



***Report of Projected Debt & Debt Service
For the Years 2014 through 2023
City of Milwaukee
July 18, 2019***

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

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The Public Debt Commission's *Policy for the Use of the Balance of the Public Debt Amortization Fund*, approved on October 1, 2015, calls for the Comptroller as Commission Secretary to annually prepare an estimate of projected debt and debt service.

Trends 2014-2018

Over the period 2014-2018, the amount of General Obligation (GO) debt issued varied from \$108 million to \$236 million per year while the amount retired ranged from \$115 million to \$167 million per year. Much of the issuance variability between years was due to timing of debt issuance and the 5-year ERS borrowing, not as a result of changes in authorizations or capital spending. Note: 2016 had \$20 million for temporary borrowing for water, \$12 million for the new arena for the Bucks, and \$25 million for the conversion of non-GO extendable municipal commercial paper to GO lines of credit; and 2018 had \$61 million for ERS.

GO debt issuance is projected to average around \$130 million per year, excluding ERS

The majority of the net new debt is projected to be for Tax Incremental Districts and Streets. The 2019 Budget and the Capital Improvement Plan has \$35 million per year of new borrowing for Streets and \$25 million per year for Tax Incremental Districts. In 2018, the ERS pre-payment program was renewed for another 5 years with a \$61 million borrowing.

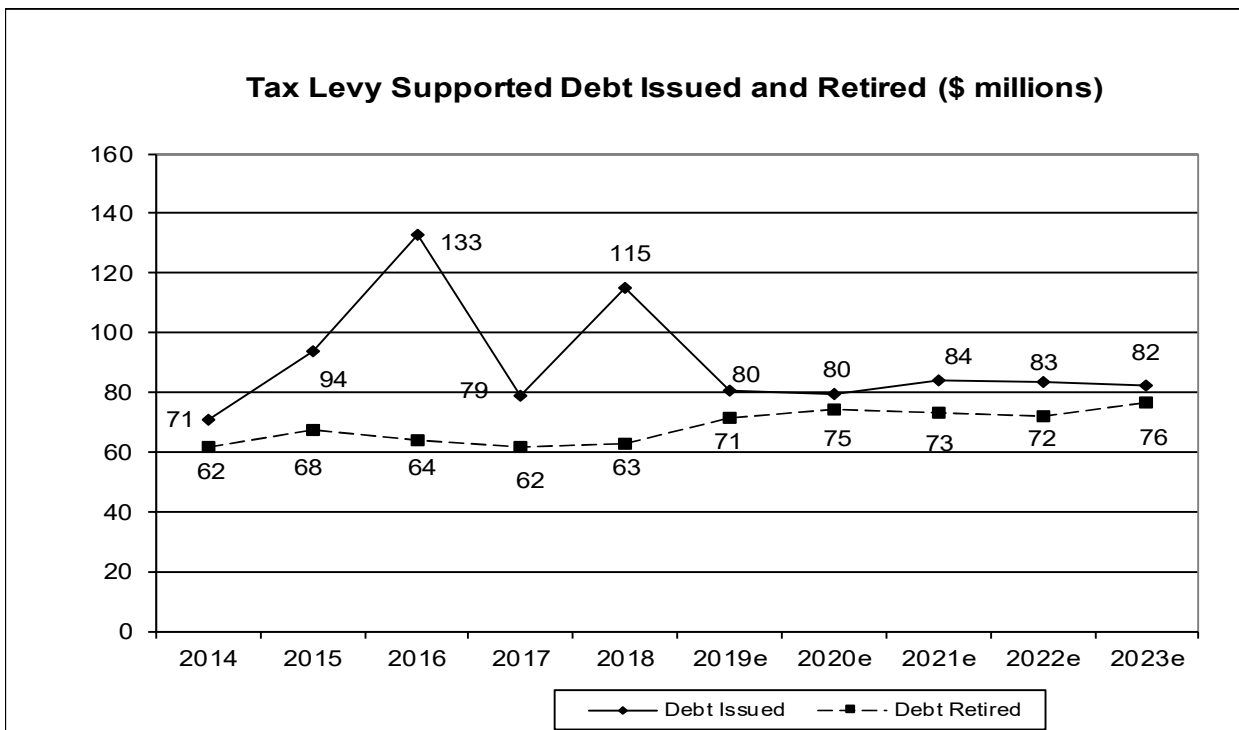
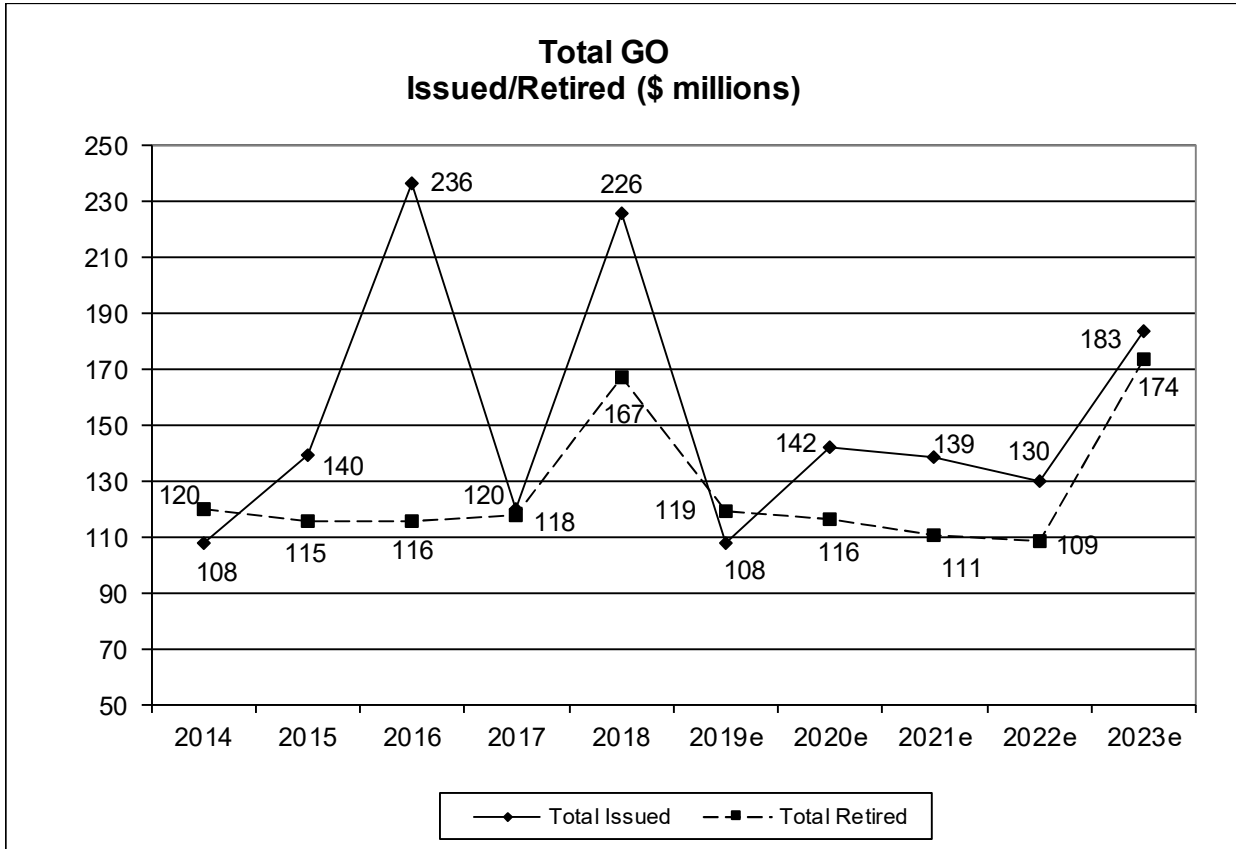
The issuance of tax-levy supported debt has exceeded debt retired. It is projected that new tax-levy supported debt will exceed tax-levy retired debt by an average of \$7 million per year.

