

**NEW ISSUE  
BOOK-ENTRY ONLY**

**RATINGS:**  
(See “RATINGS” herein)

**Fitch**  
“AA”

**S&P**  
“AA”

*In the opinion of Katten Muchin Rosenman LLP, and Hurtado Zimmerman SC, Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Series 2016 Bonds will not be includable in gross income for federal income tax purposes. The Series 2016 Bonds are not “private activity bonds” and the interest thereon is not required to be included as an item of tax preference for purposes of computing individual or corporate “alternative minimum taxable income.” However, interest on the Series 2016 Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Series 2016 Bonds is not exempt from Wisconsin income taxes.*



**\$10,000,000**  
**CITY OF MILWAUKEE, WISCONSIN**  
**Water System Revenue Bonds**  
**Series 2016 W10**



**Dated:** Date of Delivery

**Due:** June 1, 2017 - 2036

The \$10,000,000 Water System Revenue Bonds, Series 2016 W10 (the “Series 2016 Bonds”) will be dated the Date of Delivery, will bear interest payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2017, at the rates, and will mature on June 1 in the years and amounts, as detailed on the inside cover.

The Series 2016 Bonds shall be issued by the City of Milwaukee, Wisconsin (the “City”) for the purposes of (i) financing the costs of improvements to the City’s Water Works System; and (ii) paying the costs of issuance of the Series 2016 Bonds. (See “**SERIES 2016 BONDS—The Financing Plan**” herein.)

The Series 2016 Bonds maturing on or after June 1, 2027 are subject to optional redemption on or after June 1, 2026 at par, as more fully described herein. (See “**SERIES 2016 BONDS—Optional Redemption Prior To Maturity**” herein.)

The Series 2016 Bonds will be issued only as fully registered bonds and will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as the securities depository of the Series 2016 Bonds. Individual purchases will be made in book entry only form in denominations of \$5,000 principal amount or any integral multiple thereof. Purchasers of the Series 2016 Bonds will not receive certificates representing their interest in the Series 2016 Bonds purchased. (See *Appendix E*—“**BOOK ENTRY ONLY SYSTEM**”).

The Series 2016 Bonds are limited special obligations of the City payable solely from and secured by the funds pledged therefor including the Net Revenues of the Water System of the City. (See “**SECURITY**” herein.)

The Series 2016 Bonds are being offered when, as and if issued and subject to the legal opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, and Hurtado Zimmerman SC, Wauwatosa, Wisconsin, Bond Counsel. It is anticipated that the Series 2016 Bonds will be available for delivery to DTC on or about December 15, 2016 (the “Date of Delivery”).

*THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.*

**For Further Information Contact:**

Martin Matson, Comptroller and Secretary to Public Debt Commission  
City Hall, Room 404, 200 East Wells Street - Milwaukee, WI 53202 - Phone (414) 286-3321

December 1, 2016

## MATURITY SCHEDULE

**\$10,000,000**  
**CITY OF MILWAUKEE, WISCONSIN**  
**Water System Revenue Bonds, Series 2016 W10**

The Series 2016 Bonds will be dated the Date of Delivery, will bear interest at the rates, and at the yields, and identified by the CUSIPS shown below, payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2017, and will mature on June 1 of the years and in the amounts shown below. The Series 2016 Bonds maturing on and after June 1, 2027 are subject to optional redemption on any date on or after June 1, 2026, as provided herein.

<u>Maturing (June 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIPS (1)</u>
2017	\$440,000	5.000%	1.00%	602431 JG4
2018	435,000	5.000	1.30	602431 JH2
2019	440,000	5.000	1.60	602431 JJ8
2020	445,000	2.500	1.90	602431 JK5
2021	450,000	2.500	2.20	602431 JL3
2022	455,000	3.000	2.45	602431 JM1
2023	460,000	5.000	2.60	602431 JN9
2024	465,000	5.000	2.75	602431 JP4
2025	475,000	5.000	2.90	602431 JQ2
2026	480,000	5.000	3.00	602431 JR0
2027	490,000	3.125	3.30	602431 JS8
2028	500,000	3.250	3.40	602431 JT6
2029	510,000	4.000	3.50 (2)	602431 JU3
2030	520,000	4.000	3.65 (2)	602431 JV1
2031	535,000	4.000	3.80 (2)	602431 JW9

\$1,115,000 4.00% Term Bonds Due June 1, 2033 Price 100; 602431 JY5

\$1,785,000 4.00% Term Bonds Due June 1, 2036 Priced to Yield 4.08%; 602431 KB3

- 
- (1) The above-referenced CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of the holders of the Series 2016 Bonds. The City is not responsible for the selection or uses of such CUSIP numbers, and no representation is made as to their correctness on the Series 2016 Bonds, or as indicated above. The CUSIP number for a specific maturity is subject to change after the issuance of the Series 2016 Bonds.
- (2) Priced to first optional redemption date.

*No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than as contained in this Official Statement in connection with the sale of these securities and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities by a person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. These securities have not been registered pursuant to the Securities Act of 1933, in reliance upon exemptions contained in such Act.*

*The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.*

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## INTRODUCTION TO THE OFFICIAL STATEMENT

The purpose of this Official Statement, including the cover page, and Appendices, is to set forth certain information concerning the City of Milwaukee (the “City”), located in Milwaukee County, Wisconsin, and to set forth information concerning the offering of \$10,000,000 Water System Revenue Bonds, Series 2016 W10 of the City, dated the Date of Delivery (the “Series 2016 Bonds”). The following information is furnished solely to provide limited introductory information regarding the Series 2016 Bonds and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the Appendices hereto.

### Summary Statement

The following material is supported, where required, by the detailed information and financial statements appearing in this Official Statement, including the Appendices hereto.

<b>Issuer:</b>	City of Milwaukee, Wisconsin.
<b>Issue:</b>	\$10,000,000 Water System Revenue Bonds, Series 2016 W10.
<b>Dated Date:</b>	Date of Delivery.
<b>Maturities:</b>	June 1 of the years 2017 to 2031, both inclusive, 2033 and 2036.
<b>Interest Payment Dates:</b>	Each June 1 and December 1, beginning June 1, 2017.
<b>Denominations:</b>	\$5,000 or integral multiples thereof.
<b>Purpose:</b>	The Series 2016 Bonds are issued for the purposes of (i) financing the costs of improvements to the City’s Water System; and (ii) paying the costs of issuance of the Series 2016 Bonds. (See “ <b>SERIES 2016 BONDS – The Financing Plan</b> ” herein.)
<b>Security:</b>	Principal and interest on the Series 2016 Bonds will be payable solely from and secured by the funds pledged therefor including the Net Revenues of the Water System of the City. (See “ <b>SECURITY</b> ” herein.)
<b>Authority for Issuance:</b>	The Common Council of the City has authorized the issuance and sale of the Series 2016 Bonds in accordance with the provisions of Chapter 66 of the Wisconsin Statutes (the “Act”).
<b>Form of Issuance:</b>	The Series 2016 Bonds will be issued in Book-Entry-Only form, fully registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York, New York, which will act as security depository for the Series 2016 Bonds. (See <i>Appendix E</i> – “ <b>BOOK-ENTRY-ONLY SYSTEM</b> ”).
<b>Tax Matters:</b>	In the opinion of Katten Muchin Rosenman LLP, and Hurtado Zimmerman SC, Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Series 2016 Bonds will not be includable in gross income for federal income tax purposes. The Series 2016 Bonds are not “private activity bonds” and the interest thereon is not required to be included as an item of tax preference for purposes of computing individual or corporate “alternative minimum taxable income.” However, interest on the Series 2016 Bonds is includable in

corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Series 2016 Bonds is not exempt from Wisconsin income taxes. (See “**TAX MATTERS**” herein).

***Optional Redemption Feature:***

The Series 2016 Bonds maturing on or after June 1, 2027 are subject to optional redemption on or after June 1, 2026 at par, as more fully described herein. (See “**SERIES 2016 BONDS – Optional Redemption Prior to Maturity**” herein.)

***Term Bonds Mandatory Redemption Feature:***

The Bonds maturing on June 1, 2033 and June 1, 2036 are Term Bonds subject to mandatory redemption from Sinking Fund Installments. (See “**SERIES 2016 BONDS – Mandatory Redemption of Term Bonds**”).

***Official Statement:***

The City will provide the original purchaser of the Series 2016 Bonds with an electronic copy and up to 10 printed copies of this Official Statement within seven business days following the award of the Series 2016 Bonds.

***Professionals:***

*Bond Counsel:* Katten Muchin Rosenman LLP  
Chicago, Illinois

Hurtado Zimmerman SC  
Wauwatosa, Wisconsin

*Financial Advisor:* Public Financial Management, Inc.  
Milwaukee, Wisconsin

*Depository and Paying Agent* U.S. Bank National Association  
Milwaukee, Wisconsin

***Delivery:***

Delivery will be on or about December 15, 2016 at the expense of the City, through the facilities of The Depository Trust Company, New York, New York.

***Reoffering:***

The public reoffering prices or yields of the Series 2016 Bonds are detailed on the inside front cover of the Official Statement.

***Continuing Disclosure Certificate:***

In order to assist bidders in complying with the continuing disclosure requirements of SEC Rule 15c2-12 and as part of the City’s contractual obligation arising from its acceptance of the successful bidder’s proposal, at the time of the delivery of the Series 2016 Bonds the City will provide an executed copy of its Continuing Disclosure Certificate. (See “**CONTINUING DISCLOSURE**” herein).

## **SERIES 2016 BONDS**

### **The Financing Plan**

The Series 2016 Bonds shall be issued by the City of Milwaukee, Wisconsin (the “*City*”) for the purpose of (i) financing the costs of improvements of any plant and properties within or without the corporate limits of the City used for, useful in or pertaining to the supply, treatment, storage or transmission of water (including the refinancing of \$10,000,000 principal amount of commercial paper notes (“*CP Notes*”) previously issued for such purposes); (ii) capitalizing interest on the Series 2016 Bonds; and (iii) paying the costs of issuance of the Series 2016 Bonds.

No Series Reserve Account shall be established for the Series 2016 Bonds in the Reserve Fund and, for purposes of the hereinafter defined Master Resolution, the Reserve Account Requirement for the Series 2016 Bonds shall be \$0. **THE RESERVE FUND DOES NOT SECURE AND IS NOT AVAILABLE FOR PAYMENT OF DEBT SERVICE ON THE SERIES 2016 BONDS.**

**Estimated Sources and Uses**

Sources of Funds	
Par Amount of Series 2016 Bonds .....	\$10,000,000.00
Net Original Issue Premium .....	392,423.60
	\$10,392,423.60
Uses of Funds	
Deposit to finance projects (including refunding of commercial paper temporary borrowing issued to finance projects).....	\$10,000,000.00
Capitalized Interest.....	162,641.10
Costs of Issuance (including Underwriter’s Discount).....	229,782.50
	\$10,392,423.60
	\$10,392,423.60

**The Bond Resolution**

Pursuant to a Bond Resolution adopted on July 22, 2014 (the “*Master Resolution*”) and the Series 2016 Resolution adopted on November 22, 2016 (the “*Series Resolution*,” and together with the Master Resolution, the “*Bond Resolution*”), the Common Council has authorized and approved the sale of the Series 2016 Bonds including providing certain of the details and form of the Series 2016 Bonds and setting out certain covenants with respect thereto. Pursuant to the Master Resolution, bonds may be issued thereunder in series from time to time. Upon their issuance the Series 2016 Bonds will be the only bonds outstanding under the Bond Resolution. The City may hereafter authorize and issue additional Water System Revenue Bonds (the “*Additional Bonds*”). The Series 2016 Bonds and any Additional Bonds on parity therewith are hereinafter referred to as the “*Bonds*.”

The City may at any time or from time to time, issue evidences of indebtedness payable out of, and which may be secured by a pledge of, such amounts in the Subordinate Obligation Fund (as hereinafter defined) as may from time to time be available for the purpose of payment thereof. The City has issued Water System Second Lien Revenue Bonds as loans from the State of Wisconsin’s Safe Drinking Water Loan Program to finance water system improvements. The Water System Second Lien Revenue Bonds are Subordinate Obligations (as hereinafter defined), which constitute evidence of indebtedness payable out of, and which are secured by a pledge of, such amounts in the Subordinate Obligation Fund of the Bond Resolution as may from time to time be available for the purpose of payment thereof. (See “**ADDITIONAL BONDS – Subordinate Obligations**” herein.) The City also issues general obligation debt and other short-term borrowing to finance water capital projects. The general obligation debt does not have a lien on the water system revenues or the assets of the Water System, but is expected to be repaid from amounts in the Surplus Fund not required to meet a deficiency referred to in the Bond Resolution. (See “**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION – Summary of Certain Provisions of the Bond Resolution – Surplus Fund**” in *Appendix C.*) The Water System Second Lien Revenue Bonds and the general obligation debt and other short-term borrowing do not constitute Bonds as defined above. The City may, by resolution, provide for various priorities in the liens and pledges securing Subordinate Obligations, and nothing in the Bond

Resolution shall be construed so as to require that the payment of, or pledges securing, Subordinate Obligations be on a parity with the Bonds. (See “**ADDITIONAL BONDS – Subordinate Obligations**” herein.)

All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in *Appendix C – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION – Definitions of Certain Terms”* or, if not defined therein, in the Bond Resolution. A summary of certain provisions of the Bond Resolution is set forth under “**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION – Summary of Certain Provisions of the Bond Resolution**” in *Appendix C*.

### **Maturity and Interest Rates**

The Series 2016 Bonds are to be dated the Date of Delivery and will bear interest from that date at the rates, and shall mature each June 1 in the amounts and on the dates as set forth on the inside front cover of this Official Statement. Interest on the Series 2016 Bonds will be payable on June 1, 2017 and thereafter semi-annually on June 1 and December 1 of each year and is calculated on the basis of 30-day months and a 360-day year.

### **Optional Redemption Prior to Maturity**

The Series 2016 Bonds with principal maturity dates on or after June 1, 2027, are subject to redemption prior to their maturity at the option of the City on any date on or after June 1, 2026, from such maturities as the City shall determine, at a price of par plus accrued interest to the date fixed for their redemption.

### **Mandatory Redemption of Term Bonds**

The Series 2016 Bonds maturing on June 1, 2033 are Term Bonds subject to mandatory redemption, in part and by lot, at a redemption price of par, on June 1, 2032 in the principal amount of \$550,000, constituting a Sinking Fund Installment for the retirement of the Series 2016 Bonds maturing on June 1, 2033.

The Series 2016 Bonds maturing on June 1, 2036 are Term Bonds subject to mandatory redemption, in part and by lot, at a redemption price of par, on June 1, 2034 in the principal amount of \$580,000 and on June 1, 2035 in the principal amount of \$595,000, each constituting a Sinking Fund Installment for the retirement of the Series 2016 Bonds maturing on June 1, 2036.

Amounts accumulated in the Special Redemption Fund by reason of the payment of any Sinking Fund Installment may be applied by the City, on or prior to the sixtieth (60<sup>th</sup>) day preceding the due date of such Sinking Fund Installment, to: (i) the purchase of Series 2016 Bonds of the maturity for which such Sinking Fund Installment was established, or (ii) the redemption of such Series 2016 Bonds at the applicable Redemption Price, if then redeemable by their terms. All such purchases of Series 2016 Bonds shall: (i) be made at prices not exceeding the applicable Redemption Price of such Series 2016 Bonds plus accrued interest; (ii) be made as arranged by the City in such manner and from such sellers or brokers at such prices as the City shall determine; and (iii) be made to insure that delivery of the Series 2016 Bonds so purchased shall not occur later than the sixtieth (60<sup>th</sup>) day next preceding the redemption date to which the Sinking Fund Installment is to be applied. The applicable Redemption Price of any Series 2016 Bonds (or principal amount of maturing Series 2016 Bonds) so purchased or redeemed shall be deemed to constitute part of the Special Redemption Fund until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the sixtieth (60<sup>th</sup>) day preceding the due date of any such Sinking Fund Installment, the City shall proceed to call for

redemption on such due date Series 2016 Bonds of the maturity for which such Sinking Fund Installment was established (except in the case of Series 2016 Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment after making allowance for any Series 2016 Bonds purchased or redeemed which the City has applied as a credit against such Sinking Fund Installment.

Upon any purchase or redemption of Series 2016 Bonds of any maturity for which Sinking Fund Installments shall have been established: (i) if the principal amount of the Series 2016 Bonds so purchased is less than or equal to the next succeeding Sinking Fund Installment there shall be credited to the next such Sinking Fund Installment an amount equal to the principal amount of the Series 2016 Bonds so purchased; and (ii) if the principal amount of the Series 2016 Bonds so purchased is greater than the next succeeding Sinking Fund Installment, there shall be credited toward each such Sinking Fund Installment thereafter to become due an amount bearing the same ratio to such Sinking Fund Installment as the total principal amount of such Series 2016 Bonds so purchased or redeemed bears to the total principal amount of all such Sinking Fund Installments to be so credited or, at the option of the City, an amount equal to the next succeeding Sinking Fund Installment. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

### **Partial Redemption**

In the event of the partial redemption of Series 2016 Bonds of the same maturity, the particular Series 2016 Bonds to be redeemed shall be selected by lot in any manner that the Paying Agent deems to be fair.

### **Notice of Redemption**

Notice of the redemption of any Series 2016 Bonds shall be given not less than 30 days prior to the redemption date.

## **SECURITY**

### **Pledge of Revenues**

(A) The Bonds are limited special obligations of the City payable solely from and secured by the funds pledged therefor. There are pledged as security for the payment of the principal and Redemption Price (if any) of, and interest on, the Bonds in accordance with their terms and the provisions of the Bond Resolution, subject only to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Resolution: (i) the proceeds of sale of the Series 2016 Bonds pending application thereof in accordance with the provisions of the Bond Resolution or of a Series Resolution (ii) the Net Revenues, and (iii) all Funds and Accounts held under the Bond Resolution other than (a) the Rebate Fund and (b) the Subordinate Obligation Fund, including the investments, if any, in such Funds and Accounts; and the bondholders shall have a lien on, and a security interest in, such proceeds, Net Revenues, and Funds and Accounts for such purpose and subject to such provisions of the Bond Resolution. As defined in the Bond Resolution, “*Net Revenues*” means with respect to any period, the Revenues during such period less amounts required to pay Operation and Maintenance Expenses. “*Operation and Maintenance Expenses*” means the costs and expenses of operating and maintaining the Water System, including, without limiting the generality of the foregoing: (i) all expenses includable in the operation and maintenance expense accounts of the City

relating to the Water System according to generally accepted accounting principles, exclusive of debt service, capital expenditures, depreciation and tax equivalents; and (ii) to the extent not included in the preceding clause (i) or paid from the Bond proceeds or otherwise, the City's share of the costs and expenses of operating and maintaining any plants and properties jointly owned with others. Such lien and security interest for the payment of the Bonds shall be prior and superior to the lien and security interest for the payment of Subordinate Obligations. The Bonds are additionally secured by a mortgage lien upon the Water System, which shall be perfected by the recording of the Bond Resolution in the records of the City.

(B) The pledge of, and lien on, and security interest in, the proceeds of the Series 2016 Bonds and the Net Revenues as received by the City and the Funds and Accounts held under the Bond Resolution, other than the Rebate Fund and the Subordinate Obligation Fund, shall be valid and irrevocable: (i) from and after the time that, if required by State law, a financing statement is filed with respect to such pledge, lien and security interest as required by State law, and, upon such filing; or (ii), if no financing statement is so required by State law, upon delivery of the proceeds of the Series 2016 Bonds, and all the Net Revenues as received by the City and the Funds and Accounts therein, other than the Rebate Fund and the Subordinate Obligation Fund, shall immediately be subject to the lien of the pledge without any physical delivery thereof or further act, and the lien of the pledge shall be valid as against, and prior to the lien of, all parties having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such parties have notice thereof.

(C) The Bonds shall be equally and ratably payable and secured under the Bond Resolution without priority by reason of date of adoption of a Series Resolution authorizing a Series of Bonds or by reason of their Series, number or date, date of issue, execution, authentication or sale thereof, or otherwise; provided, however, that nothing in the Bond Resolution shall prevent the City from affording any particular Series of Bonds or particular Bonds additional or different security through a support facility or escrow funds. Bonds which are not a part of a Series for which an escrow fund or other funds and accounts have been created to provide additional or different security shall not be entitled to the benefits of such escrow fund or other funds and accounts except to the extent specifically provided in the Series Resolution authorizing such Series.

(D) The principal and Redemption Price (if any) of, and interest on, the Bonds shall be payable only from the Special Redemption Fund and not from any funds of the City other than the Special Redemption Fund and the Bonds shall not constitute a general obligation of the City, or create a charge upon any other revenues or property of the City, except the Net Revenues and other moneys and securities pledged under the Bond Resolution. No holder of the Bonds shall have the right to compel the exercise of the taxing power of the State or any political subdivision thereof, including the City, in connection with any default with respect to the Bonds. Each Bond shall recite in substance the provisions of this subsection (D).

(E) No holder of a Series 2016 Bond shall be required to see that the moneys derived from such Series 2016 Bonds are applied to the purpose or purposes for which such Bond is issued. The validity of the Series 2016 Bonds shall neither be dependent upon nor affected by the validity or regularity of any proceedings relating to the acquisition, purchase, construction, reconstruction, improvement, betterment or extension of the Water System nor the use and application of the proceeds of the Bonds. The Series 2016 Bonds shall contain a recital that they are issued pursuant to the Act, which recital shall be conclusive evidence of their validity and of the regularity of their issuance.

## COVENANTS TO SECURE THE BONDS

The City, in the Bond Resolution, covenants and agrees with the holders of all Bonds, including the Series 2016 Bonds issued pursuant to the Bond Resolution, and to the extent provided in a Series Resolution, all support facility providers, as follows:

### Rates and Charges

(A) The City shall fix, charge and collect such Water Services Charges as shall be required in order that in each Fiscal Year the Net Revenues shall be not less than the Net Revenue Requirement for such Fiscal Year. The failure in any Fiscal Year to comply with the foregoing rate covenant in this paragraph (A) shall not constitute an event of default if the City shall comply with the Bond Resolution as described in paragraph (B) below. “*Fiscal Year*” means the twelve month period established by the City or provided by law from time to time as its fiscal year, and which, as of the date of adoption of the Bond Resolution, is the twelve month period commencing on January 1 of any year and ending on December 31 of the following year. “*Net Revenue Requirement*” means with respect to any Fiscal Year or any period, an amount equal to the greater of: (i) the sum of (a) the Aggregate Debt Service in such Fiscal Year or such period and (b) the Required Deposits for such Fiscal Year or such period; or (ii) 1.20 times the Aggregate Debt Service in such Fiscal Year or such period plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding as of the end of such Fiscal Year or such period. As defined in the Bond Resolution, “*Aggregate Debt Service*” means, for any period and as of any date of computation, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds, and “*Support Facility Reimbursement Obligations*” means, the obligation of the City described in the Bond Resolution to directly reimburse the Support Facility Provider of a Support Facility for amounts paid thereunder or a Counterparty under an Interest Rate Exchange Agreement for amounts paid thereunder, whether or not such obligation to reimburse is evidenced by a promissory note or other similar instrument.

(B) Prior to the end of each Fiscal Year, the Commissioner of Public Works of the City shall complete a review of the financial condition of the Water System for the purpose of estimating whether the Net Revenues for such Fiscal Year and for the next succeeding Fiscal Year will be sufficient to comply with the rate covenant described in paragraph (A) above and shall by a Written Certificate of the City make a determination with respect thereto. Such review shall take into consideration the completion of any uncompleted improvement and the issuance of future Series of Bonds if necessary to finance the completion of such improvements. Such Written Certificate shall set forth a reasonably detailed statement of the actual and estimated revenues, operation and maintenance expenses, aggregate debt service, and any other estimates or assumptions upon which such determination was based, and shall be filed with the City Clerk on or before July 1 in each year. If it is determined in such Written Certificate that the Revenues may not be so sufficient, the Commissioner of Public Works of the City shall forthwith make a study for the purpose of determining a schedule of Water Service Charges which, in the opinion of the Commissioner of Public Works, will cause sufficient Revenues to be collected in the following Fiscal Year to comply with such rate covenant described in paragraph (A) above and will cause additional Revenues to be collected in such following and later Fiscal Years sufficient to eliminate the amount of any deficiency at the earliest practicable time, or the Commissioner of Public Works may elect to cause the Consulting Engineer to make such a study and render such opinion. The Common Council of the City shall as promptly as practicable but no later than the one hundred twenty (120) days following such determination by the Commissioner of Public Works, or receipt of the Consulting Engineer’s recommendation, adopt and place in effect a schedule of Water Service Charges as described in this paragraph (B). The Commissioner of Public Works of the City filed the Written Certificate with the City Clerk on June 20, 2016 and evidenced compliance with the rate covenant described in paragraph (A) above.

## **Service to the City**

The City, in the Series Resolution, covenants and agrees with the holders of the Series 2016 Bonds issued pursuant to the Bond Resolution and the Series Resolution, as follows:

The reasonable cost and value of services rendered to the City by the Water System by furnishing water services for public purposes, shall be charged against the City and shall be paid by it in quarterly installments as the service accrues, out of the current revenues of the City collected or in the process of collection, exclusive of the revenues derived from the Water System and out of the tax levy of the City made by it to raise money to meet its necessary current expenses. It is found and determined in the Series Resolution that the reasonable cost and value of such service to the City in each Fiscal Year shall be the amount necessary in the Fiscal Year which, together with the other revenues of the Water System, will produce Net Revenues in each Fiscal Year equal to not less than 1.00 times the maximum aggregate Debt Service on the Bonds then outstanding plus 1.00 times the aggregate Support Facility Reimbursement Obligations then outstanding. However, such payment out of the tax levy shall be subject to (a) approval of the Public Service Commission, or successors to its function, if necessary, (b) yearly appropriations therefor and (c) applicable levy limitations, if any; but neither the Bond Resolution nor such payment shall be construed as constituting an obligation of the City to make any such appropriation over and above the reasonable cost and value of services rendered to the City and its inhabitants or make any subsequent payment over and above such reasonable cost and value. Such compensation for such service rendered to the City shall, in the manner provided above, be paid into the Revenue Fund created by the Bond Resolution.

## **FUNDS AND ACCOUNTS**

### **Establishment of Funds and Accounts**

(A) There was created under the Bond Resolution a special fund known as the “*Water System Revenue Fund*” (the “*Revenue Fund*”) into which all Revenues collected by the City have been and shall be deposited, from which the Revenues shall be appropriated and expended for operating expenses of the Water System, other purposes of the Water System, and in which certain working capital and operating reserves for purposes of the Water System have been and shall be maintained. The Revenue Fund is considered to be a fund held under the Bond Resolution for purposes of the pledge made in Bond Resolution.

(B) There was created and established under the Bond Resolution the following additional funds of the City to be maintained so long as any Bonds are outstanding:

- (1) Operation and Maintenance Fund;
- (2) Rebate Fund;
- (3) Water System Special Redemption Fund (the “*Special Redemption Fund*”);
- (4) Reserve Fund and Reserve Accounts therein;
- (5) Renewal and Replacement Fund;
- (6) Subordinate Obligation Fund; and
- (7) Surplus Fund.

The Operation and Maintenance Fund, Special Redemption Fund, Reserve Fund, Renewal and Replacement Fund and Surplus Fund are considered to be funds held under the Bond Resolution for purposes of the pledge made in the Bond Resolution. **THE RESERVE FUND DOES NOT SECURE AND IS NOT AVAILABLE FOR PAYMENT OF DEBT SERVICE ON THE SERIES 2016 BONDS.**

(C) There was also created a special fund known as the “*Water System Construction Fund*” (the “*Construction Fund*”) into which the proceeds of revenue bonds of the City issued to pay the costs of improvements specified to be expended from such Fund, including refinancing the commercial paper obligations used to finance the costs of improvements. The Construction Fund is considered to be a fund held under the Bond Resolution for purposes of the pledge made in the Bond Resolution.

(D) The City collects Revenues and deposits amounts into the City held Operations and Maintenance Fund. Remaining Revenues are transferred to U.S. Bank National Association, Milwaukee, Wisconsin as Depository under the Bond Resolution for deposit to the Depository held portion of the Revenue Fund. Other funds held by the Depository include: the Rebate Fund, the Special Redemption Fund, the Reserve Fund, the Renewal and Replacement Fund, the Subordinate Obligation Fund, and the Surplus Fund. The Depository also serves as Paying Agent for the Bonds.

### **Flow of Funds**

(A) Revenues shall be collected by the City and deposited, as soon as practicable, into the Revenue Fund. From the amounts deposited in the Revenue Fund, the City shall transfer to the Operation and Maintenance Fund sufficient moneys to pay the current operation and maintenance expenses of the Water System, transfer to the Rebate Fund such amount as is necessary to pay the rebate amount due the United States Treasury Department under Section 148 of the Code, if any, or to set aside as a reserve for such payment and make the transfers to other Funds and Accounts as provided in subsection (B) below.

(B) In each month, the City, after making the transfer, if any, to the Operating and Maintenance Expenses for such month and setting aside an amount sufficient to pay the Operating and Maintenance Expenses expected to be incurred for the balance of such month and making the transfer, if any, to the Rebate Fund as provided in the Bond Resolution, shall retain, apply or transfer on the fifth (5th) day prior to the end of each month, unless otherwise described below, a sufficient amount of moneys in the Revenue Fund in the following order of priority:

(1) To the Special Redemption Fund, if and to the extent required so that the balance therein shall equal the Accrued Debt Service for all Bonds outstanding and the interest accrued on all Bond Anticipation Notes outstanding on said date;

(2) To the Reserve Fund, if and to the extent required by a Series Resolution either (i) an amount such that the balance in each Reserve Account shall equal the Reserve Account Requirement on said date, or (ii) an amount such that if the same amount were deposited in each month the amount of any deficiency in a Reserve Account shall be eliminated at the end of the twelfth (12th) month following the first credit;

(3) To retain in the Revenue Fund, a reasonable and necessary amount for working capital and operating reserves;

(4) To the Subordinate Obligation Fund, the amount, if any, required to be deposited in such Fund pursuant to the resolution authorizing issuance of the Subordinate Obligations payable from such Fund;

(5) To the Renewal and Replacement Fund, such amount as may be designated by the City; and

(6) To the Surplus Fund, such amounts as shall remain in the Revenue Fund.

(C) All reasonable and necessary Operation and Maintenance Expenses shall be paid from the Operation and Maintenance Fund as the same become due and payable and, except for the Rebate Fund, prior to any transfer or payment to other funds and accounts set forth in the Bond Resolution.

(D) The City may, if provided in a Series Resolution authorizing the Bonds of a Series, directly pay out of the Revenue Fund reimbursements to Support Facility Providers whose Support Facilities have been drawn upon, after payments have been made to the Special Redemption Fund.

## **ADDITIONAL BONDS**

### **Conditions for the Issuance of Additional Bonds Other Than Refunding Bonds**

(A) One or more Series of Bonds, exclusive of Refunding Bonds may be issued at any time and from time to time for any lawful use or purpose relating to the Water System, including, without limitation, payment of all or a portion of the Costs of Improvements, but only upon compliance as to each such Series with the provisions of the Bond Resolution regarding the required Series Resolution and provision of the following documents or moneys or securities:

(1) A certified copy of the Series Resolution authorizing the issuance of the Bonds of such Series.

(2) If any Bonds of such Series are Option Bonds, a Support Facility in such an amount as would provide sufficient moneys for the purchase or redemption of all Option Bonds of such Series if the Holders thereof elected to tender for purchase or redemption the entire Aggregate Outstanding Principal amount of the Option Bonds of such Series.

(3) An opinion of Bond Counsel to the effect that: (a) the Bond Resolution, including the applicable Series Resolution authorizing the Series of Bonds, has been duly and lawfully adopted by the Common Council of the City and is a valid and legally binding instrument of the City, enforceable in accordance with the terms thereof; (b) the Bond Resolution creates a valid pledge and lien which it purports to create of the Net Revenues, moneys, securities and funds held or set aside under the Bond Resolution, subject to the application thereof to the purposes and on the terms and conditions permitted by the Bond Resolution; and (c) the Bonds of such Series are valid and legally binding limited special obligations of the City, enforceable in accordance with the terms thereof, are entitled to the benefits of the Bond Resolution and the Act, have been duly and validly authorized, issued and authenticated in accordance with law and the Bond Resolution, and do not violate the provisions of the Bond Resolution.

(4) Either:

(I) a Written Certificate of an Authorized Officer of the City based:

(i) on audited figures, provided that such audited figures are for the most recent Fiscal Year for which an audit is available, and are for a period ending within 21 months of the date of the issuance of the proposed Series of Bonds; or

- (ii) on figures taken by an independent certified public accountant from the City's books and records, showing that the Net Revenues any consecutive twelve (12) month period out of twenty-four (24) months immediately preceding the month in which such Bonds are issued;

were not less than the greater of:

- (x) the sum of: (1) the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any Fiscal Year and the twelve (12) month period selected; and (2) the Required Deposits for such Fiscal Year or the twelve (12) month period selected; and
  - (y) 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any Fiscal Year and the twelve (12) month period selected, plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of the Written Certificate of the City; or
- (II) a Written Certificate of an Authorized Officer of the City or Certificate of the Consulting Engineer that the Net Revenues to be derived in each of the five (5) Fiscal Years following the earlier of:
- (i) the end of the period during which interest is capitalized or, if no interest is to be capitalized, the Fiscal Year in which the proposed Series of Bonds are issued; and
  - (ii) the date on which substantially all Improvements to be financed with the proceeds of the proposed Series of Bonds are expected to commence operations, or, if the proceeds of such Series of Bonds will not be used to fund the Costs of Improvements, the Fiscal Year in which the proposed Series of Bonds are issued;

are estimated to be not less than the greater of:

- (x) the sum of: (1) the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year; and (2) the Required Deposits for any such Fiscal Year; and
- (y) 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year, plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding;

as of the date of such Written Certificate of the City or certificate of the Consulting Engineer, as the case may be. Adopted Water Service Charges shall be taken into account at the time, or times, they are scheduled to be effective (the "*Additional Bonds Requirement*"). For purposes of this subsection (4): If any changes have been made and are in effect at the time of the issuance of the proposed Series of Bonds in the Water Service Charges (exclusive of changes in the rates and charges for the privilege of connecting to the Water System) which were not in effect during all

or any part of the test periods referred to in the Bond Resolution, the Net Revenues for either of such respective periods may be adjusted to reflect the results which would have occurred in the Net Revenues if such changes in the Water Service Charges had been in effect during all of such respective periods.

(5) Such further documents, moneys and securities as are required by the provisions of any Series Resolution.

(B) In determining Debt Service on Variable Rate Bonds then Outstanding and Variable Rate Bonds then proposed to be issued for purposes of the Additional Bonds Requirement, the interest rate shall be calculated as: (i) if any Variable Rate Bonds are then Outstanding and have been Outstanding for at least twenty-four (24) months, the highest average interest rate borne by such Variable Rate Bonds for any 30-day period, or (ii) if no such Variable Rate Bonds are then Outstanding, the Revenue Bond Index at the time of calculation.

### **Refunding Bonds**

(A) The City by means of a Series Resolution adopted in compliance with the provisions of the Bond Resolution may issue a Series of Refunding Bonds at any time for the purpose of refunding (including by purchase) all or any portion of Bonds Outstanding, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the refunding bonds and of effecting such refunding; provided, however, that the provisions of subsection (A) of “*Conditions for the Issuance of Parity Bonds Other Than Refunding Bonds*” shall be complied with upon the issuance of such Series; provided, further, however, that clause (4) of subsection (A) of “*Conditions for the Issuance of Parity Bonds Other Than Refunding Bonds*” need not be complied with if the Refunding Bonds proposed to be issued do not mature later than the Bonds to be refunded and Debt Service in any Fiscal Year on the Refunding Bonds proposed to be issued does not exceed Debt Service in any Fiscal Year on the Bonds to be refunded by more than ten percent (10%).

(B) The City by means of a Series Resolution adopted in compliance with the Bond Resolution may issue a Series of Refunding Bonds at any time for the purpose of refunding (including by purchase) all or any portion of outstanding Subordinate Obligations, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the Refunding Bonds and of effecting such refunding; provided, however, that the provisions of subsection (A) of “*Conditions for the Issuance of Parity Bonds Other Than Refunding Bonds*” shall be complied with upon the issuance of such Series.

(C) The proceeds of the Refunding Bonds of each Series shall be applied for the purposes of making deposits in such Funds and Accounts under the Bond Resolution and shall be applied to the refunding purposes thereof as shall be provided by the Series Resolution authorizing such Refunding Bonds.

### **Bond Anticipation Notes**

Bond anticipation notes (“*Bond Anticipation Notes*”) may be issued by the City at such time as the City shall have, by a Series Resolution duly adopted, authorized the issuance thereof. The principal of such Bond Anticipation Notes may be paid from the proceeds of such Bond Anticipation Notes (or any renewal thereof) or from the proceeds of the Bonds in anticipation of which such Bond Anticipation Notes were issued.

## **Subordinate Obligations**

(A) The City may at any time or from time to time, issue evidences of indebtedness payable out of, and which may be secured by a pledge of, such amounts in the Subordinate Obligation Fund as may from time to time be available for the purpose of payment thereof. The City may, by resolution, provide for various priorities in the liens and pledges securing Subordinate Obligations, and nothing in the Bond Resolution shall be construed so as to require that the payment of, or pledges securing, Subordinate Obligations be on a parity.

(B) Any issue of Subordinate Obligations may have such rank or priority with respect to any other issue of Subordinate Obligations as may be provided in the resolution securing such issue of Subordinate Obligations and may contain such other provisions as are not in conflict with the provisions of the Bond Resolution.

## **THE MILWAUKEE WATER WORKS SYSTEM**

The Milwaukee Water Works (the “MWW”) is a publicly owned utility of the City, and policy is set by the Mayor and Common Council. The utility is regulated by the United States Environmental Protection Agency (EPA) and the Wisconsin Department of Natural Resources (DNR) for facilities, operations, and water quality; and the Public Service Commission of Wisconsin (PSC), for rates and accounting.

MWW provides water to 865,000 people in 16 communities in Milwaukee, Ozaukee, and Waukesha Counties. MWW has two treatment plants. Water is provided on a retail basis to customers in the City and in 5 other communities. Water is provided on a wholesale basis to 11 communities.

### **History of Utility**

MWW was founded on April 18, 1871 when a Board of Water Commissioners convened to build a water works. The initial plan was to tap into local rivers, using gravity to deliver water. However, E. F. Chesbrough, the Design Engineer, chose Lake Michigan as the source due to its abundance of water. water delivery began on September 14, 1874. The system consisted of an intake pipe, a station on shore housing two steam pumping engines (each capable of pumping eight million gallons per day), a standpipe (North Point Tower) to absorb steam pump pulsations, the Kilbourne reservoir, and 58 miles of water mains. The total cost of system was \$1.9 million.

In 1885, the State authorized water metering, and by 1910, Milwaukee was one of the nation’s first cities to be 100% metered. Disinfection of the lake water was initiated in 1910, when lime was dumped into a mixing basin near the lake intake. In 1915, chlorine became the disinfectant, and four years later, filtration was added to the treatment process. In 1934, after years of debate, the Common Council authorized construction of the Linnwood Treatment Plant. The Howard Avenue Treatment Plant was built in 1961 to meet the needs of a rapidly expanding south side.

In the mid 1990’s, MWW undertook a complete overhaul of the water treatment process (primary disinfection, coagulation, sedimentation, filtration, secondary disinfection) at both treatment plants to provide multiple barriers to potential contaminants. In 1998, ozone became the primary disinfectant.

### **General Information**

MWW treats Lake Michigan water to destroy microorganisms that cause disease, reduce the formation of disinfection byproducts, and to remove taste and odor. Particles are removed through

coagulation, flocculation, settling, and biologically active filtration. Chlorine is used as a secondary disinfectant. Fluoride is added to reduce dental decay. A phosphorous compound is added to control pipe corrosion. MWW conducts regular water quality monitoring along the entire treatment process. The distribution system includes 1,961 miles of water mains.

In the City, treated water enters homes and businesses through a service line connected to a water meter. Sewerage is conveyed by a separate utility of the City to the Milwaukee Metropolitan Sewerage District (MMSD) for treatment and return to Lake Michigan.

MWW operates two water treatment plants, Linnwood and Howard Avenue, both of which operate 24 hours a day. The Linnwood Treatment Plant has a rated capacity of 275 million gallons per day (MGD), and the Howard Avenue Treatment Plant has a rated capacity of 105 MGD. In 2015 the average daily volume was 81 MGD.

MWW performs the billing and collection of the Municipal Services Bill (MSB). The MSB is a combined bill that includes charges for water, sewer maintenance, MMSD sewage treatment, stormwater management, solid waste collection, and ice and snow removal.

### **Future Financing and Capital Needs**

In 2014, the City filed a full rate case with the PSC. In the 2014 full rate case, the PSC ordered MWW to increase water main upgrades, over the coming six years to 20 miles per year by 2020. The initial source of funding for the increased pace of water main upgrading would be debt. Future rate cases will include rate increases to provide the revenues required to service the increased debt.

MWW has approximately 1,961 miles of water mains. Based upon a PSC estimated average life of 77 to 100 years, MWW would need to replace between 20 to 25 miles of water mains each year to ensure water mains do not exceed their useful life. MWW has 843 miles of water mains that were installed between 1880 and 1943 that have an estimated remaining life of 54 years (old clay brick lines have a longer useful life). MWW has approximately 431 miles of water mains installed, between 1943-1963, that have an estimated remaining life of 34 years. Therefore, 28 miles per year of upgrades are necessary to replace 1,274 miles of water mains before the end of their estimated useful life. This rough calculation does not take into account more rigorous material specifications used by MWW or operational changes that may prolong the life of water mains. MWW is in the process of conducting an in-depth replacement cycle review.

The EPA has recently focused on the health impacts of lead service lines (LSLs) that connect the buildings to MWW's water mains. MWW is responsible for water mains and services up to the property line. The Property Owner is responsible for the service from the property line to the building. LSLs exist primarily with residences constructed prior to the early 1950's, or approximately 44% of the City's residential customers. Approximately 70,000 residences are affected, with an estimated average replacement cost of \$10,000 per line. Approximately ½ of the cost is on the City owned side, and ½ the cost on the property owner side. The City is at the beginning stages of exploring options to help homeowners finance the cost of replacing an LSL.

The 2016 budget includes \$19.5 million to replace or reline 15 miles of water mains, \$2 million for treatment plants, \$2.2 million for pumping and storage facilities, and \$2 million for other projects, with \$13 million being funded by borrowing. The proposed 2017 budget includes \$23 million for water mains, and \$6 million for other projects, with \$22 million being funded by borrowing.

## CUSTOMER DATA

MWW customers are categorized into five classifications: residential (including single-family and duplexes), commercial, industrial, public authority, and wholesale.

### Sale of Water (billions of gallons)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Customer Class:					
Residential	9.8	10.1	10.3	11.0	10.8
Commercial	7.2	7.0	7.5	7.9	7.5
Industrial	3.2	3.4	3.3	3.6	3.8
Public Authority	<u>1.7</u>	<u>1.8</u>	<u>2.0</u>	<u>2.0</u>	<u>2.2</u>
Subtotal	21.9	22.3	23.1	24.5	24.3
Wholesale	<u>7.8</u>	<u>7.6</u>	<u>7.4</u>	<u>8.4</u>	<u>7.9</u>
Total	<u>29.7</u>	<u>29.9</u>	<u>30.5</u>	<u>32.9</u>	<u>32.2</u>

### Water Billings (millions of dollars)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Customer Class:					
Residential	35.6	33.0	32.3	33.5	31.1
Commercial	21.1	18.5	18.9	19.5	17.7
Industrial	6.4	6.0	5.8	6.0	6.0
Public Authority	<u>4.2</u>	<u>3.8</u>	<u>3.6</u>	<u>3.6</u>	<u>3.6</u>
Subtotal	67.3	61.3	60.6	62.6	58.4
Wholesale	<u>11.7</u>	<u>10.0</u>	<u>9.4</u>	<u>10.4</u>	<u>9.8</u>
Total	<u>79.0</u>	<u>71.3</u>	<u>70.0</u>	<u>73.0</u>	<u>68.2</u>

### Number of Accounts

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Customer Class:					
Residential	145,853	143,668	143,879	143,901	143,718
Commercial	13,287	15,703	15,578	15,531	15,422
Industrial	1,384	1,400	1,413	1,419	1,435
Public Authority	<u>1,006</u>	<u>1,001</u>	<u>1,002</u>	<u>991</u>	<u>1,000</u>
Subtotal	162,100	161,772	161,872	161,842	161,575
Wholesale	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
Total	<u>162,110</u>	<u>161,782</u>	<u>161,882</u>	<u>161,852</u>	<u>161,585</u>

## Largest Users

Below are MWW's 15 largest customers for the year 2015.

Customer	Usage (100 cubic feet)	Billing	Billing as Percent of Total Billed
City of West Allis *	2,590,369	\$2,693,984	3.1
City of Wauwatosa *	2,224,449	2,491,383	2.8
Village of Menomonee Falls *	1,453,093	1,598,402	1.8
New Berlin Water Utility *	1,373,293	1,496,889	1.7
Miller Brewing Co	1,059,144	1,309,293	1.5
Brown Deer Water Utility *	607,111	698,178	0.8
Village of Greendale *	568,471	733,328	0.8
Wisconsin Electric Power Co	503,348	619,723	0.7
Village of Shorewood *	501,359	571,549	0.7
Mequon Water Utility *	470,934	569,830	0.6
Milwaukee Public Schools	451,351	885,928	1.0
Milwaukee County	450,157	665,819	0.8
Milwaukee County Institutions *	435,509	525,939	0.6
University of Wisconsin - Milwaukee	401,748	552,272	0.6
City of Milwaukee -Housing Authority	288,815	546,735	0.6
<b>Total</b>	<b>13,379,152</b>	<b>\$15,959,252</b>	<b>18.2%</b>

\* Wholesale Customer

Source: City of Milwaukee, Department of Public Works.

The 11 wholesale customers have 10-year contracts that have automatic renewal provisions. The contract with Milwaukee County Institutions has expired; various options for service to that area are being considered by the County. Other providers of water in the area include North Shore Water Commission, and Village of Oak Creek.

## Rate Information

MWW's water rates are determined by the PSC. Residential customers are billed on a quarterly basis. Other retail customers are billed on a monthly or quarterly basis. Retail customers are billed two charges: 1) Water Service Charge; and 2) Water Usage Charge. The Water Service Charge is based on the size of the water meter. Meters sized 5/8" or 3/4" are used in single family homes and duplexes. Commercial and industrial meters range from 1" to 12". The Water Usage Charge is based upon the amount of water usage measured in hundred cubic feet (CCF).

MWW provides water and billing services for: Milwaukee, Greenfield, Hales Corners, St. Francis, and a portion of Franklin, and West Milwaukee. West Milwaukee maintains its own distribution system.

