



***Report of Debt & Debt Service
For the Years 2006 through 2015
City of Milwaukee
August 11, 2011***

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

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The Public Debt Commission's *Adopted Statement of Policy for the Use of the (Public Debt Amortization) Fund Balance*, approved on 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 2006-2010

Over the period 2006-2010, the amount of General Obligation (GO) debt issued varied from \$49 million to \$221 million per year while the amount retired ranged from \$88 million to \$117 million per year. Part of the increase in 2006, and the decline in 2007, was due to timing of debt issuance, and not as a result of decreased authorizations or capital 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. The \$117 million of 2008 debt retired includes \$20 million of Sewer Debt refinanced by Clean Water Fund loans, for a net retirement amount of \$97 million. The \$221 million issued in 2010 includes \$48 million for one-time debt to be reimbursed by Milwaukee Public Schools, and \$49 million of temporary borrowing for Sewers until revenue bonds are issued.

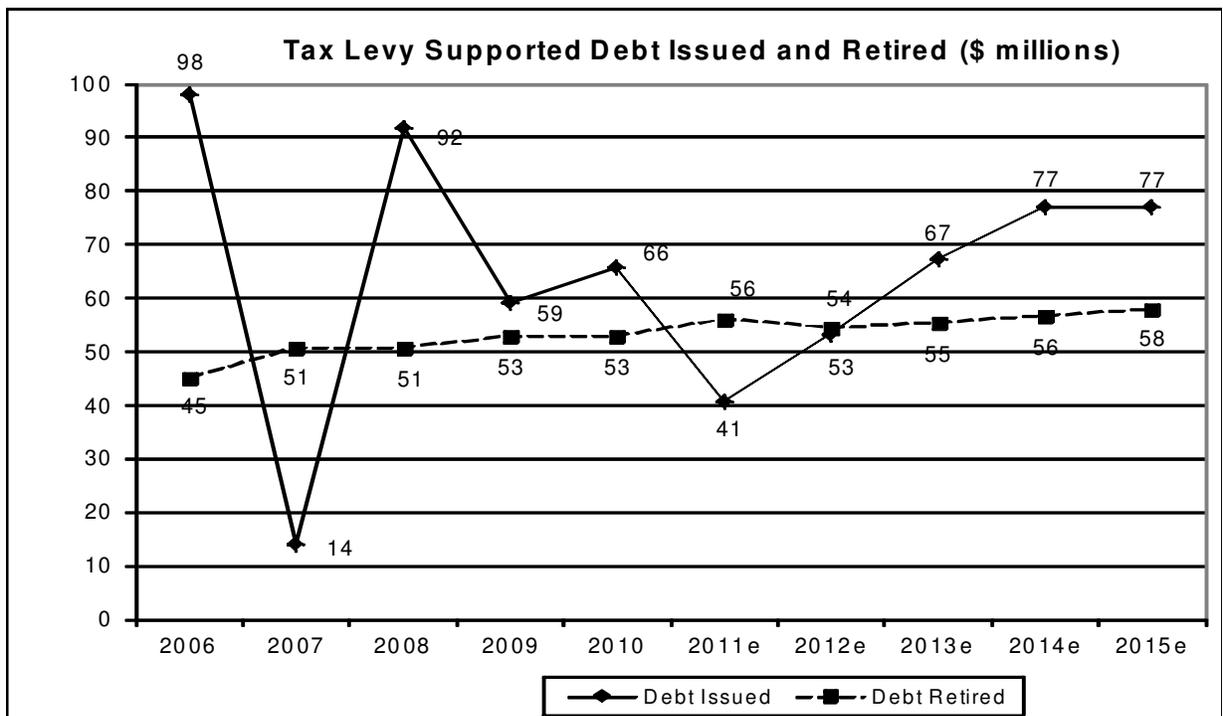
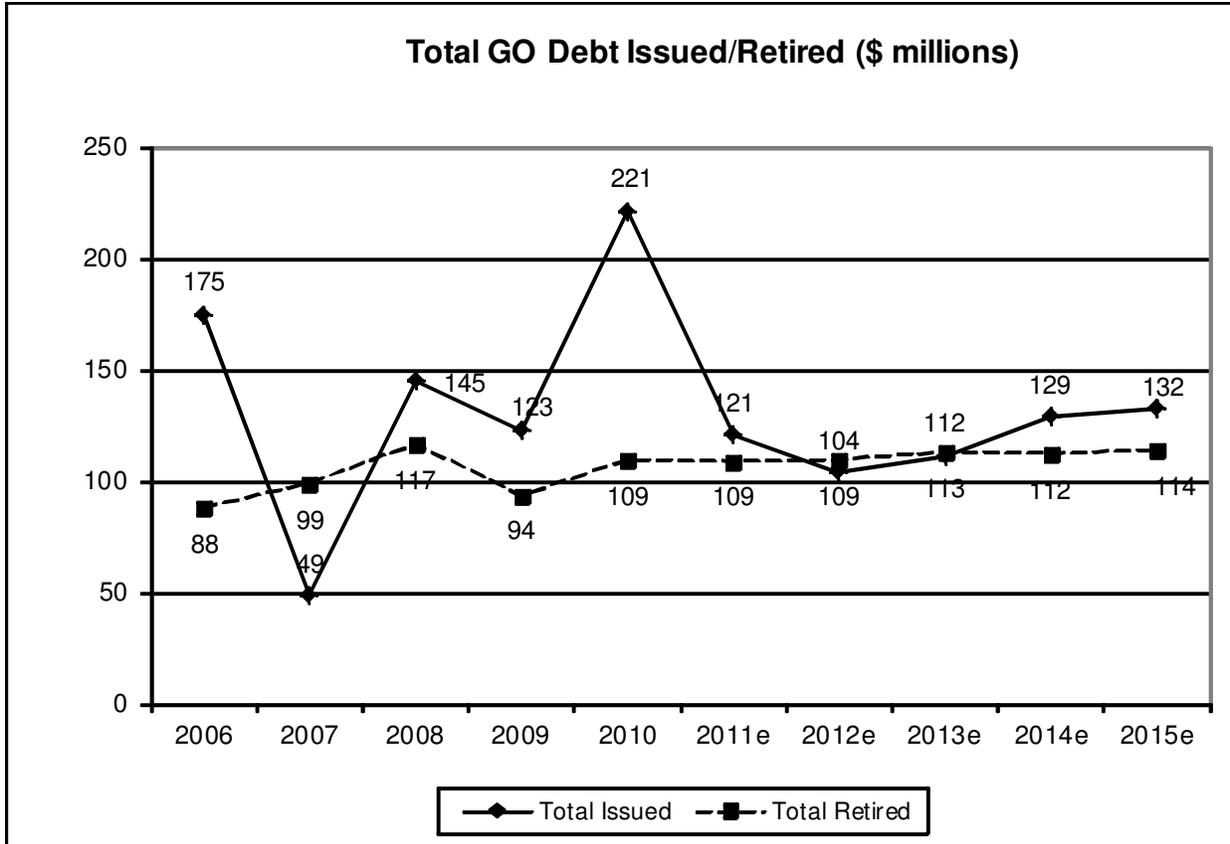
GO debt issuance is projected to average around \$120 million per year.