The spike in self-supporting debt issued and retired in 2018 and 2023 is due to the ERS financing (issuance of new 5-year financings to replace the maturing one). The ERS borrowing is considered "self-supporting" since it is not paid from the tax levy for debt service.

Delinquent Taxes

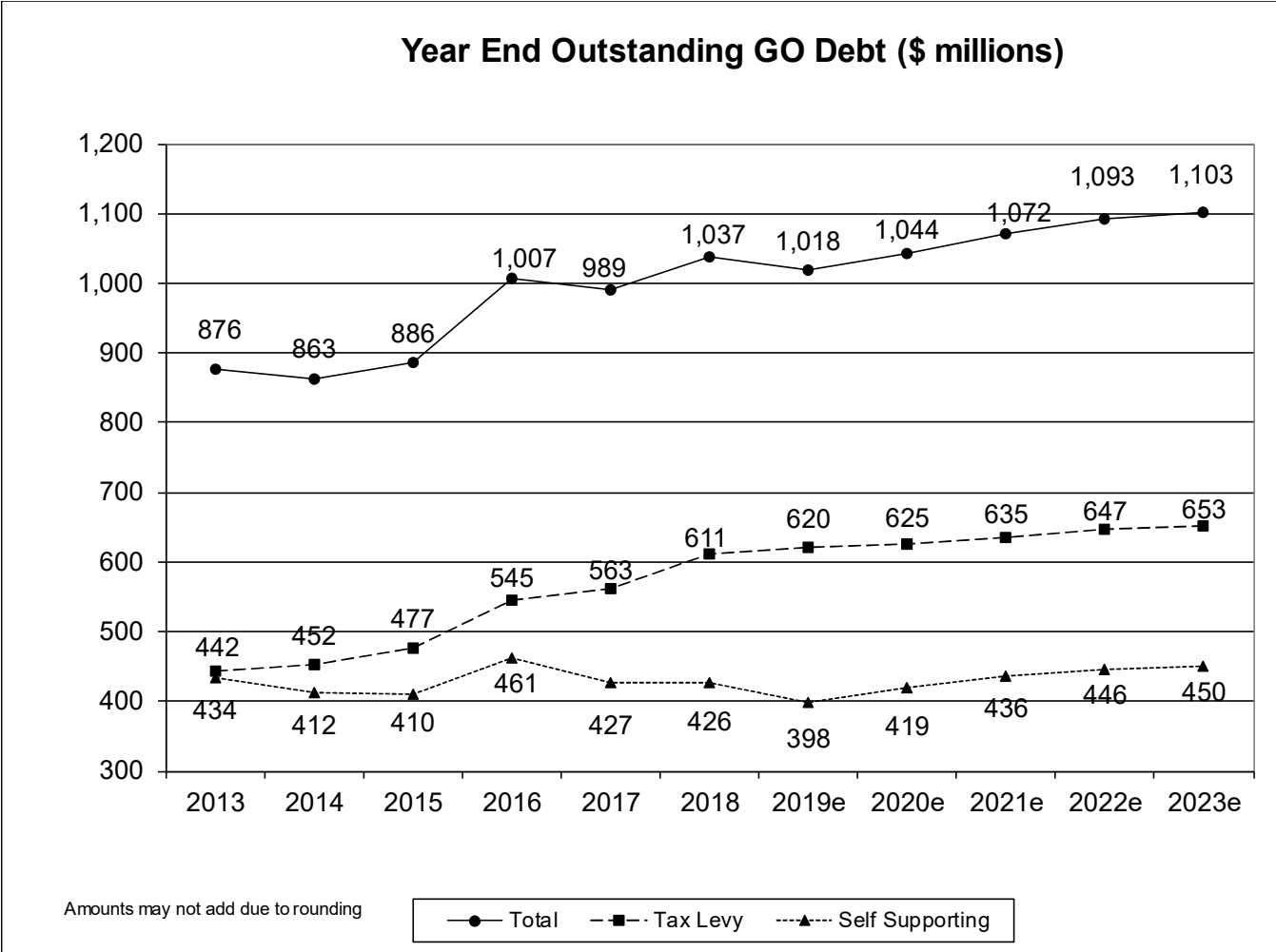
The Delinquent Tax Fund has had declines in fund balance since 2011 due to the 2008 housing crisis and expenditures that have been assigned to the fund. As of December 31, 2018, taxes receivable exceeds the amount owed to the General Fund for accumulated prior year deficiencies. If all tax receivables are used to pay the amount owed to the General Fund, there may be no remaining assets or revenues available to pay the debt service on the \$62 million of outstanding GO debt. Delinquent Tax debt is currently classified as self-supporting debt.