MWW sells water at a wholesale rate to utilities in Brown Deer, Butler, Greendale, Menomonee Falls, Mequon, New Berlin, Shorewood, Thiensville, Wauwatosa, West Allis, and the Milwaukee County Grounds. These communities operate their own water utilities and bill their own customers.

Water Fund costs include operating, maintenance, capital improvement and debt service costs for the MWW, as well as a contingency fund to cover unanticipated expenses and administrative costs.

**Retail Service charges for the City of Milwaukee  
As of October 1, 2015**

<u>Meter Size</u>	<u>Quarterly Charge</u>	<u>Meter Size</u>	<u>Quarterly Charge</u>
Up to ¾"	\$26.44	4"	\$414.38
1.25	51.16	6	787.98
1.5	94.30	8	1,234.38
2	147.61	10	1,826.37
3	259.16	12	2,418.36

Consumption fee Per 100 Cubic Feet (CCF)

<u>Residential</u>	<u>Charge</u>	<u>Non-Residential</u>	<u>Charge</u>
All	\$2.02	First 5,000 CCF	\$2.05
		Next 15,000 CCF	1.32
		Over 20,000 CCF	1.18

Wholesale service is metered with costs ranging between \$1.07 to \$1.33 per CCF.

**Average Residential Billing**

The following includes historical average residential billings.

<u>Year</u>	<u>Annual Average Billing (15 CCF)</u>
2011	\$181.92
2012	181.92
2013	187.36
2014	192.84
2015	220.28

*Source: City of Milwaukee Department of Administration, Budget and Management Division.*

**Collection and Billing**

Water charges are billed by MWW on a combined Municipal Services statement. Water charges are based on consumption and size of the water meter. Charges for Water Service, Sewer Treatment, Solid Waste and Snow and Ice Control are also included on the statement. Approximately 98% of the statements are billed on a quarterly basis with the remaining accounts billed monthly. All accounts are given 21 days to pay before incurring late fees. Late payment penalty varies by the service. In November of each year, accounts that are two or more quarters delinquent are placed on the property tax roll, including a 10% delinquency penalty, and billed to property owners.

Partial payments are applied as dictated by City Ordinance 309-54-8.b. This Ordinance directs application of partial payments in the following order: Water Works; Metropolitan Sewerage District Sewer User/Treatment; Sewer Maintenance; Solid Waste Charge; and Snow and Ice Control.

## WATER WORKS REVENUE BOND INDEBTEDNESS

Set forth below is MWW Water revenue indebtedness as of December 1, 2016, including payments due on Outstanding Bonds, as well as on the Series 2016 Bonds.

Year	Outstanding Revenue Debt†		Series 2016 Bonds		Total Debt Service Requirements
	Principal	Interest	Principal	Interest	
2017	\$ 0	\$ 0	\$ 440,000	\$ 379,151.04	\$ 819,151.04
2018			435,000	373,062.50	808,062.50
2019			440,000	351,187.50	791,187.50
2020			445,000	334,625.00	779,625.00
2021			450,000	323,437.50	773,437.50
2022			455,000	310,987.50	765,987.50
2023			460,000	292,662.50	752,662.50
2024			465,000	269,537.50	734,537.50
2025			475,000	246,037.50	721,037.50
2026			480,000	222,162.50	702,162.50
2027			490,000	202,506.25	692,506.25
2028			500,000	186,725.00	686,725.00
2029			510,000	168,400.00	678,400.00
2030			520,000	147,800.00	667,800.00
2031			535,000	126,700.00	661,700.00
2032			550,000	105,000.00	655,000.00
2033			565,000	82,700.00	647,700.00
2034			580,000	59,800.00	639,800.00
2035			595,000	36,300.00	631,300.00
2036			610,000	12,200.00	622,200.00
<b>Total</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$10,000,000</b>	<b>\$4,230,982.29</b>	<b>\$14,230,982.29</b>

† The revenue indebtedness shown does not include subordinated debt.

As of November 15, 2016, there was outstanding \$14,462,113 principal amount of Subordinate Obligations issued through the State's Safe Drinking Water Loan Program, and \$10,000,000 of EMCP issued for water purposes. The \$10,000,000 of EMCP debt is being long-term financed by the 2016 Bonds.

## WATER WORKS SELECTED FINANCIAL INFORMATION

The following financial information is being summarily presented from the financial information presented in *Appendix A*.

**Waterworks Fund Statement of Net Position as of December 31**  
(Thousands of Dollars)

ASSETS	2015
<i>Current Assets:</i>	
Cash and cash equivalents.....	\$15,420
Restricted cash and cash equivalents.....	1,174
Receivables (net):	
Accounts.....	16,704
Unbilled accounts.....	13,928
Due from other governmental agencies.....	3,266
Advances to other fund.....	626
Inventory of materials and supplies.....	3,133
Prepaid items.....	838
Other assets.....	22
Total Current Assets.....	\$55,111
<i>Noncurrent assets:</i>	
<i>Capital assets:</i>	
<i>Capital assets not being depreciated:</i>	
Land.....	\$ 2,052
Construction in progress.....	25,993
<i>Capital assets being depreciated:</i>	
Buildings.....	28,514
Infrastructure.....	375,131
Machinery and equipment.....	251,945
Nonutility property.....	3,654
Accumulated depreciation.....	(245,321)
Net Capital Assets.....	\$441,968
Total Noncurrent Assets.....	\$441,968
Total Assets.....	\$497,079
<i>Deferred Outflow of Resources:</i>	
Deferred outflows for pensions.....	3,750
Total Deferred Outflows of Resources.....	\$3,750
<b>LIABILITIES</b>	
<i>Current Liabilities:</i>	
Accounts payable.....	\$ 9,546
Accrued expenses.....	676
Accrued interest payable.....	135
Compensated absences.....	1,189
Due to other funds.....	22,770
Extendable Municipal Commercial Paper.....	10,000
General obligation debt payable – current.....	1,817
Total Current Liabilities.....	\$46,133
<i>Current Liabilities Payable from Restricted Assets:</i>	
Revenue bonds payable.....	\$1,817
Total Current Liabilities Payable from Restricted Assets.....	\$1,817
<i>Noncurrent Liabilities</i>	
General obligation debt payable.....	\$ 8,351
Revenue bonds and State loans payable.....	14,322
Other post employment benefits obligation.....	6,069
Net pension liability.....	2,147
Total Noncurrent Liabilities.....	\$30,889
Total Liabilities.....	\$78,839
<b>NET POSITION:</b>	
Net investment in capital assets.....	\$405,661
Restricted for Debt Service.....	1,174
Unrestricted.....	15,145
Total Net Position.....	\$421,980

Source: City's 2015 CAFR, Exhibit B-1

**Water Works Fund Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31**  
(Thousands of Dollars)

	2011	2012	2013	2014	2015
<b>Operation Revenues:</b>					
Charges for Services:					
Water sales.....	\$69,944	\$73,076	\$70,257	\$72,526	\$79,290
Fire protection service .....	6,921	7,159	7,256	7,449	8,723
Other .....	7,529	7,887	7,521	8,038	8,674
<b>Total Operating Revenue .....</b>	<b>84,394</b>	<b>88,122</b>	<b>85,034</b>	<b>88,013</b>	<b>96,687</b>
<b>Operating Expenses</b>					
Administrative and general .....	6,474	6,087	8,898	7,858	8,691
Depreciation.....	14,067	14,110	14,482	16,864	17,624
Transmission and distribution.....	21,688	20,710	19,068	23,228	20,832
Water treatment .....	14,448	13,200	14,721	13,288	14,359
Water pumping .....	8,748	7,889	7,899	7,492	7,636
Billing and collection.....	2,704	2,770	2,680	2,903	2,998
<b>Total Operating Expenses .....</b>	<b>68,129</b>	<b>64,766</b>	<b>67,748</b>	<b>71,633</b>	<b>72,140</b>
<b>Operating Income .....</b>	<b>16,265</b>	<b>23,356</b>	<b>17,286</b>	<b>16,380</b>	<b>24,547</b>
<b>Nonoperating Revenues (Expenses):</b>					
Investment Income.....	12	13	8	7	24
Interest Expense.....	(1,067)	(1,175)	(980)	(907)	(1)
Other .....	436	(630)	290	286	337
<b>Total Net Nonoperating Revenues (Expenses)</b>	<b>(619)</b>	<b>(1,792)</b>	<b>(682)</b>	<b>(614)</b>	<b>360</b>
<b>Income before contributions and Transfers.....</b>	<b>15,646</b>	<b>21,564</b>	<b>16,604</b>	<b>15,766</b>	<b>24,907</b>
Capital Contributions.....	747	745	958	384	1,276
Transfers in .....	-	-	-	-	-
Transfers out.....	(11,151)	(11,891)	(12,395)	(12,397)	(12,880)
<b>Change in Net Assets/Position .....</b>	<b>5,242</b>	<b>10,418</b>	<b>5,167</b>	<b>3,753</b>	<b>13,303</b>
<b>Total Net Assets/Position – Beginning .....</b>	<b>382,322</b>	<b>387,564</b>	<b>397,982</b>	<b>403,149</b>	<b>408,677</b>
<b>Total Net Assets/Position – Ending .....</b>	<b>\$387,564</b>	<b>\$397,982</b>	<b>\$403,149</b>	<b>\$406,902</b>	<b>\$421,980</b>

Source: City's 2011, 2012, 2013, 2014 and 2015 CAFRs, Exhibit B-2.

Note: 2011 Investment Income includes the termination of an investment agreement with Lehman Brothers.

2013 Total Net Assets – Beginning is restated due to GASB 65.

2015 Total Net Position – Beginning is restated due to GASB 68.

**Water Works Fund Statement of Cash Flows**  
**For the Year Ended December 31**  
(Thousands of Dollars)

	2011	2012	2013	2014	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers and users.....	\$75,008	\$83,091	\$80,857	\$81,789	\$90,603
Receipts from interfund services provided .....	5,085	5,196	4,944	5,337	5,798
Payments to suppliers.....	(27,871)	(24,712)	(22,882)	(29,772)	(23,570)
Payments to employees .....	(24,133)	(21,448)	(20,842)	(20,872)	(20,400)
Payments to other funds .....	(4,219)	(11,179)	(1,068)	14,777	(17,672)
Net Cash Provided by Operating Activities.....	<u>23,870</u>	<u>30,948</u>	<u>41,009</u>	<u>51,259</u>	<u>34,759</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Miscellaneous nonoperating revenue.....	435	-	290	286	197
Other nonoperating expenses.....	-	(630)	-	-	-
Transfers to other funds.....	3,540	(11,891)	(12,395)	(12,397)	(12,880)
Net Cash used by Noncapital Financing Activities.....	<u>3,975</u>	<u>(12,521)</u>	<u>(12,105)</u>	<u>(12,111)</u>	<u>(12,683)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from sale of bonds and notes .....	11,625	4,000	5,342	1,312	16,590
Acquisition of property, plant and equipment .....	(34,482)	(15,077)	(21,984)	(32,944)	(29,418)
Retirement of bonds, notes, and revenue bonds.....	(3,989)	(4,315)	(7,951)	(4,385)	(3,846)
Interest paid.....	(1,134)	(1,275)	(1,084)	(986)	(48)
Net Cash Used by Noncapital Financing Activities.....	<u>(27,980)</u>	<u>(16,667)</u>	<u>(25,677)</u>	<u>(37,003)</u>	<u>(16,722)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITY:</b>					
Investment Income .....	13	13	10	8	24
Net Increase (Decrease) in Cash and Cash Equivalents.....	(122)	1,773	3,237	2,153	5,378
Cash and Cash Equivalents – Beginning .....	4,175	4,053	5,826	9,063	11,216
Cash and Cash Equivalents – Ending .....	<u>\$4,053</u>	<u>\$5,826</u>	<u>\$9,063</u>	<u>\$11,216</u>	<u>\$16,594</u>
Cash and Cash Equivalents at Year-End Consist of:					
Unrestricted Cash.....	\$3,360	\$5,121	\$8,293	\$10,286	\$15,420
Restricted Cash.....	692	705	770	930	1,174
	<u>\$4,052</u>	<u>\$5,826</u>	<u>\$9,063</u>	<u>\$11,216</u>	<u>\$16,594</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
Operating income .....	\$16,265	\$23,356	\$17,286	\$16,380	\$24,547
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation.....	14,067	14,110	14,482	16,864	17,624
Effect of changes in assets and liabilities:					
Receivables .....	(4,752)	(223)	464	(1,195)	(623)
Due from other funds .....	(2,063)	(6,902)	6,812	20,519	384
Inventories.....	60	(36)	(42)	78	(561)
Prepaid items.....	468	(433)	(156)	(1,375)	1,248
Other Assets .....	48	197	4	(1)	(12)
Accounts payable .....	(789)	343	1,474	413	3,013
Accrued Liabilities .....	(112)	57	260	(825)	42
Net other post employment benefits obligation .....	678	479	425	401	1009
Net pension liability .....	-	-	-	-	2,563
Due to other funds .....	-	-	-	-	(12,095)
Deferred pension outflows .....	-	-	-	-	(2,390)
Deferred pension inflows .....	-	-	-	-	10
Net Cash Provided by Operating Activities.....	<u>\$23,870</u>	<u>\$30,948</u>	<u>\$41,009</u>	<u>\$51,259</u>	<u>\$34,759</u>

Source: City's 2011, 2012, 2013, 2014 and 2015 CAFRs, Exhibit B-3.

**Water Works Fund**  
**Pro Forma Operations & Debt Service-Level Debt Service**  
(Dollars in Thousands)

	Historical				Projected (1)					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Operating Revenues .....	88,135	85,042	88,020	96,711	96,711	99,615	102,602	105,679	108,849	112,114
Operating Expenses.....	64,766	67,748	71,633	72,140	72,940	75,375	77,860	80,395	82,982	85,623
Net Income.....	23,369	17,294	16,387	24,571	23,771	24,239	24,742	25,284	25,867	26,491
Depreciation.....	14,110	14,482	16,864	17,624	18,424	19,224	20,024	20,824	21,624	22,424
Net Income Available for Debt Service.....	37,479	31,776	33,251	42,195	42,195	43,463	44,766	46,108	47,491	48,915
	<b>After issuance of the Series 2016 Bonds</b>									
Maximum Annual Debt Service.....	0	0	0	0	819	819	808	791	780	773
Debt Service Coverage.....	N/A	N/A	N/A	N/A	51.51	53.06	55.40	58.28	60.91	63.24
Assuming issuance of Additional Bonds										
Maximum Annual Debt Service.....					819	819	808	3,187	3,187	3,181
Debt Service Coverage.....					51.51	53.06	55.40	14.47	14.90	15.38
Assuming Subordinated Debt and issuance of Additional Bonds.....										
Maximum Annual Debt Service.....					2,811	4,082	4,382	8,105	9,570	11,034
Debt Service Coverage.....					15.01	10.65	10.22	5.69	4.96	4.43

(1) Assumes a rate increase of 3% in years 2017-2021.

## THE CITY

### Location, Organization and Government

#### General

The City is located on the western shore of Lake Michigan in southeastern Wisconsin. The City is the hub of the metropolitan area. The City is Wisconsin's largest city with a population of approximately 595,787 and is the principal trade, service and financial center of southeastern Wisconsin. The surrounding Metropolitan Statistical Area ("MSA") includes the principal cities of Milwaukee, Waukesha and West Allis; the counties of Milwaukee, Ozaukee, Waukesha and Washington; and has a population of nearly 1.6 million.

The Port of Milwaukee provides access to the sea lanes of the world. General Mitchell International Airport is served by domestic and international airlines. Five rail lines serve the City and provide transportation links throughout the United States. The City is also connected with the interstate highway system.

The City was incorporated as a city on January 31, 1846, pursuant to the laws of the Territory of Wisconsin. Wisconsin gained statehood in 1848. The City, operating under a Home Rule Charter since 1874, has a council mayor form of government.

## Elected Officials

The Mayor, City Attorney, Comptroller, Treasurer and Common Council members are elected officials of the City. Local elections are non-partisan. The Mayor, City Attorney, Comptroller and Treasurer are elected at-large for identical four-year terms.

The Common Council represents fifteen Aldermanic districts. Each Alderperson represents, and is elected from, an aldermanic district with a population of approximately 40,000.

## City Officials

**As of December, 2016**  
(initial year in office follows name)

Mayor	Tom Barrett	(2004)
City Attorney	Grant F. Langley	(1984)
City Comptroller	Martin Matson	(2012)
City Treasurer	Spencer Coggs	(2012)

## Common Council

Ashanti Hamilton	(2004)	Chantia Lewis	(2016)
Chevy Johnson	(2016)	Michael J. Murphy	(1989)
Nik Kovac	(2008)	Mark A. Borkowski	(2015)
Robert J. Bauman	(2004)	Jose G. Perez	(2012)
James A. Bohl, Jr.	(2000)	Terry L. Witkowski	(2003)
Milele A. Coggs	(2008)	T. Anthony Zielinski	(2004)
Khalif Rainey	(2016)	Russell W. Stamper, II	(2014)
Robert G. Donovan	(2000)		

\*The terms of all the above elected positions expire in April 2020.

## Public Services and Facilities

The City is charged with primary responsibility for public safety (via its police, fire and health departments); public works (including refuse removal and a City-owned water utility); various cultural and recreational services including a library system; and general municipal administration. City government also participates in housing and neighborhood programs through separate housing and redevelopment authorities. These two latter authorities have the ability to borrow directly and issue revenue backed financings.

Other major local governmental units and their related government services are the Milwaukee Public Schools (education); Milwaukee County (parks, airport/mass transit/highways, social services and court system); Milwaukee Metropolitan Sewerage District (wastewater treatment); and the Milwaukee Area Technical College (higher education). Wisconsin Statutes require the City to issue debt for Milwaukee Public Schools. The other governmental units listed each have the statutory authority to issue general obligation debt.

Two special purpose governmental units exist with the ability to borrow and tax on a limited revenue basis. The first is the Southeastern Wisconsin Professional Baseball Park District (the “*SWPBP District*”), a public entity created by State legislation, encompassing southeastern Wisconsin counties, including Milwaukee County, to finance construction/operations of a baseball facility (“*Miller Park*”) for the National League Milwaukee Brewers baseball club. Miller Park opened in March, 2001. The

SWPBP District has issued \$199 million of revenue bonds supported by a five-county, one-tenth of one percent sales tax and other ancillary revenue streams. In addition, \$45 million of lease certificates of participation have been issued by the SWPBP District to finance acquisition and installation of facility equipment, scoreboards, etc.

The second special purpose governmental unit is the Wisconsin Center District (“*WC District*”), a public entity created by the City pursuant to Section 229.42, Wisconsin Statutes, which oversees construction and operation of the Wisconsin Center, the City’s major convention complex. This complex also includes the UW-Milwaukee Panther and the Milwaukee Theater facilities, formerly known as “*MECCA*.” The Wisconsin Center, was financed by \$185 million of revenue bonds issued by the WC District and secured by a pledge of dedicated sales tax revenues from lodging, restaurant, and vehicle rentals collected in the WC District. Phase One of the Wisconsin Center was completed during 1998. Phase Two was completed in 1999. In 2001, the WC District issued \$30 million of bonds to renovate the Milwaukee Theatre.

In addition to the facilities noted above, the City is home to a 17,000+ seat indoor sports and concert venue, the BMO Harris Bradley Center, located in the heart of downtown. This facility serves the National Basketball Association Milwaukee Bucks, the Marquette University Golden Eagles basketball team and the Milwaukee Admirals International Hockey League club. The City is home to the Milwaukee Art Museum, as well as major symphony, ballet and opera companies, and other theatre and performing arts.

2015 Wisconsin Act 60 authorized the WC District to borrow \$203 million to construct and operate a new sports and entertainment arena/facilities (the “*Arena*”) for the Milwaukee Bucks. Planning and construction for the Arena is in process. Plans for the Arena include the demolition of the BMO Harris Bradley Center. The Milwaukee Admirals will relocate to the UW-Milwaukee Panther facility. Also pursuant to 2015 Wisconsin Act 60, the WC District may assume from Milwaukee County ownership and operations of Marcus Center for the Performing Arts.

On the lakefront is the Milwaukee Art Museum, which combines art, dramatic architecture and landscape design. The Quadracci Pavilion, the first Santiago Calatrava-designed building in the United States, features a 90-foot high glass-walled reception hall enclosed by the Burke Brise Soleil, a sunscreen that can be raised or lowered creating a unique moving sculpture.

Finally, the Milwaukee area is the site of a number of higher education institutions including Marquette University, the University of Wisconsin – Milwaukee, Alverno College, Mount Mary University and the Milwaukee School of Engineering.

## **Employee Relations**

The City has approximately 6,400 full-time employees. 2,700 employees are part of three public safety unions and 310 employees are in two non-public safety union. The remaining employees do not have collective bargaining representation.

The police officers’ and the police supervisors’ union have a contract through December 31, 2017. The firefighters’ union contract expired as of December 31, 2012. The agreement covering one non-public safety union expired on December 31, 2014. The other does not have an agreement. The City is in negotiations with the unions.

Pursuant to Wisconsin Statutes, non-public safety unions’ right to collective bargaining is limited solely to employee wages. Wisconsin Statutes does not limit the ability of public safety unions to collectively bargain on most issues.

## GENERAL, DEMOGRAPHIC AND ECONOMIC INFORMATION

### General

Based on 2010 census results, the City's population is 594,833. Population in the four county area surrounding the City is estimated at 1,619,429 and represents 28% of the population of the State of Wisconsin.

#### City of Milwaukee Selected Economic Data

Year	Population		Adjusted Gross Income Per Return
	Department of Administration	U.S. Census	
2015	595,787		Not Available
2014	595,993		\$37,340
2013	596,500		37,300
2012	595,425		35,770
2011	595,525		34,100
2010	580,500	594,833	32,774
2009	584,000		32,500
2008	590,870		33,160
2007	590,190		33,240
2000	605,572	596,974	32,370

*Sources: U.S. Census and the Wisconsin Department of Administration, Demographic Service Center and the Wisconsin Department of Revenue, Division of Research and Analysis. The Division's population estimates are used in the distribution of State Shared Revenues.*

## Building Permits

Another indicator of economic growth is the activity in the building industry. The following table indicates building permit activity during the period 2011 through December 2015.

### General Total

Year	Value	Permits Issued
2015	\$303,762,859	2,332
2014	539,753,288	2,443
2013	269,010,398	2,217
2012	254,896,334	2,297
2011	269,386,167	2,340

### Residential Building

Year	Single Family		Multi-Family		Total		Permits Issued
	Value	# Of Units	Value	# Of Units	Value	# Of Units	
2015	\$ 4,240,620	26	\$78,356,702	657	\$82,597,322	682	46
2014	4,423,531	31	16,096,831	300	20,520,362	331	39
2013	5,429,015	43	46,923,592	430	52,352,607	473	53
2012	4,408,472	44	30,455,000	281	34,863,472	325	60
2011	17,892,282	139	42,327,598	364	60,219,880	503	222

### Commercial Building

Year	Value	Permits Issued
2015	\$ 58,724,198	31
2014	320,611,159	49
2013	83,584,379	42
2012	52,952,469	51
2011	58,518,315	47

### Public Building

Year	Value	Permits Issued
2015	\$21,178,391	252
2014	31,118,208	314
2013	24,248,685	147
2012	43,046,652	211
2011	49,456,901	256

### Alterations and Additions

Year	Value	Permits Issued
2015	\$141,262,948	2,003
2014	167,503,559	2,041
2013	108,824,727	1,975
2012	124,033,741	1,975
2011	101,191,071	1,815

Sources: Development Center, Department of City Development. Data accumulated from monthly reports submitted to U.S. Department of Commerce, Bureau of the Census, Construction Statistics Division, Washington D.C.

## Leading Business and Industrial Firms Located Within Milwaukee County

The listing of large employers in the Milwaukee County area that follows reveals the diversity of Milwaukee County's economic base. The largest of these are shown in the following list, which includes only employers with the majority or all of their employment in Milwaukee County. The Employment Estimates can include employees located in counties contiguous to Milwaukee County.

Company	Business Description	2016 Approximate Employment
Aurora Health Care Inc.	Health Care System	25,696
Ascension Wisconsin	Health Care System	15,000
Froedert & Community Health	Health Care System	10,059
GE Healthcare	Health Care Technologies	6,000
Children's Hospital	Health Care System	5,571
The Medical College of Wisconsin	Private Medical School	5,290
Northwestern Mutual	Insurance, Investment Products	5,000
Goodwill Industries	Training Programs, Retail, & Food Service	3,970
US Bank NA	Banking Services	3,600
The Marcus Corp	Theaters and Hotel Properties	3,448
Johnson Controls Inc.	Control Systems, Batteries & Auto Interiors	3,200
BMO Harris Bank	Bank Holding Company	3,027
Rockwell Automation Inc	Industrial Automation Products	3,000
(FIS) Fidelity National Info. Services	Banking and Payments Technology	2,950
Harley-Davidson Inc.	Motorcycles & Accessories	2,800
Potawatomi Bingo Casino	Casino	2,789
Marquette University	University	2,765
Wisconsin Energy Corp	Electric & Natural Gas Utility	2,598
Bon-Ton Department Stores	Department Stores	2,100
Rexnord Corp.	Power Transmission Equipment	1,800
Sendik's Food Markets	Retail Supermarkets	1,750
Briggs & Stratton Corp.	Small Gasoline Engines	1,600
Robert W Baird	Asset Management and Capital Markets	1,488
MillerCoors LLC	Beer Brewery	1,400
JPMorgan Chase & Co.	Global Financial Services	1,252
Wells Fargo	Banking & Financial Services	1,250
Direct Supply	Shipping & eCommerce	1,200
Patrick Cudahy Inc.	Manufacturer of Processed Meats	1,190
Cargill Meat Solutions	Food Distribution	1,015
Associated Bank	Banking Services	900
Brady Corp.	Manufacturer of Identification Materials	890
Joy Global Inc.	Manufactures & Distributes Mining Equip	859

Source: Milwaukee Business Journal, as of July 22, 2016.

## EMPLOYMENT AND INDUSTRY

During 2015, the City’s unemployment rate averaged approximately 6.7%. Presented below are unemployment rates for the City, as compared to the State of Wisconsin and the United States for the period 2011 through 2015.

<b>Annual Unemployment Rates</b> (Not Seasonally Adjusted)				
Year	City of Milwaukee	Milwaukee – Waukesha – West Allis Metropolitan Statistical Area	State of Wisconsin	United States
2015	6.7%	5.0%	4.6%	5.3%
2014	8.0	5.9	5.4	6.2
2013	10.1	7.2	6.7	7.4
2012	10.4	7.5	7.0	8.1
2011	11.1	8.1	7.8	8.9

*Source: U.S. Department of Labor, Bureau of Labor Statistics.*

<b>Recent Monthly Unemployment Rates</b> (Not Seasonally Adjusted)				
Month	City of Milwaukee	Milwaukee – Waukesha – West Allis Metropolitan Statistical Area	State of Wisconsin	United States
October, 2016	5.1%	4.0%	3.5%	4.7%

*Source: U.S. Department of Labor, Bureau of Labor Statistics. Not Seasonally Adjusted*

The City’s economic structure reveals a diversified economy with strong service and manufacturing sectors. In Milwaukee County, service sector (healthcare, service, finance, insurance, real estate and retail trade) employs 74% of the workforce. Construction and manufacturing firms employ 15% of the workforce. Federal, State, and local governments employ 11% of the workforce. The area is not dominated by any large employers.

### Ten Largest Taxpayers With 2015 Estimated Equalized Valuations

US Bank Corp	\$246,859,310
Northwestern Mutual Life Ins.	173,021,542
Mandel Group	142,893,099
Forest County Potawatomi Community	128,640,384
Marcus Corp/Milw City Center/Pfister	109,723,288
Metropolitan Associates	98,217,196
Brewery Works/ Riverbend Place	93,511,446
Jackson Street Holdings	83,522,476
100 E. Wisconsin - CW Wisconsin Ave. LLC	79,959,925
Gorman & Co.	79,464,113

*Source: City of Milwaukee, Assessor’s Office January 2016.*

## **Market Conditions**

The Series 2016 Bonds, like most obligations of state and local governments, are subject to changes in value due to changes in the condition of the bond market or changes in the financial condition of the City and the Water System. It is possible under certain market conditions, or if the financial condition of the City and the Water System should change, that the market price of the Series 2016 Bonds could be adversely affected.

With regard to the risk involved in a lowering of the City's bond rating, see "**RATINGS**" herein. With regard to security and sources of payment, see "**SECURITY**" herein.

## **Limited Obligations**

The obligation of the City to pay debt service on the Series 2016 Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues and a mortgage lien on the Water System. The obligation of the City to pay debt service on the Series 2016 Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The City is obligated under the Bond Resolution to pay debt service on the Series 2016 Bonds solely from Net Revenues.

Factors that can adversely affect the availability of Net Revenues include, among other matters, drought, general and local economic conditions, changes in law and government regulations (including initiatives and moratoriums on growth) and appropriation authorization. The realization of future Net Revenues is also subject to, among other things, the capabilities of management of the City and the Water System to address natural disasters and terrorist attacks, and the ability of the City to provide water service to its customers in an amount sufficient to pay debt service on the Series 2016 Bonds. See "**THE MILWAUKEE WATER WORKS SYSTEM**" herein.

## PENSION SYSTEM SUMMARY

### Employees' Retirement System

The Employees' Retirement System (ERS) of the City is established pursuant to Section 36 of the Milwaukee City Charter provides retirement, disability and survivor benefits to the City and other agency employees and their beneficiaries. Membership in the ERS includes some classes of part-time employees, all full-time employees, and elected officials.

#### Active Members by Employee Groups As of December 31, 2015

	Active Members	Covered Compensation
General City.....	3,327	\$181,603,755
Water Department.....	297	16,690,278
Policemen .....	1,911	139,551,409
Firemen.....	794	58,054,752
Total City of Milwaukee .....	6,329	\$395,360,194
School Board .....	4,054	\$117,469,715
Milwaukee Technical College ...	0	0
Milwaukee Metro Sewer Dist....	214	17,236,987
Veolia .....	44	3,508,673
Wisconsin Center District.....	78	4,095,135
Housing Authority .....	166	10,033,105
Redevelopment Authority.....	10	833,870
Total .....	10,895	\$548,537,679

#### ERS Membership As of December 31, 2015

Class	Vested	Non-Vested	Inactive	Retired
General & Elected ....	5,696	2,580		9,190
Police.....	1,670	242		2,267
Firefighters .....	714	80		1,289
Certain pre-1996.....				17
Total .....	8,080	2,902	3,338	12,763

*Source: Tables 1c and 5 of the Actuarial Valuation Report as of January 1, 2016.*

The primary benefit of the ERS is a defined benefit plan with eligible employees earning a Retirement Allowance for each year of service. Funding for the ERS is derived from Member and actuarially required employer contributions. Current Retirement Allowance accrual rates and Member contributions to the system (expressed as a percentage of compensation) are as follows:

### Basic Benefit Accrual Rates and Member Contributions

Class	Retirement Allowance	Maximum Allowance	Member Contribution
General and Mayor hired prior to 1/1/2014 .....	2.0%	70%	5.5%
General hired after 12/31/2013 .....	1.6%	70%	4.0%
Other Elected Officials enrolled prior to 1/1/2014.....	2.5%	70%	7.0%
Elected Officials first enrolled after 12/13/2013.....	2.0%	70%	4.0%
Police .....	2.5%	90%	7.0%
Firefighters.....	2.5%	90%	7.0%

### Schedule of Funding Progress (\$ amounts in thousands)

Valuation As of Dec 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2015	\$4,899,155	\$5,064,141	\$165,986	96.3%	\$535,802	31.0%
2014	4,797,437	4,935,482	138,045	97.2	529,939	26.0
2013	4,580,729	4,831,689	250,960	94.8	521,651	48.1
2012	4,259,889	4,689,814	429,925	90.8	523,738	81.1
2011	4,404,635	4,587,915	183,280	96.0	525,181	34.9
2010	4,641,425	4,447,548	-	104.4	538,218	0.0
2009	4,814,402	4,269,324	-	112.8	553,846	0.0
2008	4,076,297	4,113,089	36,792	99.1	536,558	6.9
2007	5,192,000	3,958,061	-	131.2	532,412	0.0

Source: Tables 14 and 16 of the Actuarial Valuation Report as of January 1, 2016 (and each prior year).

For more information about the ERS, details on plan benefits, and for copies of their financial and actuarial reports, see <http://www.cmers.com>. The Employees' Retirement System Actuarial Valuation Report as of January 1, 2016 is available from EMMA and is hereby incorporated by reference. (See "CONTINUING DISCLOSURE" herein).

### Policemen's Annuity and Benefit Fund

Membership in the Policemen's Annuity and Benefit Fund (PABF) consists of all Police Department employees whose service commenced prior to July 29, 1947. As of December 31, 2015, there were 6 members and 30 spouses receiving benefits under the fund program.

Current funding is derived from employer contributions. Chapter 35 of the City Charter provides that annual contributions consist of: 1) an amount sufficient to amortize the unfunded actuarial liability over a ten-year period with a series of level dollar payments; and 2) budgeted administrative expenses for the year.

For copies of the PABF actuarial reports, see <http://www.cmers.com>

**Schedule of Funding and Contributions**  
(\$ amounts in thousands)

Dec 31	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio
2015	\$ 185	\$1,059	\$ 875	17.4%
2014	147	1,388	1,241	10.6
2013	412	1,778	1,366	23.2
2012	651	2,152	1,501	30.2
2011	1,008	2,451	1,444	41.1
2010	1,584	2,946	1,362	53.8
2009	1,936	3,687	1,751	52.5
2008	2,147	4,296	2,148	50.0

*Source: Policemen's Annuity and Benefit Fund, Actuarial Valuation Reports as of January 1, 2016 (and each prior year). Summary of Principal Results.*

**Other Post-Employment Benefits**

The City provides other post-employment benefits (OPEB) to its retirees for health and life insurance. A single-employer defined benefit healthcare plan and life insurance plan are sponsored by the City and administered by ERS. The City provides medical insurance benefits for substantially all retirees. Retiree coverage begins at age 55 with at least 15 years of service for General City employees, at any age with at least 25 years of service for Police employees, and at age 49 with at least 22 years of service for Fire employees. In addition, the City allows employees to continue life insurance coverage under the Group Life Insurance Plan offered to active employees.

Until age 65, for retirees with at least 15 years of creditable service, the majority of the cost of the health benefit plan is paid by the City. After attaining the age of 65, and having completed a minimum of 15 years of creditable service, the City pays 25% of the base rate of the City's Basic Plan and 100% of the major medical rate.

Eligible retirees are able to continue coverage under the City's Group Life Insurance Plan, and pay the same rate as active employees. The rates established are group rates applied consistently to all employees, without regard to age or health. Upon reaching age 65, their coverage will be reduced in accordance with a reduction schedule, with the City assuming all future premiums.

The required contribution for medical and life insurance for retirees is based upon pay-as-you-go financing. Medical benefits provided through the basic health care plan are self-insured. For 2015, the City paid approximately \$27 million and \$2 million, respectively, towards medical and life insurance for retirees.

The actuarial cost of health benefits and life insurance for retirees exceeds the average amount paid by retirees, therefore, the additional cost is paid by the City and is the basis for the OPEB obligation account for under GASB 45.

**Funding Status and Funding Progress**  
(\$ amounts in thousands)

Annual Required Contribution (ARC)	\$ 76,195
Interest on Net OPEB	14,648
Adjustment to ARC	<u>(13,277)</u>
Annual OPEB Cost	77,566
Contributions Made	<u>29,203</u>
Increase in net OPEB Obligation	48,363
Net OPEB Obligation – beginning of year	<u>325,503</u>
Net OPEB Obligation – end of year	<u><u>\$373,866</u></u>

Source: City's 2015 CAFR.

**Annual Cost and Net OPEB Liability**  
(\$ amounts in thousands)

Year Ended Dec 31	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$77,566	37.3%	\$373,866
2014	74,790	49.9	325,503
2013	71,489	52.5	287,460
2012	76,156	46.6	253,523
2011	73,071	47.3	212,886
2010	81,311	41.8	174,360
2009	77,389	37.1	127,074
2008	73,100	45.0	78,400

Source: City's 2015 and prior years CAFRs.

**Schedule of Funding Progress**  
(\$ amounts in thousands)

Valuation As of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Jan 1, 2015	\$0	\$ 975,696	\$ 975,696	0.0%	\$366,785	266%
Jan 1, 2014	0	928,496	928,496	0.0	381,100	227
Jan 1, 2013	0	888,983	888,983	0.0	382,795	218
Jan 1, 2012	0	946,857	946,857	0.0	409,572	231
Jan 1, 2011	0	916,383	916,383	0.0	407,840	225
Jan 1, 2010	0	1,007,573	1,007,573	0.0	413,648	244
Jan 1, 2009	0	959,562	959,562	0.0	419,811	229
July 1, 2008	0	880,700	880,700	0.0	425,400	207

Source: City's 2015 and prior years CAFRs.

Actuarial Assumptions and Methods for the most recent valuation include:

The retiree healthcare valuation was based on the projected unit credit (PUC) cost method. The PUC method produces an explicit normal cost and actuarial accrued liability. The normal cost and actuarial accrued liability are directly proportional to the employee's service. That is, the normal cost equals the present value of future benefits divided by projected service at retirement, and the actuarial

accrued liability equals the present value of benefits multiplied by the ratio of service at valuation date to projected service at retirement. Depending on the demographic characteristics of the current group and new entrants in the future, this method could produce stable annual costs, in the aggregate, when expressed as a percentage of pay.

The OPEB valuation uses a discount rate assumption of 4.5% based on the City's projected short-terms investment rate of return. The healthcare cost trends rate is 8.0% initially, and reduced by decrements to the ultimate rate of 4.5% after 9 years. The actuarial assumption for wage inflation is 3%. The amortization of the unfunded actuarial accrued liability is based on a level percentage of pay over a 30-year open amortization period.

## LEGAL MATTERS

### Litigation Statement

The City, its boards, officers and employees, have been defendants in numerous lawsuits over the years. Experience has shown that a relatively small number of suits commenced are reduced to judgment. The City does not carry a blanket policy of insurance against tort liability. In addition, Section 893.80 of the Wisconsin Statutes limits the amount recoverable against a political corporation, its officers, officials or employees for acts done in their official capacity to \$50,000 in tort liability for non-automobile cases and \$250,000 in automobile cases.

The City Attorney's office has reviewed the status of pending or threatened litigation, claims and assessments to which the office has devoted substantive attention in the form of legal consultation or representation and which individually represent maximum potential loss exposure in excess of \$1 million, existing on November 15, 2016.

*Estate of Perry v. Wenzel, et al.* James Perry was lawfully arrested by Milwaukee police officers. He was brought to the Police Administration Building, where he was detained in the City jail facility. While in the City jail, Mr. Perry suffered a seizure. Medical personnel were immediately called, and he was ultimately transported to an area hospital for treatment. While at the hospital, Mr. Perry was treated for a seizure condition, and he was released to the custody of Milwaukee police officers. Milwaukee police officers brought Mr. Perry back to the City jail facility, to complete his processing, and then he was brought to the Milwaukee County Criminal Justice Facility, for long-term imprisonment. While waiting in the triage area, and before he was accepted into the custody of the County, Mr. Perry collapsed, and died shortly thereafter. The plaintiffs are Mr. Perry's estate, along with his child. The plaintiffs claim that various County of Milwaukee and City of Milwaukee defendants violated Mr. Perry's rights, and that these actions caused his death. However, the autopsy conducted by the Milwaukee County Medical Examiner indicates that Mr. Perry died from natural causes related to significant coronary artery disease. The Court granted the summary judgment motions filed by both the City and County defendants. The Court also sanctioned the plaintiffs regarding the claims raised against the County defendants and awarded the County defendants fees and costs. The City defendants have filed a similar motion for sanctions, which has been fully briefed and is awaiting the Court's decision. In the interim, plaintiffs have filed an appeal to the Seventh Circuit Court of Appeals.

*Estate of Dontre Hamilton v. City of Milwaukee.* Dontre Hamilton's estate filed a notice of injury on August 26, 2014. Litigation has recently been filed in federal court by the estate and family of Dontre Hamilton who died as a result of an officer-involved shooting. Officer Christopher Manney encountered Mr. Hamilton at Red Arrow Park located in downtown Milwaukee on April 30, 2014. The lawsuit relates that Mr. Hamilton was sleeping in the park and the officer allegedly woke and searched

him for no legally justifiable purpose, causing a confrontation and struggle that resulted in the officer shooting Mr. Hamilton 14 times and causing his death. The officer has not been charged with any criminal violation as a result of the incident, but was subsequently discharged from employment, due to his decisions relative to the manner in which he approached Mr. Hamilton, although his use of force was then justified. Officer Manney has appealed his discharge to the circuit court, which affirmed his termination. The lawsuit indicates that Mr. Hamilton was not married, but was survived by a minor child, his mother and his brother. Mr. Hamilton was not employed at the time of the incident. The potential damages include claims for pain and suffering and loss of support and companionship for the minor child. No amounts of monetary damages were specifically claimed in the lawsuit.

***Estate of Derrick Williams, Jr., et al. v. City of Milwaukee, et al.*** On July 6, 2011 Derrick Williams, Jr., a 22-year-old African American male, was taken into custody by representatives of the Milwaukee Police Department. He was observed attempting an armed robbery of a young couple on a street corner. He ran from the police, and was placed in the back seat of a squad car after he was apprehended. Mr. Williams subsequently collapsed while in the back seat of that squad. Officers attempted to resuscitate him, and emergency medical caregivers were called to the scene, but Mr. Williams was pronounced dead. An inquest was conducted relative to Mr. Williams' death, and no criminal charges were issued against any of the officers involved. Medical testimony suggested that Mr. Williams died as a result of sickle cell anemia. Mr. Williams' estate, along with his minor children, filed suit with the United States District Court for the Eastern District of Wisconsin on July 6, 2016. The matter has yet to be assigned to a district court judge for review. The plaintiffs seek unspecified monetary damages, but indicate that they include compensatory damages, attorney's fees and costs, and punitive damages.

***William Avery, et al. v. City of Milwaukee, et al.*** In this 2011 civil rights action, the plaintiffs claim that William Avery was wrongly convicted in 2005 of the 1998 murder of a woman. Avery spent six years in prison until DNA testing in 2010 linked the murder victim to another individual who has been convicted of murdering a number of other women. Avery claims that Milwaukee police officers unconstitutionally withheld exculpatory evidence and coerced false statements from witnesses. Avery also claims that supervisors in the police department permitted such alleged misconduct to occur as a matter of practice. The matter was tried in June 2015, and the jury returned a verdict against the two city officers in the amount of \$1 million. Plaintiffs' counsel petition for an award of attorneys' fees and costs totaling \$808,285.45. On September 29, 2015, the trial court set aside the verdict, entered judgment in favor of the defendants, and dismissed plaintiffs' attorneys' petition for fees and costs. Plaintiffs filed an appeal, and the appeal is pending.

***Robert Lee Stinson v. City of Milwaukee, et al.*** In this 2009 civil rights action, Mr. Stinson claims that he was wrongly convicted in 1984 of the murder of a 67-year-old woman. Stinson spent more than 20 years in prison until recent DNA testing of the victim's clothing produced no DNA matching Stinson's and new techniques of examining bite marks on the victim indicating that the marks did not match Stinson's teeth. Stinson claims that Milwaukee police officers unconstitutionally withheld exculpatory evidence and conspired with two dental experts to produce false evidence. The defendants have all filed dispositive motions seeking to have the court dismiss the case. The trial court denied all defendants' motions. All defendants have appealed the denial to the court of appeals and the court of appeals ruled in favor of all of the defendants on August 25, 2015. Stinson filed a request for rehearing and rehearing by the entire court of appeals, which was granted. The matter has been argued to the entire court and is now awaiting their decision.

***Section 74.37 Litigation.*** There are presently 15 lawsuits pending against the City for property tax refunds under this statute. Of these, four have the potential to result in judgments in excess of \$1 million. Marathon Oil and US Venture (formerly Amoco Oil) sued for property tax refunds in the total

amount of about \$3 million for their oil terminals for 2009-2014 in a bench trial in Judge Foley's court in November, 2015. On February 29, 2016, Judge Foley issued a written decision sustaining the City's assessments. Plaintiffs have appealed, but briefing has not yet begun. Metropolitan Associates is requesting a refund of approximately \$2 million for several large residential apartment complexes around the City; one of these cases was tried in June 2015; the court issued a decision sustaining the City's assessments; the plaintiff has filed an appeal, with a decision expected later this year. Clear Channel Outdoor brought a lawsuit for the refund of property taxes on its billboards for 2009-2013; (Lamar Outdoor has a similar claim pending); the total amount of these two claims could reach \$10 million with interest; the Circuit Court ruled in the City's favor in the Clear Channel case; the plaintiff has appealed to the Court of Appeals and the briefing schedule has been completed; a decision is not likely until the end of 2016, at the earliest and the losing party will likely petition the Wisconsin Supreme Court for review. U.S. Bank has brought suit for a \$2.8 million refund for its 40-story office tower; this case is still in the early stages of discovery.

## **LEGAL OPINION**

The legal opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, and Hurtado Zimmerman SC, Wauwatosa, Wisconsin, Bond Counsel to the City, will be delivered to the purchasers of the Series 2016 Bonds. A draft of the legal opinion for the Series 2016 Bonds are included herein as *Appendix B*.

## **TAX MATTERS**

### **Summary of Bond Counsel Opinion**

Bond Counsel is of the opinion that under existing law, interest on the Series 2016 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "*Code*"), Bond Counsel is of the opinion that interest on the Series 2016 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is further of the opinion that the Series 2016 Bonds are not "*private activity bonds*" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Series 2016 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Series 2016 Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Series 2016 Bonds is not exempt from Wisconsin income taxes.

The Code contains certain requirements that must be satisfied from and after the date of issuance of the Series 2016 Bonds in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Series 2016 Bonds. These requirements relate to the use and investment of the proceeds of the Series 2016 Bonds, the payment of certain amounts to the United States, the security and source of payment of the Series 2016 Bonds and the use of the property financed with the proceeds of the Series 2016 Bonds.

### **Series 2016 Bonds Purchased at a Premium or at a Discount**

The difference (if any) between the initial price at which a substantial amount of each maturity of the Series 2016 Bonds is sold to the public (the "*Offering Price*") and the principal amount payable at maturity of such Series 2016 Bonds is given special treatment for Federal income tax purposes. If the

Offering Price is higher than the maturity value of a Series 2016 Bond, the difference between the two is known as “*bond premium*,” if the Offering Price is lower than the maturity value of a Series 2016 Bond, the difference between the two is known as “*original issue discount*.”

Bond premium and original issue discount are amortized over the term of a Series 2016 Bond on the basis of the owner’s yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is treated as a reduction in the amount of tax-exempt interest earned during such period. The amount of original issue discount accruing during each period is treated as interest that is excludable from the gross income of the owner of such Series 2016 Bond for Federal income tax purposes, to the same extent and with the same limitations as current interest.

Owners who purchase Series 2016 Bonds at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the Series 2016 Bonds. In addition, owners of Series 2016 Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Series 2016 Bonds; under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for Federal income tax purposes.