The majority of the new debt, especially when retirement of debt is considered, is projected to be for Streets and Tax Incremental Districts. The issuance of Tax Incremental District 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 significant impact is the issuance of tax-levy supported debt, including Streets.

On average, the issuance of tax levy supported debt has exceeded debt retired. The \$60 million renovation of the exterior of City Hall caused the issuance of tax levy supported debt to average \$68 million per year between 2006 and 2008, or about \$20 million more per year than was retired. Based upon current capital categorizations and planned capital spending in the Draft 2011-2016 Capital Improvement Plan, the issuance of tax levy supported debt is expected to exceed debt retired through 2015. The projected 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 project and \$15 million for the Fire Repair Shop project.

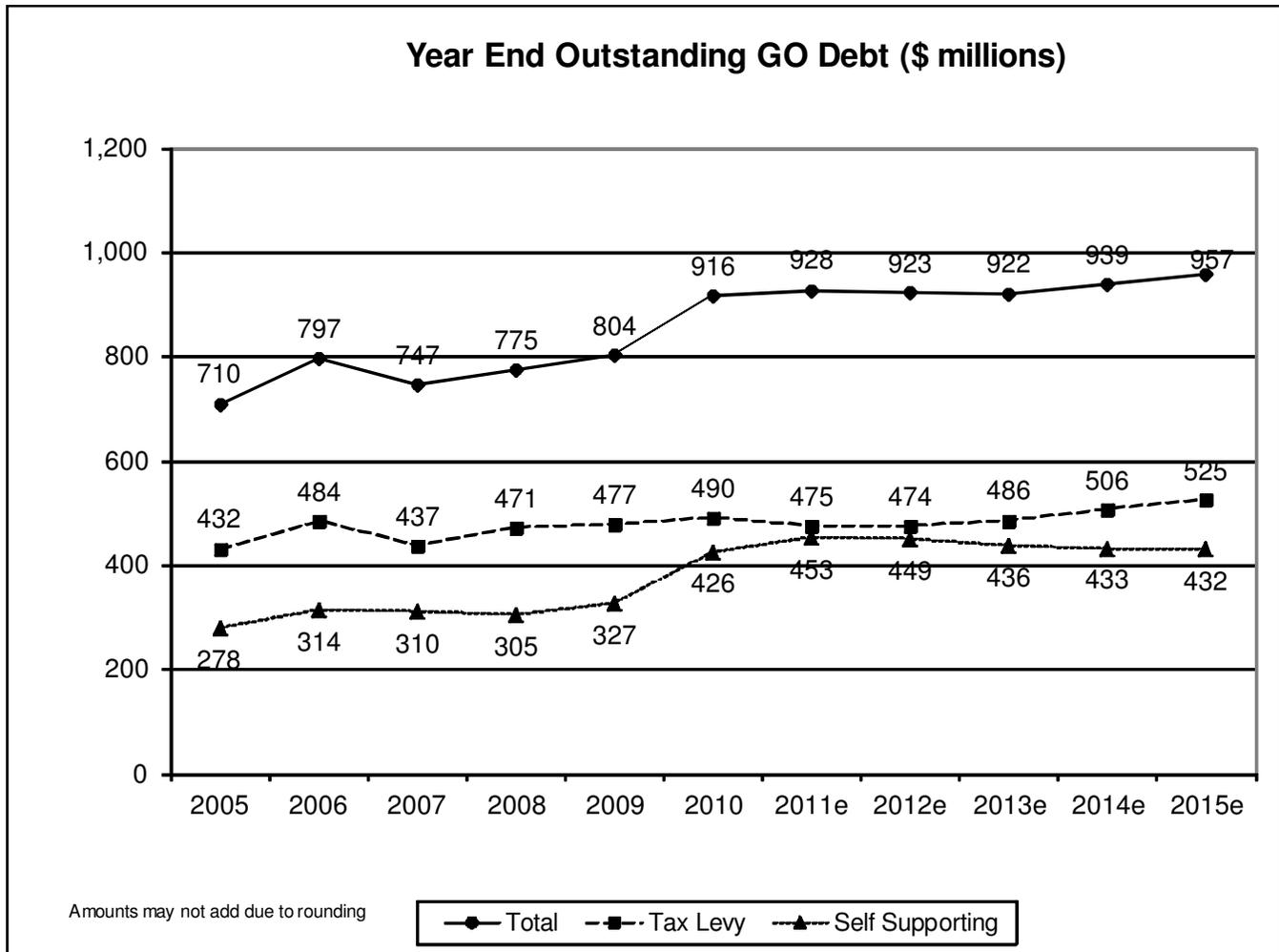
Debt issued amounts shown in the following Chart 1 includes \$60 million (\$12 million in 2009, and \$48 million in 2010) of reimbursed debt for Milwaukee Public Schools (MPS). The MPS debt is for Qualified School Construction Bonds, for which bond interest is paid by the Federal Government, and is also for a refunding of the remaining four years of a lease for school buildings.