CHART 1



At the end of 2018, GO debt outstanding was at \$1,037 million. This amount represents a \$161 million increase (18%) from \$876 million at the end of 2013. During that same time period, tax-levy supported debt increased to \$611 million from \$442 million (38%), and self-supporting debt decreased to \$426 million from \$434 million (-2%).

CHART 2



Total Outstanding GO debt is projected to increase by \$66 million (6%), to \$1,103 million in 2023, with tax-levy supported debt increasing by \$42 million (7%) to \$653 million.

The major increase in tax-levy supported debt is for the Streets program. The major increase in self-supporting debt is for Tax Increment Districts.

CHART 3

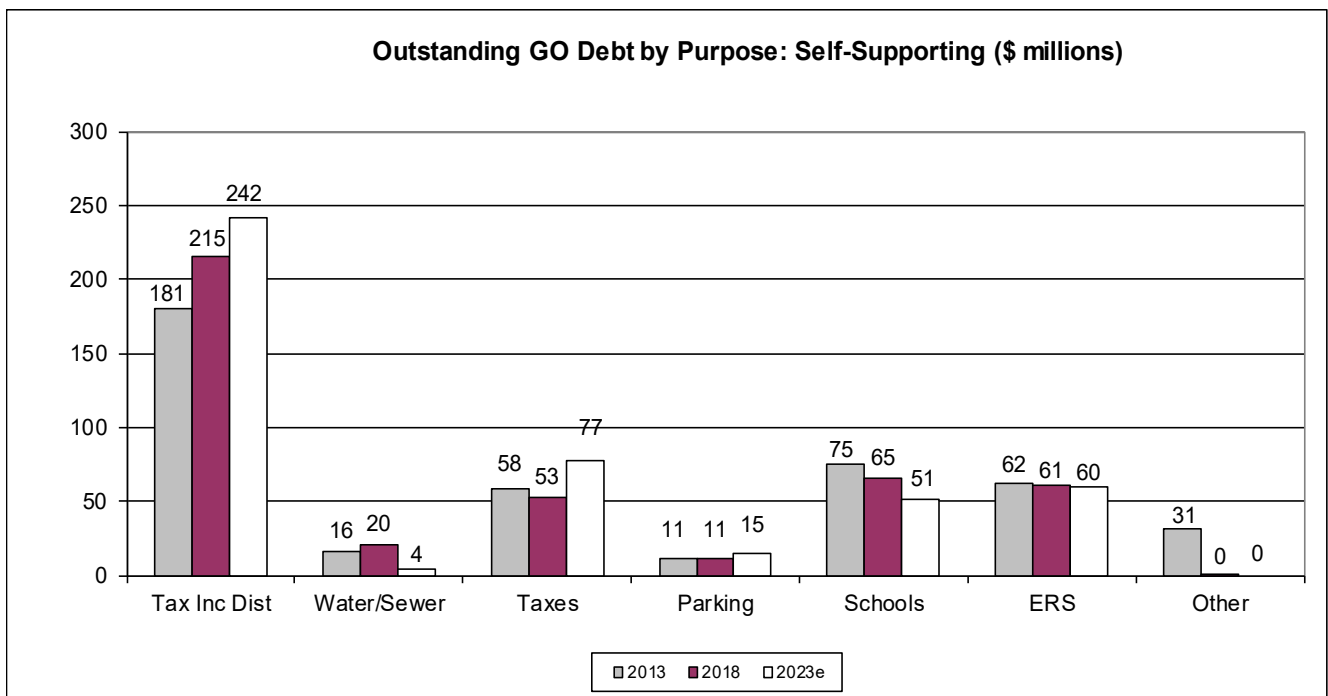
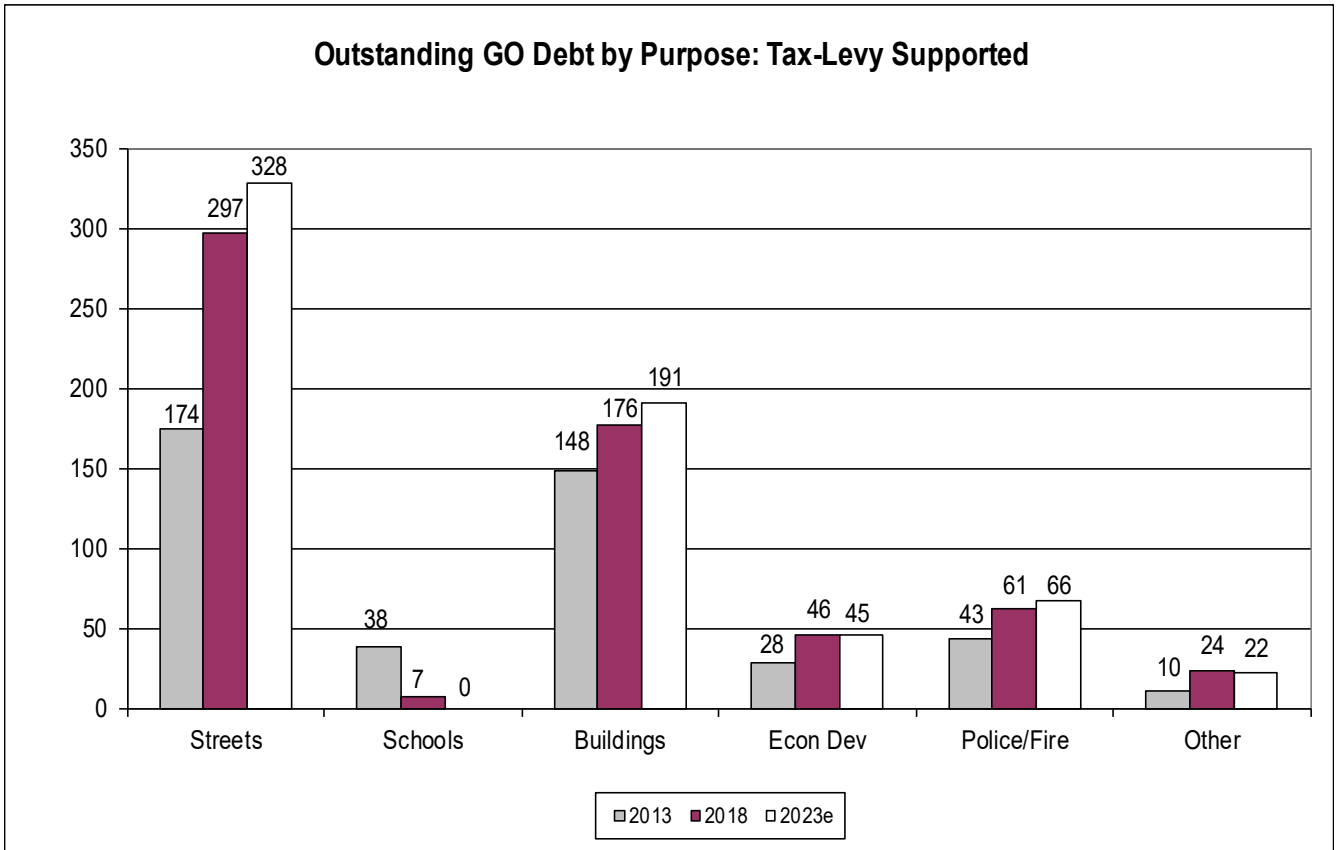