### **Exclusion from Gross Income: Requirements**

The Code sets forth certain requirements that must be satisfied on a continuing basis in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Series 2016 Bonds. Among these requirements are the following:

***Limitations on Private Use.*** The Code includes limitations on the amount of Series 2016 Bond proceeds that may be used in the trade or business of, or used to make or finance loans to, persons other than governmental units.

***Investment Restrictions.*** Except during certain “*temporary periods*,” proceeds of the Series 2016 Bonds and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a “*minor portion*”) may generally not be invested in investments having a yield that is “*materially higher*” (1/8 of one percent) than the yield on the Series 2016 Bonds.

***Rebate of Arbitrage Profit.*** Unless the City qualifies for an exemption, earnings from the investment of the “*gross proceeds*” of the Series 2016 Bonds in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the Series 2016 Bonds are required to be paid to the United States at periodic intervals. For this purpose, the term “*gross proceeds*” includes the original proceeds of the Series 2016 Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Series 2016 Bonds.

### **Covenants to Comply**

The City has covenanted to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Series 2016 Bonds.

### **Risks of Non-Compliance**

In the event that the City fails to comply with the requirements of the Code, interest on the Series 2016 Bonds may become includable in the gross income of the owners thereof for federal income tax

purposes retroactive to the date of issue. In such event, the City's agreements with the owners of the Series 2016 Bonds require neither acceleration of payment of principal of, or interest on, the Series 2016 Bonds nor payment of any additional interest or penalties to the owners of the Series 2016 Bonds.

## **Federal Income Tax Consequences**

Pursuant to Section 103 of the Code, interest on the Series 2016 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the Series 2016 Bonds that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below. **PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE SERIES 2016 BONDS.**

***Cost of Carry.*** Owners of the Series 2016 Bonds will generally be denied a deduction for otherwise deductible interest on any debt which is treated for federal income tax purposes as incurred or continued to purchase or carry the Series 2016 Bonds. As discussed below, special allocation rules apply to financial institutions.

***Corporate Owners.*** Interest on the Series 2016 Bonds is generally taken into account in computing the earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Series 2016 Bonds is taken into account not only in computing the corporate alternative minimum tax but also the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

***Individual Owners.*** Receipt of interest on the Series 2016 Bonds may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.

***Certain Blue Cross or Blue Shield Organizations.*** Receipt of interest on the Series 2016 Bonds may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.

***Property or Casualty Insurance Companies.*** Receipt of interest on the Series 2016 Bonds may reduce otherwise deductible underwriting losses of a property or casualty insurance company.

***Financial Institutions.*** Financial institutions may be denied a deduction for their otherwise allowable interest expense in an amount determined by reference, in part, to their adjusted basis in the Series 2016 Bonds.

***Foreign Personal Holding Company Income.*** A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the Series 2016 Bonds held by such a company is properly allocable to the shareholder.

The opinion of Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings and other official interpretations of law in existence on the date the Series 2016 Bonds are issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Series 2016 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Series 2016 Bonds.

## CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “*Commission*”), pursuant to the Securities Exchange Act of 1934 (the “*Rule*”), the City shall covenant pursuant to a Resolution adopted by the Governing Body to enter into an undertaking (the “*Undertaking*”) for the benefit of holders including beneficial holders of the Series 2016 Bonds to provide certain financial information and operating data relating to the City annually to a central repository designated by the Commission, currently the Municipal Securities Rulemaking Board (the “*MSRB*”), and to provide notices of the occurrence of certain events enumerated in the Rule electronically or in the manner otherwise prescribed by the MSRB to the MSRB. The MSRB has designated its Electronic Municipal Market Access (“*EMMA*”) system as the system to be used for continuing disclosures to investors. The details and terms of the Undertaking, as well as the information to be contained in the annual report or the notices of reportable events, are set forth in the Continuing Disclosure Certificate to be executed and delivered by the City at the time the Series 2016 Bonds are delivered. Such Certificate will be in substantially the form attached hereto as *Appendix D*. The City intends to fully comply with the Undertaking relating to the Series 2016 Bonds.

A failure by the City to comply with the Undertaking will not constitute an event of default on the Series 2016 Bonds (although holders will have the right to obtain specific performance of the obligations under the Undertaking). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2016 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2016 Bonds and their market price.

Prior to August of 2003 the City entered into continuing disclosure undertakings (the “*Pre-2003 Undertakings*”) which contained a six-month filing requirement for Annual Financial Information. Due to the complexity and size of the City’s operations, the City had difficulty meeting that timing requirement and subsequently modified its continuing disclosure undertakings (the “*Post-2003 Undertakings*”) to use a nine-month filing requirement for Annual Filing Information. Except as discussed below, within the previous five years, the City has not failed to comply in any material respect with regards to the Post-2003 Undertakings. With regards to the Pre-2003 Undertakings the City has failed to strictly comply with the 6-month time period for filing its Annual Financial Information and updating certain information on the sewerage system that does not significantly change from year to year.

The City has endeavored to report rating changes which would impact any of its outstanding debt due to bond insurer downgrades. However, since the Nationally Recognized Statistical Rating Organizations (NRSRO) and bond insurers do not notify the City of any such rating changes, no assurance can be provided that notices of all rating changes were reported.

In the Undertaking, the City has agreed to perform certain filings. However, the Undertaking, nor the Rule, requires the filings to be associated with CUSIP numbers, which the City does not control. While the City will attempt to associate filings with the appropriate CUSIP numbers, no assurance can be given that all relevant CUSIP numbers will be associated with a filing.

## FINANCIAL ADVISOR

Public Financial Management, Inc. has been retained as Financial Advisor to the City in connection with the issuance of the Series 2016 Bonds.

## UNDERWRITING

The Series 2016 Bonds were purchased at competitive bidding conducted on December 1, 2016.

The award of the Series 2016 Bonds was made to Hutchinson, Shockey, Erley & Co., its co-managers and associates at a purchase price of \$10,254,941.10, reflecting a net original issue premium of \$392,423.60 and an underwriting discount of \$137,482.50.

The public reoffering yields or prices of the Series 2016 Bonds are detailed on the inside front cover of the Official Statement.

## CLOSING DOCUMENTS AND CERTIFICATES

Simultaneously with the delivery of and payment for the Series 2016 Bonds by the Underwriters thereof, the City will furnish to the Underwriters the following closing documents, in form satisfactory to Bond Counsel:

- (1) signature and no litigation certificate;
- (2) tax certificate;
- (3) certificate of delivery and payment;
- (4) the opinion as to the legality of the Series 2016 Bonds under Wisconsin law and as to the tax-exempt status of the interest thereon for federal income tax purposes rendered by Katten Muchin Rosenman LLP, Chicago, Illinois, and Hurtado Zimmerman SC, Wauwatosa, Wisconsin, Co-Bond Counsel to the City, in substantially the form as set forth in *Appendix B*;
- (5) copies of this Official Statement issued in conjunction with the Series 2016 Bonds within seven business days after the award of the Series 2016 Bonds in accordance with SEC Rule 15c2-12(b)(3);
- (6) Continuing Disclosure Certificate; and
- (7) a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

## RATINGS

The City has applied for ratings on the Series 2016 Bonds from Fitch Ratings (“*Fitch*”) and from S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC (“*S&P*”). Fitch has assigned a rating of “AA” on the Series 2016 Bonds and S&P has assigned a rating of “AA”, on the Series 2016 Bonds.

The ratings, when issued, reflect only the views of the respective ratings agencies, and an explanation of the significance of such rating may be obtained therefrom. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised, either upward or

downward, or withdrawn entirely, by the respective agencies, if, in their judgment, circumstances so warrant. A revision or withdrawal of the credit rating could have an effect on the market price of the Series 2016 Bonds.

### **ADDITIONAL INFORMATION**

Additional information may be obtained from the City Comptroller upon request.

MARTIN MATSON, City Comptroller and Secretary  
City of Milwaukee, Public Debt Commission  
City Hall - Room 404, 200 East Wells Street  
Milwaukee, Wisconsin 53202  
(414) 286-3321

### **REPRESENTATIONS OF THE CITY**

To the best of its knowledge, the information in this Official Statement does not include any untrue statement of a material fact, nor does the information omit the statement of any material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The City has reviewed and authorized the distribution of this Official Statement.

**CITY OF MILWAUKEE, WISCONSIN**

By: /s/ Martin Matson  
Comptroller

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## **APPENDIX A**

### **Audited Annual Financial Report of the City of Milwaukee, Wisconsin for the Year Ended December 31, 2015**

#### **Selected Sections of the Comprehensive Annual Financial Report**

The City's Comprehensive Annual Financial Report for the year ended December 31, 2015, is available from EMMA and is hereby incorporated by reference.

The independent auditor has not been engaged to perform, and has not performed since the date of its report (a portion of which is included herein), any procedures on the financial statements addressed in the report nor on this Official Statement, nor has the independent auditor been asked to give consent to the inclusion of this appendix in this Official Statement.

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## **INTRODUCTORY SECTION**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Members  
Common Council  
City of Milwaukee, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milwaukee, Wisconsin ("City") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Redevelopment Authority of the City of Milwaukee, the Neighborhood Improvement Development Corporation, and the Century City Redevelopment Corporation, which represents one-hundred percent of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milwaukee, Wisconsin, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis-of-Matter***

As discussed in Note 8 to the financial statements, in 2015, the City of Milwaukee, Wisconsin adopted new accounting guidance, GASB Statement No. 68 Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68. As a result of the implementation, the City of Milwaukee, Wisconsin reported a restatement for the change in accounting principal. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, and the schedule of funding progress for retiree health and life insurance, schedule of the City's proportionate share of the net pension liability, and the schedule of the City's contributions as listed in the table of contents. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milwaukee, Wisconsin's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, the statistical section, and the miscellaneous financial data have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated , on our consideration of the City of Milwaukee, Wisconsin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Milwaukee, Wisconsin's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Milwaukee, Wisconsin  
July 15, 2016

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED DECEMBER 31, 2015

This section of the Comprehensive Annual Financial Report of the City of Milwaukee provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended December 31, 2015. The City's management encourages readers to consider the information presented here in conjunction with additional information that we have presented in the letter of transmittal. The financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section and should be read in conjunction with it. This section focuses on the City's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

**FINANCIAL HIGHLIGHTS**

- The assets of the City of Milwaukee exceeded its liabilities at the close of fiscal year 2015 by \$984 million (net position); \$239 million in governmental activities and \$745 million in business-type activities. Governmental activities' unrestricted assets reflect a deficit of \$739 million. The City regularly makes significant investments in private purpose developments which do not produce any direct financial return to the City. The City also finances certain long-term liabilities as they come due rather than when they are incurred. The City's net position increased 5% compared to the previous year of \$941 million.
- The vast majority of the City's net position is capital assets, most of which do not generate revenues by their use or sale. Total net position comprise the following:
  - Capital assets, including property and equipment, net of related debt and accumulated depreciation – \$1.44 billion.
  - Restricted net position, limited by constraints imposed externally such as debt covenants, grantors, laws, or regulations – \$210 million.
  - Unrestricted net deficit – \$(671) million.
- The City's total 2015 year-end other post-employment benefits (OPEB) obligation is \$374 million; an increase of 15% from the 2014 obligation of \$326 million. The obligation is based on an actuarial valuation as of January 1, 2015, which indicates the 2015 actuarial accrued liability for benefits was \$976 million over a 30-year amortization period.
- In 2015, the City implemented GASB 68 for pensions. The City's 2015 year-end net pension liability is \$95 million based on an actuarial valuation as of January 1, 2014. See Note 8 in the financial statements for more disclosures for the pension liability reporting.
- Total liabilities of the City increased to \$2.1 billion from 2014 total of \$1.8 billion. The long-term portion of total liabilities (\$1.9 billion) consists of \$374 million for OPEB, \$1.4 billion for outstanding debt, \$81 million for compensated absences, claims, and judgments, and \$95 million for pension liability.
- City governmental expenses exceeded combined program revenues by \$734 million. General revenues and transfers of \$683 million resulted in a \$50 million decrease of net position for the year. Net position of business-type activities increased \$17 million from 2014's un-restated balance of \$727 million to \$745 million.
- For governmental activities, program revenue supported 22% of the total expenses for 2015. Property taxes and other taxes financed 30% of the primary government's governmental activities' expenses, state aids for the General Fund funded 28%, and miscellaneous revenues and transfers supported 14% of the expenses. As a result, expenses were greater than total revenues and transfers by 6% in 2015.
- For business-type activities, program revenue supported 128% of the expenses for 2015; and, in total exceeded the expenses by \$56 million. Miscellaneous revenue and transfers out reduced this excess by \$41 million to result in a \$15 million increase of net position for the year.
- The City's total governmental funds ending fund balances were \$345 million for 2015, compared to the 2014 ending fund balance of \$313 million, an increase of \$32 million (or 10%).
- The General Fund balance at year-end 2015 totaled \$127 million – a \$14 million increase compared to 2014. This ending Fund Balance is about 16% of combined General Fund expenditures and transfers disbursed for the year.
- The operating expenditures of the General Fund were \$29 million less than budgeted. General government expenditures realized the most cost savings with \$27 million below the final budget, accounting for most of the total positive budget

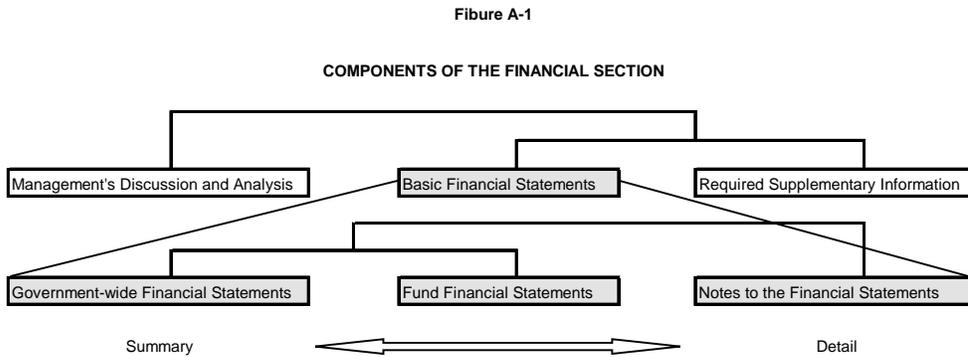
CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

variance for the year 2015.

- Outstanding General Obligation bonds and notes payable increased by \$30 million during the current fiscal year from \$850 million to \$880 million. In addition, revenue bonds of \$95 million, extendable municipal commercial paper of \$166 million and state loans of \$108 million were outstanding at year end totaling \$1.2 billion of debt, which was a slight increase from 2014.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction to the City's basic financial statements. The basic financial statements consist of three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, (3) **Notes** to the financial statements. This report also includes other (4) **Required Supplementary Information**. Figure A-1 shows how the required parts of the annual report are arranged and relate to one another.



The basic financial statements include two kinds of statements.

- Government-wide financial statements that provide both long-term and current period information about the City's overall financial status.
- "Fund" specific financial statements that focus on individual components of City government, reporting the City's operations in more detail than the government-wide statements.
  - Governmental fund statements tell how general government services such as public safety were financed in the past year as well as what remains for future spending.
  - Proprietary fund statements offer current year and long-term financial information about business-type activities such as the water utility and the sewer maintenance systems.
  - Fiduciary fund statements provide financial information about certain operations—such as benefit plans for the City's employees—in which the City is solely a trustee or agent for the benefit of others to whom the resources belong.

A summary of the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain are depicted in table Figure A-2. The remainder of this overview section of MD&A explains the structure and contents of each of the statements.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

FIGURE A-2  
 MAJOR FEATURES OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the city for basic governmental services	The day-to-day operating activities of the city for business-type enterprises	Instances in which the City administers resources on behalf of others, such as employee benefits
Required financial statements	* Statement of net position * Statement of activities	* Balance Sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of net position * Statement of revenues, expenses, and changes in net position * Statement of cash flows	* Statement of fiduciary net position * Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus, except agency funds do not have measurement focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; capital assets and long-term liabilities	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others and all liabilities
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide an overview of the City's finances, similar to a private-sector business and include both long-term and short-term information about the City's financial status. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. All of the activities of the City, except those of a fiduciary nature, are included.

Two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets and liabilities—is one measure of the City's financial health. Increases or decreases in the City's net position are one measure of its financial health. Other non-financial factors such as changes in the property tax base and the condition of the City's infrastructure (streets, sewers, etc.) are also needed to assess the overall health of the City.

The government-wide financial statements of the City of Milwaukee are reported into three categories on these statements—governmental activities, business-type activities, and component units. A total for the City is also provided.

- The *governmental activities* include the basic services of the City including general government (administration), police, fire, public works, health, culture, and development services. Taxes and general revenues generally support these activities.
- The *business-type activities* include the private sector type activities such as the water, sewer user charge, sewer maintenance, parking, and port. User charges or fees primarily support these activities.
- The *component units* include three other entities in its report: Redevelopment Authority of the City of Milwaukee, Neighborhood Improvement Development Corporation, and Century City Redevelopment Corporation. Although legally independent entities, these organizations are closely related to the City of Milwaukee in terms of their respective financial and public policy responsibilities.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED DECEMBER 31, 2015

**Fund Financial Statements**

The City's major funds begin with Exhibit A-1. The fund financial statements provide detailed information about the most significant financial components of the municipality as opposed to the City as a whole. These individual funds are established for the purpose of executing specific activities and objectives in accordance with Federal, State and local laws and regulations. The accounts of the City are organized on the basis of funds. Each fund is a separate fiscal and accounting entity with a self-balancing set of accounts including assets, liabilities, equities, revenues and expenditures or expenses.

The City reports financial activity and status according to three fund types: governmental, proprietary and fiduciary funds.

- **Governmental funds:** Most of the City's basic services are reported in governmental funds, applying modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine if more or fewer financial resources are available to be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in the reconciliation at the bottom of the fund financial statements.
- **Proprietary funds:** Operations which are financed primarily by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control and other purposes. Proprietary funds utilize full accrual accounting. The City's proprietary (enterprise) funds focus on the business-type activities reported in the government-wide statements, providing additional detail including cash flows.
- **Fiduciary funds:** The City is the trustee, or fiduciary, for its pension and other employee benefit trusts and various miscellaneous private purpose trusts. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position in Exhibits C-1 and C-2. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Notes to the Financial Statements**

The notes which follow the Government-wide and Fund financial statements (Exhibits 1 through D-2) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information to demonstrate legal budgetary compliance for each major fund for which an annual budget is adopted. This required supplementary information is presented in Exhibits E-1. A *Schedule of Funding Progress* relating to retiree health and life insurance and pension is depicted in Exhibit E-2.

**Combining Schedules, Individual Fund Statements and Schedules of Miscellaneous Financial Data**

Combining schedules provide detail in connection with nonmajor governmental funds and nonmajor enterprise funds. Individual fund statements provide greater detail, presented as compared with the final amended budget for the General Fund, and each nonmajor special revenue fund. Capital Projects are also presented in detail by major category (i.e., streets, sewers) within the Miscellaneous Financial Data Section. See Exhibits F-1 through I-9.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole. The net position and net expenses of governmental and business-type activities of the City are presented separately below. Table 1 focuses on the net position and Table 2 focuses on the changes in net position.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

**Table 1**  
**Summary of Statement of Net Position**  
*(Thousands of Dollars)*

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014*	2015	2014*	2015	2014*	2015
Current and other assets .....	\$ 889,945	\$ 961,365	\$ 124,887	\$ 130,847	\$ 1,014,832	\$ 1,092,212
Capital assets .....	1,095,321	1,140,930	962,293	1,001,450	2,057,614	2,142,380
Total assets .....	1,985,266	2,102,295	1,087,180	1,132,297	3,072,446	3,234,592
Loss on refunding.....	-	-	526	359	526	359
Deferred outflows for pensions.....	-	163,941	-	6,062	-	170,003
Long-term obligations .....	1,301,935	1,515,459	303,308	341,480	1,605,243	1,856,939
Other liabilities .....	178,660	219,963	56,928	52,410	235,588	272,373
Total liabilities .....	1,480,595	1,735,422	360,236	393,890	1,840,831	2,129,312
Gain on Refunding.....	337	1,146	-	-	337	1,146
Deferred inflows for pensions.....	-	163	-	10	-	173
Subsequent years property taxes.....	290,721	290,253	-	-	290,721	290,253
Net position:						
Net investment in capital assets.....	748,374	769,340	669,428	675,510	1,417,802	1,444,850
Restricted .....	211,316	209,116	930	1,174	212,246	210,290
Unrestricted .....	(745,740)	(739,204)	57,112	68,134	(688,628)	(671,070)
Total net position .....	\$ 213,950	\$ 239,252	\$ 727,470	\$ 744,818	\$ 941,420	\$ 984,070

\*The 2014 financial statement figures are not restated in the above table. See note 14 for the restatement resulting from implementation of GASB 68 and the impact on the financial statements.

Net position of the City's governmental activities decreased to \$239 million for 2015. The portion of net position restricted as to use totaled \$209 million. Net position invested in capital facilities (buildings, roads, bridges, etc.) totaled \$769 million net of outstanding debt used to acquire those assets. The City uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets are reported net of related debt, the funding needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The unrestricted net position deficit of \$739 million year end does not imply that the City has inadequate financial resources to meet its current obligations. The City's annual budgets do not include the full amounts needed to meet future liabilities arising from property-casualty claims, unused employee vacation-sick leave and outstanding debt. The City includes these amounts needed in future years' budgets as these obligations come due.

The net position of business-type activities increased 2% to \$745 million in 2015. The City generally can only use net position to finance the continuing operations of its specific enterprise activities.

Long-term obligations for governmental activities increased 14% and for business-type activities increased 12% from 2014 due primarily to the issuance and retirement of long-term debt and the recording of OPEB and pension liabilities.

Total assets including capital assets increased \$162 million or 5% from 2014. Capital assets of the primary government increased 4% from the previous year due to several completed major street projects by the State of Wisconsin. For 2015, capital assets of the Water Works and the Sewer Maintenance Funds comprise 95% of the City's total capital assets for business-type activities. These are the City's two largest enterprise (business-type) funds. The Water Works capital assets consist primarily of water mains and related water facilities and plants; and, the Sewer Maintenance Fund includes local sewer mains and connections.

**Changes in net position.** Total annual City revenues less expenses yield the change in net position. The City's program and general revenues totaled \$852 million for governmental activities. 39% of governmental purpose revenues are intergovernmental revenues (State aids, Federal and State grants) while 34% is derived from property and other taxes. Charges for services represent 17% of total revenues, and the remaining 11% generated by licenses, permits, fines and forfeits and other miscellaneous sources.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

The City's governmental activity expenses cover a range of services, with \$400 million (42%) related to public safety (fire and police, neighborhood services). General government expenses total \$205 million (22%) while public works expenses total \$182 million (19%). Program specific revenues (charges for services) generated about 17% of the revenue needed to support the cost of governmental activities. General revenues (taxes, State aids, and miscellaneous) provide the funds for the remaining expenses.

Total governmental activities revenues and transfers fell below expenditures by \$50 million. For business-type activities revenues exceeded its expenditures and transfers by \$15 million however, prior to the transfer of \$43 million from business type funds to governmental funds, business type funds showed a \$58 million excess of revenues over expenses while governmental activities had \$93 million less revenues than expenses. Chart 1, *Expenses and Program Revenues – Governmental Activities*, and Chart 2, *Expenses and Program Revenues – Business-type Activities* depict this comparison by major function.

Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

**Table 2**  
**Changes in Net Position**  
*(Thousands of Dollars)*

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u> <u>Primary Government</u>	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services .....	\$ 114,743	\$ 141,318	\$ 236,002	\$ 251,043	\$ 350,745	\$ 392,361
Operating grants and contributions .....	73,758	47,326	-	-	73,758	47,326
Capital grants and contributions .....	30,315	22,796	799	2,740	31,114	25,536
General revenues:						
Property taxes and other taxes .....	284,664	287,602	-	-	284,664	287,602
State aids for General Fund .....	260,886	263,350	-	-	260,886	263,350
Miscellaneous .....	88,718	89,487	1,471	1,709	90,189	91,196
Total revenues .....	<u>853,084</u>	<u>851,879</u>	<u>238,272</u>	<u>255,492</u>	<u>1,091,356</u>	<u>1,107,371</u>
Expenses						
General government .....	249,874	204,691	-	-	249,874	204,691
Public safety .....	315,952	399,620	-	-	315,952	399,620
Public Works .....	170,054	182,340	-	-	170,054	182,340
Health .....	18,852	20,249	-	-	18,852	20,249
Culture and recreation .....	21,503	25,315	-	-	21,503	25,315
Conservation and development .....	57,617	88,252	-	-	57,617	88,252
Capital contribution to						
Milwaukee Public Schools .....	-	-	-	-	-	-
Contributions .....	24,001	-	-	-	24,001	-
Interest on long-term debt .....	23,105	24,749	-	-	23,105	24,749
Water .....	-	-	72,540	72,141	72,540	72,141
Sewer Maintenance .....	-	-	46,840	49,661	46,840	49,661
Parking .....	-	-	24,053	25,233	24,053	25,233
Port of Milwaukee .....	-	-	3,825	4,005	3,825	4,005
Metropolitan Sewerage District User Charges.....	-	-	44,557	46,850	44,557	46,850
Total expenses .....	<u>880,958</u>	<u>945,216</u>	<u>191,815</u>	<u>197,890</u>	<u>1,072,773</u>	<u>1,143,106</u>
Increase in net position before transfers .....	(27,874)	(93,337)	46,457	57,602	18,583	(35,735)
Transfers .....	43,115	43,038	(43,115)	(43,038)	-	-
Increase in net position .....	15,241	(50,299)	3,342	14,564	18,583	(35,735)
Net position – Beginning as restated (note 14) .....	198,709	289,551	724,128	730,254	922,837	1,019,805
Net position – Ending .....	<u>\$ 213,950</u>	<u>\$ 239,252</u>	<u>\$ 727,470</u>	<u>\$ 744,818</u>	<u>\$ 941,420</u>	<u>\$ 984,070</u>

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

**Governmental Activities**

Revenues for the City's governmental activities totaled \$852 million, while total expenses totaled \$945 million for 2015. Total revenues, excluding transfers, supported 90% of total expenses; 95% with transfers. Comparable data for 2014 indicates 97% of all revenues, excluding transfers supported the 2014 expenses and, 102% including transfers.

Property taxes represent 33% of the total revenues for 2015 and 2014. The total actual property tax revenues remained steady like the previous year. The City of Milwaukee's share of the Tax Rate increased \$0.13 from \$10.58 in 2014 to \$10.71 in 2015 (per \$1,000 of Assessed Value), due mainly to a decrease in assessed property value. State aids for the General Fund were \$263 million in 2015, a \$2 million increase from 2014. The combined property taxes and State aids comprised approximately 65% of the total revenues for governmental funds in 2015 compared to 64% in 2014. Charges for services equaled 17% of the total revenues in 2015 and 13% in 2014. Operating grants, capital grants, and contributions decreased by \$34 million, to a total \$70 million or 12% of total revenues in 2015.

The total 2015 governmental activity expenditures increased by \$62 million (7%) over 2014. There are a couple reasons that contributed to this increase. The first is due to the retro pay for police officers which contributed about \$20 million. Also, the new GASB pronouncement 68, relating to reporting of pension liabilities and pension expense, contributed to the increase. Since the police and fire departments are the largest part of the budget and the pension expense is prorated accordingly, public safety was the largest portion of this pension expense calculation. See the notes to the statements for further detail.

**Chart 1**  
**2015 Expenses and Program Revenues - Governmental Activities**

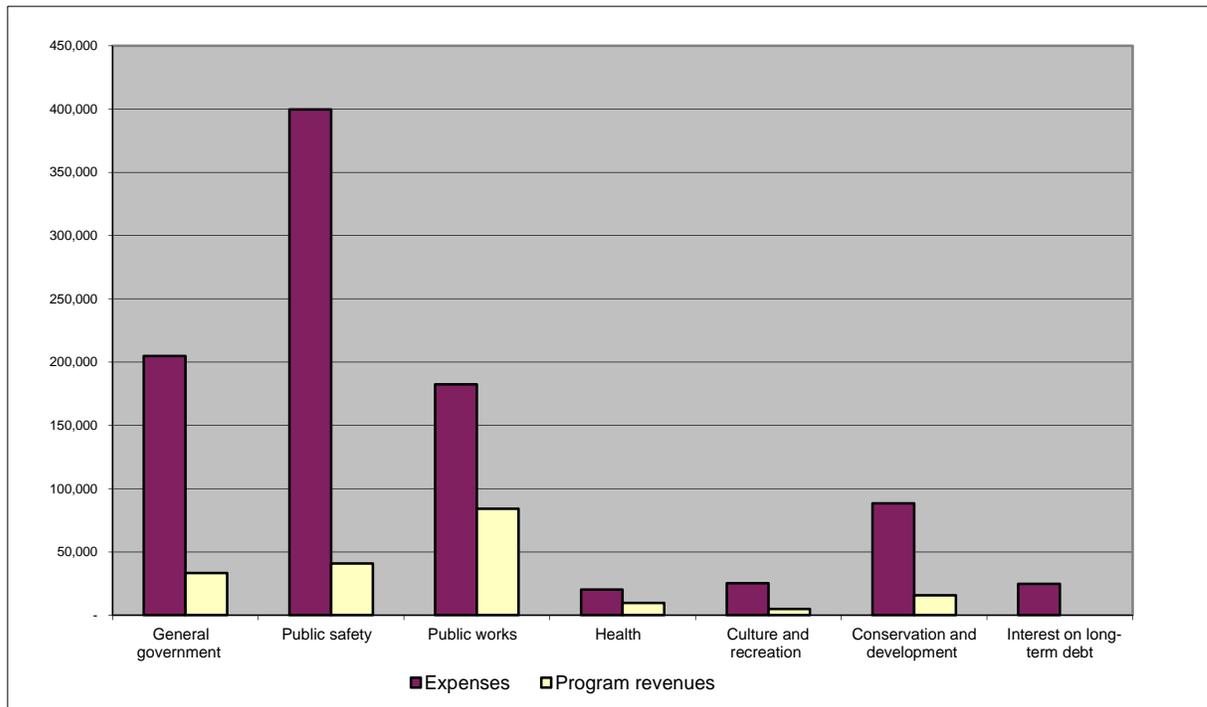


Table 3 presents the cost of each of the City's largest programs as depicted in the Chart 1 above, as well as each program's net costs (total cost less the revenues generated by the activities). General government includes most City departments, such as: Mayor, Common Council, Administration, Employee Relations, Municipal Court, City Attorney, Comptroller and Treasurer. Public safety includes Fire, Police and Neighborhood Services. "Net cost" shows the financial burden placed on the city taxpayers by each of these functions.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

**Table 3**  
**Governmental Activities**  
*(Thousand of Dollars)*

	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
General government .....	\$ 249,874	\$ 204,691	\$ 237,323	\$ 171,302
Public safety .....	315,952	399,620	276,946	358,709
Public works .....	170,054	182,340	57,779	75,415
Health .....	18,852	20,249	9,012	10,571
Culture and recreation .....	21,503	25,315	18,071	20,456
Conservation and development .....	57,617	88,252	39,657	72,574
Contributions .....	24,001	-	249	-
Interest on long-term debt .....	23,105	24,749	23,105	24,749
<b>Total Governmental Activities .....</b>	<b>\$ 880,958</b>	<b>\$ 945,216</b>	<b>\$ 662,142</b>	<b>\$ 733,776</b>

The Table 3 above indicates that the cost of services not funded with direct program revenue for governmental activities increased in 2015 to \$734 million from \$662 million in 2014 or 10% change. Because such a small portion of total costs are supported by program revenue, the remainder of the total costs of service must be funded by general City taxes and State aids.

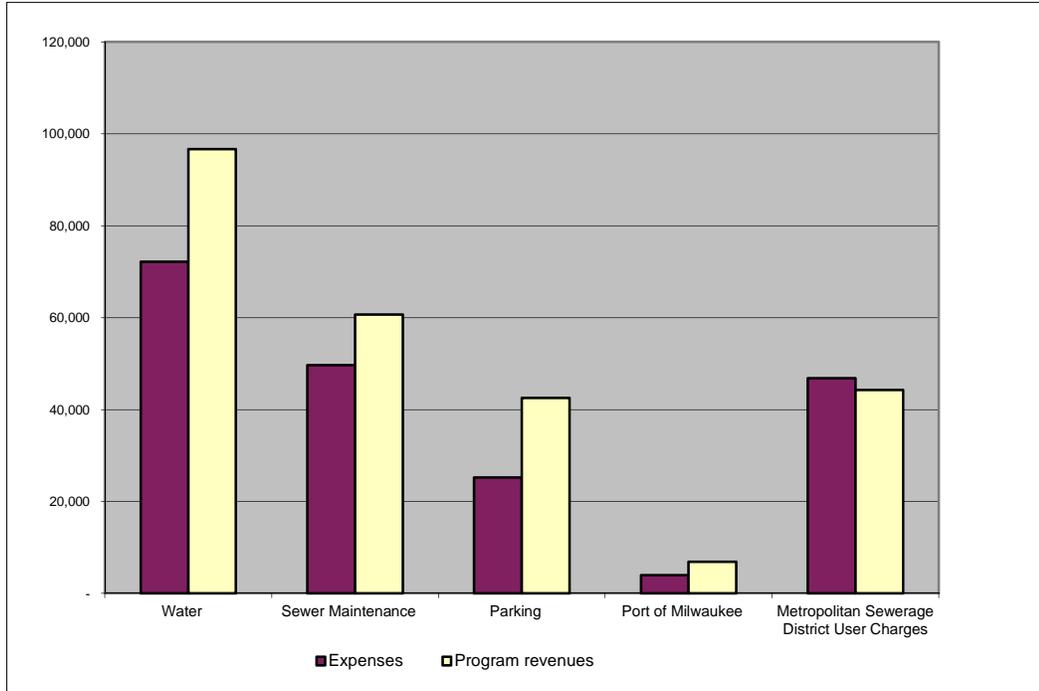
**Business-type Activities**

The two major enterprises or business-type activities for the City of Milwaukee are water services and sewer maintenance. The Water Works had operating revenue of \$97 million, expenses of \$72 million and operating income of \$25 million. The Sewer Maintenance produced a net operating income of \$36 million after operating revenue of \$61 million and operating expenses of \$25 million.

Business-type revenues on Table 2 increased by \$17 million in 2015 compared to 2014, which is a 7% increase. Total expenses and transfers of all enterprise funds of the City increased from 2014 to 2015 by \$6 million or 3%. Overall, 2015 year-end Total Net Position increased by \$14.6 million to \$745 million, which is about 2%.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

**Chart 2**  
**2015 Expenses and Program Revenues - Business-type Activities**



**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City uses fund accounting consistent with finance related legal requirements and external governmental accounting standards.

**Governmental Funds**

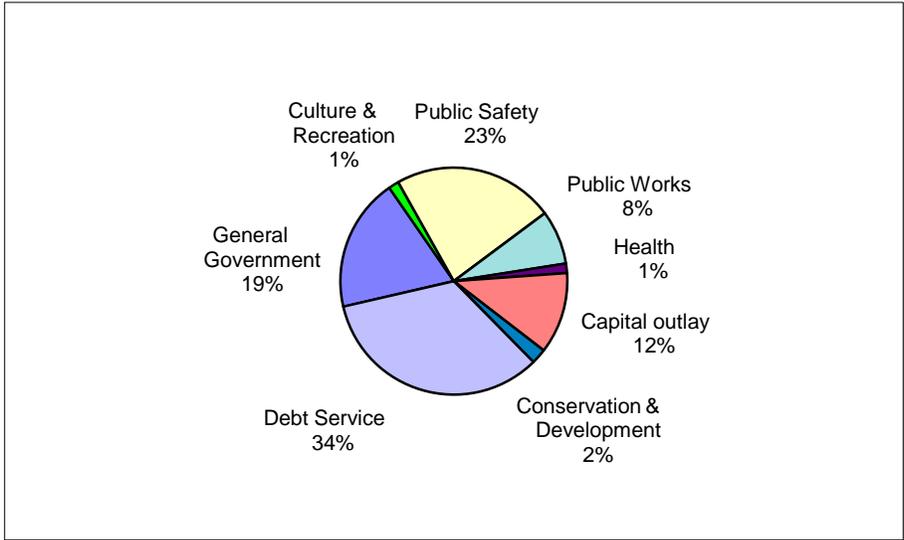
Governmental Funds are reported in the fund based financial statements with a focus on the annual inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with the succeeding year's requirements. Types of Governmental Funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

When the year 2015 ended, the Governmental Funds (as presented in the balance sheet on Exhibit A-1) reported a combined fund balance of \$345 million, an increase of \$32 million or 10% from 2014. The Capital Projects Fund balance increased to a fund balance of \$3 million compare to negative \$20 million in 2014. The City of Milwaukee typically borrows to fund authorized capital projects only after expenditures for these projects. This practice minimizes City borrowing costs and complies with Federal Internal Revenue Service (IRS) regulations. Debt issued for capital projects totaled \$148 million in 2015 compared to \$92 million in 2014. The General Obligation Debt Service Fund remained the same in terms of fund balance from 2014 at \$140 million in 2015 as well. The General Fund increased by \$14 million to \$127 million.

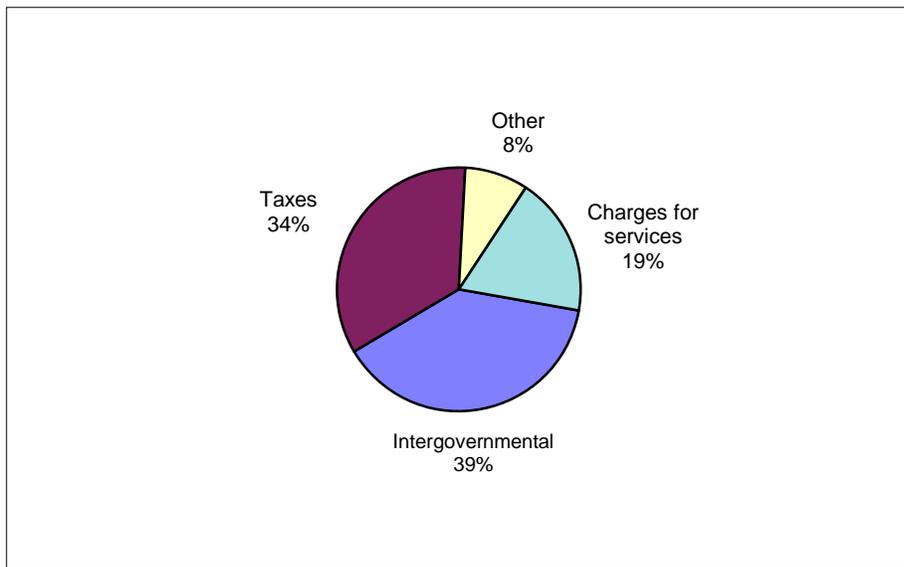
CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

Chart 3 and 4 illustrate spending by function and revenues by source for all governmental funds.

**Chart 3**  
**2015 City Spending by Function - Governmental Funds**



**Chart 4**  
**2015 Revenues by Source - Governmental Funds**



Revenues for governmental functions overall totaled \$834 million in the fiscal year ended December 31, 2015. Expenditures for governmental funds totaled \$1.3 billion. Expenditures exceeded revenues by \$506 million. Other financing sources helped to close the gap, resulting in an increase in governmental fund balances of \$32 million for the year compared to a decrease of \$33 million in 2014. Other financing sources include, proceeds from issuance of debt, refunding payment and issuance premiums; transfers from enterprise funds; and receipt of loans receivable transferred from the Neighborhood Improvement Development Corporation component unit.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

*Major Governmental Funds*

The General Fund is the City's primary operating fund and the largest funding source for day-to-day services. The fund balance of the General Fund increased by \$14 million or by 13%. Revenues and other financing sources totaled approximately \$816 million and expenditures and other financing uses totaled approximately \$802 million - detailed in Table 4 below. Revenues increased by \$15 million from 2014 and expenditures increased by \$9 million from 2014, with expenditures exceeding revenues by 6%. Other Financing Sources (consisting of debt proceeds and transfers in from other funds), exceeded Other Financing Uses (consisting of transfers out to other funds) by \$50 million. This excludes the budgeted use of funds from the fund balance. \$16.7 million was budgeted from the fund balance for the 2015 General Fund budget. This was a decrease of \$3.3 million from 2014.

Total General Fund revenues for 2015 were \$639 million. The largest revenue category is intergovernmental at \$263 million with 41% of the total revenue. The second largest revenue source is Property Taxes with \$190 million or 30%. The Charges for Services category, which includes revenues for services provided by City departments, comprises 22% or \$141 million. These three categories combine to 93% of the total revenues for 2015.

The following table (Table 4) presents a summary of revenues and expenditures of the General Fund compared to prior year:

**Table 4**  
**General Fund**  
**Summary of Revenues, Expenditures and Other Financing Sources and Uses**  
*(Thousands of Dollars)*

Revenues and Other Financing Sources				Expenditures and Other Financing Uses			
Revenues:	2014	2015	% Change	Expenditures:	2014	2015	% Change
Property taxes .....	\$ 179,269	\$ 190,318	6.2%	General government.....	\$ 262,948	\$ 249,029	-5.3%
Other taxes .....	6,091	2,765	-54.6%	Public safety.....	268,426	293,787	9.4%
Licenses and permits .....	16,063	16,629	3.5%	Public works.....	103,339	101,086	-2.2%
Intergovernmental .....	260,886	263,350	0.9%	Health.....	9,171	9,553	4.2%
Charges for services .....	114,743	141,318	23.2%	Culture and recreation .....	17,012	17,624	3.6%
Fines and forfeits .....	4,587	4,110	-10.4%	Conservation and development .....	3,522	3,816	8.3%
Contributions received .....	23,752	2,588	-89.1%	Total Expenditures .....	664,418	674,895	1.6%
Other .....	18,796	18,003	-4.2%	Other Financing Uses			
Total Revenues .....	624,187	639,081	2.4%	Transfers out .....	137,119	127,119	-7.3%
Other Financing Sources				Total Expenditures and other Financing Uses .....	\$ 801,537	\$ 802,014	0.1%
Debt proceeds .....	139,948	130,968	-6.4%	Net Change in Fund Balance .....	\$ 9,510	\$ 14,204	49.4%
Transfers in .....	46,912	46,169	-1.6%				
Total Revenues and Other Financing Sources	811,047	816,218	0.6%				
Excess of Revenues over Expenditures .....	(41,895)	(35,814)	14.5%				

As of December 31, 2014 the City had \$125 million of Revenue Anticipation Notes outstanding in advance of receipt of the State Shared Revenues. During 2015, \$180 million was issued and \$175 million repaid.

The City maintains two separate debt service funds. The General Obligation Debt Service Fund accounts for resources accumulated and payments made for principal and interest on the City's outstanding general obligation debt. The Public Debt Amortization Fund is governed by State Statutes Section 67.101 whereby accumulated resources can be used for the retirement of the public debt. The General Obligation Debt Service Fund remained relatively the same maintaining a fund balance of \$140 million. Total revenues of the General Obligation Debt Service decreased from \$112 million in 2014 to \$102 million in 2015. Revenues combined with *Other Financing Sources* totaled \$460 million; expenditures combined with *Other Financing Uses* totaled \$460 million; resulting in a *net increase in Fund Balance* for year end 2015 of \$437 thousand for the General Obligation Debt Service Fund.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED DECEMBER 31, 2015

Capital Projects Funds are used to account for the financial resources segregated for the acquisition, construction, or repair of major capital facilities other than those financed by proprietary funds. At year end, 2015 showed a fund balance of \$3 million. In 2015, total debt proceeds amounted to \$148 million as compared to \$92 million in 2014, a 61% increase. Total revenues increased by \$7 million from 2014 to 2015; expenditures increased from \$140 million to \$155 million. The issuance of bonds and notes during 2015 for capital purposes combined with revenues and transfers sufficiently covered the current year's expenditures and increased the year-end fund balance by \$23 million to result in a positive fund balance.

### **Proprietary Funds**

The proprietary fund statements provide information on both short and long-term financial status, focusing on net position and the change in net position as a result of operations.

At the end of the fiscal year, the total unrestricted net position for all enterprise funds was \$68 million. This was an increase from \$57 million at December 31, 2014. This is due to an increase in Water Works of \$14 million combined with a decrease in the Sewer Maintenance fund of \$2 million and all other non-major enterprise funds by \$1 million.

In 2015, operating revenues of the enterprise funds totaled \$251 million (a 6% increase); total operating expenses increased \$5 million to \$172 million. The Water Works is the largest enterprise activity for the City, comprising approximately 39% of the total operating revenues. The Sewer Maintenance Fund comprises 24% of the total operating revenues. Both funds primarily bill customers based on water consumption. For 2015, Water Works operating revenues increased 10% while Sewer Maintenance operating revenues increased 3%; all other enterprise funds combined increased about 5% compared to 2014. Water Works non-operating revenues for 2015 are mainly composed of interest income and other miscellaneous revenues.

The Water Works incurred total expenses of \$72 million for 2015 maintaining its expenses from 2014. The non-operating interest expense of the Water Works decreased \$906,000 from last year since in 2014 scheduled principal matured on outstanding debt.

Excluding the Water Works, total operating expenses of all other enterprises funds increased by 5% from 2014.

### **General Fund Budgetary Highlights**

For the year ended December 31, 2015, the General Fund budgetary basis revenues were lower than budgeted revenues by \$610 thousand. Revenue categories for property taxes, other taxes, and fines/forfeitures had an unfavorable variance of \$10 million to the budget; however, all other categories of licenses/permits, intergovernmental, charges for services and other exceed the final budgeted amounts by \$10 million. Actual 2015 revenues increased from that of the prior year by \$13 million. Intergovernmental revenues increased slightly to \$263 million. This category includes financing from the State for shared taxes, local street aids, and payment for municipal services. The operating expenditures were \$29 million less than budgeted. This favorable variance is a result of mostly savings from general government departments.

The original budget for expenditures includes the adopted budget plus the encumbrances carried over from 2014 less the encumbrances carried over to 2016. The final budget includes the original budget as defined plus appropriations authorized for carryover from 2014 by the Common Council less those appropriations authorized for carryover to 2016. In addition, certain appropriations are budgeted in a general non-departmental account (i.e. contingency) and are only transferred from this account to specific departments during the year to expend after authorization by the Common Council. These appropriation adjustments are part of the final budget. As detailed in the Required Supplementary Information Section, Exhibit E-1 shows both the original 2015 General Fund expenditure budget of \$697 million and the final budget of \$692 million. This is a 2% increase over the final 2014 budget of \$677 million. The original revenue budget and final revenue budgeted both totaled \$627 million. This is a 2% increase over the final 2014 revenue budget of \$613 million.