CHART 1



GO debt outstanding has increased to \$916 million at the end of 2010. This amount represents a \$206 million increase (+29%) from \$710 million at the end of 2005. Tax-levy supported debt increased by \$58 million (+13%) and Self-supporting debt increased by \$148 million (+53%). It should be noted that in 2006, \$37 million of Sewer debt was reclassified from Tax-levy supported debt 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 Draft 2011-2016 Capital Improvement Plan, total Outstanding GO debt is projected to increase from \$916 million in 2010 to \$957 million in 2016 (+5%).

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 for \$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 (new issuance), Sewer debt (reclassification to self supporting), and Schools (Qualified School Construction Bonds).

CHART 3

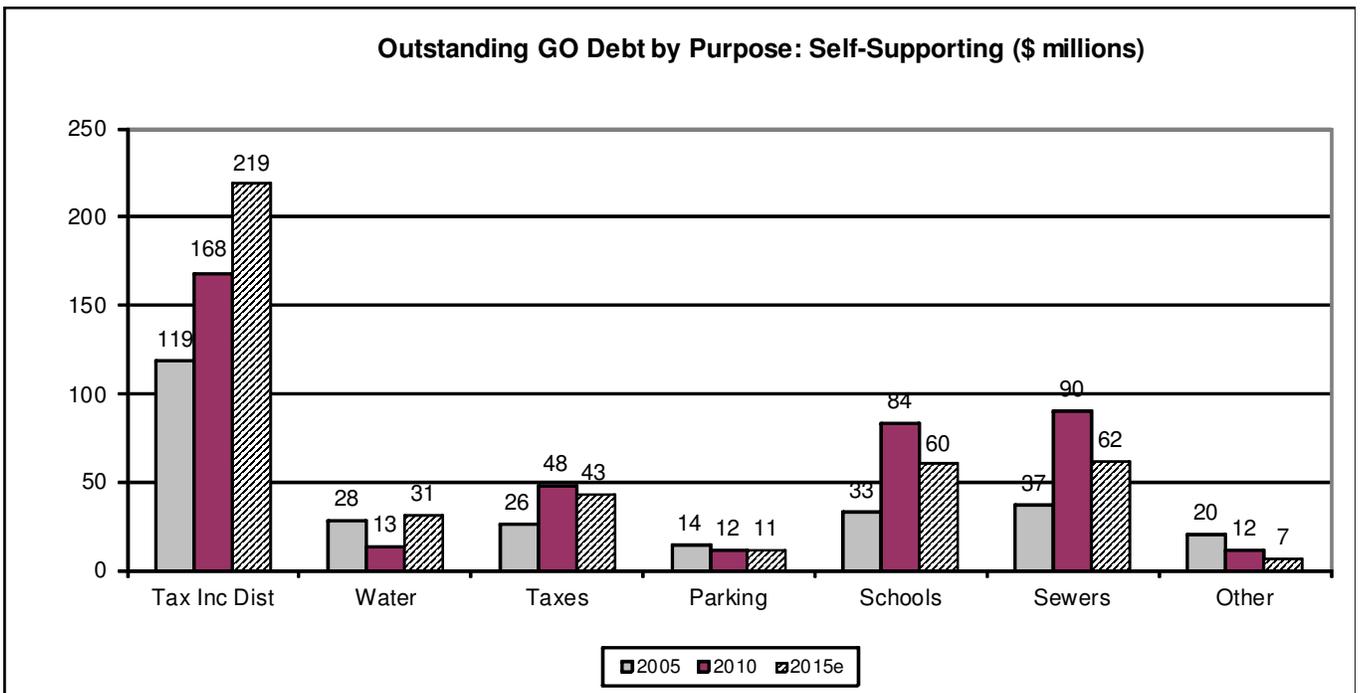
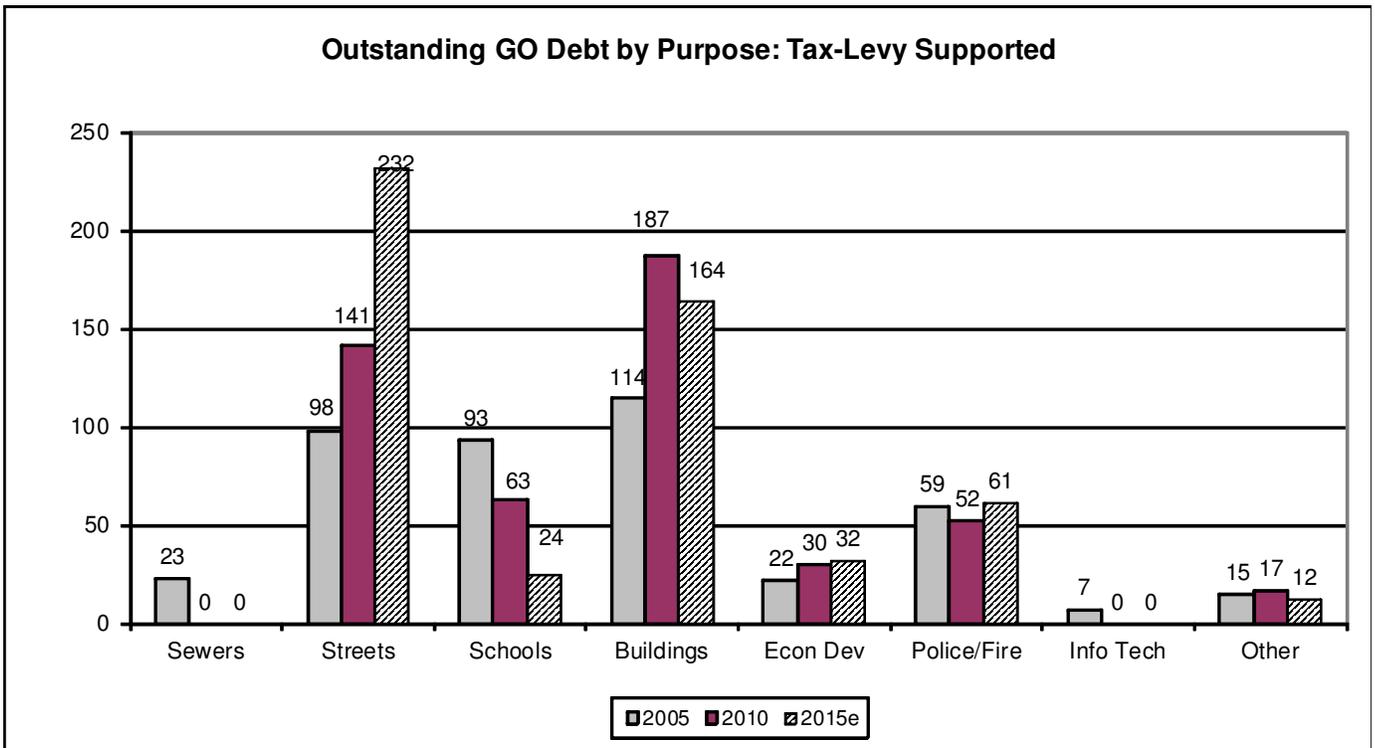
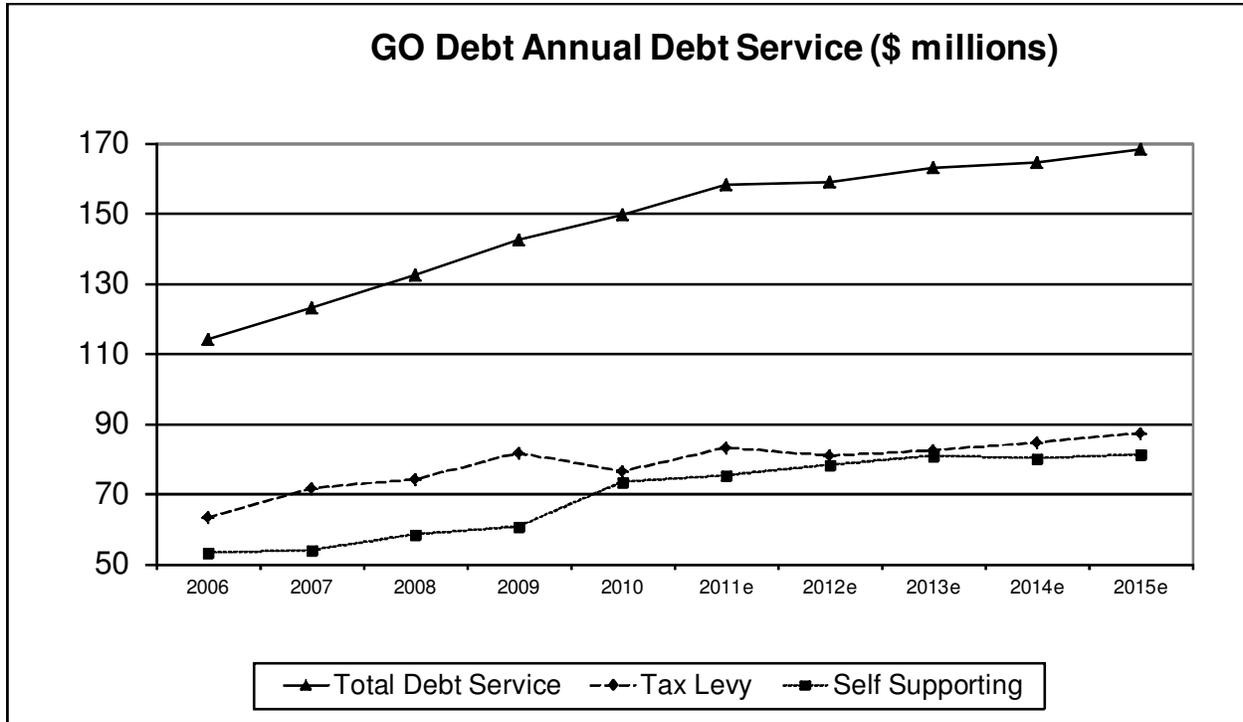