Chart 4 shows that the Debt Service on Tax Levy supported debt has been gradually increasing from \$79 million in 2014 to \$89 million in 2018.

CHART 4

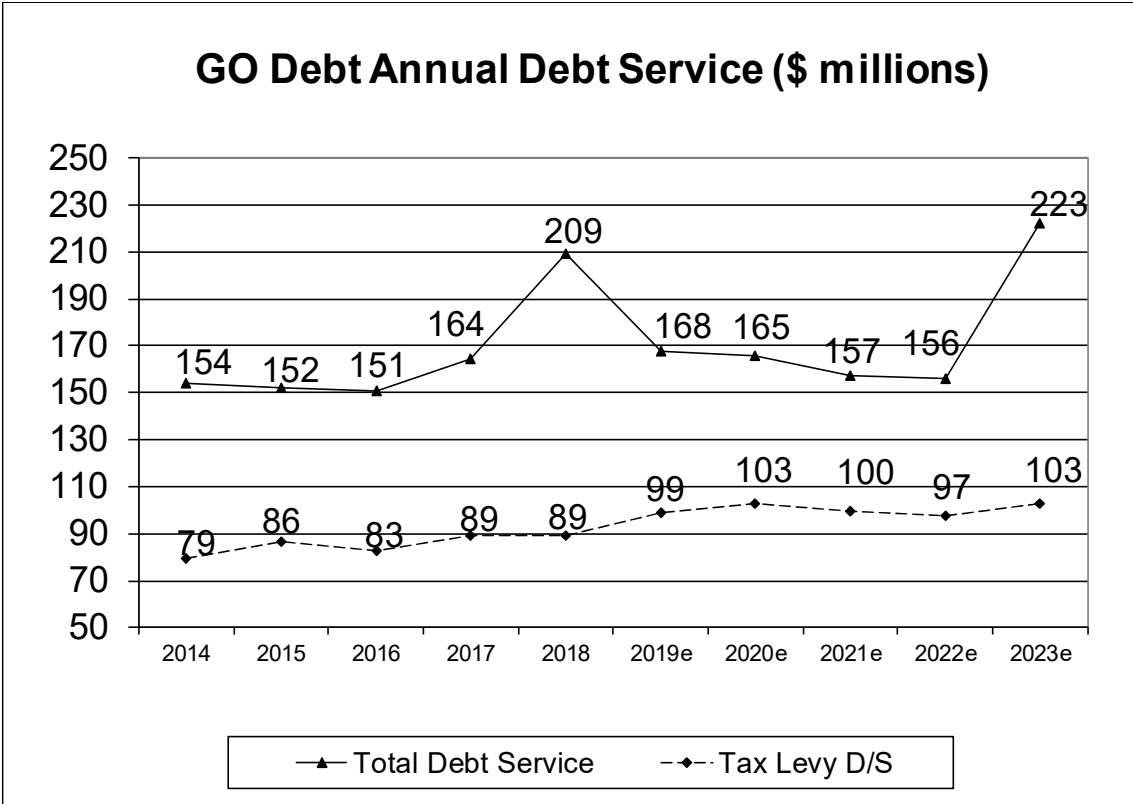
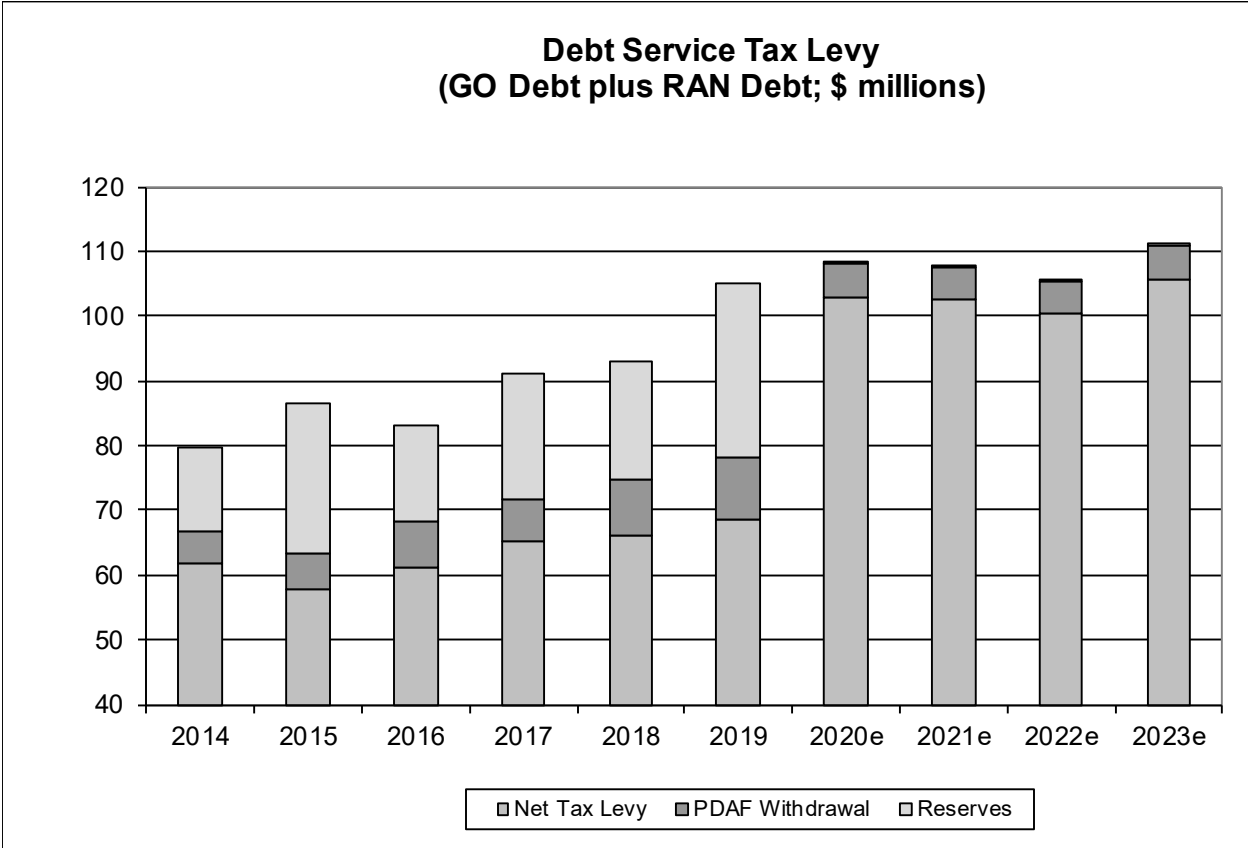