The General Fund Schedule of Expenditures-Budget and Actual (Exhibit I-9) details current year expenditures by department. The City's General Fund's beginning Fund Balance of \$113 million as reported on the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance differs from the General Fund's budgetary Fund Balance reported in the Budgetary Comparison Schedule (Exhibit E-1) by the amount of the budgeted withdrawal from the Fund Balance of \$17 million.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The City's capital assets for governmental and business-type activities as of December 31, 2015 total \$2.1 billion (net of accumulated depreciation). Capital assets include land, buildings, infrastructure, improvements other than buildings, machinery and equipment, furniture and furnishings, non-utility property, and construction in progress. The total increase in the City's capital assets for the current fiscal year was \$85 million or 4%. Governmental activities' capital assets increased \$46 million or a 4% increase from 2014. Business-type activities' capital assets increased \$39 million or 4% at the end of 2015. A schedule comparing the assets by type for 2014 and 2015 for both governmental and business-type activities is depicted in Table 5 below. The net change in assets as detailed in Note 4 reports that additions were \$61 million and deletions were \$15 million for 2015 for governmental activities. The two largest business-type activities are the Sewer Maintenance Fund and the Water Works Fund. The Sewer Maintenance Fund had a net change in capital assets that resulted in a net increase of \$28 million. Of the Sewer Maintenance Fund's net assets at year end, 99% relate to the sewer mains infrastructure. Infrastructure net assets of the Water Works Fund comprise 61% of its total net assets with 29% consisting of machinery and equipment. The total net change in all Water Works net assets was an increase of \$13 million.

**Table 5**  
**Capital Assets**  
 (net of depreciation)  
 (Thousands of Dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2014	2015	2014	2015	2014	2015
Capital assets not being depreciated:						
Land .....	\$ 165,730	\$ 165,730	\$ 19,096	\$ 19,034	\$ 184,826	\$ 184,764
Construction in progress .....	76,391	89,103	27,731	30,863	104,122	119,966
Intangible right of ways .....	1,342	1,342	-	-	1,342	1,342
Capital assets being depreciated:.....						
Buildings .....	307,965	312,660	97,699	97,158	405,664	409,818
Infrastructure .....	1,605,990	1,662,239	1,002,751	1,042,185	2,608,741	2,704,424
Improvements other than buildings .....	11,909	11,997	8,150	8,173	20,059	20,170
Machinery and equipment .....	193,790	207,303	253,901	270,620	447,691	477,923
Intangible software.....	2,605	2,605	-	-	2,605	2,605
Nonutility property .....	-	-	3,654	3,654	3,654	3,654
Accumulated depreciation .....	<u>(1,270,401)</u>	<u>(1,312,049)</u>	<u>(450,689)</u>	<u>(470,237)</u>	<u>(1,721,090)</u>	<u>(1,782,286)</u>
<b>Total .....</b>	<b><u>\$ 1,095,321</u></b>	<b><u>\$ 1,140,930</u></b>	<b><u>\$ 962,293</u></b>	<b><u>\$ 1,001,450</u></b>	<b><u>\$ 2,057,614</u></b>	<b><u>\$ 2,142,380</u></b>

**Debt**

At year-end, the City had \$880 million in general obligation bonds and notes, \$108 million in State loans, \$95 million in revenue bonds, and \$166 million in extendable municipal commercial paper outstanding as itemized in Table 6.

New debt issued for general obligation bonds and notes totaled \$285 million, of which \$283 million is related to governmental activities.

The City continues to maintain high investment grade ratings from the two major rating agencies. A rating of "AA" from Standard and Poor's Corporation, and "AA" from Fitch's Rating Agency, Inc, were received on the City's general obligation bonds.

The City's gross general obligation debt per capita, excluding enterprise fund debt, was \$1,074 at the end of 2014 and \$1,130 at the end of 2015; a 5% increase from the prior year. As of December 31, 2015, the City's outstanding net general obligation debt for governmental activities was 2.58% of the City's total taxable value of property (Statistical Section - Table 9). The legal debt limit is 7% of equalized property value, including Milwaukee Public Schools debt, which also is issued by the City. Excluding the 2% limit on School debt, the City has a 5% legal debt limit and has used about 50% of this limit. The City issues

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

general obligation notes to purchase a portion of General Fund delinquent taxes. During 2015, notes were issued in the amount of approximately \$28.3 million. Collections on these taxes and related interest will be used to meet the related debt service requirements.

**Table 6**  
**Outstanding Debt**  
**General Obligation, Revenue Bonds and Extendable Municipal Commercial Paper**  
*(Thousand of Dollars)*

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
General obligation bonds and notes (backed by the City) .....	\$ 814,522	\$ 848,259	\$ 35,247	\$ 31,822	\$ 849,769	\$ 880,081
Extendable Municipal Commercial Paper.....	41,700	80,302	65,000	86,098	106,700	166,400
State loans .....	-	-	92,100	107,533	92,100	107,533
Revenue bonds (backed by specific fee revenues) .....	-	-	94,624	95,459	94,624	95,459
<b>Total .....</b>	<b>\$ 856,222</b>	<b>\$ 928,561</b>	<b>\$ 286,971</b>	<b>\$ 320,912</b>	<b>\$ 1,143,193</b>	<b>\$ 1,249,473</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND TAX RATE**

The average unemployment rate within the City of Milwaukee for 2015 is 6.7%, compared to 7.2% for 2014. The City of Milwaukee per capita income for the most recent fiscal year available (2014) was \$41,507, compared to \$40,219 for 2013. Table 13 contains demographic and economic statistics for the last ten calendar years.

The 2016 adopted City Budget is about \$1.55 billion with a General Fund budget of \$733 million. The General Fund budget decreased \$1 million from the 2015 budgeted amount of \$734 million. In 2016, the City should expend \$108 million for health insurance and related costs compared to \$120 million budgeted for 2015, a decrease of 10%. The City eliminated all mandatory furlough days as of 2015 and continues to do so.

Milwaukee City Hall is a 120 year old building built on a wood piling foundation. A portion of the wood pilings have begun to decay and are in need of replacement. It is estimated that \$60 million may be spent over the next 10 years to repair the foundation. This project has begun and \$13 million is budgeted for the year 2016.

The City has included \$12 million of funding for the Strong Neighborhoods plan and Neighborhood Services for housing repair and demolition and deconstruction. One hundred police officers will be hired in 2016 as part of increasing the Police Department staff. Finally, the City has allocated over \$4 million for replacing two libraries in 2016.

Total property taxes levied for all funds of the City in 2015 for 2016 purposes decreased \$.12 per thousand dollars of assessed valuation to a rate of \$10.59 (1.1%). The 2014 for 2015 rate increased \$.13 (from \$10.58 to \$10.71 or 1.2%).

The total City property tax levy will remain roughly the same at \$256 million from 2015. Since the rate decreased, the property tax revenue will decline slightly in 2016. The property tax levy will provide \$108 million for general City purposes in 2016. This represents a decrease of \$6 million in the property tax revenue from 2015 or a 5% decrease. Property Tax Levy for Employee Retirement Purposes will increase \$3 million for 2016. The 2016 General City Purpose budget includes \$127 million in estimated revenue for City charges for services rendered, an increase of \$5 million. A City Solid Waste Fee is the largest revenue source in this category and is expected to generate \$37 million for 2016. This fee represents 30% of the total charges for services in the 2016 budget. The Street Sweeping-Leaf Collection and Tree Pruning Fee is expected to generate about \$18 million for 2016, about a \$2 million increase over 2015. This fee comprises 14% of the total charges for services in 2016 compared to 13% in 2015.

Estimated General City Purposes intergovernmental revenues, primarily from the State of Wisconsin, are projected to total \$262.6 million; an increase of \$400,000 from 2015.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED DECEMBER 31, 2015

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the City's finances and to demonstrate the City's accountability for the taxes and other funding received. If you have questions about this report or need additional financial information, contact the City of Milwaukee, Office of the City Comptroller, City Hall, 200 East Wells Street Room 404, Milwaukee, WI 53202.

**BASIC  
FINANCIAL  
STATEMENTS**

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

CITY OF MILWAUKEE  
**STATEMENT OF NET POSITION**  
December 31, 2015  
*(Thousands of Dollars)*

Exhibit 1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and investments .....	\$ 378,981	\$ 61,614	\$ 440,595	\$ 48,713
Receivables (net):				
Taxes .....	242,699	-	242,699	-
Accounts .....	41,274	44,396	85,670	442
Unbilled accounts .....	1,608	19,348	20,956	-
Special assessments .....	7,114	-	7,114	-
Notes and loans .....	104,042	-	104,042	38,460
Accrued interest .....	356	39	395	552
Due from component units .....	20,342	-	20,342	-
Due from primary government .....	-	-	-	108
Due from other governmental agencies .....	154,503	1,176	155,679	979
Inventory of materials and supplies .....	9,556	3,393	12,949	-
Inventory of property for resale .....	26	-	26	6,514
Prepaid items .....	864	859	1,723	171
Other assets .....	-	22	22	-
	<u>961,365</u>	<u>130,847</u>	<u>1,092,212</u>	<u>95,939</u>
<b>Total Noncapital Assets .....</b>				
Capital assets:				
Capital assets not being depreciated:				
Land .....	165,730	19,034	184,764	12,200
Construction in progress .....	89,103	30,863	119,966	15,640
Intangible right of ways .....	1,342	-	1,342	-
Capital assets being depreciated:				
Buildings .....	312,660	97,158	409,818	85,786
Infrastructure .....	1,662,239	1,042,185	2,704,424	333
Improvements other than buildings .....	11,997	8,173	20,170	4,264
Machinery and equipment .....	207,303	270,620	477,923	159
Intangible software.....	2,605	-	2,605	565
Nonutility property .....	-	3,654	3,654	-
Accumulated depreciation .....	(1,312,049)	(470,237)	(1,782,286)	(19,603)
	<u>1,140,930</u>	<u>1,001,450</u>	<u>2,142,380</u>	<u>99,344</u>
<b>Total Capital Assets .....</b>				
<b>Total Assets .....</b>	<u>2,102,295</u>	<u>1,132,297</u>	<u>3,234,592</u>	<u>195,283</u>
Deferred Outflows of Resources:				
Loss on refunding.....	-	359	359	-
Pension related.....	163,941	6,062	170,003	305
	<u>163,941</u>	<u>6,421</u>	<u>170,362</u>	<u>305</u>
<b>Total Deferred Outflows of Resources .....</b>				

CITY OF MILWAUKEE  
**STATEMENT OF NET POSITION**  
December 31, 2015  
(Thousands of Dollars)

Exhibit 1 (Continued)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>				
Accounts payable .....	\$ 58,276	\$ 26,238	\$ 84,514	\$ 2,984
Accrued expenses .....	39,875	1,083	40,958	268
Accrued interest payable .....	8,991	1,132	10,123	-
Internal balances .....	(22,781)	22,781	-	-
Due to component units .....	108	-	108	-
Due to other governmental agencies .....	2,076	-	2,076	3,446
Unearned revenues.....	3,418	1,176	4,594	-
Revenue anticipation notes payable .....	130,000	-	130,000	-
Other liabilities .....	-	-	-	2,748
Due to primary government:				
Due within one year .....	-	-	-	4,729
Due in more than one year .....	-	-	-	15,613
Long-term obligations:				
Due within one year .....	195,558	104,219	299,777	3,181
Due in more than one year .....	<u>1,319,901</u>	<u>237,261</u>	<u>1,557,162</u>	<u>113,909</u>
 Total Liabilities .....	 <u>1,735,422</u>	 <u>393,890</u>	 <u>2,129,312</u>	 <u>146,878</u>
 Deferred Inflows of Resources:				
Gain on refunding.....	1,146	-	1,146	-
Subsequent years property taxes.....	290,253	-	290,253	1,397
Pension related.....	<u>163</u>	<u>10</u>	<u>173</u>	<u>10</u>
 Total Deferred Inflows of Resources .....	 <u>291,562</u>	 <u>10</u>	 <u>291,572</u>	 <u>1,407</u>
<b>NET POSITION</b>				
Net investment in capital assets.....	769,340	675,510	1,444,850	24,780
Restricted for:				
Debt service .....	200,142	1,174	201,316	-
Other purposes .....	8,974	-	8,974	11,527
Unrestricted .....	<u>(739,204)</u>	<u>68,134</u>	<u>(671,070)</u>	<u>10,996</u>
 Total Net Position .....	 <u>\$ 239,252</u>	 <u>\$ 744,818</u>	 <u>\$ 984,070</u>	 <u>\$ 47,303</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE  
**STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED DECEMBER 31, 2015  
 (Thousands of Dollars)

Exhibit 2

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental Activities:				
General government .....	\$ 204,691	\$ 31,100	\$ 2,289	\$ -
Public safety .....	399,620	26,711	14,200	-
Public works .....	182,340	81,325	2,804	22,796
Health .....	20,249	1,081	8,597	-
Culture and recreation .....	25,315	1,092	3,767	-
Conservation and development .....	88,252	9	15,669	-
Interest on long-term debt .....	24,749	-	-	-
Total Governmental Activities .....	<u>945,216</u>	<u>141,318</u>	<u>47,326</u>	<u>22,796</u>
Business-type Activities:				
Water .....	72,141	96,687	-	1,276
Sewer Maintenance .....	49,661	60,695	-	-
Parking .....	25,233	42,532	-	-
Port of Milwaukee .....	4,005	6,876	-	1,464
Metropolitan Sewerage District				
User Charges .....	46,850	44,253	-	-
Total Business-type Activities .....	<u>197,890</u>	<u>251,043</u>	<u>-</u>	<u>2,740</u>
Total Primary Government .....	<u>\$ 1,143,106</u>	<u>\$ 392,361</u>	<u>\$ 47,326</u>	<u>\$ 25,536</u>
<b>Component units:</b>				
Redevelopment Authority .....	\$ 10,295	\$ 7,726	\$ 2,535	\$ -
Neighborhood Improvement Development				
Corporation .....	577	194	295	19
Century City Redevelopment Corporation .....	858	283	-	-
Total Component Units .....	<u>\$ 11,730</u>	<u>\$ 8,203</u>	<u>\$ 2,830</u>	<u>\$ 19</u>
General revenues:				
Property taxes and other taxes .....				
State aids for General Fund .....				
Miscellaneous .....				
Transfers .....				
Total General Revenues and Transfers .....				
Change in Net Position .....				
Net Position - Beginning, as restated (note 14).....				
<b>Net Position - Ending .....</b>				

The notes to the financial statements are an integral part of this statement.

<b>Net (Expenses) Revenue and Changes in Net Position</b>			
<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$ (171,302)		\$ (171,302)	
(358,709)		(358,709)	
(75,415)		(75,415)	
(10,571)		(10,571)	
(20,456)		(20,456)	
(72,574)		(72,574)	
(24,749)		(24,749)	
<u>(733,776)</u>		<u>(733,776)</u>	
-	\$ 25,822	25,822	
-	11,034	11,034	
-	17,299	17,299	
-	4,335	4,335	
<u>-</u>	<u>(2,597)</u>	<u>(2,597)</u>	
<u>-</u>	<u>55,893</u>	<u>55,893</u>	
<u>(733,776)</u>	<u>55,893</u>	<u>(677,883)</u>	
			\$ (34)
			(69)
			<u>(575)</u>
			<u>(678)</u>
287,602	-	287,602	-
263,350	-	263,350	-
89,487	1,709	91,196	305
43,038	(43,038)	-	-
<u>683,477</u>	<u>(41,329)</u>	<u>642,148</u>	<u>305</u>
(50,299)	14,564	(35,735)	(373)
<u>289,551</u>	<u>730,254</u>	<u>1,019,805</u>	<u>47,676</u>
<b><u>\$ 239,252</u></b>	<b><u>\$ 744,818</u></b>	<b><u>\$ 984,070</u></b>	<b><u>\$ 47,303</u></b>

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**FUND  
FINANCIAL  
STATEMENTS**

CITY OF MILWAUKEE  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
 DECEMBER 31, 2015  
 (Thousands of Dollars)

Exhibit A-1

	<b>General</b>
<b>ASSETS</b>	
Assets:	
Cash and investments .....	\$ 128,911
Receivables (net):	
Taxes .....	153,678
Accounts .....	39,761
Unbilled accounts .....	1,608
Special assessments .....	-
Notes and loans .....	159
Accrued interest .....	252
Due from other funds .....	57,274
Due from component units .....	432
Due from other governmental agencies .....	4,286
Advances to other funds .....	6,380
Inventory of materials and supplies .....	9,556
Inventory of property for resale .....	26
Prepaid items .....	864
<b>Total Assets</b> .....	<b><u>\$ 403,187</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable .....	\$ 31,482
Accrued expenses .....	39,783
Due to other funds .....	962
Due to component units .....	-
Due to other governmental agencies .....	-
Unearned revenue.....	388
Revenue anticipation notes payable .....	-
Advances from other funds .....	463
<b>Total Liabilities</b> .....	<b><u>73,078</u></b>
Deferred Inflows of Resources:.....	<u>202,861</u>
Fund Balances:	
Nonspendable .....	17,094
Restricted.....	-
Committed.....	2,035
Assigned .....	46,404
Unassigned.....	<u>61,715</u>
<b>Total Fund Balances</b> .....	<b><u>127,248</u></b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b> .....	<b><u>\$ 403,187</u></b>

*The notes to the financial statements are an integral part of this statement.*

General Obligation Debt Service	Public Debt Amortization	Capital Projects	Nonmajor Governmental Funds	Total
\$ 180,775	\$ 34,587	\$ 31,620	\$ 3,088	\$ 378,981
54,396	-	1,763	32,862	242,699
-	-	1,491	22	41,274
-	-	-	-	1,608
-	-	7,114	-	7,114
66,847	25,303	-	11,733	104,042
-	104	-	-	356
-	-	-	-	57,274
19,764	-	105	41	20,342
130,095	-	9,453	10,669	154,503
-	-	-	-	6,380
-	-	-	-	9,556
-	-	-	-	26
-	-	-	-	864
<b><u>\$ 451,877</u></b>	<b><u>\$ 59,994</u></b>	<b><u>\$ 51,546</u></b>	<b><u>\$ 58,415</u></b>	<b><u>\$ 1,025,019</u></b>
\$ 100	\$ -	\$ 20,716	\$ 5,978	\$ 58,276
-	-	-	92	39,875
2,304	-	5,335	25,429	34,030
-	-	83	25	108
-	-	-	2,076	2,076
-	-	1,673	1,357	3,418
130,000	-	-	-	130,000
-	-	6,380	-	6,843
<u>132,404</u>	<u>-</u>	<u>34,187</u>	<u>34,957</u>	<u>274,626</u>
<u>179,325</u>	<u>-</u>	<u>14,375</u>	<u>9,220</u>	<u>405,781</u>
-	-	-	-	17,094
140,148	59,994	18,260	8,974	227,376
-	-	-	5,264	7,299
-	-	-	-	46,404
-	-	(15,276)	-	46,439
<u>140,148</u>	<u>59,994</u>	<u>2,984</u>	<u>14,238</u>	<u>344,612</u>
<b><u>\$ 451,877</u></b>	<b><u>\$ 59,994</u></b>	<b><u>\$ 51,546</u></b>	<b><u>\$ 58,415</u></b>	<b><u>\$ 1,025,019</u></b>

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CITY OF MILWAUKEE  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION**  
 DECEMBER 31, 2015  
*(Thousands of Dollars)*

Exhibit A-2

Fund balances - total governmental funds (Exhibit A-1) \$ 344,612

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 165,730	
Buildings, net of \$112,913 accumulated depreciation	199,747	
Infrastructure, net of \$1,051,040 accumulated depreciation	611,199	
Improvements other than buildings, net of \$9,472 accumulated depreciation	2,525	
Machinery and equipment, net of \$136,629 accumulated depreciation	70,674	
Intangible assets net of \$1,634 accumulated depreciation	1,952	
Construction in progress	<u>89,103</u>	
		1,140,930

Some revenues are unavailable in the funds because they are not available to pay current period's expenditures.

Taxes to be collected	14,452	
Grant revenues to be collected	7,770	
Special assessments to be collected	6,373	
Notes and loans receivable to repay long-term bonds and notes	<u>86,933</u>	
		115,528

Deferred inflows and outflows of resources related to pensions have not been included in governmental fund activity.

Deferred inflows for pensions	(163)	
Deferred outflows for pensions	<u>163,941</u>	
		163,778

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net position.

Accrued interest payable	(8,991)	
Bonds and notes payable	(928,561)	
Gain on refunding	(1,146)	
Unamortized premiums	(53,183)	
Compensated absences	(48,401)	
Net other postemployment benefits obligation	(363,314)	
Net Pension Liability	(91,088)	
Claims and judgments	<u>(30,912)</u>	
		<u>(1,525,596)</u>

Total net position of governmental activities (Exhibit 1) **\$ 239,252**

*The notes to the financial statements are an integral part of this reconciliation.*

CITY OF MILWAUKEE  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015  
 (Thousands of Dollars)

Exhibit A-3

	<b>General</b>
Revenues:	
Property taxes .....	\$ 190,318
Other taxes .....	2,765
Special assessments .....	-
Licenses and permits .....	16,629
Intergovernmental .....	263,350
Charges for services .....	141,318
Fines and forfeits .....	4,110
Contributions received .....	2,588
Other .....	<u>18,003</u>
<b>Total Revenues</b> .....	<b><u>639,081</u></b>
Expenditures:	
Current:	
General government .....	249,029
Public safety .....	293,787
Public works .....	101,086
Health .....	9,553
Culture and recreation .....	17,624
Conservation and development .....	3,816
Capital outlay .....	-
Debt Service:	
Principal retirement .....	-
Interest .....	-
Bond issuance costs .....	-
<b>Total Expenditures</b> .....	<b><u>674,895</u></b>
<b>Excess (Deficiency) of Revenues over Expenditures</b> .....	<b><u>(35,814)</u></b>
Other Financing Sources (Uses):	
General obligation bonds and notes issued .....	130,968
Proceeds from debt refundings .....	-
Loans receivable activities .....	-
Issuance premium .....	-
Transfers in .....	46,169
Transfers out .....	<u>(127,119)</u>
<b>Total Other Financing Sources and Uses</b> .....	<b><u>50,018</u></b>
<b>Net Change in Fund Balances</b> .....	<b>14,204</b>
Fund Balances - Beginning .....	<u>113,044</u>
<b>Fund Balances - Ending</b> .....	<b><u>\$ 127,248</u></b>

*The notes to the financial statements are an integral part of this statement.*

General Obligation Debt Service	Public Debt Amortization	Capital Projects	Nonmajor Governmental Funds	Total
\$ 57,833	\$ -	\$ 5,664	\$ -	\$ 253,815
27,351	2,745	-	-	32,861
2,646	-	2,020	-	4,666
-	-	-	-	16,629
817	-	14,390	44,206	322,763
13,084	-	-	-	154,402
-	-	-	-	4,110
-	-	-	-	2,588
<u>693</u>	<u>2,395</u>	<u>10,647</u>	<u>10,450</u>	<u>42,188</u>
<u>102,424</u>	<u>5,140</u>	<u>32,721</u>	<u>54,656</u>	<u>834,022</u>
677	4	-	4,458	254,168
-	-	-	13,398	307,185
-	-	-	2,426	103,512
-	-	-	8,461	18,014
-	-	-	2,566	20,190
-	-	-	25,362	29,178
-	-	155,227	-	155,227
414,499	-	-	-	414,499
36,606	-	-	-	36,606
<u>1,180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,180</u>
<u>452,962</u>	<u>4</u>	<u>155,227</u>	<u>56,671</u>	<u>1,339,759</u>
<u>(350,538)</u>	<u>5,136</u>	<u>(122,506)</u>	<u>(2,015)</u>	<u>(505,737)</u>
73,175	-	148,099	28,280	380,522
106,316	-	-	-	106,316
(4,735)	-	-	(237)	(4,972)
9,927	-	2,718	-	12,645
168,237	-	-	-	214,406
<u>(1,945)</u>	<u>(7,000)</u>	<u>(5,278)</u>	<u>(30,026)</u>	<u>(171,368)</u>
<u>350,975</u>	<u>(7,000)</u>	<u>145,539</u>	<u>(1,983)</u>	<u>537,549</u>
437	(1,864)	23,033	(3,998)	31,812
<u>139,711</u>	<u>61,858</u>	<u>(20,049)</u>	<u>18,236</u>	<u>312,800</u>
<b><u>\$140,148</u></b>	<b><u>\$ 59,994</u></b>	<b><u>\$ 2,984</u></b>	<b><u>\$ 14,238</u></b>	<b><u>\$ 344,612</u></b>

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CITY OF MILWAUKEE  
**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**  
FOR THE YEAR ENDED DECEMBER 31, 2015  
*(Thousands of Dollars)*

Exhibit A-4

Net change in fund balances - total governmental funds (Exhibit A-3) \$ 31,812

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$114,084) less additions from Construction-in-Progress (\$14,817) exceeded depreciation expense (\$53,077) in the current period less loss on disposals (\$581) 45,609

Notes and loans receivable to repay long-term bonds and notes 1,371

Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows in the funds.

Taxes accrued in prior years	926	
Capital grants and contributions	(4,635)	
Special assessments beginning of the year \$6,702 less \$6,373 at year end	234	
		(3,475)

The issuance of long-term debt (bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of discounts, premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued:		
Bonds and notes issued	(486,838)	
Issuance premiums	(12,645)	
Gain on refunding	(756)	
Repayments:		
Principal retirement	414,499	
Amortization:		
Premiums	14,088	
Gain/Loss on refunding	(53)	
		(71,705)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather as it accrues. The adjustment combines the net changes of the following balances.

Compensated absences	(1,622)	
Net other postemployment benefits obligation	(46,589)	
Net pension liability	(2,911)	
Claims and judgments	(3,329)	
Accrued interest on bonds and notes	540	
		(53,911)

Changes in net position of governmental activities (Exhibit 2) **\$ (50,299)**

*The notes to the financial statements are an integral part of this reconciliation.*

CITY OF MILWAUKEE  
**STATEMENT OF NET POSITION**  
**ENTERPRISE FUNDS - PROPRIETARY**  
 DECEMBER 31, 2015  
 (Thousands of Dollars)

Exhibit B-1

	Water Works	Sewer Maintenance	Nonmajor Enterprise Funds	Total
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents .....	\$ 15,420	\$ 16,827	\$ 17,428	\$ 49,675
Restricted cash and cash equivalents .....	1,174	10,765	-	11,939
Receivables (net):				
Accounts .....	16,704	15,307	12,385	44,396
Unbilled accounts .....	13,928	2,449	2,971	19,348
Accrued interest .....	-	39	-	39
Due from other funds .....	3,266	1,558	1,264	6,088
Due from other governmental agencies .....	-	1,176	-	1,176
Advances to other fund .....	626	-	-	626
Inventory of materials and supplies .....	3,133	260	-	3,393
Prepaid items .....	838	-	21	859
Other assets .....	22	-	-	22
	<u>55,111</u>	<u>48,381</u>	<u>34,069</u>	<u>137,561</u>
Total Current Assets .....				
Noncurrent assets:				
Capital assets:				
Capital assets not being depreciated:				
Land .....	2,052	-	16,982	19,034
Construction in progress .....	25,993	167	4,703	30,863
Capital assets being depreciated:				
Buildings .....	28,514	-	68,644	97,158
Infrastructure .....	375,131	649,022	18,032	1,042,185
Improvements other than buildings .....	-	-	8,173	8,173
Machinery and equipment .....	251,945	6,009	12,666	270,620
Nonutility property .....	3,654	-	-	3,654
Accumulated depreciation .....	<u>(245,321)</u>	<u>(148,761)</u>	<u>(76,155)</u>	<u>(470,237)</u>
	<u>441,968</u>	<u>506,437</u>	<u>53,045</u>	<u>1,001,450</u>
Net Capital Assets .....				
	<u>441,968</u>	<u>506,437</u>	<u>53,045</u>	<u>1,001,450</u>
Total Noncurrent Assets .....				
	<u>497,079</u>	<u>554,818</u>	<u>87,114</u>	<u>1,139,011</u>
Total Assets .....				
Deferred Outflows of Resources:				
Loss on refunding.....	-	358	1	359
Deferred outflows for pensions .....	3,750	1,206	1,106	6,062
	<u>3,750</u>	<u>1,564</u>	<u>1,107</u>	<u>6,421</u>
Total Deferred Outflows of Resources.....				

CITY OF MILWAUKEE  
**STATEMENT OF NET POSITION**  
**ENTERPRISE FUNDS**  
 DECEMBER 31, 2015

Exhibit B-1 (Continued)

	Water Works	Sewer Maintenance	Nonmajor Enterprise Funds	Total
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable .....	\$ 9,546	\$ 4,165	\$ 12,527	\$ 26,238
Accrued expenses .....	676	156	251	1,083
Accrued interest payable .....	135	556	147	838
Compensated absences .....	1,189	164	279	1,632
Advances from other funds .....	-	-	163	163
Due to other funds .....	22,770	-	6,562	29,332
Unearned revenue.....	-	1,176	-	1,176
Extendable Municipal Commercial Paper .....	10,000	75,000	1,098	86,098
General obligation debt payable - current .....	1,817	706	1,818	4,341
Total Current Liabilities .....	46,133	81,923	22,845	150,901
Current Liabilities Payable from Restricted Assets:				
Revenue bonds payable .....	1,817	10,471	-	12,288
Accrued interest payable .....	-	294	-	294
Total Current Liabilities Payable from Restricted Assets .....	1,817	10,765	-	12,582
Noncurrent Liabilities:				
General obligation debt payable .....	8,351	7,278	11,865	27,494
Revenue bonds & State loans payable .....	14,322	181,390	-	195,712
Other post employment benefits obligation .....	6,069	2,344	2,140	10,553
Net pension liability .....	2,147	630	585	3,362
Total Noncurrent Liabilities .....	30,889	191,642	14,590	237,121
Total Liabilities .....	78,839	284,330	37,435	400,604
Deferred inflows of Resources:				
Deferred inflows for pensions .....	10	-	-	10
<b>NET POSITION:</b>				
Net investment in capital assets.....	405,661	231,592	38,257	675,510
Restricted for Debt Service .....	1,174	-	-	1,174
Unrestricted .....	15,145	40,460	12,529	68,134
<b>Total Net Position .....</b>	<b>\$ 421,980</b>	<b>\$ 272,052</b>	<b>\$ 50,786</b>	<b>\$ 744,818</b>

The notes to the financial statements are an integral part of this statement.

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CITY OF MILWAUKEE  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**ENTERPRISE FUNDS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015  
 (Thousands of Dollars)

Exhibit B-2

	Water Works	Sewer Maintenance	Nonmajor Enterprise Funds	Total
Operating Revenues:				
Charges for Services:				
Water sales .....	\$ 79,290	\$ -	\$ -	\$ 79,290
Statutory sewer user fee .....	-	-	43,062	43,062
Sewer maintenance fee .....	-	60,695	-	60,695
Rent .....	-	-	15,017	15,017
Fire protection service .....	8,723	-	-	8,723
Parking meters .....	-	-	5,195	5,195
Parking permits .....	-	-	4,399	4,399
Vehicle towing .....	-	-	5,775	5,775
Parking forfeitures .....	-	-	19,022	19,022
Other .....	8,674	-	1,191	9,865
Total Operating Revenues .....	<u>96,687</u>	<u>60,695</u>	<u>93,661</u>	<u>251,043</u>
Operating Expenses:				
Milwaukee Metropolitan Sewerage District charges ..	-	-	41,618	41,618
Employee services .....	-	7,640	9,290	16,930
Administrative and general .....	8,691	-	-	8,691
Depreciation .....	17,624	7,326	3,483	28,433
Transmission and distribution .....	20,832	-	-	20,832
Services, supplies, and materials .....	-	9,616	21,103	30,719
Water treatment .....	14,359	-	-	14,359
Water pumping .....	7,636	-	-	7,636
Billing and collection .....	2,998	-	-	2,998
Total Operating Expenses .....	<u>72,140</u>	<u>24,582</u>	<u>75,494</u>	<u>172,216</u>
Operating Income .....	<u>24,547</u>	<u>36,113</u>	<u>18,167</u>	<u>78,827</u>
Nonoperating Revenues (Expenses):				
Investment income .....	24	18	-	42
Grant revenue .....	-	-	1,464	1,464
Interest expense .....	(1)	(5,908)	(594)	(6,503)
Other .....	337	(19,171)	1,330	(17,504)
Total Net Nonoperating Revenues (Expenses) ....	<u>360</u>	<u>(25,061)</u>	<u>2,200</u>	<u>(22,501)</u>
Income before Contributions and Transfers.....	24,907	11,052	20,367	56,326
Capital contributions .....	1,276	-	-	1,276
Transfers in .....	-	-	559	559
Transfers out .....	<u>(12,880)</u>	<u>(5,956)</u>	<u>(24,761)</u>	<u>(43,597)</u>
Change in Net Position .....	13,303	5,096	(3,835)	14,564
Total Net Position - Beginning, as restated(note 14).....	<u>408,677</u>	<u>266,956</u>	<u>54,621</u>	<u>730,254</u>
<b>Total Net Position - Ending .....</b>	<b><u>\$ 421,980</u></b>	<b><u>\$ 272,052</u></b>	<b><u>\$ 50,786</u></b>	<b><u>\$ 744,818</u></b>

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
FOR THE YEAR ENDED DECEMBER 31, 2015  
*(Thousands of Dollars)*

Exhibit B-3

	Water Works	Sewer Maintenance	Nonmajor Enterprise Funds	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers and users .....	\$ 90,603	\$ 61,151	\$ 92,254	\$ 244,008
Receipts from interfund services provided .....	5,798	-	-	5,798
Payments to suppliers .....	(23,570)	(10,107)	(61,181)	(94,858)
Payments to employees .....	(20,400)	(7,307)	(8,979)	(36,686)
Payments from other funds .....	-	(72)	(257)	(329)
Payments to other funds .....	(17,672)	-	2,620	(15,052)
 Net Cash Provided by Operating Activities.....	<u>34,759</u>	<u>43,665</u>	<u>24,457</u>	<u>102,881</u>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Miscellaneous nonoperating revenue .....	197	-	1,464	1,661
Other nonoperating expenses .....	-	(19,171)	-	(19,171)
Transfers from other funds .....	-	-	559	559
Transfers to other funds .....	(12,880)	(5,956)	(24,761)	(43,597)
 Net Cash Used by Noncapital Financing Activities .....	<u>(12,683)</u>	<u>(25,127)</u>	<u>(22,738)</u>	<u>(60,548)</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from sale of bonds and notes .....	16,590	51,411	3,347	71,348
Acquisition of property, plant, and equipment .....	(29,418)	(35,182)	(1,502)	(66,102)
Retirement of bonds, notes, and revenue bonds .....	(3,846)	(31,101)	(2,457)	(37,404)
Interest paid .....	(48)	(6,553)	(603)	(7,204)
Other .....	-	108	1,214	1,322
 Net Cash Used for Capital and Related Financing Activities .....	<u>(16,722)</u>	<u>(21,317)</u>	<u>(1)</u>	<u>(38,040)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITY:</b>				
Investment income .....	24	18	-	42
 Net Increase (Decrease) in Cash and Cash Equivalents .....	5,378	(2,761)	1,718	4,335
Cash and Cash Equivalents - Beginning .....	11,216	30,353	15,710	57,279
 <b>Cash and Cash Equivalents - Ending .....</b>	<u><b>\$ 16,594</b></u>	<u><b>\$ 27,592</b></u>	<u><b>\$ 17,428</b></u>	<u><b>\$ 61,614</b></u>

CITY OF MILWAUKEE  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
FOR THE YEAR ENDED DECEMBER 31, 2015  
*(Thousands of Dollars)*

Exhibit B-3 (Continued)

	<b>Water Works</b>	<b>Sewer Maintenance</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>
Cash and Cash Equivalents at Year-End Consist of:				
Unrestricted Cash .....	\$ 15,420	\$ 16,827	\$ 17,428	\$ 49,675
Restricted Cash .....	<u>1,174</u>	<u>10,765</u>	<u>-</u>	<u>11,939</u>
	<b><u>\$ 16,594</u></b>	<b><u>\$ 27,592</u></b>	<b><u>\$ 17,428</u></b>	<b><u>\$ 61,614</u></b>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income .....	\$ 24,547	\$ 36,113	\$ 18,167	\$ 78,827
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation .....	17,624	7,326	3,483	28,433
Effect of changes in assets and liabilities:				
Receivables .....	(623)	454	(1,405)	(1,574)
Due from other funds .....	384	(72)	(257)	55
Inventories .....	(561)	(26)	-	(587)
Prepaid items .....	1,248	-	-	1,248
Other assets .....	(12)	-	-	(12)
Accounts payable .....	3,013	(465)	1,540	4,088
Accrued liabilities .....	42	1	(33)	10
Net other postemployment benefits obligation ....	1,009	387	379	1,775
Net pension liability .....	2,563	748	672	3,983
Due to other funds .....	(12,095)	-	2,620	(9,475)
Unearned revenue .....	-	-	(1)	(1)
Deferred pension outflows .....	(2,390)	(801)	(708)	(3,899)
Deferred pension inflows .....	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>
 Net Cash Provided by Operating Activities .....	 <b><u>\$ 34,759</u></b>	 <b><u>\$ 43,665</u></b>	 <b><u>\$ 24,457</u></b>	 <b><u>\$ 102,881</u></b>

Non-cash Activities:

During the year, water mains and related property, installed by others were deeded to the Water Works in the amount of \$1,276,094.

During the year, the Sewer Maintenance Fund removed infrastructure assets costing \$108,000 with a net value of \$0.

*The notes to the financial statements are an integral part of this statement.*

CITY OF MILWAUKEE  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
 DECEMBER 31, 2015  
*(Thousands of Dollars)*

Exhibit C-1

	<b>Employee Benefit Trusts</b>	<b>Private- Purpose Trusts</b>	<b>Agency Funds</b>
<b>ASSETS</b>			
Cash and investments.....	<u>\$ 1,151</u>	<u>\$ 3,336</u>	<u>\$ 246,560</u>
Total Assets .....	<u>1,151</u>	<u>3,336</u>	<u>\$ 246,560</u>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable .....	\$ 76	\$ 124	\$ 1,729
Due to other governmental agencies .....	<u>-</u>	<u>-</u>	<u>244,831</u>
Total Liabilities .....	<u>76</u>	<u>124</u>	<u>\$ 246,560</u>
Net Position Held In Trust For:			
Employees' pension benefits and other purposes .....	<u>\$ 1,075</u>	<u>\$ 3,212</u>	

*The notes to the financial statements are an integral part of this statement.*

CITY OF MILWAUKEE  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015  
*(Thousands of Dollars)*

Exhibit C-2

	<b>Employee Benefit Trusts</b>	<b>Private- Purpose Trusts</b>
Additions		
Contributions:		
Plan members .....	\$ 3,885	\$ -
Private donations .....	<u>-</u>	<u>2,495</u>
Total Contributions .....	<u>3,885</u>	<u>2,495</u>
Investment earnings:		
Net appreciation in fair value of investments, dividends and interest .....	<u>-</u>	<u>7</u>
Total Additions .....	<u>3,885</u>	<u>2,502</u>
Deductions		
Benefits .....	3,639	-
Fees remitted from Trust .....	-	1,499
Other .....	<u>-</u>	<u>679</u>
Total Deductions .....	<u>3,639</u>	<u>2,178</u>
Change in Net Position .....	246	324
Net Position - Beginning .....	<u>829</u>	<u>2,888</u>
Net Position - Ending .....	<u><b>\$ 1,075</b></u>	<u><b>\$ 3,212</b></u>

*The notes to the financial statements are an integral part of this statement.*

CITY OF MILWAUKEE  
**COMBINING STATEMENT OF NET POSITION**  
**COMPONENT UNITS**  
 DECEMBER 31, 2015  
 (Thousands of Dollars)

Exhibit D-1

	Redevelopment Authority	Neighborhood Improvement Development Corporation	Century City Redevelopment Corporation	Total
<b>ASSETS</b>				
Current Assets:				
Cash and investments.....	\$ 6,355	\$ 1,712	\$ 423	\$ 8,490
Restricted cash and investments .....	39,645	578	-	40,223
Receivables (net):				
Accounts .....	319	81	42	442
Notes and loans .....	38,072	388	-	38,460
Accrued interest .....	406	146	-	552
Due from primary government .....	108	-	-	108
Due from other governmental agencies .....	979	-	-	979
Inventory of property for resale .....	5,764	750	-	6,514
Prepaid items .....	148	-	23	171
	<u>91,796</u>	<u>3,655</u>	<u>488</u>	<u>95,939</u>
Total Noncapital Assets .....				
	<u>91,796</u>	<u>3,655</u>	<u>488</u>	<u>95,939</u>
Capital assets:				
Capital assets not being depreciated:				
Land and land improvements .....	11,091	-	1,109	12,200
Construction in progress .....	15,640	-	-	15,640
Capital assets being depreciated:				
Buildings .....	75,621	-	10,165	85,786
Infrastructure .....	333	-	-	333
Improvements other than buildings .....	4,264	-	-	4,264
Machinery and equipment .....	6	-	153	159
Intangible assets.....	565	-	-	565
Accumulated depreciation .....	(18,118)	-	(1,485)	(19,603)
	<u>89,402</u>	<u>-</u>	<u>9,942</u>	<u>99,344</u>
Total Capital Assets, Net of Depreciation				
	<u>89,402</u>	<u>-</u>	<u>9,942</u>	<u>99,344</u>
Total Assets .....	<u>181,198</u>	<u>3,655</u>	<u>10,430</u>	<u>195,283</u>
Deferred Outflows of Resources:				
Deferred outflows for pensions .....	305	-	-	305

CITY OF MILWAUKEE  
**COMBINING STATEMENT OF NET POSITION**  
**COMPONENT UNITS**  
 DECEMBER 31, 2015  
*(Thousands of Dollars)*

Exhibit D-1 (Continued)

	Redevelopment Authority	Neighborhood Improvement Development Corporation	Century City Redevelopment Corporation	Total
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>				
Current Liabilities:				
Accounts payable .....	\$ 2,893	\$ 38	\$ 53	\$ 2,984
Accrued expenses .....	251	-	17	268
Due to other governmental agencies .....	3,201	-	245	3,446
Other liabilities .....	<u>2,301</u>	<u>447</u>	<u>-</u>	<u>2,748</u>
 Total Current Liabilities .....	 <u>8,646</u>	 <u>485</u>	 <u>315</u>	 <u>9,446</u>
Due to primary government:				
Due within one year .....	4,655	74	-	4,729
Due in more than one year .....	<u>15,613</u>	<u>-</u>	<u>-</u>	<u>15,613</u>
 Total Due to Primary Government .....	 <u>20,268</u>	 <u>74</u>	 <u>-</u>	 <u>20,342</u>
Long-term obligations:				
Due within one year .....	3,181	-	-	3,181
Due in more than one year .....	<u>95,029</u>	<u>30</u>	<u>18,850</u>	<u>113,909</u>
 Total Noncurrent Liabilities .....	 <u>98,210</u>	 <u>30</u>	 <u>18,850</u>	 <u>117,090</u>
 Total Liabilities .....	 <u>127,124</u>	 <u>589</u>	 <u>19,165</u>	 <u>146,878</u>
Deferred Inflows of Resources:				
Unavailable revenue.....	1,207	190	-	1,397
Deferred inflows for pensions .....	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>
Total Deferred Inflows of Resources.....	<u>1,217</u>	<u>190</u>	<u>-</u>	<u>1,407</u>
 Total Liabilities and Deferred Inflows of Resources .....	 <u>128,341</u>	 <u>779</u>	 <u>19,165</u>	 <u>148,285</u>
<b>NET POSITION:</b>				
Net investment in capital assets.....	26,188	-	(1,408)	24,780
Restricted .....	10,821	706	-	11,527
Unrestricted .....	<u>16,153</u>	<u>2,170</u>	<u>(7,327)</u>	<u>10,996</u>
 Total Net Position .....	 <u>\$ 53,162</u>	 <u>\$ 2,876</u>	 <u>\$ (8,735)</u>	 <u>\$ 47,303</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE  
**COMBINING STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015  
 (Thousands of Dollars)

Exhibit D-2

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Redevelopment Authority</b>				
Prevention and elimination of blight .....	\$ 10,295	\$ 7,726	\$ 2,535	\$ -
<b>Neighborhood Improvement Development Corp.</b>				
Housing improvements .....	577	194	295	19
<b>Century City Redevelopment Corporation</b>				
Rental income .....	<u>858</u>	<u>283</u>	<u>-</u>	<u>-</u>
 Total Component Units .....	 <u>\$ 11,730</u>	 <u>\$ 8,203</u>	 <u>\$ 2,830</u>	 <u>\$ 19</u>

General revenues:	
Miscellaneous .....	
 Total General Revenues .....	
 Change in Net Position .....	
Net Position - Beginning, as restated (note 14).....	
Net Position - Ending .....	

*The notes to the financial statements are an integral part of this statement.*

<b>Net (Expense) Revenue and Changes in Net Position</b>			
<b>Redevelopment Authority</b>	<b>Neighborhood Improvement Development Corporation</b>	<b>Century City Redevelopment Corporation</b>	<b>Total</b>
\$ (34)	\$ -	\$ -	\$ (34)
-	(69)	-	(69)
<u>-</u>	<u>-</u>	<u>(575)</u>	<u>(575)</u>
<u>(34)</u>	<u>(69)</u>	<u>(575)</u>	<u>(678)</u>
<u>(221)</u>	<u>97</u>	<u>429</u>	<u>305</u>
<u>(221)</u>	<u>97</u>	<u>429</u>	<u>305</u>
(255)	28	(146)	(373)
<u>53,417</u>	<u>2,848</u>	<u>(8,589)</u>	<u>47,676</u>
<b><u>\$ 53,162</u></b>	<b><u>\$ 2,876</u></b>	<b><u>\$ (8,735)</u></b>	<b><u>\$ 47,303</u></b>

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**NOTES  
TO THE  
FINANCIAL  
STATEMENTS**

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

**A. Reporting Entity**

The City of Milwaukee (the "City") was incorporated on January 31, 1846, and operates under a Council-Mayor form of government. These financial statements present the City (the primary government) and other organizations, including component units, for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are legally separate organizations for which the elected officials of the City are accountable. The City is considered financially accountable if it appoints a voting majority of the organization's governing body and is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefits to or burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the primary government.

**Discretely Presented Component Units**

The component unit's columns in the government-wide financial statements include the financial data of the City's component units. They are reported in a separate column to emphasize that they are legally separate from the City. The City has the following discretely presented component units:

*Redevelopment Authority* - The Redevelopment Authority of the City of Milwaukee (RACM) is responsible for activities related to the prevention and elimination of blighted conditions in the City. The City appoints all members of the Board and approves the budget.

*Neighborhood Improvement Development Corporation* - The Neighborhood Improvement Development Corporation (NIDC) is a nonprofit organization established to promote reinvestment in both housing and commercial structures within the City. NIDC programs encourage private lending institutions and property owners to make improvements to the community's homes and businesses. Corporate officers of NIDC are provided by the City and daily operations are managed by City employees.

*Century City Redevelopment Corporation* - The Century City Redevelopment Corporation (CCRC) is a nonprofit organization created to perform redevelopment activities within the City. CCRC is managed by a Board of Directors made up of members from City government and employee services are provided by the Redevelopment Authority through a cooperation agreement.