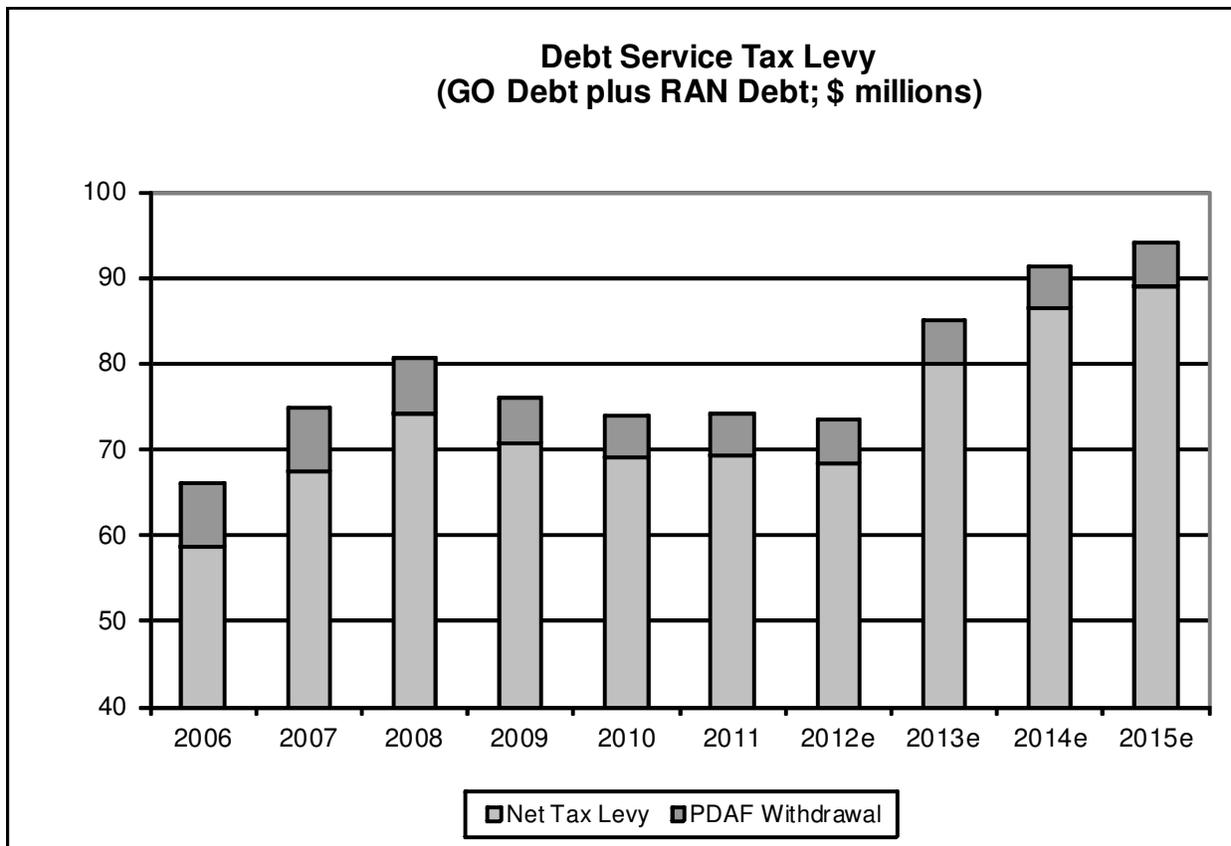
CHART 4



The City's tax levy for debt service grew between 2006-2008, and is has been stable between 2009-2011. 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. Half of the projected growth in the tax levy over the next five years is due to a projected increase in short-term interest rates on the annual cashflow RAN borrowings that are anticipated to rise significantly from 0.50% to a more normal 3.00% rate.

Assuming existing capital authorizations and capital spending as projected in the Draft 2011-2016 City Capital Improvements Plan, the tax levy for debt service is projected to grow from \$69 million in 2011 to \$89 million in 2015. This assumes an annual draw of \$5 million on the PDAF for 2012-2015. The projected levy is anticipated to remain level for 2012, primarily due to a one time use of approximately \$6 million of excess budgeted interest.

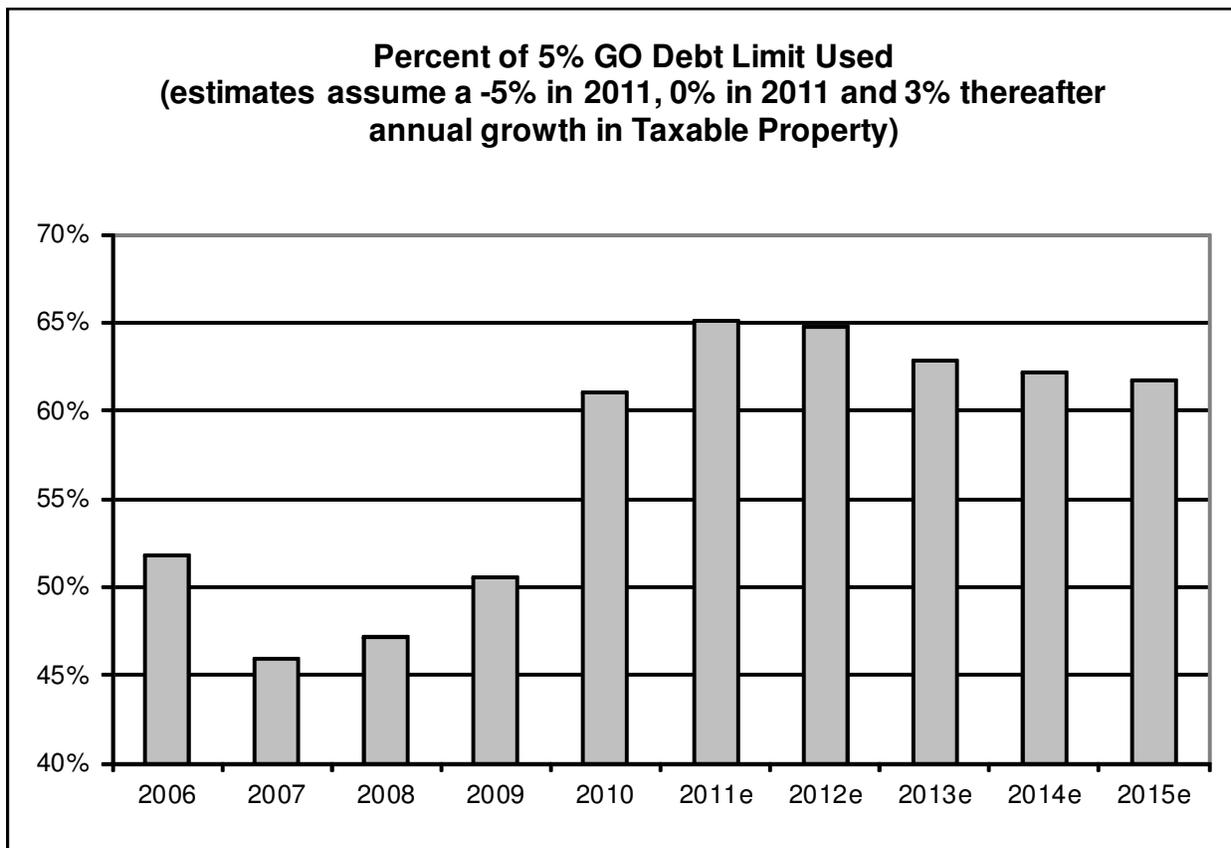
CHART 5



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 State's 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 2006, outstanding debt has grown by 15%, and property values have lost 2% (gains in 2007/2008 were offset by declines in 2009/2010), resulting in an increase in the legal debt limit used from 52% in 2006 to 61% in 2010. The chart below assumes a -5.0% change in Equalized Value in 2011, 0% in 2012, and 3.0% growth in 2013-2015. The projected change in Equalized Value and increase in outstanding debt will result in 62% of the debt limit being used in 2015.