Chart 5 shows that the Tax Levy plus PDAF Withdrawal has totaled as low as \$63 million, with the balance from drawdowns of accumulated excess in the Debt Service Fund. The fully allocated cost, plus interest on cash flow borrowings, is projected to be over \$100 million in 2019. Approximately \$7 million of the growth in the tax levy (from 2014-2016 levels) is due to a projected increase in short-term interest rates on the annual cash flow RAN borrowings. Short-term rates are projected to rise significantly from 0.50% in 2016 to a more normal 3.00% rate.

Based upon projected issuance, the tax levy for debt service is projected to grow from the \$58 million low in 2015 to \$106 million in 2023. This assumes an annual draw on the PDAF of \$5.0 million for 2020-2023.

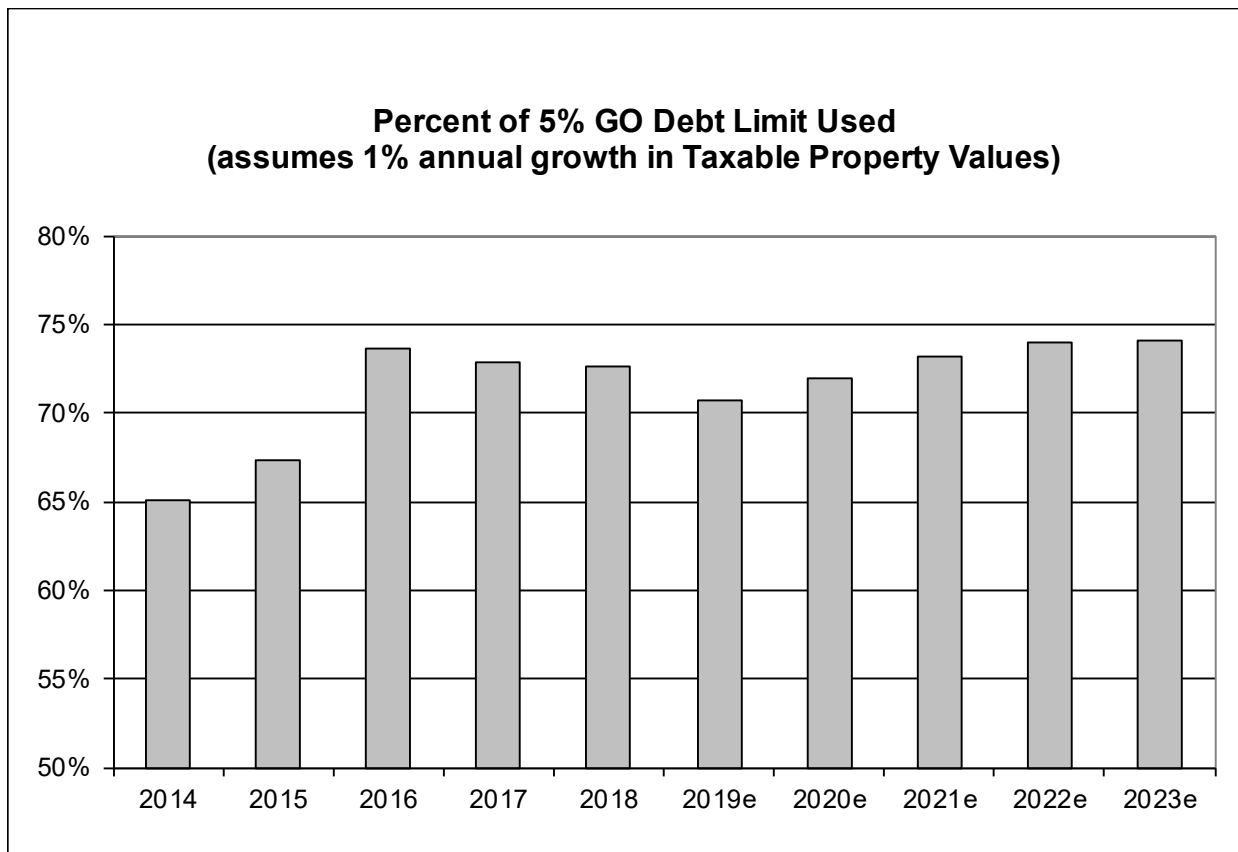
CHART 5