Financial statements of the individual component units can be obtained from their respective administrative offices. Addresses of the component units are as follows: RACM, 809 North Broadway, 3<sup>rd</sup> Floor, Milwaukee, Wisconsin 53202; NIDC, 841 North Broadway, 3<sup>rd</sup> Floor, Milwaukee, Wisconsin 53202; and CCRC, 841 North Broadway, 2<sup>nd</sup> Floor, Milwaukee, Wisconsin 53202.

The basic financial statements exclude the accounts of the Housing Authority of the City of Milwaukee (HACM), Milwaukee Economic Development Corporation (MEDC), Wisconsin Center District, Milwaukee Public Schools, the Milwaukee Metropolitan Sewerage District, World Festivals Inc. ("Summerfest") and the Employees' Retirement System of the City of Milwaukee, because these entities do not meet the criteria established by GASB Statement 61 as component units of the City. The Milwaukee Metropolitan Sewerage District (MMSD) is a special purpose municipal corporation created to provide sewerage treatment services in the Milwaukee metropolitan area. The City is responsible for paying usage charges within its jurisdiction. These amounts, in turn, are billed by the City to its water customers. The City has no equity interest in MMSD. Financial statements for MMSD can be obtained from its administrative office.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2015

**Related Organizations**

*Housing Authority of the City of Milwaukee*

The Housing Authority of the City of Milwaukee (HACM) is responsible for the construction and management of safe, affordable, and quality housing with services that enhance residents' self-sufficiency.

The Housing Authority is governed by a seven member Board of Commissioners who are appointed by the Mayor and confirmed by the Common Council. The City is not legally obligated for any of HACM obligations or debt.

*Milwaukee Area Workforce Investment Board*

The Milwaukee Area Workforce Investment Board (MAWIB) was established to provide job training, employment services, and workforce development within Milwaukee County. MAWIB acts as the recipient, dispenser, and administer of funding provided under the Workforce Development Act for Milwaukee County.

The Governor designated the Mayor of the City of Milwaukee as Milwaukee County's chief local elected officer for the Workforce Investment Act of 1998. The directors of the MAWIB are appointed by the Mayor in accordance with the Workforce Investment Act. The City is not legally obligated for any of MAWIB obligations or debt. The City is not entitled to access funds of the MAWIB.

**B. Basis of Presentation**

**Government-wide Statements.** The government-wide statement of net position and statement of activities report the overall financial activity of the City, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the City. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) fines, fees, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements.** The fund financial statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of rents, sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting these criteria are reported as nonoperating expenses. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

**General Fund** – The General Fund is used to account for all financial resources, except those required to be accounted for in another fund.

**General Obligation Debt** – This fund accounts for the resources accumulated and payments made for principal and interest on the City's outstanding long-term general obligation debt.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2015

**Public Debt Amortization** – This fund accounts for one-third of all interest on general City investments and interest on Fund investments for the retirement of debt. The Public Debt Amortization Fund is governed by Section 67.101 of the Wisconsin Statutes for the retirement of the public debt. See Note 7 for further discussion.

**Capital Projects Fund** – The Capital Projects Fund is used to account for the financial resources segregated for the acquisition or construction of major capital expenditures other than those financed by proprietary funds.

The City reports the following major enterprise funds:

**Water Works** – All activities necessary to provide water services to residents of the City and outlying areas. Fund activities include administration, billing and collection, operations, maintenance and financing.

**Sewer Maintenance** – This fund accounts for the maintenance of the City's sewer system. Wisconsin State Statutes Section 66.0821, permit municipalities to implement sewer fees to recover the costs of operation, maintenance, repair, and depreciation of sewer collection and transportation facilities. Sewer maintenance costs are recovered through a user fee rather than through the property tax.

Additionally, the City reports the following fiduciary fund types:

**Pension and Other Employee Benefit Trusts** – This fund accounts for resources for employee flexible spending plans.

**Private Purpose Trust** – These funds account for resources legally held in trust for use by various individuals, governmental entities, and nonpublic corporations. All resources of these funds, including any earnings on invested resources, may be used to support each trust's initiatives.

**Agency** – These funds account for taxes and deposits collected by the City, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

**C. Basis of Accounting – Measurement Focus**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property tax revenue, grants, and other contributions. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance, which is the year after the taxes are levied. Taxes levied in 2014 that will be collected in 2015 are recorded as receivable and deferred inflows of resources. Deferred inflows of resources arise when assets are recognized before revenue recognition criteria have been satisfied. Revenue from grants and other contributions are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues, excluding property taxes, to be available if they are collected within 90 days of the end of the current year. Property taxes are considered to be available if they are collected within 60 days of the end of the current year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources, which are susceptible to accrual include property taxes, state shared revenues, grants, contributions, and interest. All other revenue sources including licenses, permits, fines, and forfeits are considered to be measurable and available only when cash is received.

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**D. Cash and Cash Equivalents**

For purposes of the statements of cash flows, all highly liquid investments (including restricted cash and investments) purchased with a maturity of three months or less are considered to be cash equivalents. The City manages a cash and investment pool to maximize return on funds while providing liquidity to meet day-to-day obligations. Each fund's equity in the City's investment pool is considered to be a cash equivalent, since the funds can deposit or effectively withdraw cash at anytime without prior notice or penalty.

**E. Investments**

Investments, primarily consisting of fixed income securities, are reported at fair value based on quoted market prices. Commercial paper, which is short term, defined as having an original maturity of one year or less, and highly liquid is carried at amortized cost. Investment transactions are recorded on the trade date. Under Wisconsin Statutes, one-third of all interest on pooled cash and investments is allocated to the Public Debt Amortization Fund. The remaining two-thirds are credited to the General Fund. Each fund type's portion of pooled cash and investments is included in the cash and cash equivalents line on the Statement of Net Position/Balance Sheet.

Wisconsin Statutes permit the City to invest funds not immediately needed in any of the following:

- . Time deposits maturing within three years in any credit union, bank, savings bank, trust company, or savings and loan association, which are authorized to transact business in the State of Wisconsin.
- . Bonds or securities issued or guaranteed by the Federal government.
- . Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the State of Wisconsin, as well as bonds issued by a local exposition district, a local professional baseball park district, the University of Wisconsin Hospitals and Clinics Authority or the Wisconsin Aerospace Authority.
- . Local Government Investment Pool - Investment Fund of the State of Wisconsin. The Local Government Pooled Investment Fund is an external investment pool administered by the State of Wisconsin. The fair value of the City's investment in the fund is the same as the value of the pooled shares. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of Section 25.50 of the Wisconsin Statutes.
- . Repurchase agreements with public depositories, if the agreement is secured by federal bonds or securities.
- . Any security that matures or that may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating, which is the highest or second highest rating category assigned by Standard & Poor's Corporation, Moody's Investors Service, Inc., or other similar nationally recognized rating agency or if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.
- . Securities of open-end management investment companies or investment trusts (mutual funds) if the portfolio is limited to (a) bonds and securities issued by the federal government or a commission, board, or other instrumentality of the federal government, (b) bonds that are guaranteed as to principal and interest by the federal government or a commission, board, or other instrumentality of the federal government, and (c) repurchase agreements that are fully collateralized by these bonds or securities.

**F. Property Taxes**

Property taxes are recorded as receivables and deferred inflows in the taxing fund in the year levied because the taxes are restricted to funding the succeeding year's budget appropriations. Property tax payments received prior to year-end are also reflected in the taxing fund. Property taxes are recognized in the appropriate funds as revenues in the succeeding year when they are collected and available to finance City services. If not collected at year-end, the delinquent property taxes are reflected as receivables and deferred inflows. Delinquent property taxes and related interest are recognized as revenues when collected.

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The allowance for uncollectible property taxes is based on an analysis of the delinquent property taxes and, in management's judgment, represents an amount adequate to provide for potential uncollectible taxes. The allowance is increased by provisions charged against revenues and is reduced by taxes receivable written off.

The City, through its Special Revenue Fund - Delinquent Tax, issues general obligation short-term promissory notes to finance the purchase of the most recent delinquent taxes from its General Fund. Collections on these delinquencies are used for the associated debt service requirements.

**G. Accounts Receivable**

Accounts receivables are presented net of allowances. The amount of the General Fund allowance as of December 31, 2015 is approximately \$754,000.

Delinquent accounts for business type activities are presented in accounts receivable net of allowances. The amounts of the Water, Sewer, and Non-major Enterprise fund allowances as of December 31, 2015 were approximately \$710,000, \$523,000, and \$983,000 respectively.

**H. Unbilled Services**

Unbilled water and sewer services at year-end are recognized as revenues and receivables in the accompanying financial statements.

**I. Special Assessments**

Special assessments consist of capital projects constructed through non-special assessment debt. In governmental fund financial statements, special assessments are recorded as receivables and deferred revenues when the related capital outlays are made and are recorded as revenues when due and payable. In the government-wide financial statements, special assessments are recorded as receivables and capital contribution revenue when the capital outlays are made. All special assessments are due when billed and may be paid on an installment basis with interest. Special assessment receivables that become delinquent are added to the general tax roll. The method of enforcing collections is the same as for general city taxes with like force and effect.

**J. Notes and Loan Receivables**

The General Fund, the Special Revenue Fund - Community Development Block Grant, and Neighborhood Improvement Development Corporation hold notes and loans receivable from individuals, small businesses, and corporations in the Milwaukee area that are secured by primary or secondary security interests in real estate or other assets. The City periodically analyzes the collectibility of the notes and loans that are not insured and provides allowances as considered necessary. The amount of the allowance in the nonmajor governmental fund is approximately \$27,376,000 as of December 31, 2015.

The City creates tax incremental districts (TID) to issue debt to fund redevelopment projects. Pursuant to a cooperation agreement between the City, the Redevelopment Authority of the City of Milwaukee (Authority), and the Milwaukee Economic Development Corporation (Corporation), the City provides the Authority and the Corporation with the funds necessary to carry out the loan to a private developer to finance the redevelopment projects. Loan repayments to the Authority and the Corporation from the private developer, including interest income as well as other project income, are transferred to the City until the City's loan has been repaid or the TID expires. The City reflects these loans as notes receivable and deferred inflows in governmental fund financial statements based on an amount estimated to be repaid from the Authority and the Corporation.

**K. Inventories**

Inventories of materials and supplies are stated at moving average cost, based upon perpetual recordkeeping systems and periodic cycle counts of quantities on hand. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased therefore inventories are classified as non-spendable in fund balance.

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**L. Prepaid Items**

Cash payments benefiting future periods have been recorded as prepaid items. They will be reflected as expenditures or expenses when incurred in the subsequent year and are classified as non-spendable in fund balance.

**M. Capital Assets**

Capital assets, which include property, plant, and equipment, and infrastructure, are reported at cost or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. General infrastructure assets, such as roads, bridges, curbs, gutters, streets, sidewalks, and drainage and lighting systems, acquired prior to January 1, 2002 are reported at estimated historical cost using deflated replacement cost. Capital assets are depreciated using the straight-line method. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Major capital outlays for capital assets of business-type activities are included as part of the capitalized value of the assets constructed. Interest expenses incurred during construction were not capitalized as part of the additions to capital assets.

Capitalization thresholds and the estimated useful lives for the City and component units are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Infrastructure	\$ 5,000	5-50 years
Land	5,000	N/A
Land Improvements	5,000	N/A
Intangible right of ways	5,000	N/A
Site Improvements	5,000	3-50
Buildings	5,000	10-60
Building Improvements	5,000	10-45
Machinery and equipment	5,000	3-25
Works of Art, Historical Treasures	5,000	N/A
Intangible software	100,000	5-20

**N. Pension Contributions**

The employer's share of the annual contribution is recorded in the proprietary funds and government-wide financial statements as an expense when the liability is incurred and in the governmental funds as expenditure when the liability is liquidated with expendable available financial resources.

**O. Compensated Absences**

The liability for compensated absences reported in the government-wide, proprietary, and fiduciary fund financial statements consists of unpaid, accumulated vacation, and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax). A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City employees accrue sick leave in accordance with labor agreements or Section 350-37 of the Code of Ordinances.

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**P. Claims and Judgments**

The liability for claims and judgments is reported in the government-wide, proprietary, and fiduciary fund financial statements when they are both probable and estimable. A liability for claims and judgments is reported in governmental funds only if they have matured (i.e., are due). The City accrues environmental remediation obligations when related liabilities are probable and reasonably estimable. These accruals generally are recognized no later than completion of a remedial feasibility study and are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

**Q. Debt Premiums, Discounts, and Issuance Costs**

In the government-wide and proprietary fund financial statements, debt premiums and discounts are deferred and amortized over the life of the debt using the effective interest method. Long-term debt payable are reported net of the applicable debt premium or discount. Debt issuance costs are expensed in the current period.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The City records premiums for governmental fund types in the General Obligation Debt Service Fund.

**Advance Refundings of Debt**

In the government-wide and proprietary fund financial statements, gains and losses from advance refundings of debt resulting in defeasance are deferred and amortized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt using the effective interest method.

**R. Fund Balance-Governmental Funds**

The fund balances of the governmental funds are classified as follows:

**Non-spendable** – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

**Restricted** – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** – Amounts that can be used only for specific purposes determined by a formal action of the City's Common Council. The Common Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Common Council.

**Assigned** – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. It is the policy of the City that the City Comptroller will have the authority to assign funds intended for a specific purpose but have not received formal approval by the Common Council. The Comptroller will record funds as assigned fund balance based on intentions for use of the funds and can redeploy assigned resources to an alternative fund balance category based on intended use of the funds.

**Unassigned** – All other spendable amounts.

When expenditure is incurred for purposes for which restricted, committed, assigned, or unassigned amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first followed by committed, assigned and then unassigned fund balance unless the order of fund balance usage is dictated by legal, borrowing or other requirements.

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**S. Net Position**

In the government-wide and proprietary fund financial statements, net position is displayed in three components as follows:

**Net Investment in Capital Assets** – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted** – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first, then unrestricted resources when they are needed.

**Unrestricted** – This consists of net assets that do not meet the definition of "restricted" or "Net investment in capital assets."

**T. Interfund Transactions**

The City has the following types of interfund transactions:

**Loans** – amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds. The noncurrent portions of long-term interfund loans receivable are reported as advances.

**Services provided and used** – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net position.

**Reimbursements** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursement is reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

**Transfers** – flows of assets (such as cash or goods) without equivalent flows of assets in return, including payments in lieu of taxes, and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

**U. Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**V. New Accounting Pronouncements**

In July 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and Statement No. 50, *Pension Disclosures*. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and RSI. As an addition to GASB 68, GASB Statement No. 71 was also issued which added a part to GASB 68 was not included in the original pronouncement. The City has implemented these Statements for the financial statements ending December 31, 2015. See Note 8 for more information.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purposes. This statement

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will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The application of this statement is will be recorded in the year ending December 31, 2016 financial statements

In June 2015, the GASB issued Statement No. 74 and No. 75, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. These Statements replace Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43 and Statement No. 50, *Pension Disclosures*. The application of this statement will be implemented starting with the year ended Dec. 31, 2016 financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires certain disclosures in regards to tax abatements utilized by local governments. Financial statement users need information regarding a government's ability to raise resources to use. This statement will provide information necessary to assess how tax abatements affect the financial position of the City. This will be implemented in the 2016 financial statements if it is deemed applicable.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement is a modification to Statement No. 68 regarding criteria for pension plans that qualify for reporting requirements under these GASB pronouncements. It will be effective for the year end December 31, 2016 financial statements.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses criteria for certain external investment pools and pool participants for disclosing the investments at amortized cost for financial reporting purposes. This statement will be effective and implemented for the year end December 31, 2016 financial statements.

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* in January of 2016. This is an amendment to Statement No. 14. It further details blending requirements for component units of local governments. This will be implemented if applicable in the year end December 31, 2016 financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This statement improves financial reporting by improving recognition and measurement for situations in which a government is a beneficiary of such an agreement. The effective date for this statement is to be implemented for the year end December 31, 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, *An Amendment of GASB Statements No. 67, 68, and No. 73*. This statement addresses issues with payroll related measures for presentation in the Required Supplementary Information of the financial statements. These changes will be reflected in the year end December 31, 2016 statements.

CITY OF MILWAUKEE  
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**2. DEPOSITS AND INVESTMENTS**

**A. Primary Government**

The description of the City's deposit and investment policy is discussed in Note 1 D and E.

As of December 31, 2015, the City's deposits and investments are as follows:

	Fair Value	Investment Maturities (in Years) (Thousands of Dollars)			Greater than 10	Credit Rating
		Less than 1	1-5	6-10		
<b>Governmental and Business-type activities:</b>						
<i>Investment type</i>						
Pooled Deposits and Investments .....	\$ 325,679	\$ 325,679	\$ -	\$ -	\$ -	see below
Other Deposits .....	110	110	-	-	-	not rated
Segregated Deposits and Investments						
Interest Checking .....	6,999	6,999	-	-	-	not rated
Wisconsin Local Government						
Investment Pool .....	71,769	71,769	-	-	-	not rated
Municipal Bonds .....	9,979	1,407	6,891	1,681	-	see below
U.S. Treasury strips .....	646	646	-	-	-	Aaa
Treasuries (Fiscal Agent) .....	19,942	19,942	-	-	-	not rated
GNMA Bonds .....	5,471	5,471	-	-	-	Aaa
	<u>\$ 440,595</u>	<u>\$ 432,023</u>	<u>\$ 6,891</u>	<u>\$ 1,681</u>	<u>\$ -</u>	
<b>Fiduciary activities:</b>						
<i>Investment type</i>						
Pooled Deposits and Investments .....	\$ 250,437	\$ 250,437	\$ -	\$ -	\$ -	see below
Other Deposits .....	173	173	-	-	-	not rated
Segregated Deposits and Investments						
Wisconsin Local Government						
Investment Pool .....	5	5	-	-	-	not rated
U.S. Treasury strips .....	432	432	-	-	-	Aaa
	<u>\$ 251,047</u>	<u>\$ 251,047</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

**Security Ratings**

The Governmental and Business-type municipal bond holdings of \$9,979,000 were rated by Moody's as follows: Aa1 (32.2%), Aa2 (30.2%), Aaa (10.2%), Aa3 (8.8%), with the remaining holdings unrated (18.6%).

CITY OF MILWAUKEE  
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**Pooled Deposits and Investments**

The City maintains a cash and investment pool (Pool) that is available for use by all the funds, except for Debt Service Funds, Water Works Enterprise Fund, and component entities. Each fund's share of pooled cash and investments is included in the cash and cash equivalents line on the Statement of Net Position/Balance Sheet.

As of December 31, 2015, the City had the following investments and maturities in the Pool:

	Fair Value	Investment Maturities (in Years)			Greater than 10	Credit Rating
		Less than 1	1-5	6-10		
<i>(Thousands of Dollars)</i>						
<b>Pooled Deposits and Investments</b>						
Bank Demand Deposits .....	\$ 40,721	\$ 40,721	\$ -	\$ -	\$ -	not rated
Other Deposits .....	4,651	4,651	-	-	-	not rated
Deposits and Investments						
Interest Checking .....	345,895	345,895	-	-	-	not rated
Wisconsin Local Government						
Investment Pool .....	101,036	101,036	-	-	-	not rated
Investment Portfolio .....	77,211	7,553	66,190	-	3,468	see below
Certificates of Deposits .....	6,602	6,602	-	-	-	not rated
	<u>\$ 576,116</u>	<u>\$ 506,458</u>	<u>\$ 66,190</u>	<u>\$ -</u>	<u>\$ 3,468</u>	

**Investment Portfolio Ratings**

Corporate bond holdings of \$29,863,000 were rated as follows: Moody's Aa2 (27.9%), Aa3 (23.4%), Aa1 (22.6%), A1 (12.8%), Aaa (11.1%), Standard & Poors AA (2.2%). US Agencies and Treasuries of \$44,782,000 were rated Aaa by Moody's. Municipal Bonds of \$582,000 and Money Market of \$1,984,000 were not rated.

**Custodial Credit Risk – Deposits**

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the City's deposits may not be returned. Per Common Council, the City Treasurer shall require collateralization of certificates of time deposit (including interest checking) at financial institutions when the total amount of such certificates of deposit with any institution exceeds the combined insured limit of \$650,000. As of December 31, 2015, \$5,000 of the City's bank balances was subject to custodial credit risk as they were neither insured nor collateralized.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of the City's investments will decrease as a result of an increase in interest rates. The City's investment policy does not explicitly limit investment maturities. However, the City manages its exposure to interest risk based on the anticipated cash flow needs of the City and limiting the amount of pooled investments to \$60,000,000 with maturities greater than one year.

**Credit risk**

Credit risk is the risk that the City will not recover its investments due to the inability of the counterparty to fulfill its obligations. Wisconsin Statutes expressly limit the City to invest in certain allowable investments as listed in Note 1. E. The City's investment policy generally does not further limit its investment choices.

**B. Component Units**

**Deposits and Investments**

Deposits in each local area bank are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for interest bearing accounts and \$250,000 for noninterest bearing accounts. An additional \$400,000 is covered by the State Deposit Guarantee Fund.

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**Interest Rate Risk**

Interest rate risk is the risk that the fair value of the Component Unit investments are exposed to losses as a result of increases in interest rates.

**Credit Risk**

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligation.

The Component Units have the following deposits and investments as of December 31, 2015:

	Fair value	Investment Maturities (in Years) (Thousands of Dollars)				Moody's Credit Rating
		Less than 1	1-5	6-10	10 and greater	
<b>Component Units:</b>						
Bank Demand Deposits.....	\$ 6,684	\$ 6,684	\$ -	\$ -	\$ -	- not rated
Local Government Investment Pool.....	220	220	-	-	-	- not rated
U.S. Treasury Money Market Fund.....	10,760	10,760	-	-	-	- Aaa
U.S. Treasury Notes.....	1,802	652	1,150	-	-	- Aaa
U.S. Agencies						
Government National Mortgage Association.....	497	271	199	27	-	- AA
Municipal Bonds .....	193	193	-	-	-	- Aa3
Corporate Bonds .....	1,836	844	992	-	-	- Aaa
Certificates of Deposit.....	1,688	1,688	-	-	-	- AA
Money Market.....	24,633	24,633	-	-	-	- N/A
Other.....	400	400	-	-	-	- not rated
	<u>\$ 48,713</u>	<u>\$ 46,345</u>	<u>\$ 2,341</u>	<u>\$ 27</u>	<u>\$ -</u>	

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a financial institution failure, the Component Units deposits may not be returned.

As of December 31, 2015 Component Units bank balances exposed to Custodial Credit Risk are as follows:

	Bank Balance	Uninsured and Uncollateralized
	(Thousands of Dollars)	
Redevelopment Authority.....	\$ 7,671	\$ 4,908
Neighborhood Improvement Development Corporation.....	2,104	1,236

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**3. PROPERTY TAXES**

The City's property taxes are levied on or before December 31, on the assessed (taxable) value as of the prior January 1, for all general property located in the City. Taxes become a lien against the property upon filing the roll in the Office of the City Clerk. This generally takes place in December. The taxes are due January 31, but may be paid in ten monthly installments without interest from January through October. Foreclosure can be commenced after one year from date of delinquency.

The City purchases property taxes receivable from other taxing authorities at the unpaid amounts to facilitate the collection of the taxes. The purchases are a financing arrangement and are not included in property tax revenues. Also, delinquent water and sewer charges and special assessment receivables are transferred to the General Fund at the unpaid amounts.

At December 31, 2015, delinquent property taxes include delinquent sewer and water charges and special assessments by year levied, tax deeded property, and allowance for uncollectible taxes. These delinquent property taxes are reported as part of taxes receivable in the General Fund and Special Revenue Fund - Delinquent Tax and consist of the following:

	<b>City Levy</b>	<b>Purchased Taxes Receivable</b>	<b>Total</b>
<i>(Thousands of Dollars)</i>			
2010 and prior .....	\$ 1,553	\$ 2,777	\$ 4,330
2011.....	1,185	2,027	3,212
2012.....	2,213	3,632	5,845
2013.....	4,288	6,915	11,203
2014.....	<u>9,893</u>	<u>16,203</u>	<u>26,096</u>
 Total delinquent property taxes receivable .....	 <u>\$ 19,132</u>	 <u>\$ 31,554</u>	 50,686
 Property taxes receivable on foreclosed property .....			 44,093
 Less: Allowance for uncollectible taxes .....			 <u>(36,176)</u>
 Net delinquent property taxes receivable, including tax deeded property			 <u>\$ 58,603</u>

CITY OF MILWAUKEE  
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**4. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015 was as follows:

	<b>Balance 01-01-15</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 12-31-15</b>
<b>Governmental activities</b>	<i>(Thousands of Dollars)</i>			
<i>Capital assets not being depreciated:</i>				
Land .....	\$ 165,730	\$ -	\$ -	\$ 165,730
Construction in progress .....	76,391	27,529	14,817	89,103
Intangible right of ways .....	<u>1,342</u>	<u>-</u>	<u>-</u>	<u>1,342</u>
Total capital assets not being depreciated .....	<u>243,463</u>	<u>27,529</u>	<u>14,817</u>	<u>256,175</u>
<i>Capital assets being depreciated:</i>				
Buildings .....	307,965	4,695	-	312,660
Infrastructure.....	1,605,990	63,220	6,971	1,662,239
Improvements other than buildings .....	11,909	88	-	11,997
Machinery and equipment .....	193,790	18,552	5,039	207,303
Intangible software.....	<u>2,605</u>	<u>-</u>	<u>-</u>	<u>2,605</u>
Total capital assets being depreciated .....	<u>2,122,259</u>	<u>86,555</u>	<u>12,010</u>	<u>2,196,804</u>
Less accumulated depreciation for:				
Buildings .....	104,563	8,350	-	112,913
Infrastructure .....	1,026,950	31,061	6,971	1,051,040
Improvements other than buildings .....	9,193	279	-	9,472
Machinery and equipment .....	128,061	13,026	4,458	136,629
Intangible software .....	<u>1,634</u>	<u>361</u>	<u>-</u>	<u>1,995</u>
Total accumulated depreciation .....	<u>1,270,401</u>	<u>53,077</u>	<u>11,429</u>	<u>1,312,049</u>
Total capital assets being depreciated, net ...	<u>851,858</u>	<u>33,478</u>	<u>581</u>	<u>884,755</u>
<b>Government activity capital assets, net .....</b>	<b><u>\$ 1,095,321</u></b>	<b><u>\$ 61,007</u></b>	<b><u>\$ 15,398</u></b>	<b><u>\$ 1,140,930</u></b>
Depreciation expense for governmental activities was charged to functions as follows:				
General government .....	\$ 632			
Public safety .....	8,798			
Public works .....	42,650			
Health .....	175			
Culture and recreation .....	<u>822</u>			
Total .....	<u>\$ 53,077</u>			

CITY OF MILWAUKEE  
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	<b>Balance 01-01-15</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 12-31-15</b>
<b>Business-type activities</b>	<i>(Thousands of Dollars)</i>			
<b>Water Works</b>				
<i>Capital assets not being depreciated:</i>				
Land .....	\$ 2,065	\$ -	\$ 13	\$ 2,052
Construction in progress .....	<u>23,377</u>	<u>31,453</u>	<u>28,837</u>	<u>25,993</u>
Total capital assets not being depreciated .....	<u>25,442</u>	<u>31,453</u>	<u>28,850</u>	<u>28,045</u>
<i>Capital assets being depreciated:</i>				
Buildings .....	29,055	1,464	2,005	28,514
Infrastructure .....	369,922	5,489	280	375,131
Machinery and equipment .....	236,062	21,884	6,001	251,945
Nonutility property .....	<u>3,654</u>	<u>-</u>	<u>-</u>	<u>3,654</u>
Total capital assets being depreciated .....	<u>638,693</u>	<u>28,837</u>	<u>8,286</u>	<u>659,244</u>
Less accumulated depreciation for:				
Buildings .....	18,668	912	1,444	18,136
Infrastructure .....	99,879	4,994	287	104,586
Machinery and equipment .....	116,190	11,579	5,948	121,821
Nonutility property .....	<u>639</u>	<u>139</u>	<u>-</u>	<u>778</u>
Total accumulated depreciation .....	<u>235,376</u>	<u>17,624</u>	<u>7,679</u>	<u>245,321</u>
Total capital assets being depreciated, net ...	<u>403,317</u>	<u>11,213</u>	<u>607</u>	<u>413,923</u>
Water Works capital assets, net .....	<u>428,759</u>	<u>42,666</u>	<u>29,457</u>	<u>441,968</u>
<b>Sewer Maintenance</b>				
<i>Capital assets not being depreciated:</i>				
Construction in progress .....	<u>732</u>	<u>167</u>	<u>732</u>	<u>167</u>
Total capital assets not being depreciated .....	<u>732</u>	<u>167</u>	<u>732</u>	<u>167</u>
<i>Capital assets being depreciated:</i>				
Infrastructure .....	614,967	34,618	563	649,022
Machinery and equipment .....	<u>5,015</u>	<u>1,129</u>	<u>135</u>	<u>6,009</u>
Total capital assets being depreciated .....	<u>619,982</u>	<u>35,747</u>	<u>698</u>	<u>655,031</u>
Less accumulated depreciation for:				
Infrastructure .....	138,880	7,012	563	145,329
Machinery and equipment .....	<u>3,145</u>	<u>314</u>	<u>27</u>	<u>3,432</u>
Total accumulated depreciation .....	<u>142,025</u>	<u>7,326</u>	<u>590</u>	<u>148,761</u>
Total capital assets being depreciated, net ...	<u>477,957</u>	<u>28,421</u>	<u>108</u>	<u>506,270</u>
Sewer Maintenance capital assets, net .....	<u>478,689</u>	<u>28,588</u>	<u>840</u>	<u>506,437</u>

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	Balance 01-01-15	Additions	Deletions	Balance 12-31-15
		<i>(Thousands of Dollars)</i>		
<b>Other business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land .....	17,031	-	49	16,982
Construction in progress .....	<u>3,622</u>	<u>1,395</u>	<u>314</u>	<u>4,703</u>
Total capital assets not being depreciated .....	<u>20,653</u>	<u>1,395</u>	<u>363</u>	<u>21,685</u>
<i>Capital assets being depreciated:</i>				
Buildings .....	68,644	-	-	68,644
Infrastructure—port.....	17,862	170	-	18,032
Improvements other than buildings .....	8,150	23	-	8,173
Machinery and equipment .....	<u>12,824</u>	<u>459</u>	<u>617</u>	<u>12,666</u>
Total capital assets being depreciated .....	<u>107,480</u>	<u>652</u>	<u>617</u>	<u>107,515</u>
Less accumulated depreciation for:				
Buildings .....	47,733	2,079	-	49,812
Infrastructure—port.....	10,591	306	-	10,897
Improvements other than buildings .....	6,853	284	-	7,137
Machinery and equipment .....	<u>8,111</u>	<u>814</u>	<u>616</u>	<u>8,309</u>
Total accumulated depreciation .....	<u>73,288</u>	<u>3,483</u>	<u>616</u>	<u>76,155</u>
Total capital assets being depreciated, net ...	<u>34,192</u>	<u>(2,831)</u>	<u>1</u>	<u>31,360</u>
Other business-type activities, net .....	<u>54,845</u>	<u>(1,436)</u>	<u>364</u>	<u>53,045</u>
<b>Business-type activity capital assets, net .....</b>	<b><u>\$ 962,293</u></b>	<b><u>\$ 69,818</u></b>	<b><u>\$ 30,661</u></b>	<b><u>\$ 1,001,450</u></b>
Depreciation expense for business-type activities was charged to functions as follows:				
Water Utility				
Depreciation .....	\$ 17,485			
Depreciation charged to Sanitary Sewer .....	<u>139</u>			
	17,624			
Sewer Maintenance .....	7,326			
Other business-type activities .....	<u>3,483</u>			
Total .....	<u>\$ 28,433</u>			

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	<b>Balance 01-01-15</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 12-31-15</b>
		<i>(Thousands of Dollars)</i>		
<b>Component Units</b>				
<i>Capital assets not being depreciated:</i>				
Land .....	\$ 12,200	\$ -	\$ -	\$ 12,200
Construction in Progress .....	<u>-</u>	<u>15,640</u>	<u>-</u>	<u>15,640</u>
Total capital assets not being depreciated .....	<u>12,200</u>	<u>15,640</u>	<u>-</u>	<u>27,840</u>
<i>Capital assets being depreciated:</i>				
Buildings .....	85,786	-	-	85,786
Infrastructure .....	333	-	-	333
Improvements other than buildings .....	4,264	-	-	4,264
Machinery and equipment .....	159	-	-	159
Intangibles.....	<u>565</u>	<u>-</u>	<u>-</u>	<u>565</u>
Total capital assets being depreciated .....	<u>91,107</u>	<u>-</u>	<u>-</u>	<u>91,107</u>
Less accumulated depreciation for:				
Buildings .....	15,815	2,233	-	18,048
Infrastructure .....	393	318	-	711
Improvements other than buildings .....	505	14	-	519
Machinery and equipment .....	52	17	-	69
Intangibles.....	<u>199</u>	<u>57</u>	<u>-</u>	<u>256</u>
Total accumulated depreciation .....	<u>16,964</u>	<u>2,639</u>	<u>-</u>	<u>19,603</u>
Total capital assets being depreciated, net ..	<u>74,143</u>	<u>(2,639)</u>	<u>-</u>	<u>71,504</u>
<b>Component units capital assets, net .....</b>	<u>\$ 86,343</u>	<u>\$ 13,001</u>	<u>\$ -</u>	<u>\$ 99,344</u>

CITY OF MILWAUKEE  
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**5. DEFERRED INFLOWS OF RESOURCES**

Unavailable revenue is recorded in the governmental funds for amounts not yet available and for resources received prior to being earned by the City. Related revenue is recognized when these amounts become available or when earned. The composition of the deferred balances in the governmental funds as of December 31, 2015 is as follows:

	General	General Obligation Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
	<i>(Thousands of Dollars)</i>				
Current property taxes .....	\$ 194,630	\$ 92,619	\$ 3,004	\$ -	\$ 290,253
Delinquent property taxes .....	8,076	-	-	6,376	14,452
Unavailable grant revenue .....	-	-	4,926	2,844	7,770
Long-term receivables .....	155	86,706	72	-	86,933
Unbilled special assessments .....	-	-	6,373	-	6,373
<b>Total .....</b>	<b><u>\$ 202,861</u></b>	<b><u>\$ 179,325</u></b>	<b><u>\$ 14,375</u></b>	<b><u>\$ 9,220</u></b>	<b><u>\$ 405,781</u></b>

**6. SHORT-TERM DEBT**

During 2015, the City issued and repaid \$125,000,000 of Revenue Anticipation Notes, Series 2015 R1 (R1 Notes). The RANs were issued for the purpose of financing the City's operating budget on an interim basis pending receipt of State of Wisconsin shared revenue payments due in November 2015.

As of December 31, 2014, the City had outstanding \$125,000,000 of short-term Revenue Anticipation Notes (RANs) on behalf of Milwaukee Public Schools. In 2015, the City repaid the outstanding balance and issued \$180,000,000 short-term RANs for the same purpose. The new notes of \$180,000,000, of which \$50,000,000 bears an interest rate of .40%, matured on December 30, 2015. \$80,000,000 bears an interest rate of 2.00% and matures on June 30, 2016 and \$50,000,000 bears an interest rate of 1.5% and also matures on June 30, 2016. The liability and related receivable to repay the revenue anticipation notes are recorded in the General Obligation Debt Service Fund.

Following is a summary of the Revenue Anticipation Notes issued (in thousands):

	Balance 01-01-15	Additions	Deletions	Balance 12-31-15
	\$ 125,000	180,000	175,000	\$ 130,000

CITY OF MILWAUKEE  
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**7. LONG-TERM OBLIGATIONS**

**A. Changes in Long-Term Obligations**

Changes in long-term obligations for the year ended December 31, 2015 were as follows:

	<b>Balance 01-01-15</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 12-31-15</b>	<b>Amounts Due within One Year</b>
	<i>(Thousands of Dollars)</i>				
<b>Governmental activities:</b>					
General obligation bonds and notes					
City .....	\$ 724,216	\$ 283,035	\$ 244,472	\$ 762,779	\$ 101,916
Milwaukee Public Schools .....	90,306	20,041	24,867	85,480	8,878
Unamortized premiums .....	54,626	12,645	14,088	53,183	-
Extendable Municipal Commercial Paper					
City .....	41,700	113,762	75,160	80,302	80,302
Milwaukee Public Schools .....	-	70,000	70,000	-	-
Compensated absences .....	46,779	3,803	2,181	48,401	2,626
Net other postemployment benefits obligation .....	316,725	73,857	27,268	363,314	-
Net pension liability (asset) .....	(17,365)	385,650	277,197	91,088	-
Claims and judgments .....	27,583	8,230	4,901	30,912	1,836
Total governmental activities .....	<u>\$ 1,284,570</u>	<u>\$ 971,023</u>	<u>\$ 740,134</u>	<u>\$ 1,515,459</u>	<u>\$ 195,558</u>
<b>Business-type activities</b>					
<b>Water Works</b>					
General obligation bonds and notes .....	\$ 12,670	\$ -	\$ 2,511	\$ 10,159	\$ 1,817
Unamortized premiums .....	38	-	29	9	-
Extendable Municipal Commercial Paper .....	-	10,000	-	10,000	10,000
Revenue bonds .....	10,884	6,590	1,335	16,139	1,677
Compensated absences .....	1,207	600	618	1,189	1,189
Net other postemployment benefits obligation .....	5,059	2,110	1,100	6,069	-
Net pension liability (asset) .....	(416)	4,079	1,516	2,147	-
Total Water Works .....	<u>29,858</u>	<u>19,300</u>	<u>5,593</u>	<u>45,712</u>	<u>14,683</u>
<b>Sewer Maintenance</b>					
General obligation bonds and notes .....	8,687	-	703	7,984	706
State Loans .....	92,100	20,411	4,978	107,533	5,921
Revenue bonds .....	83,740	-	4,420	79,320	4,550
Unamortized premiums .....	5,842	-	834	5,008	-
Extendable Municipal Commercial Paper .....	65,000	31,000	21,000	75,000	75,000
Compensated absences .....	179	202	217	164	164
Net other postemployment benefits obligation .....	1,957	807	420	2,344	-
Net pension liability (asset) .....	(118)	1,192	444	630	-
Total Sewer Maintenance .....	<u>256,983</u>	<u>52,420</u>	<u>32,572</u>	<u>277,983</u>	<u>86,341</u>

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	Balance 01-01-15	Additions	Deductions	Balance 12-31-15	Amounts Due within One Year
	<i>(Thousands of Dollars)</i>				
<b>Other Enterprise Funds</b>					
General obligation bonds and notes .....	13,890	2,249	2,460	13,679	1,818
Unamortized premiums .....	14	-	10	4	-
Extendable Municipal Commercial Paper .....	-	1,098	-	1,098	1,098
Compensated absences .....	280	276	277	279	279
Net other postemployment benefits obligation .....	1,761	793	414	2,140	-
Net pension liability (asset) .....	(110)	1,107	412	585	-
Total Other Enterprise .....	<u>15,945</u>	<u>4,416</u>	<u>3,161</u>	<u>17,785</u>	<u>3,195</u>
Total business-type activities .....	<u>\$ 302,786</u>	<u>\$ 76,136</u>	<u>\$ 41,326</u>	<u>\$ 341,480</u>	<u>\$ 104,219</u>
<b>Component Units</b>					
Revenue bonds .....	\$ 57,975	\$ 38,000	\$ -	\$ 95,975	\$ 3,181
Notes payable .....	19,030	-	150	18,880	-
Environmental remediation liability.....	2,287	-	784	1,503	-
Net other postemployment benefits.....	489	92	18	563	-
Net pension liability (asset).....	(42)	273	61	170	-
Total component units .....	<u>\$ 79,739</u>	<u>\$ 38,365</u>	<u>\$ 1,013</u>	<u>\$ 117,091</u>	<u>\$ 3,181</u>

**B. General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities for the City and for Milwaukee Public Schools. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are secured by the full faith and unlimited taxing power of the City. The debt for governmental activities will be retired by future property tax levies and other resources accumulated in the Debt Service Funds. The debt for business-type activities (i.e. Water Works, Sewer Maintenance, Parking, and Port of Milwaukee Enterprise Funds) will be retired by revenues from those operations or, if the revenues are not sufficient, by future tax levies. During the year ended December 31, 2015, general obligation bonds totaling \$15,215,415 was issued of which \$14,765,815 was issued to finance capital improvements and \$449,600 for business-type activities.

Use of Public Debt Amortization Fund for retirement of the public debt is governed by the Wisconsin Statutes. The Statutes provide that when total principal and accrued interest in the Public Debt Amortization Fund is substantially equal to the outstanding general obligation bonds and notes, the resources in the fund shall be applied to make annual interest and principal payments on that debt to maturity. The Statutes provide, in part, that "The Public Debt Commission may, however, at any time, apply the fund, not to exceed in any one year 40% of the balance in said fund on the preceding December 31, to acquire for cancellation general obligation bonds or notes prior to their maturity dates at prices not to exceed principal plus accrued interest to date of maturity, but the fund shall not be decreased below \$2,000,000 as a result of such purchases and cancellations." Principal sources of revenue are one-third of all interest on general City investments and interest on Fund investments. As authorized by the Statutes, the Public Debt Amortization Fund may purchase for investment or for cancellation, notes issued by the General Fund to fund operations.

Under the Wisconsin Statutes, the City is required, if requested by the Board of Milwaukee Public Schools, and if approved by referendum, to issue general obligation bonds, under the School's 2% debt limit, to finance purchases of school sites and to construct or remodel school buildings, and without referendum for certain pension obligations. As of December 31, 2015, there was \$12,141,179 of debt outstanding. There is also \$85,479,588 of debt for school purposes issued under the City's 5% debt limit. Under the Wisconsin Statutes, the City has title to the land and buildings of the Milwaukee Public Schools. However, the City does not control the use of the assets or receive the proceeds upon disposition of the assets. At June 30, 2015, the historical costs of the land and buildings as reported by Milwaukee Public Schools were approximately \$1,081,279,000. These assets are excluded from the financial statements of the City.

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As of December 31, 2015, \$170,597,673 is outstanding for Tax Incremental District purposes. Total remaining debt service requirements associated with the debt is \$214,926,661. In any year in which TID debt service requirements for the ensuing year are greater than total tax increments received, the shortfall is funded by the property tax levy.

**C. State Loans**

The City issues revenue bonds to provide funds for water and sewer improvements. The revenue bonds do not have a General Obligation pledge of the City. During 2015 the City received loans from the State's Safe Drinking Water Loan Program for Water Works Fund projects for a total of \$6,590,066, and from the State's Clean Water Fund Program for Sewer Maintenance Enterprise Fund projects for a total of \$20,410,590. The State loans will be repaid from revenues of the Water Works and Sewer Maintenance Enterprise Funds.

**D. Notes Payable**

The City issues installment notes to provide funds for various public improvement projects, cash flow for the school district, and purchases of delinquent taxes. During the year ended December 31, 2015, installment loans totaling \$70,485,924 was issued of which \$32,163,714 was issued to finance capital improvements, \$5,968,010 for general City, \$899,200 for business-type activities and \$28,280,000 to purchase 2014's delinquent taxes.

**E. Letter of Credit**

On April 25, 2013, the City entered into a taxable line of credit (the "Line") with PNC Bank, National Association (the "Bank") in the amount of \$50,000,000. The Line is secured by a General Obligation pledge of the City, and may be drawn upon at any time for any public purpose. The Line has an initial maturity date of April 25, 2016, and may be extended by mutual consent until April 25, 2023. Interest on the line is based upon the Daily LIBOR rate. The Line may be terminated at any time by the City for any reason, and by the Bank for certain events, including downgrade of the City below "BBB+". As of December 31, 2015, the City had a zero balance on this line of credit.

**F. Extendable Municipal Commercial Paper**

During 2015, the City continued to issue Extendable Municipal Commercial Paper Promissory Notes (the "EMCP"), of which are not general obligations of the City. The EMCP are limited obligations of the City payable from proceeds of the sale refunding notes or bonds issued to refinance the EMCP. The EMCP do not represent or constitute a debt of the City within the meaning of any constitutional or statutory limitation. During 2015, \$225,860,000 of EMCP were issued of which \$33,460,000 was issued to refund debt, \$80,301,552 was issued to finance capital expenditures, \$1,098,448 for non-major enterprise, \$31,000,000 for Sewer purposes pending borrowing with sewer revenue bonds, \$10,000,000 for Water pending borrowing with water revenue bonds, and \$70,000,000 for cash flow needs of the schools.

Following is a summary of the EMCP issued (in thousands), which are in the totals in the long-term obligation table in footnote 7(a) above:

<b>Extendable Municipal Commercial Paper</b>				
<b>Balance</b>				<b>Balance</b>
<b>01-01-15</b>	<b>Additions</b>	<b>Deletions</b>		<b>12-31-15</b>
\$ 106,700	225,860	166,160		\$ 166,400

The agreement with the financial institution does not allow the principal amount outstanding at any one time to exceed \$200,000,000 with the maturity of each note ranging from 1 to 90 days and may be extended up to 180 days from the original maturity date not to exceed the final maturity date of May 22, 2017.