Between 1996-2000, the % of legal debt limit used grew from 57% to 69%. Between 2000-2007, the ratio declined to 45% due to the unusually large increases in the valuation of existing properties. The 60-65% level is high, but manageable. Exceeding the 65-70% level over an extended period of time would be a concern.

CHART 6

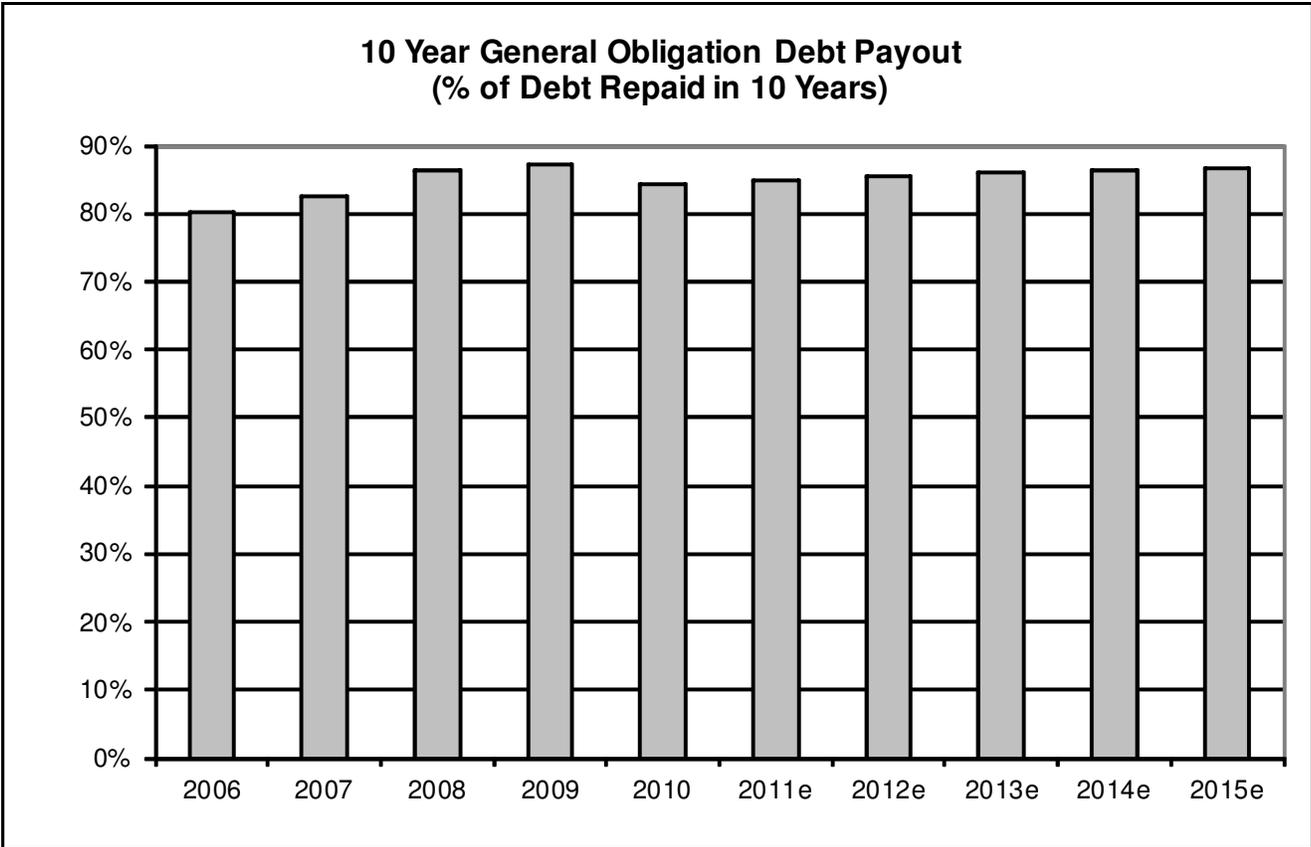


The rate of debt payout is another important facet of debt management (see Chart 7). The term “10 Year Debt Payout” is defined at a point in time as that percent of total GO debt that will be retired/repaid within the succeeding 10 years. It is a measure of how aggressively the City is repaying its debt. 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 87% in 2006-2010. It currently stands at 84%. It is projected to stay in the 80-90% range through 2015, well above the industry guideline of 50%.

In 2008, the percentage increased by 4% primarily due to the 10-year stated maturity of the \$100 million of 2008 Commercial Paper.

The 2006 Variable Rate debt and the 2008 Commercial Paper are both ways for the City to take advantage of historically average low short-term interest rates. At this time, the structurally long stated maturity of the 2006 Variable Rate is substantially offset by the structurally short stated maturity of the 2008 Commercial Paper. It is anticipated that the long 2006 Variable Rate Debt will be amortized faster than the stated maturity, and a portion of the short 2008 Commercial Paper will remain outstanding longer than the stated maturity date (refinanced into longer fixed rate debt).

CHART 7



The Commission’s Policy (adopted 9/3/97) targets an Unrestricted PDAF balance between 15-20% of non-self supporting (tax levy) GO debt (the “Balance Ratio”). At the time the policy was adopted, the Balance Ratio was approximately 20%. At the end of 2010, the ratio was 11.3%, well below the 15% minimum target. The increase for 2010 is due to a transfer of \$4.7 million of the excess in the Segregated portion to the Unrestricted portion of the PDAF. Without the transfer, the ratio would have declined to 10.4%. Chart 8 shows the historical Balance Ratio, and Chart 9 compares the PDAF Balance with Total GO Debt.