One measure of the City’s ability to repay debt is its wealth (property tax base). The relationship between year-to-year debt trends and comparable property tax base trends is monitored closely by the national bond rating agencies. The State’s Constitution limits the amount of GO debt a municipality can issue to five percent of its equalized (market) property value (e.g., the property tax base). Since 2014, the growth in debt has resulted in an increase in the legal debt limit used from 65% in 2014 to 74% in 2016. The chart below assumes a 1.00% change in Equalized Value in 2019-2023.

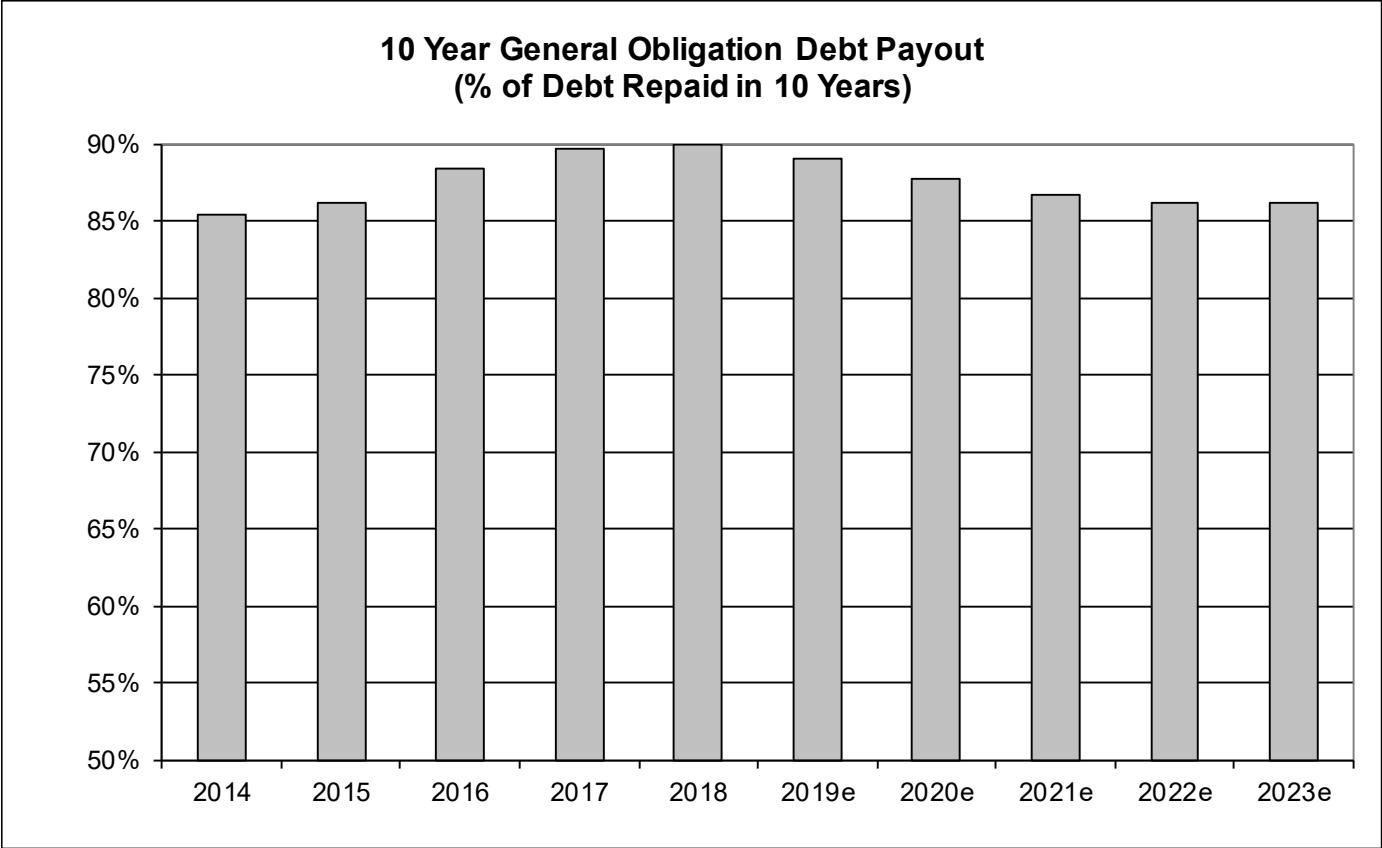
Between 1996-2000, the percent of legal debt limit used, grew from 57% to 69%. Between 2000-2007, the ratio declined to 45% due to the unusually large increases in the valuation of properties. The 60-65% level is high, but manageable. Exceeding the 70% level is a concern. Assuming a limit of 80%, in 2021, the available practical debt limit would be \$96 million of additional debt (tax-levy or self-supporting debt).

