58.4)	(57.2)	(56.3)	(59.7)	(70.6)	(74.5)	(77.3)
Debt Levy Requirements before PDAF Draw	$59.8	$58.0	$56.9	$63.7	$74.7	$81.6	$80.7	$83.0	$85.4	$87.4
Application of PDAF Draw	$5.0	$4.0	$4.0	$5.0	$7.3	$7.4	$5.0	$5.0	$5.0	$5.0
Debt Service Levy after PDAF Draw	**$54.8**	**$54.0**	**$52.9**	**$58.7**	**$67.4**	**$74.2**	**$75.7**	**$78.0**	**$80.4**	**$82.4**

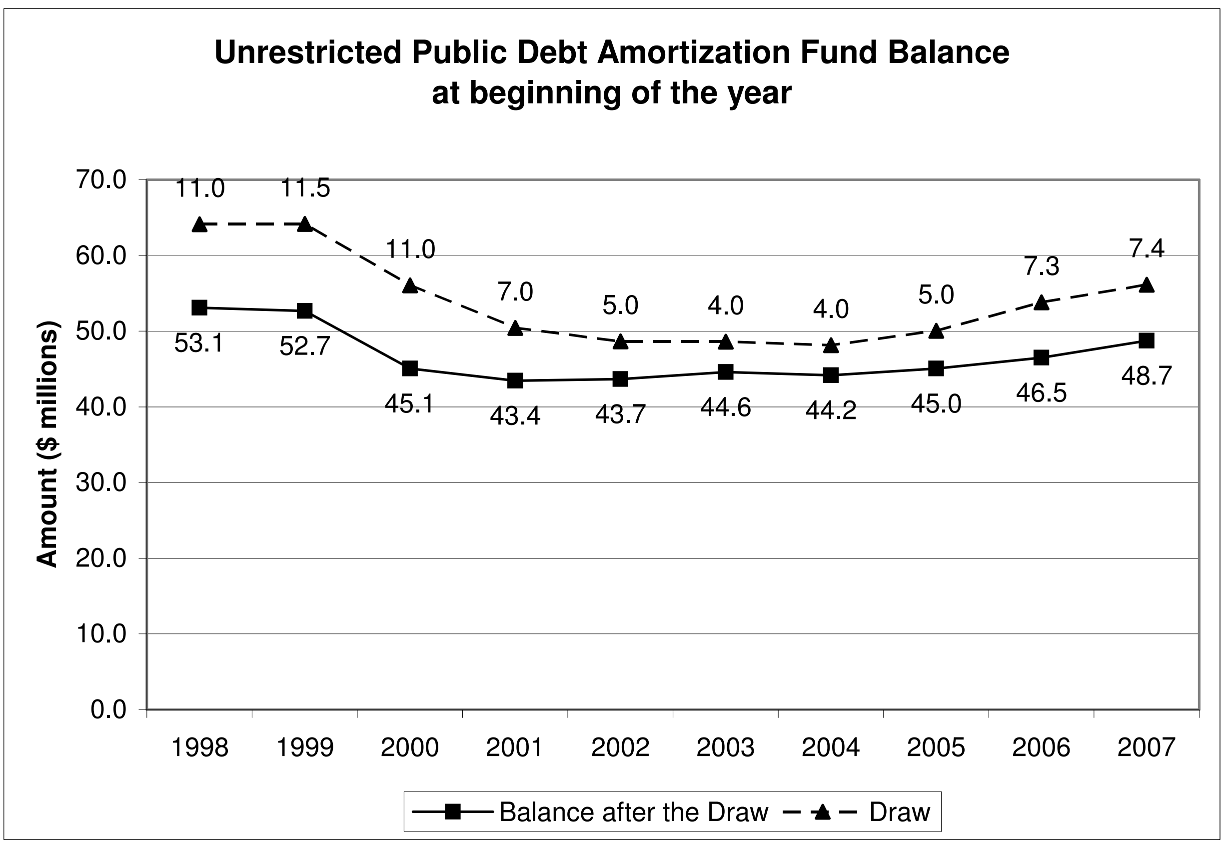
Amounts may not add due to rounding

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 1998. Withdrawal amounts ranged from $11.0 million down to $4 million. After the reserve withdrawal for 1998 budget purposes, the PDAF unrestricted balance at the start of 1998 totaled $53.1 million. The current balance totals $50.8 million, a decline of $2.3 million (- 4%) over the last ten years. However, this unrestricted PDAF balance has remained relatively stable over the last eight 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. By 2008, the amount was increased to $9 million. As such, 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 2008 through 2012, capital borrowing is based upon anticipated levels as appearing in the City of Milwaukee 2008 - 2013 Capital Improvements Plan (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 August 1, 2008.

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.