CITY OF MILWAUKEE  
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**G. Debt Service Requirements**

The maturities of the outstanding principal and related interest requirements are as follows:

Year	General Obligation Debt		Revenue Bonds Payable		Total Debt Service
	Principal	Interest	Principal	Interest	
<i>(Thousands of Dollars)</i>					
<b>Governmental activities</b>					
2016 .....	\$ 110,794	\$ 32,620	\$ -	\$ -	\$ 143,414
2017 .....	88,955	28,353	-	-	117,308
2018 .....	138,316	24,058	-	-	162,374
2019 .....	71,411	19,971	-	-	91,382
2020 .....	64,640	16,798	-	-	81,438
2021-2025 .....	225,023	49,625	-	-	274,648
2026-2030 .....	116,024	10,211	-	-	126,235
2031-2035 .....	33,096	243	-	-	33,339
Total .....	<u>\$ 848,259</u>	<u>\$ 181,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,030,138</u>
<b>Business-type activities</b>					
<b>Water Works</b>					
2016 .....	\$ 1,817	\$ 487	\$ 1,677	\$ 315	\$ 4,296
2017 .....	857	395	1,717	274	3,243
2018 .....	857	353	1,758	233	3,201
2019 .....	858	310	613	206	1,987
2020 .....	835	267	625	194	1,921
2021-2025 .....	4,160	712	3,312	783	8,967
2026-2030 .....	775	20	3,643	447	4,885
2031-2035 .....	-	-	2,794	97	2,891
Total .....	<u>\$ 10,159</u>	<u>\$ 2,544</u>	<u>\$ 16,139</u>	<u>\$ 2,549</u>	<u>\$ 31,391</u>
<b>Sewer Maintenance</b>					
2016 .....	\$ 706	\$ 380	\$ 10,471	\$ 6,085	\$ 17,642
2017 .....	681	346	10,760	5,782	17,569
2018 .....	681	313	11,108	5,427	17,529
2019 .....	681	278	11,495	5,029	17,483
2020 .....	681	245	11,901	4,609	17,436
2021-2025 .....	4,554	528	59,051	16,571	80,704
2026-2030 .....	-	-	52,007	7,375	59,382
2031-2035 .....	-	-	20,060	1,017	21,077
Total .....	<u>\$ 7,984</u>	<u>\$ 2,090</u>	<u>\$ 186,853</u>	<u>\$ 51,895</u>	<u>\$ 248,822</u>
<b>Other Enterprise</b>					
2016 .....	\$ 1,818	\$ 588	\$ -	\$ -	\$ 2,406
2017 .....	1,472	507	-	-	1,979
2018 .....	1,376	442	-	-	1,818
2019 .....	1,305	380	-	-	1,685
2020 .....	1,234	321	-	-	1,555
2021-2025 .....	4,908	841	-	-	5,749
2026-2030 .....	1,566	109	-	-	1,675
2031-2035 .....	<u>\$ 13,679</u>	<u>\$ 3,188</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,867</u>

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Year	General Obligation Debt		Revenue Bonds Payable		Total Debt Service
	Principal	Interest	Principal	Interest	
<i>(Thousands of Dollars)</i>					
<b>Total Component Units</b>					
2016.....	\$ 30	\$ 211	\$ 3,181	\$ 1,968	\$ 5,390
2017.....	-	210	2,652	1,968	4,830
2018.....	-	193	2,896	1,967	5,056
2019.....	723	208	3,161	1,967	6,059
2020.....	731	201	3,446	1,967	6,345
2021-2025 .....	3,781	877	22,403	9,832	36,893
2026-2030 .....	3,997	660	33,793	9,821	48,271
2031-2035 .....	4,226	432	15,673	9,810	30,141
2036-2040 .....	4,467	190	7,308	9,810	21,775
2041-2050 .....	925	8	1,462	981	3,376
Total .....	<u>\$ 18,880</u>	<u>\$ 3,190</u>	<u>\$ 95,975</u>	<u>\$ 50,091</u>	<u>\$ 168,136</u>

**H. Debt Limit**

Wisconsin Statutes limit direct general obligation borrowing in the amount equivalent to 7% of the equalized valuation of taxable property. The Statutes further provide that within the 7% limitation, borrowing for school construction purposes may not exceed 2% of the equalized valuation and borrowing for general city purposes may not exceed 5% of the equalized valuation. At December 31, 2015, the City's legal debt limit was \$1,207,624,000. Of this amount, \$522,762,000 was for school purposes and \$684,862,000 was for City purposes.

**I. Refundings**

In May 2015, the City issued General Obligation Promissory Notes, Series 2015 N2 with a par amount of \$60,784,076 and Corporate Purpose Bonds, Series 2015 B3 with a par amount of \$12,349,585. A portion of these issues were for refunding purposes to provide long-term financing for interim debt, and to reduce the interest cost of long-term debt. The City used the proceeds to refund \$38,701,661 of Extendable Municipal Commercial Paper.

**J. Conduit Debt**

Occasionally, the City has issued revenue bonds in order to provide financing to private sector entities for the purpose of acquiring, constructing, or rehabilitating housing units and for retiring the existing debt associated with housing units. These obligations are primarily secured by mortgage or revenue agreements on the associated projects and, together with the interest obligation, are payable solely by the developers from leased rentals and other funds or revenues. In addition, these obligations do not constitute indebtedness of the City, as the City has no responsibility for the debt beyond the resources provided by related leases or loans. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The aggregate amount of all revenue bonds outstanding at December 31, 2015 is approximately \$15,800,000 for the City and \$453,000,000 for RACM.

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**8. RETIREMENT PLANS**

**Pension Benefits**

*Plan Description* – The City makes contributions to the Employees’ Retirement System of the City of Milwaukee (the “System”), a cost-sharing multiple-employer defined benefit pension plan, on behalf of all eligible City employees. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The City Charter assigns the authority to establish and amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Employees’ Retirement System of the City of Milwaukee, 789 North Water Street, Suite 300, Milwaukee, WI 53202, or may be found by visiting ERS’ website [www.cmers.com](http://www.cmers.com), by clicking on “Library” and then “Reports”.

*Funding Policy* – Plan members are required to contribute, or have contributed on their behalf, a percentage of their annual earnable compensation equal to 5.5%, for general City employees enrolled prior to January 1, 2014, 4% for general City employees enrolled on or after January 1, 2014, 7%, police officers, firefighters, 7% for elected officials enrolled prior to January 1, 2014, and 4% for elected officials enrolled on or after January 1, 2014. The City Charter assigns the authority to establish and amend contribution requirements. The City Charter was amended so that various groups of represented and non-represented City employees hired on or after January 1, 2010 contribute a percentage of their earnable compensation for pension benefits as described above. A general City employee who enrolls as a member in the Employees’ Retirement System on or after January 1, 2014 has the following: a minimum service retirement age of 65 and a service retirement allowance equal to 1.6% of the members final average salary times the total number of years of all creditable service; eligibility for a service retirement allowance when attaining the age of 60 years and the completion of 30 years of creditable service. Additionally, they are eligible for a pension escalator of 2% annually after the fifth anniversary of their service retirement, with spouse survivors of service retirees also eligible for the escalator. All new city employees enrolled on or after January 1, 2014, are required to contribute 4% of their earnable compensation to the retirement system. Total contributions to the System for the plan year 2015 was \$72,695,000 equal to the required contributions on behalf of the plan members for the year. Total contributions for the years ended December 31, 2014 and 2013 were \$74,790,000 and \$70,607,000 respectively, equal to the required contribution for each year. In 2013 the funding policy changed and the City went to a “stable contribution” policy. The actuarial contribution shall be based on separate calculated rates for police officers, firefighters and general City employees and shall be applicable for a 5-year period. The actuary shall, consistent with actuarial standards of practice, set the actuarial contribution rate at a percentage of covered compensation sufficient to fund the entire amount of the employers’ share of the normal cost, and to amortize any unfunded past service liability.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

**Long-term Expected Return on Plan Assets** –The long-term expected rate of return on pension plan investments was determined using Callan Associates’ 10 year geometric capital market projections. Projected long term rates of return for each major asset class in the Retirement System’s target asset allocation as of December 31, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Policy</u>	<u>Actual</u>	<u>Long-term Expected Rate of</u>
Domestic Equity	28.0%	30.1%	7.60%
International Equity	20.0%	20.8%	7.80%
Global Equity	10.0%	7.1%	7.70%
Fixed Income/Cash	28.0%	26.8%	3.60%
Real Estate	7.0%	7.6%	8.00%
Private Equity	2.0%	2.4%	8.50%
Absolute Return	5.0%	5.2%	5.25%
	<u>100.0%</u>	<u>100.0%</u>	

**Rate of Return** – For the year ended December 31, 2014, the annual money-weighted rate of return, net of investment expense was 5.17%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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**Actuarial Assumptions** – The last actuarial valuation was performed as of January 1, 2014, and the amounts were used to roll-forward the total pension liability to the plan’s year-end December 31, 2014, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Actuarial Valuation Date	January 1, 2014
Amortization Method	For pension expense; the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The differences between projected and actual earnings are amortized over a closed period of five years.
Actuarial Cost Method:	Entry Age Normal - Level Percentage Pay
Asset Valuation Method:	Market Value
Actuarial Assumptions:	
Investment Rate of Return:	8.25% for calendar years through 2017, and 8.50% beginning with calendar year 2018.
Discount Rate:	
Projected Salary Increases	General City 3.0% - 7.5%
	Police & Fire 3.0% - 14.4%
Inflation Assumption:	3.00%
Cost of Living Adjustments	Vary by Employee Group as explained in summary of plan provisions.
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table projected nine years using Scale AA. Future generational rates are projected from 2009 based on Scale AA. For duty and ordinary disability retirees, use the RP-2000 Disability Mortality Table. For death in active service, the rates are similar to those used for regular retirees and survivors with a 6-year setback.
Experience Study	The actuarial assumptions used in December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2007 - December 31, 2011.

**Net Pension Liability** – The components of the pension liability of the City of Milwaukee as of December 31, 2014, were as follows:

	<b>Total</b>
	(Thousands of Dollars)
Total pension liability	\$ 4,217,265
Plan fiduciary net position	<u>(4,122,815)</u>
Net pension liability	<u>\$ 94,450</u>
Plan fiduciary net position as a	97.76%
Covered employee payroll	\$ 441,101
Net pension liability as a percentage	21.41%

**Discount Rate** - The discount rate used to measure the total pension liability was 8.49 percent. The projection of cash flows used to determine the discount rate assumed that contribution from plan members will be made at the current contribution rate and that contributions from ERS agencies will be made at contractually required rates, actuarially determined. Based on those assumptions, the ERS’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The cross over analysis produces a single rate of 8.49 percent, which reflects the long-

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term expected rate of return on ERS investments. Therefore, the discount rate was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the net pension liability to changes in the discount rate** – The following presents the City’s net pension liability (asset) calculated using the discount rate of 8.49%, as well as what the City’s net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.49%) or 1-percentage-point higher (9.49%) than the current rate:

	1% Decrease to Discount Rate (7.49%)	Current Discount Rate (8.49%)	1% Increase to Discount Rate (9.49%)
City’s net pension liability (asset)	\$ 567,169,000	\$ 94,450,000	\$ (302,329,000)

**Schedule of Employer Allocations** – The Employer Allocation Percentage is based on the employers required contribution compared to the required contribution for all employers. The Employer Allocation Percentage is rounded to seven decimal places.

**Schedule of Pension Amounts** – The employer’s proportionate share of the Collective Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and Total Employer Pension Expense (Income) is based on the Employer Allocation Percentage.

The Total Pension Liability is measured as of December 31, 2014 based on a January 1, 2014 actuarial valuation rolled forward to December 31, 2014 using standard roll-forward techniques as shown below:

	Total (Thousands of Dollars)
Total pension liability	
Service cost	\$ 58,485
Interest	343,983
Changes in benefit items	
Differences between expected and actual experience	
Changes of assumptions	
Benefit payments including refunds of member contributions	(287,480)
Net change in total pension liability	114,988
Total pension liability - beginning	4,136,865
Total pension liability - ending	\$ 4,251,854
Plan fiduciary net position	
Contributions - employer	61,130
Contributions - member	36,642
Net investment income	201,327
Benefit payments, including refunds of member contributions	(287,480)
Administrative expense	(9,089)
Other	
Net change in plan fiduciary net pension	2,530
Plan fiduciary net position - beginning	4,154,874
Plan fiduciary net position - ending	\$ 4,157,404
Net pension liability - ending	\$ 94,450

The Fiduciary Net Position is 97.76% of the Total Pension Liability, so the City has a Net Pension Liability.

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The Collective Deferred Inflows and Outflow of Resources due to liabilities are amortized over the Average Expected Service Lives of all Employees of 4.09 years. The Collective Deferred Inflows and Outflows of Resources due to the net difference between projected and actual earnings on pension plan investments are amortized over 5 years. Collective Deferred Inflows and Outflows of Resources to be recognized in the Current Pension Expense are as follows:

	<b>Outflows of Resources</b>	<b>Inflows of Resources</b>	<b>Net Outflows of Resources</b>
	(Thousands of Dollars)		
Differences between expected and actual experience	\$ -	\$ -	\$ -
Changes in assumptions	-	-	-
Net differences between projected and actual earnings on pension plan investments	26,594	-	26,594
	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 26,594</u>	<u>\$ -</u>	<u>\$ 26,594</u>

Collective Deferred Inflows and Outflows of Resources to be recognized in the Future Pension Expense are as follows:

	<b>Outflows of Resources</b>	<b>Inflows of Resources</b>	<b>Net Outflows of Resources</b>
	(Thousands of Dollars)		
Differences between expected and actual experience	\$ -	\$ -	\$ -
Changes in assumptions	-	-	-
Current year contributions to be deferred	63,628	-	63,628
Net differences between projected and actual earnings on pension plan investments	106,375	173	106,202
	<u>106,375</u>	<u>173</u>	<u>106,202</u>
Total	<u>\$ 170,003</u>	<u>\$ 173</u>	<u>\$ 169,830</u>

Deferred Outflows and Inflows of Resources to be recognized in the Future Pension Expense are as follows:

<b>Year Ended December 31:</b>	<b>Net Deferred Outflows of Resources</b>
(Thousands of Dollars)	
2015	\$ 26,594
2016	\$ 26,594
2017	\$ 26,594
2018	<u>\$ 26,593</u>
Total	<u>\$ 106,375</u>

Employers may also need to recognize a Deferred Outflow or Inflow of Resources related to a change in their proportionate share of the Net Pension Liability and for differences between employer contributions and proportionate share of contributions.

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The Collective Pension Expense is determined as follows:

	<b>Total</b> (Thousands of Dollars)
Service Cost	\$ 58,485
Interest cost on total pension liability	343,979
Projected earnings on plan investments	(335,081)
Contributions - Member	(36,642)
Administrative Expense	9,089
Plan Changes	-
Recognition of net deferred outflows (inflows)	-
Changes in assumptions	-
Differences between expected and actual liability experience	-
Difference between projected and actual earnings	26,805
Other changes in fiduciary net position	-
<b>Total Pension Expense</b>	<b>\$ 66,635</b>

**Other Postemployment Benefits**

The City provides other postemployment benefits (OPEB) to its retirees for health and life insurance.

*Plan Description.* The City provides a single-employer defined benefit healthcare plan and life insurance administered by both the City and Milwaukee's Employee Retirement System (MERS). The City provides medical and COBRA dental insurance benefits for substantially all retirees in accordance with terms set forth in labor contracts or by Common Council resolution. Retirees are eligible to enroll in any of the group plans offered by the City. The City provides full health insurance coverage to general City employees who retire at age 55, but less than age 65, with 30 years of creditable service or at age 60, but less than age 65, with 15 years of creditable service until the age of 65. Management employees retiring beginning in 2004 at age 55, but less than 65, pay a portion of health insurance the same as active management employees. In accordance with a "percentage formula" as provided in labor agreements, the City provides between 65% and 100% of the cost of the Basic Plan coverage for firefighters and police officers who retire with 25 years of creditable service and having attained at least the age of 52 but less than 60. Upon reaching the age of 60 but prior to the age of 65, the City provides full health insurance coverage for firefighters and police officers with single enrollment status. The City contribution for firefighters and police officers between the ages of 60 and 65 with family enrollment status is the greater of 100% of the cost of single enrollment in the Basic Plan or an amount determined using the "percentage formula." The "percentage formula" used to determine the City contribution in the labor agreements is based on the amount of unused sick leave at retirement.

After attaining the age of 65 and having completed a minimum of 15 years of creditable service, all retirees are eligible to enroll in a "subsidized plan" for medical insurance. Under this plan, the City contributes 25% of the base rate toward retirees enrolled in the Basic Plan, while the retiree pays 75% of the base rate and 100% of the major medical rate.

In addition to medical insurance, before 2014 the City allowed its employees to continue life insurance coverage under the Group Life Insurance Plan offered to active employees in accordance with Section 350-25 of the Code of Ordinances. The base amount of coverage for general City employees covered under the City's Life Insurance plan until December 31, 2013 was equal to the employee's annual basic salary to the next higher thousand dollars. The base amount of coverage for firefighters and police officers is equal to one and one-half the employee's annual basic salary to the next higher thousand dollars.

General City employees retiring after 2013 must have purchased before retirement at least 50% of their annual base salary in voluntary life insurance coverage to be able to continue their enrollment in the City's General Life Insurance program. Premiums are paid at age banded rates that are in effect at that time. Employees maintaining a minimum of 50% of their annual base salary at the time of retirement in voluntary coverage until age 65, upon attaining age 65, have \$10,000 of coverage paid for by the City.

General City employees retiring at age 55 or older with 30 years of service or at age 60 regardless of years of service and covered under the group life insurance plan at retirement are eligible prior to 2014 continue coverage at the level on the date

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prior to their date of retirement. Firefighters retiring at age 49 with 22 years of service, or at age 57 regardless of service, and police officers retiring with 25 years of service regardless of age, or at age 57 regardless of service and who have coverage under the group life insurance plan at the time of retirement are eligible to continue coverage up to their base amount of coverage on the date prior to their date of retirement. Prior to age 65, all retirees are required to pay the full premium rates as established by the insurance carrier, less an adjustment for estimated dividends.

The rates established are group rates applied consistently to all employees, without regard to age or health. Upon reaching the age of 65, those retirees still part of the group life plan have their coverage reduced in accordance with the reduction schedule in effect on their last day physically at work, with the City assuming all future premiums.

*Funding Policy.* The contribution of plan members and the City are established and may be amended by the City. The required contribution for medical and life insurance for retirees is based on a pay-as-you-go financing. Medical benefits provided through the basic health care plan are self-insured. For 2015, the City paid approximately \$27,209,655 and \$1,643,438, respectively, toward medical and life insurance for retirees.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 *Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan (pay-as-you basis), and the changes in the City's net OPEB obligation:

**Funding Status and Funding Progress**

ARC.....	\$	76,194,600
Interest on Net OPEB Obligation.....		14,647,600
Adjustment to ARC.....		<u>(13,276,500)</u>
Annual OPEB Cost.....		77,565,700
Contribution made.....		<u>29,202,762</u>
Increase in net OPEB Obligation.....		48,362,938
Net OPEB Obligation - beginning of year.....		<u>325,503,335</u>
Net OPEB Obligation - end of year.....	\$	<u><u>373,866,273</u></u>

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation were as follows:

**Annual Cost and Net OPEB Liability**

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	71,489,000	52.5%	287,460,000
12/31/2014	74,790,000	49.9%	325,503,335
12/31/2015	77,565,700	37.3%	373,866,273

*Funded Status and Funding Progress.* Actuarial liabilities increased from \$928.5 million as of January 1, 2014, to \$975.7 million as of January 1, 2015. As of January 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$975,695,600, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$975,695,600. The covered payroll (annual payroll of active employees covered by the plan) was \$366,784,900 and the ratio of the UAAL to the covered payroll was 266 percent.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend amounts determined regarding the funded status of the plan and the annual required contributions of

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the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Actuarial Methods and Assumptions.* The retiree healthcare valuation was based on the projected unit credit (PUC) cost method. The PUC method produces an explicit normal cost and actuarial accrued liability. The normal cost and actuarial accrued liability are directly proportional to the employee's service. That is, the normal cost equals the present value of future benefits divided by projected service at retirement, and the actuarial accrued liability equals the present value of benefits multiplied by the ratio of service at valuation date to projected service at retirement. Depending on the demographic characteristics of the current group and new entrants in the future, this method could produce stable annual costs, in the aggregate, when expressed as a percentage of pay.

The OPEB valuation uses a discount rate assumption of 4.5% based on the City's projected short-term investment rate of return. The healthcare cost trends rate is 8.0% initially, and reduced by decrements to the ultimate rate of 4.5% after 9 years. The actuarial assumption for wage inflation is 3%. The amortization of the unfunded actuarial accrued liability is based on a level percentage of pay over a 30-year open amortization period.

### **Terminal Leave Payments**

Upon retirement, employees receive a portion of their unused sick leave as terminal leave, in accordance with labor contracts and Section 350-38 of the Code of Ordinances. Firefighters whose normal hours of work exceed 40 hours per week receive between \$45 and \$65 for each work shift equivalent of unused sick leave. Firefighters whose normal hours of work average 40 hours per week receive between \$21 and \$30 for each work shift equivalent of unused sick leave. Police officers receive payment for up to 55 days of unused sick leave at base pay. Management pay plan employees are entitled to payment of 30% of unused sick leave (maximum 960 hours) plus one-half of the sick leave days accumulated during the last twelve months of service for up to six additional days for a total maximum of 42 days at the rate of pay at retirement. Substantially all remaining City employees receive up to 30 days for unused sick leave as terminal leave, although some bargaining units receive slightly different benefits in accordance with related labor agreements. In 2015, approximately \$6,945,351 was paid for sick leave from all funds. At December 31, 2015, accumulated sick leave earned but not taken totaled approximately \$163,013,538 determined on the basis of current salary rates.

Terminal leave pay is funded on a pay-as-you-go basis and provided for in the salary budgets of the respective departments annually. In 2015, terminal leave payments totaled \$2,067,000 to employees retiring during the year. As of December 31, 2015, the City has accrued approximately \$30,750,000 in the government-wide statements for future terminal leave payments. This amount is included under the unfunded compensated absences of \$48,401,000 with the remainder accrued vacation leave of \$17,651,000.

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**9. FUND BALANCE**

The constraints placed on fund balance for the governmental funds at December 31, 2015 were as follows:

	General	General Obligation Debt Service	Public Debt Amortization	Capital Projects	Nonmajor Governmental Funds	Total
<i>(Thousands of Dollars)</i>						
<b>Nonspendable</b>						
Loans receivable.....	\$ 159	\$ -	\$ -	\$ -	\$ -	\$ 159
Advances.....	6,380	-	-	-	-	6,380
Inventory.....	9,556	-	-	-	-	9,556
Inventory of property for resale.....	26	-	-	-	-	26
Prepaid items.....	864	-	-	-	-	864
Investment-Targeted Mortgage.....	109	-	-	-	-	109
<b>Spendable</b>						
Restricted for:						
Future debt payments.....	-	140,148	59,994	-	-	200,142
Capital projects.....	-	-	-	18,260	-	18,260
Grants.....	-	-	-	-	8,872	8,872
Economic Development.....	-	-	-	-	102	102
Committed to:						
Contributions.....	1,960	-	-	-	-	1,960
Delinquent taxes.....	-	-	-	-	5,264	5,264
Equipment replacement.....	75	-	-	-	-	75
Assigned to:						
Conservation and development.....	138	-	-	-	-	138
General government.....	21,590	-	-	-	-	21,590
Health.....	388	-	-	-	-	388
Library.....	219	-	-	-	-	219
Public safety.....	1,644	-	-	-	-	1,644
Public works.....	1,105	-	-	-	-	1,105
2016 budgetary financing.....	21,087	-	-	-	-	21,087
Environmental remediation.....	233	-	-	-	-	233
Unassigned	<u>61,715</u>	<u>-</u>	<u>-</u>	<u>(15,276)</u>	<u>-</u>	<u>46,439</u>
Total Fund Balance.....	<u>\$ 127,248</u>	<u>\$ 140,148</u>	<u>\$ 59,994</u>	<u>\$ 2,984</u>	<u>\$ 14,238</u>	<u>\$ 344,612</u>

**Tax Stabilization and Advances to Other Funds**

A tax stabilization arrangement is incorporated into the City's adopted *Reserve for Tax Stabilization Fund Balance Policy* and is governed by the City's Code of Ordinances. At December 31, 2015, the tax stabilization reserve was \$89,182,000. Of this amount, \$21,087,000 has been committed to the funding of the 2016 General Fund budget and \$61,715,000 is unassigned for 2016 and subsequent years' budgets. This Reserve includes an amount for advances of \$6,380,000 from the General Fund to the Capital Projects Fund. All General Fund appropriation balances not encumbered or carried over are reserved for tax stabilization in subsequent years. The total amount that can be withdrawn from the reserved for tax stabilization in any one year is an amount that prevents an increase of more than 3% in the City's property tax rate, as defined, and is anticipated to be available as of April 15 of the year covered by the budget. Such amount must be included in the adopted budgeted, which requires a majority affirmative vote of the Common Council. Fund withdrawals not needed to stabilize the tax rate can be made for up to 50% of the available balance, but require a three-fourths affirmative vote of the Common Council prior to budget adoption.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

**10. INTERFUND RECEIVABLE AND PAYABLE BALANCES AND NET TRANSFERS**

The individual interfund receivable and payable balances at December 31, 2015 were as follows:

		Due From				
		General Fund	Water Works	Sewer Maintenance Fund	Nonmajor Enterprise Funds	Total
		<i>(Thousands of Dollars)</i>				
Due To	General Fund .....	\$ -	\$ 962	\$ -	\$ -	\$ 962
	General Obligation Debt .....	-	2,304	-	-	2,304
	Capital Projects .....	5,335	-	-	-	5,335
	Nonmajor Governmental Funds.....	25,429	-	-	-	25,429
	Water Works .....	19,948	-	1,558	1,264	22,770
	Nonmajor Enterprise Funds .....	<u>6,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,562</u>
Totals .....		<u>\$ 57,274</u>	<u>\$ 3,266</u>	<u>\$ 1,558</u>	<u>\$ 1,264</u>	<u>\$ 63,362</u>

Balances resulted from the timing differences between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, and (4) funds overdraw their share of pooled cash or when there are transactions between funds where one fund does not participate in the City's pooled cash.

The City of Milwaukee General Fund advances funds to the Special Assessments Capital Projects fund periodically to finance cash flows. These advances are non-interest bearing and are repaid as collections from the receivables are obtained. At December 31, 2015 the outstanding balance was \$6,380,000.

The City of Milwaukee Water Fund advanced \$272,286 to the Parking Enterprise Fund in 2012. This advance is non interest bearing and is due in annual installments from 2013 to 2021. At December 31, 2015 the outstanding balance was \$163,000.

The City of Milwaukee Water Fund advanced \$500,000 to the General Fund in 2015. This advance is non interest bearing and is due in annual installments from 2015 to 2026. At December 31, 2015 the outstanding balance was \$463,000.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

Interfund transfers for the year ended December 31, 2015 were as follows *(in thousands)*:

Funds Transferred To	Fund Transferred From	Amount	Purpose
<b>General Fund</b>	General Obligation Debt	\$ 1,386	Funding for debt payments
	Nonmajor Governmental Funds	8,190	Subsidize uncollected property taxes
	Nonmajor Governmental Funds	15	Grant variance closeouts
	Water Works	12,880	Payment in Lieu of taxes
	Nonmajor Enterprise Funds	1,669	Payment in Lieu of taxes
	Nonmajor Enterprise Funds	16,913	Subsidy for operations
	Nonmajor Enterprise Funds	<u>5,116</u>	Excess earnings of Port
	<b>Subtotal General Fund</b>	<b><u>46,169</u></b>	
<b>General Obligation Debt</b>	General	125,000	Funding for cash flow debt
	General	2,119	Funding for debt payments
	Public Debt Amortization	7,000	Capital Projects
	Capital Projects	5,278	Capital close outs
	Nonmajor Governmental Funds	21,821	Funding for debt payments
	Sewer Maintenance	5,956	Subsidy for operations
	Nonmajor Enterprise Funds	<u>1,063</u>	Subsidy for operations
	<b>Subtotal Debt Service</b>	<b><u>168,237</u></b>	
<b>Nonmajor Enterprise</b>	General Obligation Debt	<u>559</u>	Funding for debt payments
	<b>Subtotal Nonmajor Proprietary</b>	<b><u>559</u></b>	
	<b>Total Interfund Transfers</b>	<b><u>\$ 214,965</u></b>	

Transfers are used to (1) move revenues from the fund that statute or budget requires collection from to the fund that statute or budget required to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

**11. BALANCES BETWEEN THE CITY AND COMPONENT UNITS**

Balances due to and due from component units as of December 31, 2015 were as follows:

<b>Component Unit Payable</b>	<b>Primary Government's Receivable</b> <i>(Thousands of Dollars)</i>
Due from RACM for reimbursable expenditures .....	432
Due from RACM for loans issued to developers for the purpose of renovations and improvements to existing parcels of real estate .....	19,764
Due from RACM for reimbursable housing escrow .....	72
Due from NIDC for housing projects.....	33
Due from NIDC for home and Community Development Block grants .....	41
Total .....	<b>\$ 20,342</b>

<b>Component Unit Receivable</b>	<b>Primary Government's Payable</b> <i>(Thousands of Dollars)</i>
Due to RACM for reimbursable expenditures .....	83
Due to RACM for home and Community Development Block grants .....	25
Total .....	<b>\$ 108</b>

**12. OPERATING LEASES**

The City is the lessor for various properties under operating lease agreements expiring at various dates through 2016 and beyond. Certain leases contain provisions for possible renewal at term of the lease.

Scheduled minimum lease payments for years ending December 31 are as follows:

<b>Year</b>	<b>Amount</b> <i>(Thousands of Dollars)</i>
2016	\$ 4,641
2017	4,145
2018	3,912
2019	3,489
2020	4,410
2021-2025	18,918
2026-2030	19,405
2031-2035	7,413
2036 and beyond	4,742
Total	<b>\$ 71,075</b>

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

**13. COMMITMENTS AND CONTINGENCIES**

**Claims and Other Legal Proceedings**

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employee or natural disaster. With certain exceptions, it is not the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for reasonably estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations. Current settlements are paid from the General Fund and recorded as expenditures when paid in the fund based statements. The liabilities are recorded in the government-wide financial statements.

Under Wisconsin Statutes, the amount recoverable by any person for any damages, injuries, or death in any action founded on fact against the City, agencies, officials, officers, or employees cannot exceed \$50,000, with certain exceptions.

The City is self-insured for workers' compensation, health insurance (basic plan), uninsured motorist motor vehicle coverage for City employees, and general liability. Liabilities are reported when it is probable that a loss can be reasonable estimated. These losses include an estimate of claims that have been incurred but not reported. Liabilities are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other economic and social factors. Claims are paid from the General Fund and recorded as expenditures when paid in the fund based financial statements. The liabilities are recorded in the government-wide financial statements.

The liabilities recorded as long-term debt in the government-wide financial statements at December 31, 2015 were as follows:

General liability claims .....	\$ 18,736,000
Workers' compensation claims .....	9,594,000
Unemployment claims .....	611,000
Pollution remediation obligation.....	1,971,000

Changes in the balances of claim liabilities during the past two years were as follows:

	<b>2014</b>	<b>2015</b>
Beginning of year liability .....	\$ 25,804,000	\$ 27,583,000
Current year claims and changes in estimates .....	6,847,000	8,230,000
Claim payments .....	<u>(5,068,000)</u>	<u>(4,901,000)</u>
End of year liability .....	<u>\$ 27,583,000</u>	<u>\$ 30,912,000</u>

The City is self-insured for active and retiree health insurance, which is recorded in accounts payable within the general fund. Changes in the balance of this claim liability during 2013 were for active only. Beginning in 2014, active and retiree are included. The past years were as follows:

	<b>2014</b>	<b>2015</b>
Beginning of year liability .....	\$ 7,098,000	\$ 8,011,000
Current year claims and changes in estimates .....	93,561,000	87,972,000
Claim payments .....	<u>(92,648,000)</u>	<u>(85,974,000)</u>
End of year liability .....	<u>\$ 8,011,000</u>	<u>\$ 10,009,000</u>

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2015

In 2014, there were many plaintiffs that had brought a series of approximately a dozen lawsuits involving the refund of allegedly excessive property taxes (under Section 74.37). At least 11 of these cases are still currently pending. Of these cases, five of them have the potential to result in high judgements individually if they are successful. These include Marathon Oil, US Venture (formerly Amoco Oil), CP-South Howell, Metropolitan Associates and Clear Channel Outdoor. As these cases are still pending, their contingencies remain as of current date.

The case of the estate of Dontre Hamilton vs. the City of Milwaukee is still pending. \$1.5 million is currently included in the City's long term liabilities for this case.

Throughout the year of 2015, some smaller cases and law suits were closed. At the same time, two new claims were filed against the city. Remaining are some of the other smaller pending cases to be determined within the current year and years to come.

### **Environmental Liabilities**

The nature and sources of the City's pollution remediation obligation are asbestos abatement, underground storage tanks, PCB pollution, and contaminated properties. The probability-weighted expected cash flow measurement technique is used in determining the amount of liability. This involves determining a range of probabilities or likelihoods that different probable outlays will be necessary and calculating a weighted average of these outlays. There is a potential for changes in the estimated pollution remediation obligation due to third-party contracts and City labor costs changes, amendments to regulatory requirements and rules, and previously unknown conditions. The estimated costs of \$700,000 to address PBC pollution could increase if the Environment Protection Agency (EPA) does not approve the City's proposed cleanup methods. The EPA could require the City to do additional testing and remediation, resulting in greater costs to the City. The City qualifies for the State of Wisconsin *Municipal Liability Exemption Program* for contaminated properties. As long as the City is protective of human health environment, cleanup is not required. The City generally cleans up contaminated properties based on remediation grants awarded to the City. The City does not expect to receive any non-grant revenues from insurance or other parties to reduce the City's liability for pollution remediation.

During 2015, the City spent \$23,986 in pollution remediation-related activities. At December 31, 2015, the City has an outstanding liability of \$1,970,920 related to pollution remediation obligations.

The City is exposed to numerous environmental liabilities, the most significant of which relate to seven landfills. Four of the seven landfills have been closed. The remaining three landfills are no longer accepting waste. The Wisconsin Department of Natural Resources has imposed closure requirements on the North College Avenue Site, which the City substantially closed during 2000. The City has accrued \$253,000 in the government-wide financial statement, as part of general liability claims for landfill closure related to the three sites. The City spent \$87,631 in post-closure care of solid waste landfills during 2015. Actual future costs may be higher due to inflation, changes in technology, or changes in regulations.

### **Intergovernmental grants**

Intergovernmental awards received by the City are subject to audit and adjustment by the funding agency or their representatives. If grant revenues are received for expenditures, which are subsequently disallowed, the City may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements at December 31, 2015.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

**Commitments**

The following is a list of encumbrances by function at December 31, 2015:

	<b>General Fund</b>	<b>Capital Projects</b>	<b>Water Works</b>	<b>Total</b>
		<i>(Thousands of Dollars)</i>		
General government.....	\$ 15,701	\$ 1	\$ -	\$ 15,702
Conservation and development.....	145	17,443	-	17,588
Health.....	537	-	-	537
Library.....	614	-	-	614
Public safety.....	2,546	-	-	2,546
Public works.....	1,503	-	-	1,503
Infrastructure.....	<u>-</u>	<u>32,976</u>	<u>7,872</u>	<u>40,848</u>
<b>Total.....</b>	<b><u>\$ 21,046</u></b>	<b><u>\$ 50,420</u></b>	<b><u>\$ 7,872</u></b>	<b><u>\$ 79,338</u></b>

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015

**14. RESTATEMENT**

The City of Milwaukee adopted GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date* as of January 1, 2015. These statements impacted financial reporting for pensions by establishing accounting and financial reporting standards that measure and recognize assets, liabilities, deferred outflows of resources, deferred inflows of resources and expenditures relation to pensions.

These standards required the City to restate beginning net position to reflect the net pension asset and related deferred outflows related to pensions. The impact of the restatements is as follows:

<b>Government-Wide</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Component Units</b>
		<i>(Thousands of Dollars)</i>	
Net Position December 31, 2014 as previously reported.....	\$ 213,950	\$ 727,470	\$ 47,515
Adjustment for Net pension asset.....	17,365	644	42
Adjustment for Deferred outflows related to pensions.....	<u>58,236</u>	<u>2,140</u>	<u>119</u>
Net Position December 31, 2014 as restated.....	<u>\$ 289,551</u>	<u>\$ 730,254</u>	<u>\$ 47,676</u>

<b>Business-type</b>	<b>Water Works</b>	<b>Sewer Maintenance</b>	<b>Nonmajor Enterprise Funds</b>
		<i>(Thousands of Dollars)</i>	
Net Position December 31, 2014 as previously reported.....	\$ 406,902	\$ 266,432	\$ 54,136
Adjustment for Net pension asset.....	416	118	110
Adjustment for Deferred outflows related to pensions.....	<u>1,359</u>	<u>406</u>	<u>375</u>
Net Position December 31, 2014 as restated.....	<u>\$ 408,677</u>	<u>\$ 266,956</u>	<u>\$ 54,621</u>

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2015

**15. SUBSEQUENT EVENTS**

On February 12, 2016, the City issued \$22,400,000 of Extendable Municipal Commercial Paper for refunding purposes. This issuance was repaid on May 20, 2016.

On April 21, 2016, the City drew \$50,000,000 on its taxable line of credit with PNC Bank, National Association for capital projects and refunding purposes. This issuance was repaid on June 24, 2016.

On May 20, 2016, the City issued \$90,000,000 of limited obligation revenue anticipation notes series R1 for cash flow purposes. The maturity date is December 20, 2016, and is anticipated to be repaid from the receipt of State shared revenues.

On May 20, 2016, the City issued \$124,670,000 of general obligation promissory notes, series N2 for capital projects, fiscal, and refunding purposes. The notes mature in each of the years 2017 through 2026.

On May 20, 2016, the City issued \$40,675,000 of general obligation corporate purpose bonds, series B3 for capital projects, fiscal, and refunding purposes. The notes mature in each of the years 2027 through 2033.

On May 20, 2016, the City issued \$27,405,000 of taxable general obligation corporate purpose bonds, series T4 for capital projects, fiscal, and refunding purposes. The notes mature in each of the years 2016 through 2025.

On June 24, 2016, the City issued \$25,870,000 of general obligation promissory notes, series N5 for capital projects purposes. The notes mature in each of the years 2017 through 2033.

On June 24, 2016, the City issued \$11,565,000 of general obligation corporate purpose bonds, series B6 for capital projects purposes. The bonds mature in each of the years 2021 through 2033.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

CITY OF MILWAUKEE  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
 FOR THE YEAR ENDED DECEMBER 31, 2015  
 (Thousands of Dollars)

Exhibit E-1

	<u>Budgeted Amounts</u>		<b>Actual - Amounts Budgetary Basis</b>	<b>Variance Positive (Negative)</b>
	<b>Original Budget</b>	<b>Final Budget</b>		
Revenues:				
Property taxes .....	\$ 198,747	\$ 198,747	\$ 190,318	\$ (8,429)
Other taxes .....	3,525	3,525	2,765	(760)
Licenses and permits .....	15,277	15,277	16,629	1,352
Intergovernmental .....	262,211	262,211	263,350	1,139
Charges for services .....	117,768	117,768	120,908	3,140
Fines and forfeits .....	4,506	4,506	4,110	(396)
Other .....	<u>24,512</u>	<u>25,142</u>	<u>28,486</u>	<u>3,344</u>
 Total Revenues .....	 <u>626,546</u>	 <u>627,176</u>	 <u>626,566</u>	 <u>(610)</u>
Expenditures:				
Current:				
General government .....	288,946	266,560	239,232	27,328
Public safety .....	275,944	293,444	293,085	359
Public works .....	101,536	101,678	101,007	671
Health .....	9,884	9,643	9,459	184
Culture and recreation .....	16,673	16,676	16,669	7
Conservation and development .....	<u>3,761</u>	<u>3,872</u>	<u>3,816</u>	<u>56</u>
 Total Expenditures .....	 <u>696,744</u>	 <u>691,873</u>	 <u>663,268</u>	 <u>28,605</u>
 Deficiency of Revenues over Expenditures .....	 <u>(70,198)</u>	 <u>(64,697)</u>	 <u>(36,702)</u>	 <u>27,995</u>
Other Financing Sources (Uses):				
General obligation bonds and notes issued .....	-	10,391	130,968	120,577
Transfers in .....	32,863	32,863	46,169	13,306
Transfers out .....	-	-	(127,119)	(127,119)
Contributions received .....	33,268	33,268	23,943	(9,325)
Contributions used .....	(34,069)	(31,965)	(23,055)	8,910
Use of fund balance - reserved for tax stabilization ..	<u>16,700</u>	<u>16,700</u>	<u>16,700</u>	<u>-</u>
 Total Other Financing Sources and Uses .....	 <u>48,762</u>	 <u>61,257</u>	 <u>67,606</u>	 <u>6,349</u>
 Net Change in Fund Balance .....	 (21,436)	 (3,440)	 30,904	 34,344
 Fund Balance - Beginning (Excludes Reserved for Tax Stabilization) .....	 <u>96,344</u>	 <u>96,344</u>	 <u>96,344</u>	 <u>-</u>
 <b>Fund Balance - Ending .....</b>	 <b><u>\$ 74,908</u></b>	 <b><u>\$ 92,904</u></b>	 <b><u>\$ 127,248</u></b>	 <b><u>\$ 34,344</u></b>

**Explanation of Differences of Budget to GAAP:**

For budget purposes, the fund balance - reserved for tax stabilization is reflected as other financing sources whereas for accounting purposes, it is reflected as part of fund balance. The difference between the fund balance on a GAAP basis compared with budget basis is \$16.7 million at January 1, 2015.

Contributions received and used for budget purposes are reported as other financing sources, but for GAAP are considered to be revenues and expenditures.

The City budgets for pension contributions to be paid from the Employees' Retirement System reserve fund as revenues and expenditures which are netted for GAAP basis fund presentation. In 2015, this amount was \$10.5 million.

See accompanying independent auditors' report.

CITY OF MILWAUKEE  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**  
 FOR THE YEAR ENDED DECEMBER 31, 2015  
 (Thousands of Dollars)

Exhibit E-2

**RETIREE HEALTH AND LIFE INSURANCE**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2013	-	888,983	888,983	0.0%	382,795	232.23%
1/1/2014	-	928,496	928,496	0.0%	408,231	227.44%
1/1/2015	-	975,696	975,696	0.0%	366,785	266.00%

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (AS A PERCENTAGE OF COVERED PAYROLL)**  
 Employee's Retirement System

	<u>2015</u>
The City's proportion of the net pension liability (asset)	83.92%
The City's proportionate share of the net pension liability (asset)	\$ 95,224
The City's covered-employee payroll	444,719
Plan fiduciary net position as a percentage of the total pension liability (asset)	97.76%

**SCHEDULE OF THE CITY'S CONTRIBUTIONS**  
 Employees' Retirement System

	<u>2015</u>
Legally required contributions *	\$ 65,474
Contributions in relation to the required contributions	61,130
Contribution deficiency (excess)	4,344
City's covered - employee payroll	444,719
Contributions as a percentage of covered-employee payroll	13.75%

See accompanying independent auditors' report.

## RETIREE HEALTH AND LIFE INSURANCE

### Budgets and Budgetary Accounting

City departments are required to submit their annual budget requests for the ensuing year to the Mayor by the second Tuesday in May. The Department of Administration, Division of Budget and Management Analysis, acting as staff for the Mayor, reviews the request in detail with the departments during June and July. After all of the requests have been reviewed, the Mayor submits his proposed Executive Budget to the Common Council. The City Charter requires that this be done on or before September 28. The Common Council must complete its review and adopt the budget on or before November 14. Once adopted, Common Council approval is required to amend the total appropriations by a department, the legal level of control for each budget. During the year, various amendments were made to the budget including carryovers of appropriations and encumbrances, and internal transfers.

Annual budgets are legally adopted by the Common Council for some but not all governmental funds. Annual budgets are not adopted for Special Revenue Fund - Delinquent Tax, Debt Service Fund - Public Debt Amortization and Capital Projects Funds. The Debt Service Fund - General Obligation Debt uses a non-appropriated budget. Budgets for Capital Projects Funds are prepared for the project life, rather than for the standard current fiscal year. Therefore, project appropriations for these budgets lapse at the conclusion of the project. All other appropriations lapse at the end of the current fiscal year. Governmental funds for which annual budgets have been adopted are included in the accompanying Required Supplementary Information Budgetary Comparison Schedule and in the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.

### Schedule of Funding Progress – Actuarial Methods and Assumptions

Valuation date	January 1, 2015
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay
Amortization period	30 years (open)
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	3.0%
Health care inflation rate	8.0% per year graded down to 4.5% per year ultimate trend in 0.5% increments.

## PENSION LIABILITY AND CONTRIBUTIONS

City of Milwaukee Employee Retirement System

*Changes of assumptions.* There were no changes in the assumptions.

*Changes of benefit terms.* There were no changes of benefit terms for any City of Milwaukee Employee Retirement System.

\* See Ch.36 of the City Ordinances - City requirement is to contribute 100% of pension liability.

**REMAINDER OF FINANCIAL SECTION**  
Combined and Individual Fund Statements and Schedules  
Miscellaneous Financial Data

**STATISTICAL SECTION**

Pages 105-166 Omitted

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**APPENDIX B**

**Draft Form of Legal Opinion**

December 15, 2016

The City Comptroller and the  
Commissioners of the Public Debt  
of the City of Milwaukee, Wisconsin

We have examined a record of proceedings relating to the issuance of \$10,000,000 aggregate principal amount of Water System Revenue Bonds, Series 2016 W10 (the “Bonds”) of the City of Milwaukee (the “City”) a municipal corporation of the State of Wisconsin. The Bonds are authorized to be issued pursuant to the provisions of Section 66.0621 of the Wisconsin Statutes and the City Charter and by virtue of Resolution File Number 160866 adopted by the Common Council of the City on November 22, 2016 (the “Series Resolution”).

The Bonds are a Series of Bonds as defined and referred to in Resolution File Number 131057 adopted by the Common Council on July 22, 2014 (the “Master Resolution”). Under the terms of the Master Resolution, the City may hereafter authorize and issue additional Water System Revenue Bonds (the “Additional Bonds”). The Bonds and any Additional Bonds are herein called the “First Lien Bonds.”

The Bonds are issuable in fully registered form in the denominations of \$5,000 or any integral multiple thereof, and are dated as of December 15, 2016. The Bonds mature on June 1 in each of the following years in the respective principal amount set forth opposite each such year in the following table, and bear interest from their date, payable on June 1, 2017 and semiannually thereafter on June 1 and December 1 of each year, at the respective rate of interest per annum set forth opposite such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2017	\$ 440,000	5.000%
2018	435,000	5.000
2019	440,000	5.000
2020	445,000	2.500
2021	450,000	2.500
2022	455,000	3.000
2023	460,000	5.000
2024	465,000	5.000
2025	475,000	5.000
2026	480,000	5.000
2027	490,000	3.125
2028	500,000	3.250
2029	510,000	4.000
2030	520,000	4.000
2031	535,000	4.000
2033	1,115,000	4.000
2036	1,785,000	4.000

The Series 2016 Bonds with principal maturity dates on or after June 1, 2027, are subject to redemption prior to their maturity at the option of the City on any date on or after June 1, 2026, in such principal amounts and from such maturities as the City shall determine, and by lot within a maturity, at a price of par plus accrued interest to the date fixed for their redemption.

The Series 2016 Bonds maturing in the years 2033 and 2036 (the “Term Bonds”) are subject to mandatory redemption at a redemption price of par, in part and by lot, on June 1 of the years and in the

respective principal amounts set forth in the following tables, by the application of sinking fund installments in accordance with the Master Resolution:

2033 Term Bonds		2036 Term Bonds	
Year	Principal Amount	Year	Principal Amount
2032	\$550,000	2034	\$580,000
		2035	595,000

We are of the opinion that:

1. The City is a duly organized and validly existing municipal corporation of the State of Wisconsin and has the power and authority under Section 66.0621 of the Wisconsin Statutes to adopt the Master Resolution and the Series Resolution and to issue the Bonds.

2. The Master Resolution and the Series Resolution have each been duly adopted by the Common Council, are presently binding upon the City in accordance with their terms and are part of the City's contract with the owners of the Bonds.

3. The Bonds have been duly authorized, executed and delivered by the City and are valid and legally binding special obligations of the City payable from the Special Redemption Fund maintained under the Master Resolution. The payment of the principal of and interest on the First Lien Bonds (including the Bonds) is equally and ratably secured under the Master Resolution by a valid pledge of and lien on the Net Revenues of the Water System of the City, as received by the City, and certain moneys and securities held under the Master Resolution, subject to the terms and provisions of the Master Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Resolution.