CHART 8

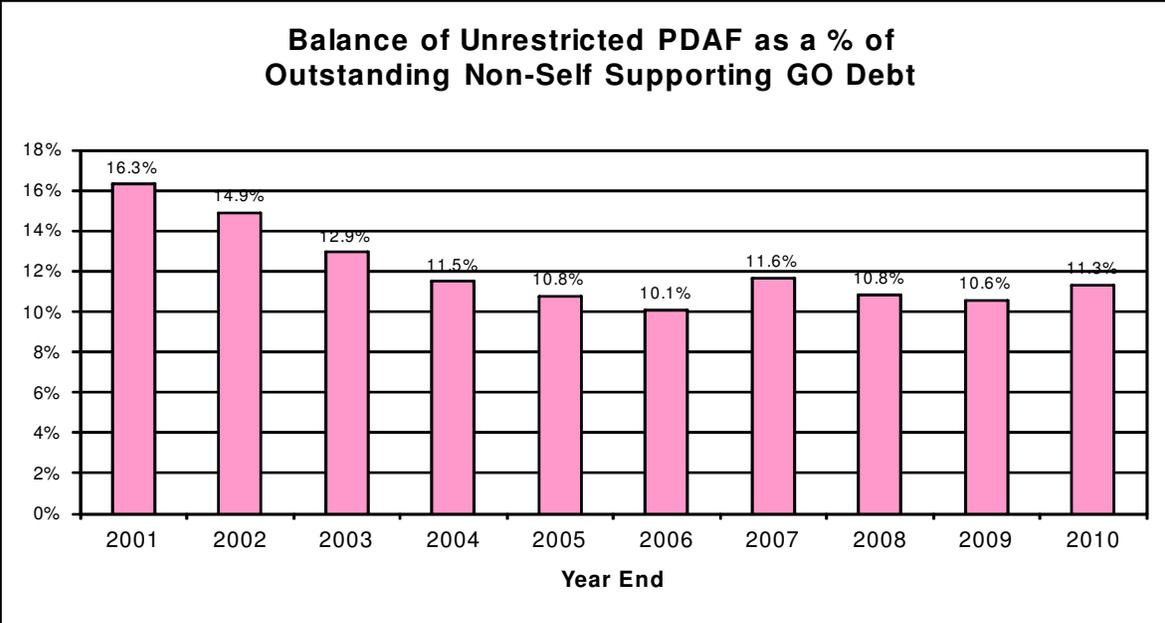
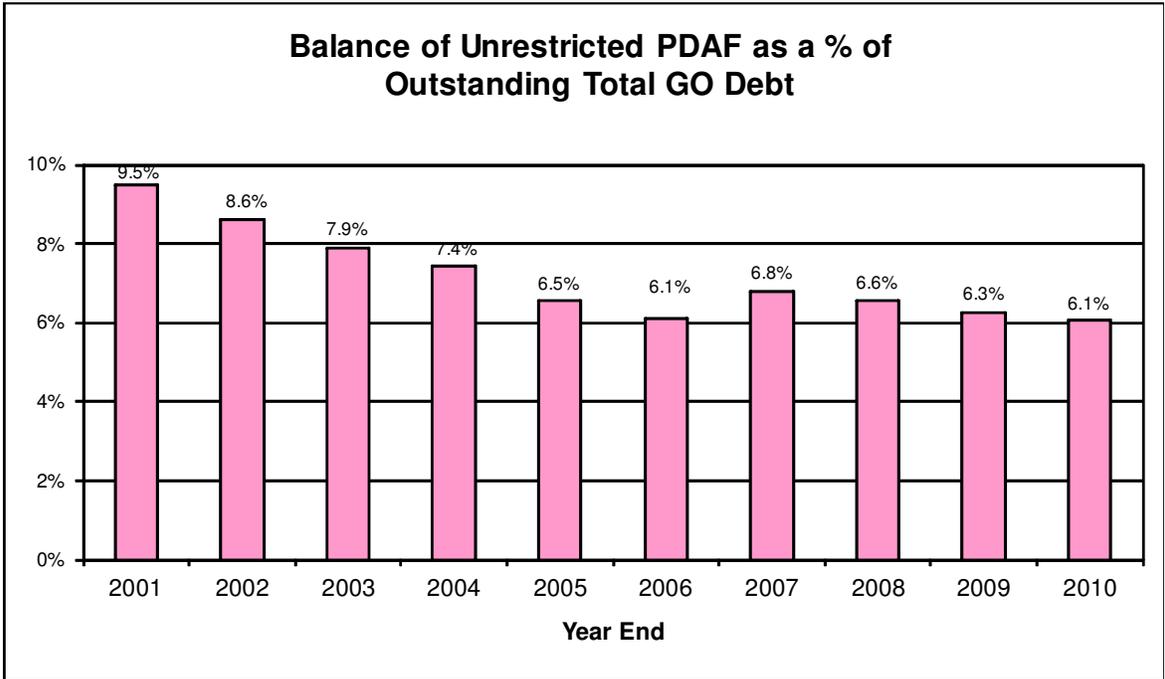


CHART 9



Projections 2011-2015

The following table presents the data supporting the historic trends and projections presented above. These projections are based on the draft CIP prepared by the City Budget Office, and the adopted 2011 Budget. A major assumption is that most future City borrowing for 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 2006 to 2015
(\$ in millions)