CHART 6



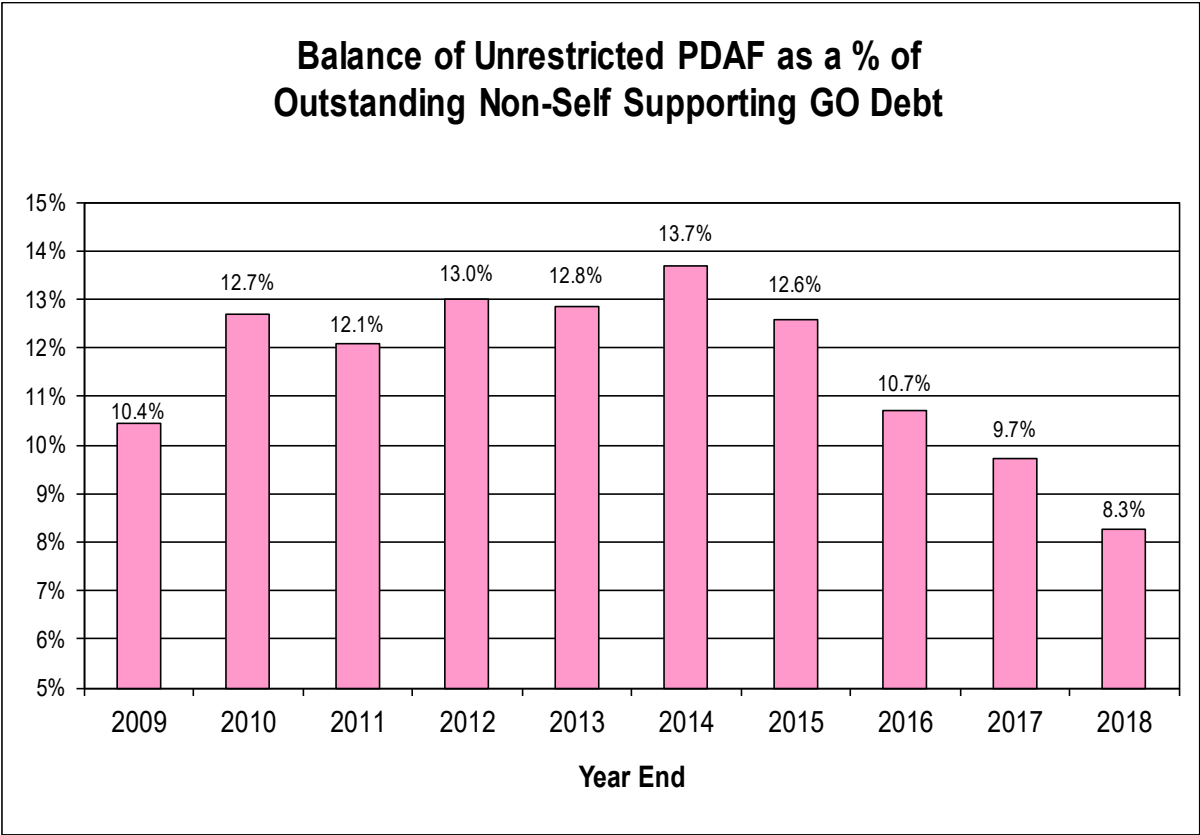
The rate of debt payout is another important facet of debt management (see Chart 7). The term “10 Year Debt Payout” is defined as the percent of total GO debt that will be retired/repaid within the next 10 years. It is a measure of how aggressively the City is repaying its debt. The higher the percentage, the faster debt is scheduled to be paid off. The City’s 10 Year Debt Payout percentage remains very high, above 85%. It is projected to decline to 86% by 2022, still well above the industry guideline of 50%.

CHART 7



The Commission's Policy (adopted October 1, 2015) targets an Unrestricted PDAF balance between 5-15% of non-self supporting (tax-levy) GO debt (the "Balance Ratio"). The increase for 2014 is due to a transfer of \$4.9 million of the excess in the Segregated portion to the Unrestricted portion of the PDAF.

CHART 8



Projections 2019-2023

The following table presents the data supporting the historic trends and projections presented above. These projections are based on the borrowing projections and the adopted 2019 Budget.

TABLE 1
Report of Past & Projected Debt and Debt Service
For the Years 2014 to 2023
(\$ in millions)

	Actual					Act/Proj 2019	Projected			
	2014	2015	2016	2017	2018		2020	2021	2022	2023
Outstanding General Obligation Debt - Year End										
Self-Sustaining Debt	\$412	\$410	\$461	\$427	\$426	\$398	\$419	\$436	\$446	\$450
Non Self-Sustaining (Tax Levy) Debt	\$452	\$477	\$545	\$563	\$611	\$620	\$625	\$635	\$647	\$653
Total Outstanding G.O. Debt	\$863	\$886	\$1,007	\$989	\$1,037	\$1,018	\$1,044	\$1,072	\$1,093	\$1,103
Debt Service for the Year										
Total G.O. Debt Service	\$154.4	\$152.1	\$150.6	\$164.2	\$209.1	\$167.9	\$165.5	\$157.5	\$155.9	\$222.5
Plus: Net RAN Debt Service	0.4	0.2	0.6	2.2	4.0	5.7	5.2	8.2	8.2	8.2
Total Debt Service	\$154.8	\$152.3	\$151.2	\$166.4	\$213.1	\$173.6	\$170.7	\$165.7	\$164.1	\$230.8
Debt Service Revenues	(87.9)	(89.0)	(83.0)	(94.6)	(138.4)	(95.3)	(62.7)	(58.2)	(58.9)	(120.0)
Debt Levy Requirements before PDAF Draw	\$66.8	\$63.3	\$68.2	\$71.8	\$74.7	\$78.3	\$108.0	\$107.5	\$105.2	\$110.8
Application of PDAF Draw	\$5.0	\$5.5	\$7.0	\$6.5	\$8.5	\$9.7	\$5.0	\$5.0	\$5.0	\$5.0
Debt Service Levy after PDAF Draw	\$61.8	\$57.8	\$61.2	\$65.3	\$66.2	\$68.6	\$103.0	\$102.5	\$100.2	\$105.8