4. Under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the requirements of the Internal Revenue Code of 1986 (the "Code"), interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. The Bonds are not "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use of the property financed with the proceeds of the Bonds. The City has covenanted in the Master Resolution to comply with these requirements.

Interest on the Bonds is not exempt from Wisconsin income taxes.

In rendering the foregoing opinion, we advise you that the enforceability of rights or remedies with respect to the Bonds, the Master Resolution and the Series Resolution (i) may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and remedies heretofore or hereafter enacted and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Very truly yours,

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## **APPENDIX C**

### **Definitions and Summary of Certain Provisions of the Bond Resolution**

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*The following sets forth definitions of certain terms used in the Bond Resolution and certain provisions of the Bond Resolution. This summary is provided for the convenience of the reader and does not purport to be comprehensive or definitive. Reference is made to the Bond Resolution for a complete statement of the provisions thereof.*

## **DEFINITIONS**

“*Accrued Debt Service*” means, as of any date of computation and with respect to the Bonds of any Series, an amount equal to the sum of: (i) interest on such Bonds accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) principal, Sinking Fund Installment and redemption premium which are due and unpaid for such Bonds and that portion of the principal, unsatisfied balance of any Sinking Fund Installment (as determined in accordance with the Bond Resolution) and redemption premium for such Bonds next due which would have accrued to the end of such calendar month if deemed to accrue monthly from a date one year prior to its due date.

“*Act*” means Section 66.0621, Wisconsin Statutes, and all laws amendatory or supplemental thereto.

“*Additional Bonds*” means one or more Series of Bonds, exclusive of Refunding Bonds, issued pursuant to the Bond Resolution.

“*Additional Bonds Requirement*” means the requirement set forth in the Bond Resolution for issuing a Series of Bonds.

“*Aggregate Debt Service*” means, for any period and as of any date of computation, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds.

“*Annual Budget*” means the budget adopted annually by the City’s Common Council as described in the Bond Resolution.

“*Assumed Long-Term Fixed Rate*” means, with respect to Variable Rate Bonds, (i) a numerical rate of interest that such Bonds would have borne if issued as Fixed Rate Bonds with the same maturity and taking into account Sinking Fund Installments; and (ii) if the City has in connection with such Variable Rate Bonds entered into an Interest Rate Exchange Agreement which provides that the City is to pay to another person an amount determined based upon a fixed rate of interest on a notional amount and which requires the Counterparty to pay to the City an amount equal to the amount by which interest on the notional amount stated therein at the rate borne by such Variable Rate Bonds exceeds the interest payable on such notional amount at a rate stated therein, the fixed rate or other rate of interest set forth in or determined in accordance with such agreement. With respect to the Bonds described in clause (i) of the preceding sentence, an Authorized Officer shall certify or cause the Remarketing Agent for such Series of Variable Rate Bonds or other qualified person to certify such Assumed Long-Term Fixed Rate on the issue date of such Bonds, taking into account such market factors as such Authorized Officer or such Remarketing Agent or such qualified person shall deem necessary or appropriate.

“*Authorized Newspapers*” means *The Bond Buyer*, *The Wall Street Journal* or any other financial newspaper of national circulation printed in the English language and customarily published on each Business Day, as designated by an Authorized Officer.

“*Authorized Officer*” means the Comptroller of the City or any other officer of the City designated by resolution of the Common Council.

“*Bonds*” means Water System Revenue Bonds, including any Series 2016 Bonds and Additional Bonds, issued from time to time pursuant to and under the authority of the Bond Resolution.

“*Bond Anticipation Notes*” means bond anticipation note obligations issued pursuant to the Bond Resolution.

“*Bond Counsel*” means an attorney or a firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds selected by the City.

“*Bondholder*,” or “*Holder of a Bond*” or “*Holder*” means the registered owner of any Bond which at the time shall be registered other than to bearer, or such holders’ duly authorized attorney in fact, representative or assigns.

“*Bond Registry*” means the books maintained by the Paying Agent for the Bonds of a Series pursuant to the Bond Resolution for the registration of the Bonds of such Series and Bondholders.

“*Bond Resolution*” means Resolution File Number 131057 of the City adopted by the Common Council on July 22, 2014, as from time to time amended or supplemented by one or more Supplemental Resolutions.

“*Book Entry Bond*” means a Bond authorized to be issued to, and issued to and registered in the name of, a Depository directly or indirectly for the beneficial owners thereof.

“*Business Day*” means any day which is not a Saturday, Sunday or a legal holiday in the State, the State of New York or a day on which banking institutions chartered by the State, the State of New York or the United States of America are legally authorized to close in the City of Milwaukee, Wisconsin or The City of New York.

“*City*” means the City of Milwaukee, Wisconsin.

“*City Charter*” means the Charter of the City of Milwaukee, Wisconsin, as the same may be amended from time to time.

“*Code*” means the Internal Revenue Code of 1986, as amended, and any successor statutes thereto, and any applicable regulations issued thereunder.

“*Common Council*” mean the Common Council of the City.

“*Common Reserve Account*” means an account established pursuant to a Series Resolution or a Supplemental Resolution that may benefit or secure one or more Series of Bonds.

“*Common Reserve Bonds*” means one or more Series of Bonds entitled to the benefit and security of a single Common Reserve Account.

“*Construction Fund*” means the Water System Construction Fund described in the Bond Resolution.

“*Consulting Engineer*” means the engineer or engineering firm or corporation retained from time to time pursuant to the Bond Resolution to perform the acts and carry out the duties provided for such Consulting Engineer in the Bond Resolution.

“*Costs*” means all costs of any Improvements and shall include, but shall not be limited to, all costs and estimated costs of the issuance of the Bonds, all architectural, engineering, inspection, financial

and legal expenses, the cost of causing the payment of the principal or interest or both of the Bonds to be insured or guaranteed, the initial cost of any Support Facility or Interest Rate Exchange Agreement and interest which it is estimated will accrue during the construction of any Improvements and for six (6) months thereafter.

“*Counterparty*” means any person with which the City has entered into an Interest Rate Exchange Agreement.

“*Debt Service*” means, as of any particular date of computation, with respect to any Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside in such period for the payment (or retirement) of the principal and Redemption Price (if any) of, and interest on, such Bonds; provided, however, that the term “*Debt Service*” shall not include interest on Bonds to the extent it is to be paid from amounts on credit to a Series Interest Account (as defined in the Bond Resolution), amounts on credit to the Special Redemption Fund or any other provisions made for the payment of interest.

“*Depository*” means any bank, national banking association or trust company selected and appointed by an Authorized Officer in accordance with the Bond Resolution as a depository of moneys and Investment Securities held under the provisions of the Bond Resolution. With respect to the 2016 Bonds, U.S. Bank National Association, has been designated as the Depository.

“*Depository*” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, or its nominee, or any other person, firm, association or corporation designated in the Series Resolution authorizing a Series of Bonds to serve as securities depository for the Bonds of such Series.

“*Exempt Obligation*” means an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Bond Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, “Aa” or better by Moody’s and “AA” or better by S&P, or, if such obligation is not rated by Moody’s or S&P, or, if such obligation is rated by neither Moody’s nor S&P, has been assigned a comparable rating by another nationally recognized rating service, but in no event rated lower than the lowest rating on Outstanding Bonds assigned by Moody’s or S&P.

“*Fiscal Year*” means the twelve month period established by the City or provided by law from time to time as its fiscal year, and which, as of the date of adoption of the Bond Resolution, is the twelve month period commencing on January 1 of any year and ending on December 31 of the following year.

“*Fixed Rate Bonds*” means any Bonds issued bearing interest at a fixed rate per annum from their dated date or such other date to their maturity date.

“*Government Obligation*” means a direct obligation of the United States of America, or an obligation the principal of and interest on which are guaranteed by the United States of America; provided, that the full faith and credit of the United States of America is pledged to any such direct obligation or guarantee.

“*Gross Proceeds*” means, with respect to a Series of Tax-exempt Bonds the “*gross proceeds*” as defined in the Tax Certificate executed in connection with the issuance of such Series of Bonds, which definition shall be consistent with the provisions of the Code relating to the exclusion from gross income of holders of the interest on state and local government obligations for federal income taxation purposes.

“*Improvements*” means the acquisition, purchase, construction, reconstruction, improvement, betterment or extension of the Water System.

“*Interest Rate Exchange Agreement*” means an agreement entered into by the City relating to Bonds of one or more Series which provides that during the term of such agreement the City is to pay to the Counterparty an amount based on the interest accruing at a fixed or variable rate per annum on a notional amount and that the Counterparty is to pay to the City either (i) an amount based on the interest accruing on such notional amount at a fixed, capped or variable rate per annum, in each case computed according to a formula set forth in such agreement, or that one shall pay to the other any net amount due under such agreement, or (ii) an amount based on the amount by which the rate per annum at which such Bonds bear interest exceeds a rate per annum stated in such agreement.

“*Investment Securities*” means those securities which, from time to time, are legal for the investment of funds of the City.

“*Maximum Interest Rate*” means, with respect to any particular Variable Rate Bond, a numerical rate of interest per annum, which shall be set forth in the Series Resolution authorizing such Bond, that shall be the maximum rate per annum at which such Bond may bear interest at any time.

“*Moody’s*” means Moody’s Investors Service, Inc., its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “*Moody’s*” shall be deemed to refer to any other nationally recognized rating agency, if any, designated by the Comptroller of the City.

“*Net Revenue Requirement*” means with respect to any Fiscal Year or any period, an amount equal to the greater of: (i) the sum of (a) the Aggregate Debt Service in such Fiscal Year or such period and (b) the Required Deposits for such Fiscal Year or such period; or (ii) 1.20 times the Aggregate Debt Service in such Fiscal Year or such period plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding as of the end of such Fiscal Year or such period.

“*Net Revenues*” means, with respect to any period, the Revenues during such period less amounts required to pay Operation and Maintenance Expenses.

“*Operation and Maintenance Expenses*” means the costs and expenses of operating and maintaining the Water System, including, without limiting the generality of the foregoing: (i) all expenses includable in the operation and maintenance expense accounts of the City relating to the Water System according to generally accepted accounting principles, exclusive of debt service, capital expenditures, depreciation and tax equivalents; and (ii) to the extent not included in the preceding clause (i) or paid from Bond proceeds or otherwise, the City’s share of the costs and expenses of operating and maintaining any plants and properties jointly owned with others.

“*Opinion of Counsel*” means with respect to the City a written opinion of counsel selected by the Comptroller of the City who is not an employee of the City, and which, with respect to Federal income tax law and securities law relating to obligations issued by state and local governmental units, is Bond Counsel. Any Opinion of Counsel may be based (insofar as it relates to factual matters or information which is in the possession of the City) upon a Written Certificate of the City unless such counsel knows, or in the exercise of reasonable care should have known, that such Written Certificate is erroneous.

“*Option Bond*” means any Bond which by its terms may be tendered by and at the option of the Holder thereof for redemption by the City prior to the stated maturity thereof or for purchase thereof.

“*Outstanding*” or “*outstanding*” when used with reference to Bonds means, as of any date, Bonds theretofore or thereupon issued pursuant to the Bond Resolution, except: (a) any Bonds canceled by a Paying Agent or paid at or prior to such date; (b) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the Bond Resolution; (c) Bonds deemed to be no longer outstanding thereunder as provided in the Bond Resolution; and (d) Option Bonds tendered or deemed tendered in accordance with the provisions of the Series Resolution authorizing such Bonds which have been purchased by or on behalf of the City and in lieu of or substitution for which another Bond shall have been authenticated and delivered pursuant to Article III; provided that interest thereon shall have been paid through such tender or purchase date thereof and the purchase price thereof shall have been paid or amounts are available for such payment as provided herein and in the Series Resolution authorizing such Bonds.

“*Parity Support Facility Reimbursement Obligation*” means the obligation of the City described in the Bond Resolution to directly reimburse the Support Facility Provider of any Support Facility for amounts paid by such Support Facility Provider under such Support Facility or a Counterparty under an Interest Rate Exchange Agreement for amounts paid thereunder, on a parity with the obligation of the City to pay the Bonds, whether or not such obligation to reimburse is evidenced by a promissory note or other similar instrument.

“*Paying Agent*” means, as to Bonds of any particular Series, the Treasurer of the City or the bank or trust company designated for the payment of the principal and Redemption Price (if any) of, and interest on, the Bonds of such Series in the Series Resolution authorizing the issuance of such Series. With respect to the Series 2016 Bonds, U.S. Bank National Association has been designated as the Paying Agent.

“*Principal Office*” means the office designated in writing to the Treasurer of the City by a Paying Agent, at which payment and registration of Bonds may be made.

“*Rebatable Amount*” means, with respect to a Series of Bonds, (i) the amount by which the earnings on the Gross Proceeds of such Series of Bonds exceeds the amount which would have been earned thereon if such Gross Proceeds were invested at a yield equal to the yield on such Series of Bonds, as such yield is determined in accordance with the Code; (ii) amounts earned on the investment of the excess described in clause (i) and (iii) any other amount required by the Code.

“*Rebate Fund*” means the Rebate Fund created in the Bond Resolution.

“*Record Date*” means, with respect to any Series of Bonds, (i) with respect to the payment of interest, the fifteenth (15th) day (whether or not a Business Day) of the month preceding an interest payment date; (ii) with respect to notice of redemption, the forty-fifth (45th) day (whether or not a Business Day) preceding the date of redemption; or (iii) such other day as may be provided in the Series Resolution authorizing the issuance of such Series.

“*Redemption Price*” means, with respect to any Bond, the principal amount thereof plus the applicable redemption premium, if any, payable upon redemption thereof pursuant to the Bond Resolution or any Series Resolution.

“*Refunded Municipal Obligations*” means Exempt Obligations which are rated in the highest rating category by Moody’s and S&P and provision for the payment of the principal of and interest on which shall have been made by an irrevocable deposit with a trustee or escrow agent of Government Obligations, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state, the District of Columbia or possession thereof in the capacity as

custodian, the maturing principal of and interest on which Government Obligations shall be sufficient to pay, when due, the principal of and interest on such Exempt Obligations.

“*Refunding Bonds*” means Bonds issued pursuant to the Bond Resolution for refunding purposes.

“*Remarketing Agent*” means the Remarketing Agent for a Series of Bonds appointed pursuant to a Series Resolution or any successor.

“*Remarketing Agreement*” means an agreement by and between the City and another person pursuant to which Option Bonds tendered for purchase or redemption are to be remarketed to the public by such other person.

“*Renewal and Replacement Fund*” means the Renewal and Replacement Fund described in the Bond Resolution.

“*Required Deposits*” means, for any period, the amounts, if any, required: (i) to be paid into the Reserve Accounts in the Reserve Fund, and (ii) to pay Support Facility Reimbursement Obligations.

“*Reserve Account*” means any Series Reserve Account and any Common Reserve Account in the Reserve Fund, created in the Bond Resolution.

“*Reserve Account Requirement*” means (i) for a Series Reserve Account, the amount, if any, required to be on deposit in a Series Reserve Account determined in the Series Resolution authorizing the Series of Bonds entitled to the benefits and security of such Series Reserve Account and (ii) for a Common Reserve Account, the amount required to be on deposit in the Common Reserve Account as determined in the Series Resolution authorizing the initial Series of Bonds entitled to the benefits and security of such Common Reserve Account and as such requirement may be revised from time to time by one or more Supplemental Resolutions; provided, however, that for any Reserve Account for purposes of this definition, Debt Service and Aggregate Debt Service shall be computed with respect to each Variable Rate Bond by using the Assumed Long-Term Fixed Rate applicable thereto.

“*Reserve Fund*” means the Reserve Fund described in the Bond Resolution.

“*Revenue Bond Index*” means the thirty (30) year Revenue Bond Index of The Bond Buyer, a publication in New York, New York, or any successor publication maintaining such Index or in the event The Bond Buyer or any successor publication does not maintain such Index, an equivalent index with the same or similar components as the Revenue Bond Index.

“*Revenue Fund*” means the Revenue Fund described in the Bond Resolution.

“*Revenues*” means the moneys, including any moneys collected from the City or any department thereof, derived by the City from the rates, rentals, fees and charges prescribed for the use and services of, and the facilities and commodities furnished by, the Water System, including, without limiting the generality of the foregoing, (i) all income, receipts, profits, and other moneys derived from the furnishing or supplying of the services, facilities and commodities through the Water System; (ii) all payments made by Counterparties pursuant to Interest Rate Exchange Agreements; and “*Revenues*” shall not include, (i) deposits subject to refund until such deposits have become the property of the City; (ii) contributions in-aid-of construction and assessment, impact and other similar fees imposed and collected by the City which are targeted to pay the Costs of specific Improvements; (iii) income, fees, charges, receipts, profits or other moneys derived by the City from the ownership or operation of any separate utility system; (iv) any gifts, grants, donations or other moneys received by the City for purposes of the Water System from any State or Federal agency or other person if such gifts, grants, donations or other moneys are the

subject of any limitation or reservation: (a) imposed by the donor or grantor; or (b) imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds; or (v) amounts retained in the Revenue Fund for working capital and operating reserves pursuant to the Bond Resolution.

“*S&P*” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill and Companies, Inc., its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other nationally recognized rating agency designated by the Comptroller of the City.

“*Serial Bonds*” means Bonds which mature serially and which are not Term Bonds.

“*Series*,” “*Series of Bonds*” or “*Bonds of a Series*” means all Bonds designated as being of the same series issued and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter delivered in lieu thereof or in substitution therefor pursuant to the Bond Resolution.

“*Series Resolution*” means a resolution authorizing the issuance of a Series of Bonds adopted by the Common Council pursuant to the Bond Resolution.

“*Series 2016 Bonds*” means the \$10,000,000 original principal amount of Water System Revenue Bonds, Series 2016 W10, of the City authorized by the Bond Resolution.

“*Sinking Fund Installment*” means an amount so designated which is established pursuant to the Bond Resolution. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited pursuant to the Bond Resolution toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

“*Special Redemption Fund*” means the Water System Special Redemption Fund created in the Bond Resolution.

“*State*” means the State of Wisconsin.

“*Subordinate Obligations*” means any bonds, notes or other evidences of indebtedness of the City payable from the Net Revenues, other than the Bonds, issued under the Bond Resolution.

“*Subordinate Obligation Fund*” means the Subordinate Obligation Fund created in the Bond Resolution.

“*Supplemental Resolution*” means any resolution adopted by the Common Council and becoming effective pursuant to and in compliance with the provisions of Article X, which amends or supplements the provisions of the Bond Resolution, any Series Resolution or any other Supplemental Resolution.

“*Support Facility*” means an irrevocable letter of credit, surety bond, loan agreement, standby purchase agreement or other agreement, facility or insurance or guaranty arrangement issued or extended by one or more Support Facility Providers, pursuant to which the City is entitled to obtain moneys to pay the principal or Redemption Price of Bonds due in accordance with their terms or tendered for purchase or redemption, plus accrued interest thereon to the date of payment, purchase or redemption thereof in accordance with the Bond Resolution and with the Series Resolution authorizing such Bonds, whether or not the City is in default under the Bond Resolution.

“*Support Facility Provider*” means the provider of a Support Facility, if any, designated in a Series Resolution.

“*Support Facility Reimbursement Obligation*” means the obligation of the City described in the Bond Resolution to directly reimburse the Support Facility Provider of a Support Facility for amounts paid thereunder or a Counterparty under an Interest Rate Exchange Agreement for amounts paid thereunder, whether or not such obligation to reimburse is evidenced by a promissory note or other similar instrument.

“*Surplus Fund*” means the Surplus Fund created in the Bond Resolution.

“*Tax Certificate*” means such tax certificates, instructions and other documents as may be executed by an Authorized Officer in connection with the issuance of Tax-exempt Bonds of a Series for the purpose of demonstrating compliance with the applicable provisions of the Code.

“*Tax-exempt Bonds*” means Bonds the interest on which is intended by the City to be excluded from gross income of the Holders of such Bonds for federal income taxation purposes pursuant to the Code.

“*Term Bonds*” means Bonds the retirement or the redemption of which shall be provided for from moneys credited to the Special Redemption Fund pursuant to the Bond Resolution.

“*Variable Rate Bonds*” means any Bonds issued bearing interest at a rate per annum subject to adjustment from time to time based on the terms thereof, based upon an index, or otherwise calculated in a manner which precludes the actual rate for the entire term of such Bonds from being ascertainable in advance (i.e., a “*variable rate*”); provided, however, that a Bond the interest rate on which shall have been fixed for the remainder of the term thereof shall constitute a Fixed Rate Bond and no longer be a Variable Rate Bond; provided, further, however, that in the case where a Bond bears a variable rate and is dated and has the same maturity as a Bond bearing a rate that is a constant rate minus the rate borne by the first bond (i.e., an “*inverse variable rate*”), both Bonds shall constitute Fixed Rate Bonds and no longer be Variable Rate Bonds.

“*Water Service Charge*” means the public utility system charges with respect to the Water System authorized in Section 66.0809, Wisconsin Statutes.

“*Water System*” means all plants and properties, both real and personal and tangible and intangible, now or hereafter existing, under the management, control or jurisdiction of the City, used for, useful in, or pertaining to the supply, treatment, storage and transmission of water. Without limiting the generality of the foregoing, the Water System shall include: (1) the existing plants and properties comprising the Water System under the management, control or jurisdiction of the City, as of the date of adoption of the Bond Resolution; and (2) all Improvements hereafter constructed or otherwise acquired, purchased or annexed.

“*Written Certificate of the City,*” “*Written Direction of the City,*” “*Written Request of the City,*” or “*Written Statement of the City*” means an instrument in writing signed on behalf of the City by an Authorized Officer thereof. Any such instrument and any supporting opinions or certificates may, but need not, be combined in a single instrument with any other instrument, opinion or certificate, and the two or more so combined shall be read and construed so as to form a single instrument. Any such instrument may be based, insofar as it relates to legal, accounting or engineering matters, upon the Opinion of Counsel, or opinion or certificate of accountants or the Consulting Engineer, unless the Authorized Officer signing such Written Certificate or Direction or Request or Statement knew, or in the exercise of reasonable care should have known, that the opinion or certificate with respect to the matters upon which

such Written Certificate or Direction or Request or Statement may be based, as aforesaid, is erroneous. The same Authorized Officer, or the same counsel, accountant or engineer, as the case may be, need not certify or opine to all of the matters required to be certified to or opined upon under any provision of the Bond Resolution, but different Authorized Officers, counsel, accountants or engineer may certify or opine to different facts, respectively.

## **SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**

The Bond Resolution contains terms and conditions relating to the issuance of the Bonds, including the Series 2016 Bonds, including various covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive, and is subject to all of the provisions of the Bond Resolution, to which reference is hereby made. This summary uses various terms defined in the Bond Resolution. Capitalized terms used in this “**SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**” are as set forth in the Bond Resolution.

### **Bond Resolution and Bonds Constitute a Contract**

In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, each of the obligations, duties, limitations and restraints imposed upon the City by the Bond Resolution shall be deemed to be a covenant between the City and every Holder of the Bonds, and the Bond Resolution and every provision and covenant hereof shall be deemed to be and shall constitute a continuing contract and agreement between the City and the Holders from time to time of the Bonds issued hereunder, to secure the full and final payment of the principal and Redemption Price of and interest on all Bonds which may from time to time be issued, executed, and delivered hereunder. The covenants and agreements herein set forth to be performed by the City shall be for the equal and proportionate benefit, security and protection of all Holders of the Bonds without preference, priority or distinction as to payment or security or otherwise of any of the Bonds over any of the others for any reason or cause whatsoever except as expressly provided in the Bond Resolution, in a Series Resolution, in a Supplemental Resolution, or in the Bonds.

### **Pledge Made in the Bond Resolution**

The Bonds are limited special obligations of the City payable solely from and secured by the funds pledged therefor pursuant to the Bond Resolution. The City has pledged as security for the payment of the principal and Redemption Price (if any) of and interest on, the Bonds in accordance with their terms and provisions of the Bond Resolution, subject only to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Resolution: (i) the proceeds of sale of the Bonds pending application thereof in accordance with the provisions of the Bond Resolution or of a Series Resolution, (ii) the Net Revenues, and (iii) all Funds and Accounts held under the Bond Resolution other than (a) the Rebate Fund, and (b) the Subordinate Obligation Fund, including the investments, if any, in such Funds and Accounts; and the Bondholders shall have a lien on, and a security interest in, such proceeds, Net Revenues, and Funds and Accounts for such purpose and subject to such provisions of the Bond Resolution. Such lien and security interest for the payment of Bonds shall be prior and superior to the lien and security interest for the payment of Subordinate Obligations. The Bonds are additionally secured by a mortgage lien upon the Water System which shall be perfected by the recording of the Bond Resolution in the records of the City.

The pledge of, and lien on, and security interest in, the proceeds of the Bonds and the Net Revenues as received by the City and the Funds and Accounts in the Bond Resolution, other than the Rebate Fund and the Subordinate Obligation Fund, shall be valid and irrevocable: (i) from and after the time that, if required by State law, a financing statement is filed with respect to such pledge, lien and security interest as required by State law, and, upon such filing; or (ii), if no financing statement is so

required by State law, upon delivery of the proceeds of a Series of Bonds, and all the Net Revenues as received by the City and the Funds and Accounts of the Bond Resolution, other than the Rebate Fund and the Subordinate Obligation Fund, shall immediately be subject to the lien of the pledge without any physical delivery thereof or further act, and the lien of the pledge shall be valid as against, and prior to the lien of, all parties having claims of any kind in tort, contract or otherwise against the City irrespective of whether such parties have notice thereof.

### **Additional Bonds**

One or more Series of Bonds (exclusive of Refunding Bonds), may be issued at any time and from time to time for any lawful use or purpose relating to the Water System, including, without limitation, payment of all or a portion of the Costs of Improvements, but only upon compliance as to each such Series with the provisions as set forth in the Bond Resolution, including providing, among other things, the following documents or moneys or securities:

Either (I) a Written Certificate of an Authorized Officer of the City based: (i) on audited figures, provided that such audited figures are for the most recent Fiscal Year for which an audit is available, and are for a period ending within 21 months of the date of issuance of the proposed Series of Bonds; or (ii) on figures taken by an independent certified public accountant from the City's books and records, showing that the Net Revenues for any consecutive twelve (12) months period out of twenty-four (24) months immediately preceding the month in which such Bonds are issued were not less than the greater of (x) the sum of (1) the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any Fiscal Year and the twelve (12) month period selected, and (2) the Required Deposits for such Fiscal Year or the twelve (12) month period selected; and (y) 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any Fiscal Year and the twelve (12) month period selected, plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of the Written Certificate of the City, or (II) a Written Certificate of an Authorized Officer of the City or Certificate of the Consulting Engineer that the Net Revenues to be derived in each of the five (5) Fiscal Years following the earlier of: (i) the end of the period during which interest is capitalized or, if no interest is to be capitalized, the Fiscal Year in which the proposed Series of Bonds are issued, and (ii) the date on which substantially all Improvements to be financed with the proceeds of the proposed Series of Bonds are expected to commence operations, or, if the proceeds of such Series of Bonds will not be used to fund the Costs of Improvements, the Fiscal Year in which the proposed Series of Bonds are issued, are estimated to be not less than the greater of: (x) the sum of (1) the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year, and (2) the Required Deposits for any such Fiscal Year; and (y) 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year, plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of such Written Certificate of the City or certificate of the Consulting Engineer, as the case may be.

If any changes have been made and are in effect at the time of the issuance of the proposed Series of Bonds in the Water Service Charges (exclusive of changes in the rates and charges for the privilege of connecting to the Water System) which were not in effect during all or any part of the periods referred to above, the Net Revenues for either of such respective periods may be adjusted to reflect the results which would have occurred in the Net Revenues if such changes in the Water Service Charges had been in effect during all of such respective periods.

## **Certain Adjustments**

In determining Debt Service on Variable Rate Bonds then Outstanding and Variable Rate Bonds then proposed to be issued for purposes of the Additional Bonds Requirement, the interest rate shall be calculated as: (i) if any Variable Rate Bonds are then Outstanding and have been Outstanding for at least twenty-four (24) months, the highest average interest rate borne by such Variable Rate Bonds for any thirty (30) day period, or (ii) if no such Variable Rate Bonds are then Outstanding, the Revenue Bond Index at the time of calculation.

## **Refunding Bonds**

The City by means of a Series Resolution adopted in compliance with the provisions of the Bond Resolution may issue a Series of Refunding Bonds at any time for the purpose of refunding (including by purchase) at any time all or any portion of Bonds Outstanding, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the Refunding Bonds and of effecting such refunding; provided, however, that the provisions of the Bond Resolution are complied with upon the issuance of such Series, including all of the conditions described in “*Additional Bonds*” described above, except that the certificate described in “*Additional Bonds*” above need not be complied with if the Refunding Bonds proposed to be issued do not mature later than the Bonds to be refunded and Debt Service in any Fiscal Year on the Refunding Bonds proposed to be issued does not exceed Debt Service in any Fiscal Year on the Bonds to be refunded by more than ten percent (10%).

## **Separate Utility Systems**

Nothing contained in the Bond Resolution shall prevent the City from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, other than Bonds, to acquire or construct facilities for the supply, treatment, storage or transmission of water, and any incidental properties to be constructed or acquired in connection therewith, which facilities shall be a separate utility system and which bonds or other obligations or evidences of indebtedness shall be payable solely from the revenues or other income derived from the ownership or operation of such separate system; provided, however, that the City will not issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness for the purpose of acquiring or constructing such a separate utility system unless and until a report of the Consulting Engineer shall be delivered to the Comptroller to the effect that: (i) the plan for developing the separate utility system is consistent with sound planning, and the separate utility system is of such character that it would be useful to the City; (ii) the separate utility system can be economically and effectively utilized by the City; (iii) the cost of the services of the separate utility system is reasonable in comparison to alternative sources; and (iv) in the opinion of the Consulting Engineer, the acquisition, construction or operation of such separate utility system will not result in a reduction of the Revenues below the amounts covenanted by the Bond Resolution to be maintained.

## **Funds and Accounts**

The City has created a Revenue Fund into which all Revenues collected by the City have been and shall be deposited, from which the Revenues shall be appropriated and expended for operating expenses of the Water System, other purposes of the Water System, and in which certain working capital and operating reserves for purposes of the Water System have been and shall be maintained. The Revenue Fund shall be considered to be a fund held under the Bond Resolution for purposes of the pledge made in the Bond Resolution.

The Bond Resolution also creates and establishes the following additional funds of the City to be maintained so long as any Bonds are Outstanding:

- Operation and Maintenance Fund;
- Rebate Fund;
- Special Redemption Fund;
- Reserve Fund and Reserve Accounts therein\*;
- Renewal and Replacement Fund;
- Subordinate Obligation Fund; and
- Surplus Fund.

The Operation and Maintenance Fund, Special Redemption Fund, Reserve Fund, Renewal and Replacement Fund and Surplus Fund shall be considered to be funds held under the Bond Resolution for purposes of the pledge made in the Bond Resolution.

The Bond Resolution also creates a Construction Fund into which the proceeds of revenue bonds of the City issued to pay the costs of Improvements specified to be expended from such Construction Fund. The Construction Fund shall be considered to be a fund held under the Bond Resolution for purposes of the pledge made thereunder.

### **Revenue Fund**

From and after the time of delivery of the first Bond executed and delivered under the Bond Resolution, Revenues shall be collected by the City and deposited, as soon as practicable, into the Revenue Fund. From the amounts deposited in the Revenue Fund, the City shall transfer to the Operation and Maintenance Fund sufficient moneys to pay the current Operation and Maintenance Expenses of the Water System, transfer to the Rebate Fund such amount as is necessary to pay the rebate amount due the United States Treasury Department under Section 148 of the Code or to set aside as a reserve for such payment and make the transfers to other Funds and Accounts as provided in the Bond Resolution.

In each month, the City, after making the transfer, if any, to the Operating and Maintenance Expenses for such month and setting aside an amount sufficient to pay the Operating and Maintenance Expenses expected to be incurred for the balance of such month and making the transfer, if any, to the Rebate Fund as provided in the Bond Resolution, shall retain, apply or transfer on the fifth (5th) day prior to the end of each month, unless otherwise provided below, a sufficient amount of moneys in the Revenue Fund in the following order of priority:

- (1) To the Special Redemption Fund, if and to the extent required so that the balance therein shall equal the Accrued Debt Service for all Bonds Outstanding and the interest accrued on all Bond Anticipation Notes outstanding on said date;
- (2) To the Reserve Fund, if and to the extent required by a Series Resolution either (i) an amount such that the balance in each Reserve Account shall equal its Reserve Account Requirement on said date, or (ii) an amount such that if the same amount were deposited in each month the amount of any deficiency in a Reserve Account shall be eliminated at the end of the twelfth (12th) month following the first credit;
- (3) In the Revenue Fund, a reasonable and necessary amount for working capital and operating reserves;

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\* **THE RESERVE FUND DOES NOT SECURE AND IS NOT AVAILABLE FOR PAYMENT OF DEBT SERVICE ON THE SERIES 2016 BONDS.**

- (4) To the Subordinate Obligation Fund, the amount, if any, required to be deposited in such Fund pursuant to the resolution authorizing issuance of the Subordinate Obligations payable from such Fund;
- (5) To the Renewal and Replacement Fund, such amount as may be designated by the City; and
- (6) To the Surplus Fund, such amounts as shall remain in the Revenue Fund.

All reasonable and necessary Operation and Maintenance Expenses shall be paid from the Operation and Maintenance Fund as the same become due and payable and, except for the Rebate Fund, prior to any transfer or payment to other funds and accounts set forth therein.

The City may if provided in a Series Resolution authorizing the Bonds of a Series, directly pay out of the Revenue Fund reimbursements to Support Facility Providers whose Support Facilities have been drawn upon, after payments have been made to the Special Redemption Fund.

In the case of multiple deficiencies among multiple Reserve Accounts, amounts deposited into the Reserve Fund shall be allocated ratably among such Reserve Accounts having a deficiency without preference or priority of any kind.

### **Special Redemption Fund**

The City shall pay out of the Special Redemption Fund to each Paying Agent; (i) on or before each interest payment date for any of the Bonds or Bond Anticipation Notes the amount required for the interest payable on such date; (ii) on or before each principal payment date, an amount equal to the principal, if any, due on such date by reason of maturity or by reason of the payment of any Sinking Fund Installment; and (iii) on or before any redemption date for the Bonds, the amount required for the payment of the Redemption Price of and interest on the Bonds then to be redeemed. Such amounts shall be applied by each Paying Agent on and after the due dates thereof. The City shall also pay out of the Special Redemption Fund the accrued interest included in the purchase price of Bonds purchased for retirement.

Amounts accumulated in the Special Redemption Fund by reason of the payment of any Sinking Fund Installment may be applied by the City, on or prior to the sixtieth (60th) day preceding the due date of such Sinking Fund Installment, to: (i) the purchase of Bonds of the maturity for which such Sinking Fund Installment was established, or (ii) the redemption of such Bonds at the applicable Redemption Price, if then redeemable by their terms. All such purchases of Bonds shall: (i) be made at prices not exceeding the applicable Redemption Price of such Bonds plus accrued interest; (ii) be made as arranged by the City in such manner and from such sellers or brokers at such prices as the City shall determine; and (iii) be made to insure that delivery of the Bonds so purchased shall not occur later than the sixtieth (60th) day next preceding the redemption date to which the Sinking Fund Installment is to be applied. The applicable Redemption Price of any Bonds (or principal amount of maturing Bonds) so purchased or redeemed shall be deemed to constitute part of the Special Redemption Fund until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the sixtieth (60th) day preceding the due date of any such Sinking Fund Installment, the City shall proceed to call for redemption on such due date Bonds of the maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment after making allowance for any Bonds purchased or redeemed pursuant to the Bond Resolution which the City has applied as a credit against such Sinking Fund Installment as provided in the Bond Resolution and as described above. The City shall pay out of the Special Redemption Fund to the

appropriate Paying Agents, on or before the redemption date, the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

The amount, if any, credited to the Special Redemption Fund from a Series Interest Account (as hereafter defined) in the Construction Fund shall be applied to the payment of interest on the Bonds as the same becomes due and payable as provided in the Bond Resolution.

Upon any purchase or redemption as provided in the Bond Resolution and as described above of Bonds of any Series and maturity for which Sinking Fund Installments shall have been established: (i) if the principal amount of the Bonds so purchased is less than or equal to the next succeeding Sinking Fund installment for such Series there shall be credited to the next such Sinking Fund Installment an amount equal to the principal amount of the Bonds of such Series so purchased; and (ii) if the principal amount of the Bonds so purchased is greater than the next succeeding Sinking Fund Installment, there shall be credited toward each such Sinking Fund installment thereafter to become due an amount bearing the same ratio to such Sinking Fund Installment as the total principal amount of such Bonds so purchased or redeemed bears to the total principal amount of all such Sinking Fund Installments to be so credited or, at the option of the City, an amount equal to the next succeeding Sinking Fund Installment. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

Moneys set aside from time to time with any Paying Agent for the purpose of paying the principal and Redemption Price (if any) of, and interest on, the Bonds shall be held in trust for the Holders of the Bonds in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Special Redemption Fund shall be held in trust for the benefit of the Holders of all Bonds at the time outstanding, equally and ratably.

When Bonds of a Series are refunded in whole or in part or are otherwise paid in accordance with the Bond Resolution, moneys may be withdrawn from the Special Redemption Fund to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be; provided that immediately after such withdrawal or transfer there shall be on credit to the Special Redemption Fund an amount equal to the Accrued Debt Service for the Bonds then Outstanding after taking into account such refunding or payment.

#### **Reserve Fund and Reserve Accounts\***

(A) The City shall maintain each Reserve Account in an amount equal to the applicable Reserve Account Requirement, which requirement may be satisfied with (i) one or more Support facilities, (ii) Investment Securities, (iii) cash deposits, or (iv) any combination thereof. If on any valuation date, the amount on deposit in a Reserve Account is more than its Reserve Requirement, unless otherwise determined by the City the amount of such excess shall be transferred to the Special Redemption Fund.

(B) If at any time a Reserve Account holds a Support Facility and Investment Securities, the Investment Securities shall be liquidated and the proceeds applied for the purposes for which the Reserve Account moneys may be applied prior to any draw being made on the Support Facility. If the Reserve Account holds Support Facilities issued by more than one Support Facility Provider, then draws shall be

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\* **THE RESERVE FUND DOES NOT SECURE AND IS NOT AVAILABLE FOR PAYMENT OF DEBT SERVICE ON THE SERIES 2016 BONDS.**

made under such Support Facilities on a pro rata basis to the extent of available funds. Amounts deposited in a Reserve Account for the purpose of restoring amounts withdrawn therefrom shall be applied first to pay the applicable Support Facility Reimbursement Obligation and thereby reinstate the Support Facility.

(C) The amounts held in a Common Reserve Account are held for the equal benefit and security of all Common Reserve Bonds secured by and entitled to the benefits of such Common Reserve Account and are pledged and assigned for that purpose. On the date of issuance of any Series of Bonds intended to be Common Reserve Bonds, the City, pursuant to the Series Resolution or a Written Certificate of the City, shall specify the particular Common Reserve Account securing such Series of Common Reserve Bonds and the amount and source of any deposit to be made to fund any required deposit to the applicable Common Reserve Account to increase the amount held therein to its Reserve Account Requirement. The amounts held in a Series Reserve Account are held for the exclusive benefit of the Bonds of that Series and are pledged and assigned for that purpose. On the date of issuance of such Series, the City, pursuant to the Series Resolution or a Written Certificate of the City shall specify the amount and source of any deposit to be made to fund any required deposit to the applicable Series Reserve Account.

(D) If on the date preceding a principal or interest payment date, the amount held in the Special Redemption Fund for the payment of a particular Series of Bonds shall be less than the Accrued Debt Service for all Bonds of such Series then Outstanding, the City shall pay out of the applicable Reserve Account maintained for such Series, to the Special Redemption Fund for disbursement to the Paying Agent for such Series the amount necessary to cure the deficiency. In the case of multiple deficiencies among multiple Series of Common Reserve Bonds, entitled to the benefit and security of the same Common Reserve Account, such withdrawal shall be made ratably among the various Series having a deficiency, without preference or priority of any kind.

(E) Amounts in a Reserve Account may be withdrawn and deposited in trust to pay or provide for the payment of Bonds; *provided* that immediately after such withdrawal the amount on deposit in such Reserve Account equals or exceeds its Account Reserve Requirement.

### **Renewal and Replacement Fund**

Amounts in the Renewal and Replacement Fund may be withdrawn by the City at any time for the payment of expenses with respect to the Water System for the acquisition of capital equipment and for repairs, renewals, replacements or capital maintenance items. Amounts in the Renewal and Replacement Fund may also be withdrawn at any time and deposited into the Special Redemption Fund, any Reserve Account, the Rebate Fund or the Surplus Fund.

### **Subordinate Obligation Fund**

Moneys on credit to the Subordinate Obligation Fund shall be applied by the City solely in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in, the resolution of the City securing or evidencing such Subordinate Obligations. Any moneys credited to the Subordinate Obligation Fund shall be immediately free and clear of the lien and pledge created by the Resolution.

### **Rebate Fund**

If and to the extent required by the Code, an Authorized Officer shall periodically, at such times as may be required to comply with the Code, determine the amount of Rebateable Amount with respect to each Series of Tax-exempt Bonds and thereafter (i) transfer from any of the Funds and Accounts pledged

or held hereunder other than the Special Redemption Fund, the Reserve Fund or the Subordinate Obligation Fund and credit to the Rebate Fund, all or a portion of the Rebate Amount with respect to such Series of Bonds and (ii) payout of the Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto. Moneys in the Rebate Fund and the subaccounts therein are not available for the benefit of the Holders of the Bonds and are not pledged to the payment of the Bonds or the interest thereon.

### **Surplus Fund**

The City shall transfer from the Surplus Fund: (i) to the Special Redemption Fund the amount necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to satisfy any deficiencies in payments to such Funds required by the Bond Resolution; (ii) in the event of any transfer of moneys from the Reserve Account to such Reserve Account the amount of any resulting deficiency in such Fund or Account; (iii) such amount as the City may, in its discretion, determine to set aside in reserve for meeting the deficiencies referred to in clauses (i) through (ii) of this paragraph; and (iv) provided that all transfers and reserves therefor referred to in clauses (i) through (iii) of this paragraph shall have heretofore been made, to the Subordinate Obligation Fund the amount, if any, necessary to satisfy any deficiency therein.

Amounts in the Surplus Fund not required to meet a deficiency referred to in the Bond Resolution and as described above shall be applied to any of the following purposes: (1) the Costs of Improvements, or the provision of one or more reserves therefore; (2) the purchase at such price or prices as the City may deem advisable or redemption of any Bonds and expenses of such purchase or redemption at any time; or (3) for any other purpose authorized by the laws of the State of Wisconsin in connection with the Water System, including reimbursement to the City of advances made by the City to the Water System.

### **Construction Fund**

As soon as practicable on the date of delivery of the Bonds of a Series, there shall be deposited in the Construction Fund the amount required to be deposited therein pursuant to the Series Resolution. In addition, the City shall deposit in the Construction Fund such moneys other than proceeds of the Bonds as the City shall determine to be proper or appropriate to pay the Costs of Improvements.

The Series Resolution authorizing the issuance of any Series of Bonds (exclusive of Refunding Bonds) may create and establish one or more separate special Series Accounts in the Construction Fund, with such designation as may be appropriate. In the event any interest on such Bonds is to be capitalized from the proceeds of such Bonds, there shall be created in the Construction Fund a special Series Interest Account with such designation as may be appropriate.

Moneys, including proceeds of the Bonds of a Series, which are credited to the Construction Fund or Series Account shall be applied to the payment of the Costs as shall be specified in the applicable Series Resolution. Any balance remaining in the Construction Fund or such Series Account upon completion of payment of such Costs may be used for any lawful purpose of the City; provided that the City shall have obtained an Opinion of Counsel that any such application will not impair the exemption from Federal income taxation of interest on any of the Tax-exempt Bonds.

Moneys credited to a Series Interest Account shall be used for the purpose of paying interest on the Bonds of designated Series. On or before the fifth (5th) day preceding the end of the month next preceding the maturity of an installment of interest on the Bonds for the payment of which moneys have been credited to a Series Interest Account, the City shall transfer from a Series Interest Account for credit to the Special Redemption Fund an amount which, together with any moneys theretofore held in the

Special Redemption Fund, shall be sufficient to pay such next maturing installment of interest on such Bonds.

Payments from the Construction Fund shall be as specified in the Series Resolution authorizing the issuance of a Series of Bonds.

Moneys, including proceeds of the Bonds, in the Construction Fund, pending their application as provided in the Bond Resolution and Series Resolution shall be subject to a prior and paramount lien and charge in favor of the Holders of the Bonds, and the Holders of the Bonds shall have a valid claim on such moneys for the further security of the Bonds until paid out or transferred as provided in the Bond Resolution. In the event that there is an insufficiency in the Special Redemption Fund to pay Debt Service after all transfers, have been made pursuant to and in accordance with the Bond Resolution, the City shall transfer from the Construction Fund such amount (or all remaining amounts in such Construction Fund) as is deemed necessary by the Comptroller of the City for deposit in the Special Redemption Fund, which, together with the amounts then on credit to the Special Redemption Fund, is sufficient to pay Debt Service.

### **Operation and Maintenance Fund**

Amounts in the Operation and Maintenance Fund and any subaccount therein, pending their application, shall be subject to a prior and paramount lien and charge in favor of the Holders of the Bonds, and the Holders of the Bonds shall have a valid claim on such moneys for the further security of the Bonds until paid out or transferred as provided in the Bond Resolution. In the event that there is an insufficiency in the Special Redemption Fund to pay Debt Service after all transfers have been made pursuant to and in accordance with the Bond Resolution, the City shall transfer from the Operation and Maintenance Fund such amount as is deemed necessary by the Comptroller of the City for deposit in the Special Redemption Fund, which, together with the amounts then on deposit in the Special Redemption Fund, is sufficient to pay Debt Service.

Amounts in the Operation and Maintenance Fund shall be used to pay Operation and Maintenance Expenses.

### **Investment of Funds**

Moneys in the Special Redemption Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested solely in noncallable Investment Securities which shall mature or be subject to redemption at the option of the holder thereof on or prior to the respective dates when the moneys in the Special Redemption Fund will be required for the purposes intended. Moneys in a Reserve Account not required for immediate disbursement for the purpose for which the Reserve Account is created shall, to the fullest extent practicable and reasonable, be invested and reinvested solely in, and obligations deposited in the Reserve Account shall be, noncallable investment Securities which shall mature or be available at par at or prior to three (3) years from the date of investment thereof.

Moneys in the Revenue Fund not required for immediate disbursement for the purpose for which such Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested to the extent allowed by law, solely in, and obligations deposited in such Fund shall be, Investment Securities which shall mature or be subject to redemption or payment at the option of the holder thereof, not later than such times as shall be necessary to provide moneys when needed to provide payments from such Fund.