	Actual					Act/Proj 2011	Projected			
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Outstanding General Obligation Debt - Year End										
Self-Sustaining Debt	\$313.9	\$310.4	\$304.6	\$327.3	\$426.0	\$453.4	\$449.1	\$435.9	\$432.5	\$432.1
Non Self-Sustaining (Tax Levy) Debt	483.6	436.9	470.8	477.1	490.0	474.8	473.7	485.7	506.4	525.3
Total Outstanding G.O. Debt	<u>\$797.5</u>	<u>\$747.3</u>	<u>\$775.4</u>	<u>\$804.5</u>	<u>\$916.0</u>	<u>\$928.1</u>	<u>\$922.9</u>	<u>\$921.7</u>	<u>\$938.9</u>	<u>\$957.3</u>
	Actual					Act/Proj 2011	Projected			
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Debt Service for the Year										
Total G.O. Debt Service	\$114.3	\$123.2	\$132.4	\$142.5	\$149.6	\$158.3	\$159.1	\$163.2	\$164.5	\$168.5
Plus: Net RAN Debt Service	7.9	8.7	8.0	3.8	1.3	0.5	2.0	5.5	9.6	9.6
Total Debt Service	\$122.1	\$131.9	\$140.5	\$146.3	\$150.9	\$158.8	\$161.1	\$168.7	\$174.1	\$178.1
Debt Service Revenues	(56.1)	(57.1)	(59.8)	(70.3)	(76.9)	(84.7)	(87.7)	(83.6)	(82.7)	(84.0)
Debt Levy Requirements before PDAF Draw	<u>\$66.0</u>	<u>\$74.8</u>	<u>\$80.7</u>	<u>\$76.0</u>	<u>\$74.0</u>	<u>\$74.1</u>	<u>\$73.4</u>	<u>\$85.0</u>	<u>\$91.4</u>	<u>\$94.1</u>
Application of PDAF Draw	<u>\$7.3</u>	<u>\$7.4</u>	<u>\$6.5</u>	<u>\$5.4</u>	<u>\$4.9</u>	<u>\$4.9</u>	<u>\$5.0</u>	<u>\$5.0</u>	<u>\$5.0</u>	<u>\$5.0</u>
Debt Service Levy after PDAF Draw	\$58.7	\$67.4	\$74.2	\$70.6	\$69.1	\$69.2	\$68.4	\$80.0	\$86.4	\$89.1

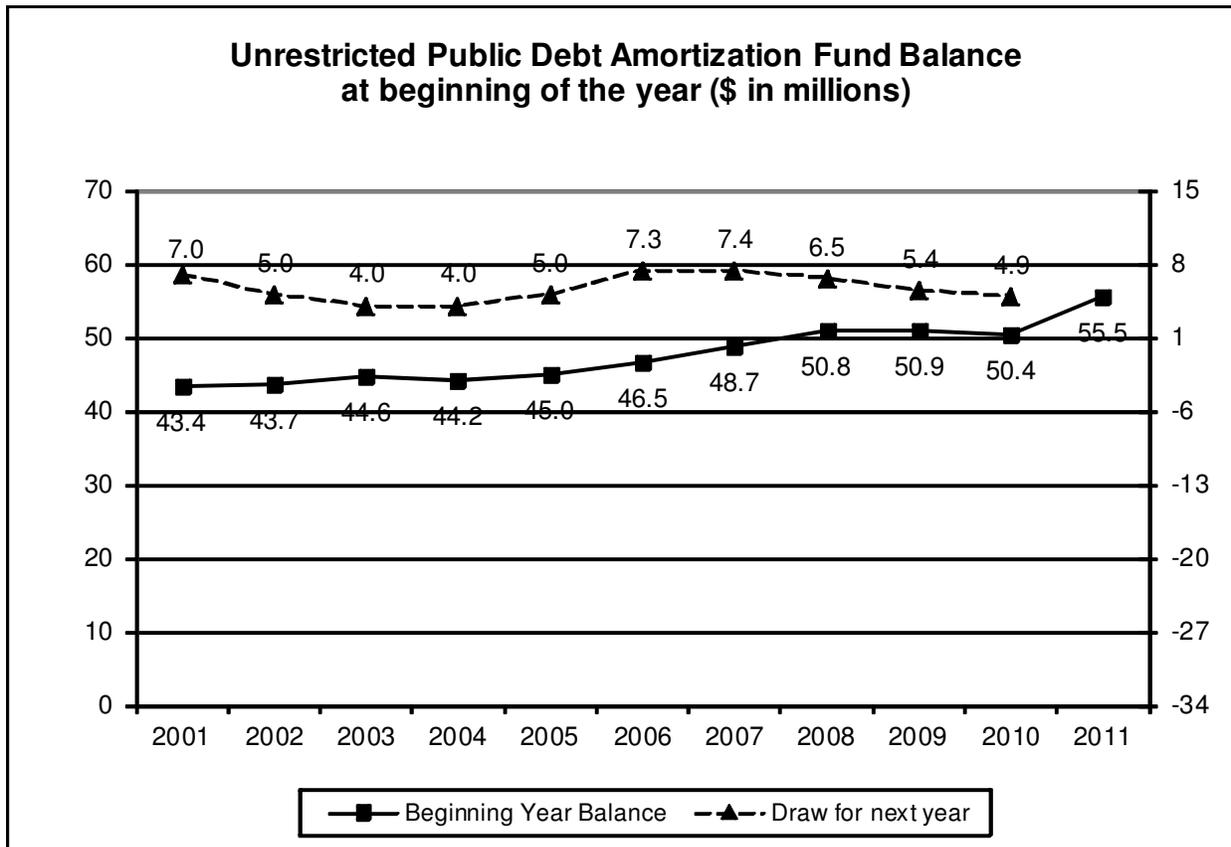
Amounts may not add due to rounding

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 2001. Withdrawal amounts ranged between \$4.0 to \$7.4 million. After the reserve withdrawal for 2001 budget purposes, the PDAF unrestricted balance at the start of 2001 totaled \$43.4 million. The balance on January 1, 2011 totaled \$55.5 million, an increase of \$12.1 million (28%) over the last ten 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 2006, 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 2009, 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 2011 through 2016, capital borrowing is based upon anticipated levels as appearing in the draft City of Milwaukee 2011 - 2016 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, 2011.
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.