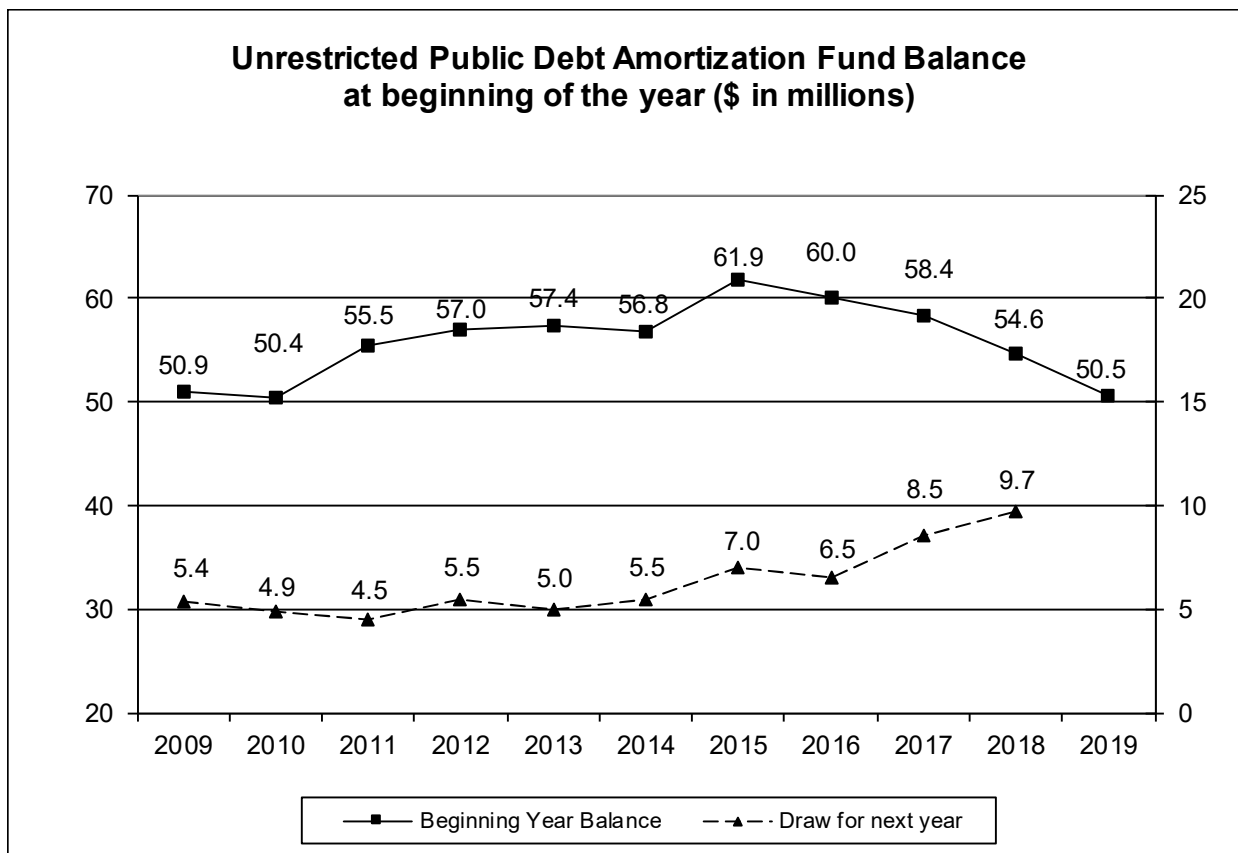
Amounts may not add due to rounding

Trends in the Public Debt Amortization Fund Balance

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

Chart 9 below shows the trend in annual PDAF withdrawals and the beginning unrestricted reserve balance levels. Over the past 10 years, withdrawal amounts have ranged between \$4.5 to \$9.7 million. The PDAF Unrestricted balance at the start of 2009 totaled \$50.9 million. The balance on January 1, 2019 totaled \$50.5 million.

CHART 9



Glossary of Terms

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

Self-Supporting (Non-tax levy) Debt: Borrowing repaid from sources other than the general property tax levy for debt service. Such borrowing includes: financing of delinquent property taxes (see comment on page 1); special assessment financing; parking; sewers; tax incremental district financing (TID); Water Works capital borrowing; school borrowing reimbursed by MPS; and the ERS borrowing.

Tax-Levy Supported Debt includes: streets, bridges, buildings, police, fire, economic development, public schools – not reimbursed, and other non-reimbursed purposes.

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

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

Debt Service Revenues: Any funding provided to meet Annual Debt Service needs other than ad valorem property tax receipts (Debt Service Levy). Examples of such revenues include TID tax increment revenues, transfer from the General Fund for ERS related debt, transfer payments from the Water and Sewer utilities, delinquent tax payments, parking, special assessments, and interest earned by the Debt Service Fund.

Debt Service Levy: Ad valorem property tax levy for purpose of meeting Annual Debt Service needs.

Assumptions

1. All future borrowing for water and sewer replacement purposes will be accomplished through revenue supported bonds and notes. No future GO borrowing is assumed to be needed for these purposes.
2. GO Borrowing Projections – For 2019 through 2023, capital borrowing is based upon anticipated levels as appearing in the draft City of Milwaukee 2019 - 2024 Capital Improvements Plan (the “CIP”), recent trends, Contingent Borrowing submitted for approval through July 1, 2019, and continuation of the ERS prepayment program.
3. Borrowing Levels - Delinquent Taxes: Estimate is based upon recent historical experience.
4. Interest Cost: Interest rates are projected, and maturity dates reflect the specific structuring of each type issue. For instance, Tax Incremental District related interest levels are structured for 17-year level debt service while a regular capital projects borrowing interest level relates to a 15-year level annual principal retirement structuring.
5. No borrowing or debt service is included for the use of any contingent borrowing authority not already borrowed as of July 1, 2019.
6. General Debt Service revenues will not be subject to any material unanticipated change in interest rates, borrowing amounts or other major changes.
7. Revenues for enterprises, schools, tax incremental districts, and delinquent tax are adequate to reimburse the Debt Service Fund for debt service payments on self-supporting debt.