Moneys in the Construction Fund not required for immediate disbursement for the purposes for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and

reinvested to the extent allowed by law, solely in, and obligations deposited in such Fund shall be, Investment Securities which shall mature or be subject to redemption or payment at par at the option of the holder thereof not later than such times as shall be necessary to provide moneys when needed to provide payments from such Fund or Account.

To the extent permitted in the Bond Resolution, all income received from the investment or reinvestment of moneys in the Funds and Accounts established thereunder shall be deposited in the respective Fund and Account from which such investments are made and applied as a credit against the next succeeding deposit or credit required to be made pursuant to the Bond Resolution; provided, however, that, except as to the Subordinate Obligation Fund, all or a portion of the income received from the investment or reinvestment of moneys in any such Fund and Account may be deposited in the Revenue Fund or the Construction Fund, including a Series Interest Account therein; and provided further, however, that all income received from the investment or reinvestment of moneys in any Series Interest Account shall be credited to the Special Redemption Fund.

### **Covenants**

The City has covenanted and agreed in the Bond Resolution with the holders of all Bonds issued pursuant to the Bond Resolution as follows:

***Maintenance of the Properties of the Water System; Keeping the Water System in Good Repair.*** The City will: (i) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Water System and all additions and betterments thereto and extensions thereof, and every part and parcel thereof in good repair, working order and condition; (ii) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted; and (iii) comply, or cause to be complied, with the terms and conditions of any permit or license for the Water System or any part thereof issued by any Federal or State governmental agency or body and with any Federal or State law or regulation applicable to the construction, operation, maintenance and repair of the Water System or requiring a license, permit or approval therefor.

***Rates and Charges.*** The City will fix, charge and collect such Water Services Charges as shall be required in order that in each Fiscal Year the Net Revenues shall be not less than the Net Revenue Requirement for such Fiscal Year. The failure in any Fiscal Year to comply with the foregoing rate covenant does not constitute an Event of Default if the City shall comply with requirements described in the next paragraph.

Prior to the end of each Fiscal Year the Commissioner of Public Works of the City shall complete a review of the financial condition of the Water System for the purpose of estimating whether the Net Revenues for such Fiscal Year and for the next succeeding Fiscal Year will be sufficient to comply with the rate covenant described in the Bond Resolution and described above and shall by a Written Certificate of the City make a determination with respect thereto. Such review shall take into consideration the completion of any uncompleted Improvement and the issuance of future Series of Bonds if necessary to finance the completion of such Improvements. Such Written Certificate shall set forth a reasonably detailed statement of the actual and estimated Revenues, Operation and Maintenance Expenses, Aggregate Debt Service, and any other estimates or assumptions upon which such determination was based, and shall be filed with the City Clerk on or before July 1 in each year. If it is determined in such Written Certificate that the Revenues may not be so sufficient, the Commissioner of Public Works of the City shall forthwith make a study for the purpose of determining a schedule of Water Service Charges which, in the opinion of the Commissioner of Public Works, will cause sufficient Revenues to be collected in the following Fiscal Year to comply with such rate covenant in and will cause additional

Revenues to be collected in such following and later Fiscal Year sufficient to eliminate the amount of any deficiency at the earliest practicable time, or the Commissioner of Public Works may elect to cause the Consulting Engineer to make such a study and render such opinion. The Common Council shall as promptly as practicable but no later than the one hundred twenty (120) days following such determination by the Commissioner of Public Works, or receipt of the Consulting Engineer's recommendation, adopt and place in effect a schedule of Water Service Charges as so determined or recommended in accordance with the Bond Resolution.

***Sale, Lease or Other Disposition of Properties of the Water System.*** The properties of the Water System shall not be sold, mortgaged, leased or otherwise disposed of except as described below.

The properties of the Water System may be sold, leased, or otherwise disposed of in their entirety if, simultaneously with such sale, lease or other disposition thereof, provision is made for the payment of all Bonds then Outstanding and such Bonds are no longer deemed Outstanding within the meaning of the Bond Resolution.

Any portion of the properties of the Water System may be sold, leased, or otherwise disposed of on such terms and conditions as may be determined by the City if the value of such portion of the properties as of the date of such sale, lease or disposition does not exceed five percent (5%) of the net book assets of the Water System as of the last day of the preceding Fiscal Year as shown in the most recent audited financial statements of the City. Any part of the properties of the Water System having a value as of the date of the sale, lease or disposition which exceeds five percent (5%) of the net book assets of the Water System as of the last day of the preceding Fiscal Year as shown in the most recent audited financial statements of the City may be sold, leased, or otherwise disposed of if the Consulting Engineer shall certify to the City in writing that the terms and conditions of the proposed sale, lease or other disposition of any such properties are fair and reasonable, and that the estimated Revenues to be derived from the remaining properties of the Water System, after taking into consideration the use by the City of the proceeds of such proposed sale, lease or other disposition of such properties, will be sufficient to enable the City to comply with all covenants and conditions of the Bond Resolution. Proceeds of any sale, lease or other disposition of any portion of the properties of the Water System pursuant to this paragraph shall be paid into the Special Redemption Fund and applied to the purchase or redemption of Bonds or into the Revenue Fund and applied by the City for the purpose of constructing extensions, betterments or improvements to the Water System as the City shall determine.

Buildings and any other portion of the works, plant and facilities of the Water System and real and personal property comprising a part thereof, which, in the opinion of the Commissioner of Public Works, shall have become unserviceable, inadequate, obsolete, worn out, or unfit to be used in the operation of the Water System, or no longer necessary, material to, or useful in such operation may be sold, leased, or otherwise disposed of. Proceeds of any such sale, lease or other disposition of any portion of the properties of the Water System pursuant to this paragraph shall be paid into the Revenue Fund.

If permitted by the laws of the State, the City may transfer without consideration the properties comprising the Water System to a public corporation or political subdivision of the State; provided such corporation or subdivision assumes all of the City's or the City's obligations and duties under the Bond Resolution.

In the event that any part of the properties of the Water System shall be transferred from the City through the operation of law (including condemnation), any moneys received by the City as a result thereof shall be paid: (i) if such proceeds are not in excess of \$250,000, into the

Revenue Fund; or (ii) if such proceeds are in excess of \$250,000; (a) into the Special Redemption Fund and or (b) into the Construction Fund and used to finance Improvements.

**Insurance.** Except as provided for in the next paragraph, the City shall keep, or cause to be kept, the works, plants and facilities comprising the properties of the Water System and the operations thereof insured to the extent available at reasonable cost with responsible insurers, with policies payable to the City, against risks of direct physical loss, damage to or destruction of the above-ground structures, and the equipment and contents therein, of the Water System arising from accidents, casualties or negligence, and other causes customarily insured against, at least to the extent that similar insurance is usually carried by utilities operating like properties, including liability insurance and workers' compensation insurance; provided, however, that any time while any contractor engaged in constructing any part of the Water System shall be fully responsible therefor, the City shall not be required to keep such part of the Water System insured. All policies of insurance shall be for the benefit of the Holders of the Bonds and the City as their respective interests may appear.

In the event of any loss or damage to the properties of the Water System covered by insurance, the City will: (i) with respect to each such loss, promptly repair and reconstruct to the extent necessary to the proper conduct of the operations of the Water System the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefor, unless, in case of loss or damage involving \$250,000 or more, the City shall determine that such repair and reconstruction not be undertaken; and (ii) if the City shall not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, the proceeds of such insurance policy or policies or any portion thereof not used for such repair or reconstruction, as the case may be, shall be paid into the Revenue Fund. If the City does not obtain insurance from responsible insurers as provided for in the Bond Resolution, and the City fails to carry insurance against any of the risks normally insured against by operators of facilities similar to the Water System, it must secure the concurrence of an independent insurance consultant. In making its decision whether to concur, the independent insurance consultant shall: (i) make an estimate of the added financial risks, if any, assumed by the City as a result of the failure to insure; (ii) consider the availability of commercial insurance, the terms upon which such insurance is available and the costs of such available insurance, and the effect of such terms and costs upon the City's costs and charges for its services; and (iii) determine whether the added financial risk, if any, being assumed by the City is prudent in light of the savings to be realized in light of the general availability of insurance.

The City may include insurance required by the Bond Resolution as part of a blanket insurance policy of the City.

**Consulting Engineer.** The Common Council or the Commissioner of Public Works may from time to time retain and appoint, as Consulting Engineer, an independent consulting engineer or engineering firm or corporation having special skill, knowledge and experience in analyzing the operations of water systems, preparing rate analyses, forecasting the loads and revenues of water systems, preparing feasibility reports respecting the financing of Water systems and advising on the operation of Water facilities, who shall be available to advise the City, upon request, and to make such investigations and determinations as may be necessary from time to time under the provisions of the Bond Resolution.

**Books of Account; Annual Audit.** The City will maintain and keep proper books of account relating to the Water System and in accordance with generally accepted accounting principles. Within two hundred forty (240) days after the end of each Fiscal Year, the City shall cause such books of account to be audited by an independent certified public accountant. The audit required by the Bond Resolution may be part of a comprehensive audit of the City; provided that the Water System in such audit is treated as an "enterprise fund" and the revenues and expenses of the Water System are stated in a manner which

permits identification by category of the sources and uses of the Revenues. A copy of each audit report shall be prepared in conformity with generally accepted accounting principles and shall be filed promptly with the Common Council.

***Punctual Payment of Bonds.*** The City will duly and punctually pay, or cause to be paid, but only from the Revenues, income and other funds specified in the Bond Resolution, the principal and Redemption Price (if any) of, and interest on, each and every Bond on the dates and at the places, and in the manner provided in the Bonds according to the true intent and meaning thereof, and the City shall faithfully do and perform and at all times fully observe and keep any and all of its covenants, undertakings, stipulations and provisions contained in the Bonds and in the Bond Resolution.

***Payment of Taxes and Other Claims.*** The City shall from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or payments in lieu thereof, lawfully imposed upon the properties of the Water System (or any part thereof) or upon the Net Revenues or income received therefrom when the same shall become due, as well as all lawful claims for labor, material and supplies, which, if not paid, might become a lien or charge upon said properties or any part thereof, or upon the Revenues derived from the ownership or operation of the Water System, or which might in any way impair the security of the Bonds, except any such assessments, charges or claims which the City shall in good faith contest as to validity.

***Extension of Payment of Bonds.*** The City will not, directly or indirectly, extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Bond Resolution, to the benefit of the Bond Resolution or to any payment out of any assets of the City or the funds (except funds held in trust for the payment of particular Bonds or claims for interest pursuant to the Bond Resolution) held by the Paying Agents, except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing in the Bond Resolution shall be deemed to limit the right of the City to issue Refunding Bonds as provided in the Bond Resolution and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

***Sound Improvements and Extensions.*** The City shall not expend any of the income, revenues, receipts, profits and other moneys derived by it from the ownership or operation of the Water System for any renewals, replacements, additions, betterments and improvements to, or extensions of, the Water System which, in the sole opinion of the Commissioner of Public Works, will not properly and advantageously contribute to the conduct of the business of the Water System in an efficient and economical manner unless required to do so to permit the continued operation of the Water System or to preserve or protect the Water System.

***Further Assurances.*** The City shall, at any and all times, insofar as it may be authorized so to do, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, indentures, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming any and all of the rights, Revenues and other funds hereby pledged or charged with or assigned to the payment of the Bonds or intended so to be, or which the City or the City may hereafter become bound to pledge or charge or assign.

***Protection of Security.*** The City is duly authorized under all applicable law to create and issue the Bonds, to adopt the Bond Resolution and to pledge the Revenues and other moneys, securities and funds purported to be pledged by the Bond Resolution in the manner and to the extent provided in the Bond Resolution. The Revenues and other moneys, securities and funds so pledged are and will be free

and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Bond Resolution, except as otherwise expressly provided therein, and all action on the part of the City to that end has been duly and validly taken. The Bonds are and will be valid and legally enforceable obligations of the City in accordance with their terms and the terms of the Bond Resolution. The City shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Bond Resolution and all the rights of the Bondholders hereto against all claims and demands of all persons whomsoever.

***Exclusion of Interest on Tax-exempt Bonds for Federal Income Taxation Purposes.*** In order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Tax-exempt Bonds of any Series, the City shall comply with the provisions of the Code applicable to such Bonds, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of such Bonds, reporting of earnings on the Gross Proceeds of such Bonds, and rebates of Rebatable Amount to the United States Treasury Department. In furtherance of the foregoing, the City shall comply with the Tax Certificate relating to such Bonds or such instructions as may be delivered by Bond Counsel at the time such Bonds are issued as to compliance with the Code with respect to such Bonds, as such instructions may be amended from time to time, as a source of guidance for achieving compliance with the Code.

The City shall not take any action or fail to take any action with respect to the application and investment of Gross Proceeds of Tax-exempt Bonds or use, ownership or management of the Water System or any facility or project thereof or any Improvement thereto which would cause a failure to comply with the provisions of Sections 103 and 141 to 150 of the Code, such covenant to be effective (i) throughout the term of such Bonds, and (ii) through the date that the final rebate, if any, must be made to the United States Treasury Department in accordance with Section 148 of the Code with respect to such Bonds.

Notwithstanding any other provision hereof to the contrary, the City's failure to comply with the provisions of the Code applicable to the Tax-exempt Bonds of a Series shall not entitle the Holder of Bonds of any other Series, or any trustee acting on their behalf, to exercise any right or remedy provided to Holders of Bonds under the Bond Resolution based upon the City's or the City's failure to comply with the provisions of the Bond Resolution or of the Code.

***Annual Budget.*** As part of the City's annual budgeting process, the City shall prepare and include a budget for the Water System for the ensuing Fiscal Year. Each budget shall: (i) set forth in reasonable detail amounts required for repair, replacement or reconstruction of the Water System and major or extraordinary repairs, renewals or replacements of the Water System, if any, for the period to be covered by such budget; (ii) specify the amounts to be set aside for the purposes set forth in clause (i) hereof and the amounts to be deposited in the Funds created under the Bond Resolution and the amounts to be maintained in the Revenue Fund for working capital and operating reserves for such purposes for such period, and (iii) project the amounts required for such purposes for the next five Fiscal Years in such format as the Commissioner of Public Works shall determine. A copy of each such report shall be filed and maintained in the records of the City.

## **Events of Default**

Each of the following events constitutes an Event of Default under the Bond Resolution:

- (a) if payment of the principal and Redemption Price (if any) of any Bond, shall not punctually be made when due and payable, whether at the stated maturity thereof or upon proceedings for the redemption thereof (whether by voluntary redemption or a mandatory sinking fund redemption or otherwise);

(b) if payment of the interest on any Bond shall not punctually be made when due;

(c) if the provisions of any Series Resolution with respect to mandatory Sinking Fund Installment payments or the redemption of Term Bonds therefrom, as the case may be, shall not punctually be complied with at the time and in the manner specified in such Series Resolution;

(d) if the City shall fail to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the Bond Resolution or in the Bonds, on the part of the City to be performed, and such failure shall continue for ninety (90) days after written notice thereof from the Holders of not less than twenty percent (20%) of the Bonds then Outstanding; provided, that if such failure shall be such that it cannot be corrected within such ninety (90) day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected; and

(e) if the City shall: (i) admit in writing its inability to pay its debts generally as they become due; or (ii) file a petition in bankruptcy or seeking a composition of indebtedness under the provisions of any Federal or state bankruptcy or similar law; or (iii) make an assignment for the benefit of its creditors; or (iv) file a petition or any answer seeking relief under the provisions of any Federal or state bankruptcy or similar law, or (v) consent to the appointment of a receiver of the whole or any substantial part of the Water System; or (vi) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City, or of the whole or any substantial part of the Water System.

### **Acceleration of Bonds**

If an Event of Default shall happen and shall not have been remedied, then and in every such case the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding, by notice in writing to the City, may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable. The right of the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding to make any such declaration, however, shall be subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and all other sums then payable by the City under the Bond Resolution (except the principal on and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the City or provision satisfactory to the Holders of a majority in principal amount of the Bonds then Outstanding shall be made for such payment, and all defaults under the Bonds or under the Bond Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be cured or be secured to the satisfaction of the Holders of a majority in principal amount of the Bonds then Outstanding or provision deemed by such Holders of the Bonds to be adequate shall be made therefor, then and in every such case the Holders of a majority in principal amount of the Bonds then Outstanding, by written notice to the City, may rescind such declaration and annul such default in its entirety, but no such rescission shall extend to or affect any subsequent default or impair or exhaust any resulting right or power.

### **Application of Revenues in an Event of Default**

During the continuance of an Event of Default as defined in items (a) through (c) of the Events of Default described above or of any other Event of Default resulting in an Event of Default as defined in

items (a) through (c) of the Events of Default described above, the Revenues received by a receiver appointed pursuant to the Bond Resolution as the result of the taking of possession of the business and properties of the Water System, shall be applied by the receiver: first, to the payment of all necessary and proper Operation and Maintenance Expenses of the Water System and all other proper disbursements or liabilities made or incurred by the receiver; second, to the then due and overdue payments into the Special Redemption Fund, including the making up of deficiencies therein; and last, for any lawful purpose in connection with the Water System.

In the event that at any time the funds held by the receiver are insufficient for the payment of the principal and Redemption Price (if any) of, and interest then due on, the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds and all Revenues and other moneys received or collected for the benefit or for the account of Holders of the Bonds by the receiver shall be applied as follows:

- (1) Unless the principal of all of the Bonds shall have become due and payable,

*First*, to the payment of all necessary and proper Operation and Maintenance Expenses of the Water System and all other proper disbursements or liabilities made or incurred by the receiver;

*Second*, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amount due thereon, to the persons entitled thereto, without any discrimination or preference; and

*Third*, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Bonds at the time of such payment without preference or priority of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference.

- (2) If the principal of all of the Bonds shall have become due and payable,

*First*, to the payment of all necessary and proper Operation and Maintenance Expenses of the Water System and all other proper disbursements or liabilities made or incurred by the receiver;

*Second*, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Whenever moneys are to be applied pursuant to the foregoing paragraphs, such moneys shall be applied by the receiver at such times, and from time to time, as it in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future.

If and whenever any overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses, and liabilities of the Holders of the Bonds, their respective agents and attorneys, and all other sums payable by the City under the Bond Resolution including the principal and

Redemption Price (if any) of all Bonds which shall then be payable, shall either be paid in full by or for the account of the City or provision satisfactory to the receiver shall be made for such payment, and all defaults under the Bond Resolution or the Bonds shall be made good and secured to the satisfaction of the receiver or provision deemed by the receiver to be adequate therefor, the receiver shall pay over to the City all of its moneys, securities, funds and Revenues then remaining unexpended in the hands of the Bondholders' Committee described in the Bond Resolution, control of the business and possession of the property of the City shall be restored to the City, and thereupon the City shall be restored to its former positions and rights under the Bond Resolution, and all Revenues shall thereafter be applied as provided in the Bond Resolution. No such payment over to the City by the receiver or resumption of this application of Revenues as provided in the Bond Resolution, shall extend to or affect any subsequent default under the Bond Resolution or impair any right consequent thereon.

### **Suits at Law or Equity and Mandamus; Appointment of a Receiver**

If an Event of Default shall happen and shall not have been remedied, then and in every such case, but subject to the provisions, limitations and conditions as set forth in the Bond Resolution so far as the remedies thereunder are concerned, the Holder of any Bond at the time Outstanding shall be entitled, for the equal benefit and protection of all Holders of the Bonds similarly situated, to proceed, protect and enforce the rights vested in such Holder by the Bond Resolution by such appropriate judicial proceeding as such Holder shall deem most effectual to protect and enforce any such right, either by suit in equity or by action of law, whether for the specific performance of any covenant or agreement contained in the Bond Resolution, or in aid of the exercise of any power granted in the Bond Resolution, or to enforce any other legal or equitable right vested in the Holders of Bonds by the Bond Resolution or by law; provided, however, that no judicial proceeding shall be brought seeking the appointment of a receiver to take possession of the Water System or to manage, receive and apply the Revenues unless the Holders of not less than a majority in principal amount of the Bonds then Outstanding or a Bondholders' Committee representing the Holders of not less than a majority in principal amount of the Bonds then Outstanding shall have joined in or consented to such proceeding.

### **Remedies Not Exclusive; Waivers of Default; Abandonment of Proceedings; Adverse Determination**

No remedy by the terms of the Bond Resolution conferred upon or reserved to the Holders of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given thereunder to the Holders of the Bonds or now or hereafter existing at law or in equity or by statute.

No delay or omission of any Holder of Bonds to exercise any right or power arising upon the occurrence of a default under the Bond Resolution, including an Event of Default, shall impair any right or power or shall be construed to be a waiver of any such default or to be an acquiescence therein. Every power and remedy given by this Article to the Holders of Bonds may be exercised from time to time and as often as may be deemed expedient by such Holders.

In case the Holders of the Bonds or a Bondholders' Committee formed pursuant to the Bond Resolution shall have proceeded to enforce any right under the Bond Resolution and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Holders of the Bonds or such Bondholders' Committee, then and in every such case the City and the Holders of the Bonds shall be restored to their former positions and rights under the Bond Resolution, and all rights, remedies and powers of the Holders of the Bonds shall continue as if no such proceedings had been taken.

## **Amending and Supplementing of the Bond Resolution**

**Amending and Supplementing of the Bond Resolution Without Consent of Holders of Bonds.** The City, from time to time and at any time and without the consent or concurrence of any Holder of any Bond, may adopt a Series Resolution (i) for the purpose of providing for the issuance of Bonds pursuant to the Bond Resolution; (ii) to make any changes, modifications, amendments or deletions hereto which may be required to permit the Bond Resolution to be qualified under the Trust Indenture Act of 1939 of the United States of America; or (iii) if the rights of the Holders of the Bonds then Outstanding shall not be materially adversely affected thereby, a Supplemental Resolution for any one or more of the following purposes:

1. to make any changes or corrections in the Bond Resolution as to which the City shall have been advised by counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Bond Resolution, or to insert in the Bond Resolution such provisions clarifying matters or questions arising under the Bond Resolution as are necessary or desirable;
2. to add additional covenants and agreements of the City for the purpose of further securing the payment of the Bonds;
3. to surrender any right, power or privilege reserved to or conferred upon the City by the terms of the Bond Resolution;
4. to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge, or charge, created or to be created by the provisions of the Bond Resolution;
5. to grant to, or to confer upon, the Holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; and
6. to modify in any other respect any of the provisions of the Bond Resolution.

Except for Series Resolutions authorizing the issuance of Bonds pursuant hereto, the City shall not adopt any Supplemental Resolution described above and as provided for in the Bond Resolution unless in the Opinion of Counsel (which opinion may be combined with the opinion required by the Bond Resolution) the adoption of such Supplemental Resolution is permitted by the purposes described above and as provided for in the Bond Resolution and the provisions of such Supplemental Resolution do not materially adversely affect the rights of the Holders of the Bonds then Outstanding.

The City shall furnish a notice of each amendment or supplement described above and a copy of the Supplemental Resolution effecting such amendment or supplement to each Rating Agency which has rated the Bonds at least fifteen (15) days prior to the effective day of the Supplemental Resolution.

**Amendment of Bond Resolution With Consent of Holders of Bonds.** With the consent of the Holders of not less than a majority of the Bonds then Outstanding, the City from time to time and at any time may adopt a resolution amendatory hereof or supplemental for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Bond Resolution, or modifying or amending the rights and obligations of the City thereunder, or modifying or amending in any manner the rights of the Holders of the Bonds then Outstanding; provided however, that without the specific consent of the Holder of each such Bond which would be affected thereby, no Supplemental Resolution amending or supplementing the provisions hereof shall: (1) change the fixed maturity date for the

payment of the principal of any Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the Redemption Price (or the redemption premium) payable upon the redemption or prepayment thereof, or (2) reduce the aforesaid percentage of Bonds, the Holders of which are required to consent to any Supplemental Resolution amending or supplementing the provisions of the Bond Resolution; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured hereby; or (4) authorize the creation of any pledge of the Revenues and other moneys pledged thereunder, prior, superior or equal to the pledge of and lien and charge thereon created for the payment of the Bonds except to the extent provided in the Bond Resolution; or (5) deprive any Holder of the Bonds in any material respect of the security afforded by the Bond Resolution; provided further, however, that without the specific consents of the Holders of not less than a majority in principal amount of the Term Bonds then Outstanding and affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Bond Resolution shall (a) change the amount of any Sinking Fund Installments for the retirement of Term Bonds or the due dates of such installments or the terms for the purchase or redemption thereof from such installments, or (b) reduce the aforesaid percentage of Term Bonds, the Holders of which are required to consent to any such Supplemental Resolution. (Nothing in this paragraph, however, shall be construed as making necessary the approval of the Holders of the Bonds of the adoption of any Supplemental Resolution). A modification or amendment with respect to the Revenue Fund or the Special Redemption Fund or a Reserve Account shall not be deemed a change in the terms of payments; provided that no such modification or amendment shall, except upon the consent of the Holders of all Bonds then outstanding affected thereby, reduce the amount or amounts required to be credited to the Special Redemption Fund or a Reserve Account. If any Series of Bonds is insured as to payment of principal and interest, the insurer of such Series of Bonds shall be considered the Holder of such Bonds for purposes of the Bond Resolution.

The City shall furnish a notice of each amendment or supplement and a copy of the Supplemental Resolution effecting such amendment or supplement to each Rating Agency which has rated the Bonds at least fifteen (15) days prior to the effective day of the Supplemental Resolution.

#### **Discharge of Liens and Pledges; Bonds No Longer Outstanding and Deemed to be Paid**

Except as otherwise provided in the Bond Resolution with regard to Option Bonds, the obligations of the City under the Bond Resolution and the liens, pledges, charges, trusts, covenants and agreements of the City made or provided for therein, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding:

(i) when such Bond shall have been canceled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased by or on behalf of the City from moneys held under the Bond Resolution; or

(ii) as to any Bond not canceled or surrendered for cancellation or subject to cancellation or so purchased, when payment of the principal and Redemption Price (if any) of such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (a) shall have been made or caused to be made in accordance with the terms thereof or (b) shall have been provided for by irrevocably depositing with the Paying Agent for such Bond, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) noncallable Refunded Municipal Obligations or noncallable Government Obligations, maturing as to principal and interest in such amount and at such times as will insure, together with any cash deposit, the availability of sufficient moneys to make such payment, whichever the City deems to be in its best interest, and, if the City determines it to be in

its best interest as verified by an independent nationally recognized firm of certified public accountants in a report delivered to the City and the Comptroller of the City, and all necessary and proper fees, compensation and expenses of the Comptroller of the City and the Paying Agents pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Comptroller of the City and said Paying Agents.

At such time as a Bond shall be deemed to be no longer Outstanding, as aforesaid, such Bond, except for the purposes of any payment from such moneys, Refunded Municipal Obligations or Government Obligations, shall no longer be secured by or entitled to the benefits of the Bond Resolution.

Notwithstanding the foregoing, in the case of a Bond which is to be redeemed or otherwise prepaid prior to its stated maturity, no deposit under clause (b) of subparagraph (ii) of the second paragraph above shall constitute such payment, discharge and satisfaction as aforesaid until such Bond shall have been irrevocably designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been previously given in accordance with the Bond Resolution or provision shall have been irrevocably made for the giving of such notice.

All income from all Refunded Municipal Obligations and Government Obligations in the hands of the Paying Agents which is not required for the payment of the Bonds and interest and premium thereon with respect to which such moneys shall have been so deposited, shall be paid to the City for deposit in the Revenue Fund free and clear of any trust, lien, security interest, pledge or assignment securing any Bonds or otherwise existing under the Bond Resolution.

All moneys, Refunded Municipal Obligations or Government Obligations set aside and held in trust pursuant to the provisions of the Bond Resolution for the payment of Bonds (including interest and premium thereof, if any) shall be applied to and used solely for the payment of the particular Bond (including interest and premium thereof, if any) with respect to which such moneys and Investment Securities have been so set aside in trust. If moneys, Refunded Municipal Obligations or Government Obligations have been deposited or set aside with a Paying Agent for the payment of a specific Bond and such Bond shall be deemed to have been paid and to be no longer Outstanding, but such Bond shall not have in fact been actually paid in full, no amendment to the Bond Resolution shall be made without the consent of the Holder of each Bond affected thereby.

The City may at any time surrender to a Paying Agent for a Series of Bonds for cancellation by it any Bonds of such Series previously executed and delivered, which the City may have acquired in any manner whatever, and such Bonds upon such surrender for cancellation shall be deemed to be paid and no longer Outstanding.

## **APPENDIX D**

**Form of Continuing Disclosure Certificate  
and list of EMMA filings for the past 5 years**

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## MASTER CONTINUING DISCLOSURE CERTIFICATE

This Master Continuing Disclosure Certificate (the “Certificate”) dated as of December 1, 2010 is executed and delivered in connection with the issuance, from time to time, of municipal securities of the City of Milwaukee, Wisconsin (the “City”) and pursuant to resolution 100846 duly adopted by the Common Council of the City on November 23, 2010 (the “Resolution”). Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Resolution, the City agrees as follows:

### ARTICLE I - Definitions

Section 1.1. Definitions. The following capitalized terms used in this Certificate shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (i) the financial information and operating data as described in an Addendum Describing Annual Report (Exhibit B); and (ii) information regarding amendments to this Certificate required pursuant to Sections 4.2(c) and (d) of this Certificate.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. Where such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a new Addendum Describing Annual Report shall be executed describing the information to be provided.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the City, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP for governmental units as prescribed by GASB; provided, however, that the City may from time to time, if required by federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification, other than modifications prescribed by GASB, shall be provided to the Repository, and shall include a reference to the specific federal or State law or regulation describing such accounting basis.

(3) “Counsel” means a nationally recognized bond counsel or counsel expert in federal securities laws, acceptable to the City.

(4) “GAAP” means generally accepted accounting principles for governmental units as prescribed by GASB.

(5) “GASB” means the Governmental Accounting Standards Board.

(6) “Material Event” means any of the following events with respect to the Offered Obligations, whether relating to the City or otherwise:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Offered Obligations, or other events affecting the tax-exempt status of the Offered Obligations;

(vii) modifications to rights of Security Holders, if material;

(viii) bond calls, if material;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Offered Obligations, if material;

(xi) rating changes;

(xii) tender offers;

(xiii) bankruptcy, insolvency, receivership or similar event of the Obligor (as specified in the Addendum Describing Annual Report).

The event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Obligor in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligor, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligor.

(xiv) the consummation of a merger, consolidation, or acquisition involving the Obligor or the sale of substantially all of the assets of the Obligor, other than pursuant to its terms, if material; and

(xv) appointment of a success or additional trustee or the change of name of a trustee, if material.

(7) “Material Event Notice” means notice of a Material Event.

(8) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

(9) “Offered Obligations” means an issue of municipal securities of the City in connection with which the City has executed and delivered a Supplemental Certificate (Exhibit C).

(10) “Official Statement” means the “final official statement” as defined in paragraph (f)(3) of the Rule.

(11) “Repository” means the SID and repository(ies), as designated from time to time by the SEC to receive continuing disclosure filings. The SID, repository(ies), and filing information are set forth in the Addendum Describing Repository and SID (Exhibit A) as may be revised from time to time.

(12) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any amendments and official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

- (13) “SEC” means the United States Securities and Exchange Commission.
- (14) “Security Holders” means the holders from time to time of Offered Obligations.
- (15) “SID” means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.
- (16) “State” means the State of Wisconsin.
- (17) “Unaudited Financial Statements” means the same as Audited Financial Statements, except the same shall not have been unaudited.
- (18) “Underwriters” means the underwriter(s) purchasing an issue of Offered Obligations.

## ARTICLE II - The Undertaking

Section 2.1. Purpose. This Certificate shall apply to Offered Obligations, and shall constitute a written undertaking for the benefit of the Security Holders, and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information. (a) The City shall provide Annual Financial Information for the City with respect to each fiscal year of the City, by no later than nine months after the end of the respective fiscal year, to the Repository.

(b) The City shall provide, in a timely manner, not in excess of ten (10) business days after the occurrence of the event, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) above to the Repository.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Section 2.2(a) hereof, the City shall provide Audited Financial Statements, when and if available, to the Repository.

Section 2.4. Notices of Material Events. (a) If a Material Event occurs, the City shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of the event, a Material Event Notice to the Repository.

(b) Upon any legal defeasance of an Offered Obligation, the City shall provide notice of such defeasance to the Repository, which notice shall state whether the Offered Obligations to be defeased have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 2.5. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and SEC Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that under some circumstances compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City under such laws.

Section 2.6. Additional Information. Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Certificate. If the City chooses to include any information in any Annual Financial Information or Material Event

Notice in addition to that which is specifically required by this Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or Material Event Notice.

### ARTICLE III - Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the City provides Annual Financial Information by specific reference to documents (i) either (1) provided to the Repository existing at the time of such reference, or (2) filed with the SEC, or (ii) if such a document is an Official Statement, available from the MSRB.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Material Event Notices. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Offered Obligations.

Section 3.4. Transmission of Information and Notices. Transmission of information and notices shall be as prescribed by the SEC and the Repository. The transmission requirements are described in the Addendum Describing Repository.

### ARTICLE IV - Termination, Amendment and Enforcement

Section 4.1. Termination. (a) The City's obligations under this Certificate with respect to an Offered Obligation shall terminate upon legal defeasance, prior redemption or payment in full of the Offered Obligation.

(b) This Certificate or any provision hereof, shall be null and void in the event that the City (1) delivers to the City an opinion of Counsel, addressed to the City, to the effect that those portions of the Rule which require the provisions of this Certificate or any of such provisions, do not or no longer apply to the Offered Obligations, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the Repository.

Section 4.2. Amendment. (a) This Certificate may be amended, by written certificate of the Comptroller, without the consent of the Security Holders if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the type of business conducted thereby; (2) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the City shall have received an opinion of Counsel addressed to the City, to the same effect as set forth in clause (2) above and further to the effect that the amendment does not materially impair the interests of the Security Holders; and (4) the City delivers copies of such opinion and amendment to the Repository.

(b) In addition to subsection (a) above, this Certificate may be amended and any provision of this Certificate may be waived, without the consent of the Security Holders, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Certificate; (2) the City shall have received an opinion of Counsel to the effect that performance by the City under this Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a

violation of the Rule; and (3) the City shall have delivered copies of such opinion and amendment to the Repository.

(c) To the extent any amendment to this Certificate results in a change in the types of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, other than changes prescribed by GASB, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of any such amendment shall be provided by the City to the Repository.

Section 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the Security Holders. Beneficial owners of Offered Obligations shall be third-party beneficiaries of this Certificate.

(b) Except as provided in this subparagraph (b), the provisions of this Certificate shall create no rights in any person or entity. The obligations of the City to comply with the provisions of this Certificate shall be enforceable by the Security Holders, including beneficial owners of Offered Obligations. The Security Holders' rights to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Certificate and the Resolution. In consideration of the third-party beneficiary status of beneficial owners of Offered Obligations pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be Security Holders for purposes of this subsection (b).

(c) Any failure by the City to perform in accordance with this Certificate shall not constitute a default under the Resolution and any rights and remedies provided by the Resolution upon the occurrence of a default shall not apply to any such failure.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, I have hereunto executed this Certificate this 1<sup>st</sup> day of December, 2010.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

**ADDENDUM DESCRIBING REPOSITORY AND SID**

This Addendum Describing Repository (the “Addendum”) is delivered by the City of Milwaukee, Wisconsin (the “Issuer”) pursuant to the Master Continuing Disclosure Certificate, executed and delivered by the Issuer and dated December 1, 2010. This Addendum describes the filing information as specified by the Securities and Exchange Commission.

**Repositories**

In December, 2008, the Securities and Exchange Commission modified Exchange Act Rule 15c2-12 to require that Continuing Disclosure shall be made to the Electronic Municipal Market Access system administered by the MSRB (“EMMA”). Pursuant to that modification, continuing disclosure filings will be provided to the Municipal Securities Rulemaking Board for disclosure on the EMMA system.

Information submitted to the MSRB for disclosure on the EMMA shall be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

**SID (State Information Depository)**

None.

IN WITNESS WHEREOF, this Addendum is executed this 1<sup>st</sup> day of December, 2010.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

**ADDENDUM DESCRIBING ANNUAL REPORT  
FOR WATER SYSTEM REVENUE BONDS**

This Addendum Describing Annual Report for Water System Revenue Bonds (the “Addendum”) is delivered by the City of Milwaukee, Wisconsin (the “City”) pursuant to the Master Continuing Disclosure Certificate (the “Certificate”), executed and delivered by the Issuer and dated December 1, 2010. This Addendum describes the content of Annual Financial Information prepared with respect to general obligation debt of the Issuer. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Certificate.

Obligor: The City of Milwaukee, Wisconsin

Content of Annual Financial Information for Issuer:

Audited Financial Statements, if available, or Unaudited Financial Statements of the Issuer.

IN WITNESS WHEREOF, this Addendum is executed this 1<sup>st</sup> day of December, 2013.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

MM:RL

**SUPPLEMENTAL CERTIFICATE**

This Supplemental Certificate is executed and delivered by the City of Milwaukee, Wisconsin (the "Issuer") to supplement the Master Continuing Disclosure Certificate (the "Certificate"), executed and delivered by the Issuer and dated December 1, 2010. Pursuant to the provisions of the Certificate, the Issuer hereby determines that the Certificate and the Addendum Describing Annual Report, as described below, shall apply to the following issue of obligations:

Name of Obligations:

\$10,000,000 Water System Revenue Bonds, Series 2016 W10

Addendum Describing Annual Report:

ADDENDUM DESCRIBING ANNUAL REPORT  
FOR WATER SYSTEM REVENUE BONDS

Date of Issue:

December 15, 2016

No Previous Non-Compliance. The Issuer represents that for the period beginning 6 years prior to the date hereof, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

IN WITNESS WHEREOF, this Supplemental Certificate is executed this 15<sup>th</sup> day of December, 2016.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

MM:RL

**City of Milwaukee, Wisconsin  
Continuing Disclosure Filings on the EMMA  
Since August 1, 2011**

Date	Submission ID	Description of Filing	CAFR (1)	
			City	MPS
12/__/2016		OS: Series 2016 W10 Water		
11/29/2016	ES377098	OS: RACM MPS 2016A, 2016B QECB		
11/21/2016	ES781334	Bank Loan: US Bank Line		
11/21/2016	ES781270	POS: Series 2016 W10 Water		
11/18/2016	ES780313	Bond Call: 2012 F9 & V10		
10/12/2016	EP752983	OS: Series 2016 M8 MPS RANs		
9/29/2016	EP750542	POS: Series 2016 M8 MPS RANs		
9/23/2016	ES663847	Rating Change: Moody's on RACM Summerfest		
8/16/2016	ES652467	OS: Series 2016 S7 Sewers		
8/3/2016	EP744796	POS: Series 2016 S7 Sewers		
8/2/2016	ES652017	Pension Actuarial Valuation Report, 1/1/16		
8/2/2016	ES651988	Pension Actuarial Valuation Report, 1/1/15		
8/1/2016	ES650872	CAFR, City, 12/31/15	2015	
6/14/2016	ER764909	OS: Series 2016 B6		
6/14/2016	ER764907	OS: Series 2016 N5		
6/1/2016	ES640183	Annual Financial Information: POS Series 2016 N5, B6		
6/1/2016	ES640180	POS: Series 2016 N5, B6		
6/1/2016	EP741451	Failure to file CAFR, City by June 30		
5/12/2016	EP735406	OS: Series 2016 T4		
5/12/2016	EP735405	OS: Series 2016 N2, B3		
5/12/2016	EP735402	OS: Series 2016 R1		
5/2/2016	ER755640	Bond Call, Mandatory Sinking Fund Redemption: Series 2001-A		
4/26/2016	EP735155	POS: Series 2016 T4		
4/26/2016	EP735154	POS: Series 2016 N2, B3		
4/26/2016	EP735152	POS: Series 2016 R1		
3/8/2016	ES622894	Rating Change: Moody's on RACM (MPS NSI) to "A1" and "A2"		
1/4/2016	ES611748	CAFR, MPS, 6/30/15		2015
1/4/2016	ES611742	Bond Call: 2006 B2		
11/19/2015	EP705011	Reoffering Circular, Series 2012 V10		
10/5/2015	ER730150	OS Series 2015 M7 MPS RANs		
9/22/2015	ES596432	POS: Series 2015 M7 MPS RANs		
9/10/2015	EA600555	CAFR, City, 12/31/14, previous file replaced with final formatting		
7/31/2015	EA600555	CAFR, City, 12/31/14, raw formatting (archived)	2014	
7/1/2015	ER718386	Bond Call: 2005 B10, 2019-2022 maturities		
7/1/2015	ER716342	Bond Call: 2005 B10, 2016-2018 maturities		

(1) The current requirement for the City's audit to be filed is by June 30<sup>th</sup>. In 2018, or when the 2001-A Bonds are defeased, the new requirement will be by September 30<sup>th</sup>. MPS's audit is required to be filed by March 31<sup>st</sup>.

**City of Milwaukee, Wisconsin  
Continuing Disclosure Filings on the EMMA  
Since August 1, 2011**

Date	Submission ID	Description of Filing	CAFR (1)	
			City	MPS
6/29/2015	ER713827	Bond Call: RACM 2005A (MPS Congress Craig Fratney)		
6/26/2015	ER712870	Official Statement RACM 2015A MPS QSCB		
6/4/2015	EP687877	Failure to file CAFR, City by June 30		
5/26/2015	EP685340	OS Series 2015 T4		
5/26/2015	EP685338	OS Series 2015 N2 B3		
5/26/2015	EP685335	OS Series 2015 R1		
5/8/2015	ER699706	POS: Series 2015 R1, N2, B3, and T4		
5/1/2015	ER697247	Bond Call, Mandatory Sinking Fund Redemption: Series 2001-A		
1/30/2015	EA572313	CAFR, MPS, 6/30/14		2014
1/23/2015	EA566970	Bond Call: 2005 B2, 2018-2022 maturities		
1/20/2015	EA564896	Bond Call: 2005 A5		
1/8/2015	ER670752	Bond Call: 2005 B2, 2018-2022 maturities		
12/31/2014	ER667442	Bond Call: 2005 B2		
10/23/2014	ER645647	Successor Trustee: 2009 M6, and 2010 M6 QSCB		
10/14/2014	EA543863	OS Series 2014 M4		
10/7/2014	EA472095	2012 CAFR, City updated to also be the AFI filing		
10/1/2014	EP666595	POS Series 2014 M4		
7/31/2014	ER639237	CAFR, City, 12/31/13	2013	
7/29/2014	ER637373	Pension Actuarial Valuation Report, 1/1/13		
7/29/2014	ER637379	Pension Actuarial Valuation Report, 1/1/14		
7/18/2014	ER635579	Successor Trustee, 2003 RACM Pension Bonds		
7/14/2014	EA521008	Bank Loan, Series 2013 T4, PNC Line		
6/3/2014	ER626851	Failure to file CAFR, City by June 30		
5/9/2014	EA508249	Official Statement with updated financial information		
5/9/2014	EA508254	Official Statement with updated financial information		
5/9/2014	EA508256	Official Statement with updated financial information		
4/11/2014	EP645783	Rating Change: Moody's on City to "Aa3"		
1/30/2014	ER606473	Bond Call: Series 2004 B1		
12/29/2013	ER598943	CAFR, MPS, 6/30/13		2013
10/18/2013	ER579753	Official Statement with updated financial information		
9/13/2013	ER570974	CAFR, City, 12/31/11 (color)		
9/13/2013	ER570972	Official Statement with updated financial information		
8/20/2013	EA472095	CAFR, City, 12/31/12	2012	
6/26/2013	EA461298	Failure to file CAFR, City by June 30		
6/26/2013	EA461481	Bond Call: RACM 2003A (MPS NSI)		
6/17/2013	EA457491	Bond Call: RACM 2005A (MPS Congress Craig Fratney)		
5/15/2013	EA454755	Bond Call: 2004 B1		
5/15/2013	EA454753	Bond Call: 2003 B6		
5/15/2013	EA454742	Refunding: 2003 B6, 2004 B1, RACM 2005A		

**City of Milwaukee, Wisconsin  
Continuing Disclosure Filings on the EMMA  
Since August 1, 2011**

Date	Submission ID	Description of Filing	CAFR (1)	
			City	MPS
5/1/2013	EP614626	Bond Call: Sewer 2003		
4/11/2013	EP612596	Bond Call: RACM 2002A (MPS NSI)		
4/2/2013	EP608693	Bond Call: Sewer 2003 S4		
2/18/2013	EA438554	CAFR, MPS, 6/30/12 (Revised)		
2/6/2013	EA440349	Bond Call: 2003 B1		
12/28/2012	ER529554	CAFR, MPS, 6/30/12		2012
10/3/2012	EP573117	Rating Change: Fitch on City to "AA"		
8/9/2012	EP557070	Bond Call: Series Y		
8/4/2012	EP555645	City Pension Actuarial Valuation Report, 1/1/12		
8/1/2012	ER517058	CAFR, City, 12/31/11 (black and white)	2011	
7/24/2012	ER513579	Bond Call: Series Y		
6/27/2012	ER506658	Failure to file CAFR, City by June 30		
5/4/2012	EP532107	Official Statement with updated financial information		
5/4/2012	EP532139	Defeasance: Series Y, 2003 B1, 2004 B1, 2005 B2, 2005 B10		
4/23/2012	ER498389	Bond Call: Series 2005 V8		
4/18/2012	ER496979	Bond Call: Sewer 2001		
4/16/2012	ER496146	Rating Change: Moody's on City to "Aa2"		
2/7/2012	ER488520	Bond Call: Series W		
2/1/2012	ER486957	Bond Call: Series W		
12/29/2011	ER471009	CAFR, MPS, 6/30/11		2011
12/9/2011	ER460717	Rating Change: S&P on Assured Guarantee to "AA-"		
10/3/2011	EP491777	Bond Call: Series 2005 V8		
8/29/2011	EP470073	CAFR, City, 12/31/10	2010	

(1) The current requirement for the City's audit to be filed is by June 30<sup>th</sup>. In 2018, or when the 2001-A Bonds are defeased, the new requirement will be by September 30<sup>th</sup>. MPS's audit is required to be filed by March 31<sup>st</sup>.

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## **APPENDIX E**

### **Book-Entry-Only System**

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## BOOK-ENTRY-ONLY SYSTEM

*The information in this section concerning The Depository Trust Company (“DTC”) and DTC’s book-entry-only system has been obtained from DTC, and the City and the Underwriters take no responsibility for the accuracy thereof.*

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for each maturity of the Series 2016 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U. S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2016 Bonds, except in the event that use of the book-entry system for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016 Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016 Bonds;

DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2016 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "*street name*," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2016 Bonds purchased or tendered, through its Participant, to Agent, and shall effect delivery of such Series 2016 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2016 Bonds, on DTC's records, to Agent. The requirement for physical delivery of Series 2016 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2016 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2016 Bonds to Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Note or Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

NEITHER THE CITY, THE PAYING AGENT NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2016 BONDS; (3) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO HOLDERS OF THE SERIES 2016 BONDS; (4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS THE HOLDER OF THE SERIES 2016 BONDS; OR (5) THE SELECTION BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF SERIES 2016 BONDS.

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