City of Milwaukee

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July 10, 2001

The Honorable Common Council
Committee on Finance and Personnel
City of Milwaukee

Re: File 001671

Dear Committee Members:

Please find enclosed a brief "Review of Financing Plan" report of the Public Debt Commission's Financial Advisor, Robert W. Baird & Co. Inc. This report relates to a review of a May 23, 2001 financing plan proposal of Stifel, Nicolaus & Company, Inc. concerning Water Works financing options and/or opportunities. The report was intentioned to be provided to the Finance & Personnel Committee as part of a presentation by Baird before the Committee.

We, as well as Robert W. Baird & Co. Inc. are, of course, prepared to discuss any portion or aspect of this report at the Committee's pleasure. Please feel free to contact this office should you so desire.

Very truly yours,

for John Egan

W. MARTIN MORICS
Comptroller & Secretary
Public Debt Commission

WMM:RS:jrw
Enclosure - 1
Cc: K. Kolb, R.W. Baird
C. Lewis, Milwaukee Water Works

REF: PD-5721W.DOC

ROBERT W. BAIRD & CO.
REPORT TO FINANCE & PERSONNEL COMMITTEE
Review of Financing Plan
Submitted by Stifel, Nicolaus & Company, Inc. on May 23, 2001

1. **Financing Plan Summary**

- Refund approximately $45.0 million of 12-year general obligation debt allocable to the Water Works with approximately $47.0 million of 20-year Water Works Revenue Bonds ("Refunding Issue")
- Issue an additional $60.0 million of taxable 25-year Water Works Revenue Bonds. ("New Issue")

The purpose of the Financing Plan is to enhance City reserve levels. This would be accomplished by lengthening existing Water Works debt maturities to 2021 (from 2013) and the issuance of $60.0 million in new issue Water Works revenue debt. According to Stifel Nicolaus, this would result in annual debt service at the current $7.5 million through 2026.

(NOTE: Baird calculations show comparable total annual Water Works debt service of $10.0 million through 2021.)

2. **Analysis of Financing Plan**

- Refunding Issue
  1. Refunding has no stand-alone economic benefit.
  2. Refunding is required to provide the cash flow necessary to make payments on the New Issue (see below).
  3. Refunding decreases outlays in the next 9-10 years while increasing outlays for the following 10-11 years.
  4. Refunding Issue debt does not exceed useful life of the water assets financed.
  5. Refunding debt service would equal about $5.3 million per year for next 20 years including existing general obligation and State Clean Water Fund loan repayments.
- New Issue
  1. New Issue creates an additional $60.0 million liability. Only about $54.0 million will be available to increase City reserves.
  2. If bond proceeds left unused by the City, it would generate about $2.7 million per year at 5%.
  3. It appears that there could be legal and Public Service Commission hurdles to overcome to accomplish this transaction.
  4. New Issue would raise bond rating agency concerns about creating a long-term Water Works liability to potentially fund general operating expenses.

5. New Issue restricts Water Works flexibility to meet future capital and operating needs.

6. New Issue debt service would equal about $5.8 million per year, if financed over 20 years.

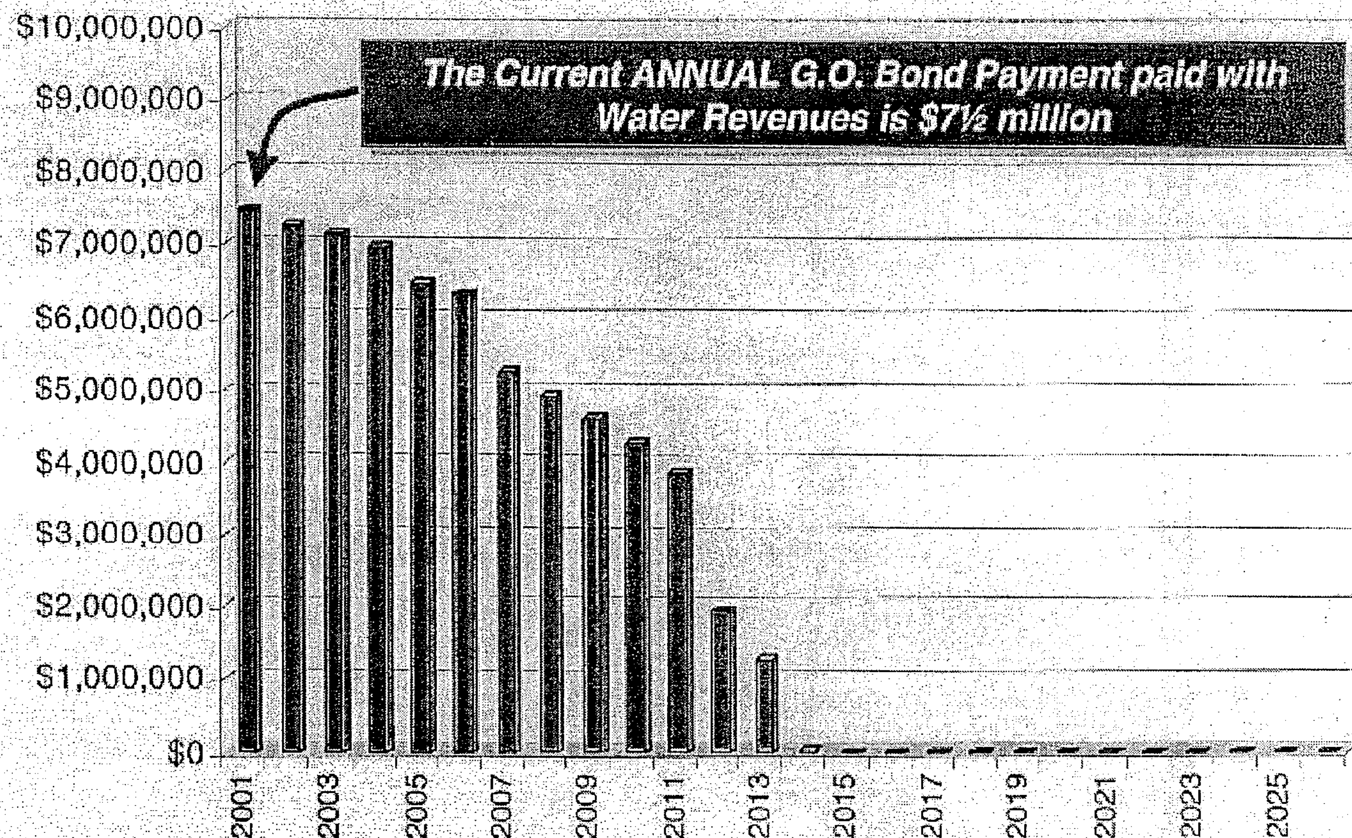
3. Conclusion

- The taxable bond rates, low investment rates and issuance expenses associated with the New Issue combine to eliminate any economic advantage of this proposal.
- Water Works would be required to have net revenue of about $12.0 million per year for the next 20 years after this transaction. Without this transaction, the Water Works needs an average of only $4.5 million per year between 2002 and 2017.
- The $60.0 million taxable New Issue is not an efficient way to leverage Water Works revenue.

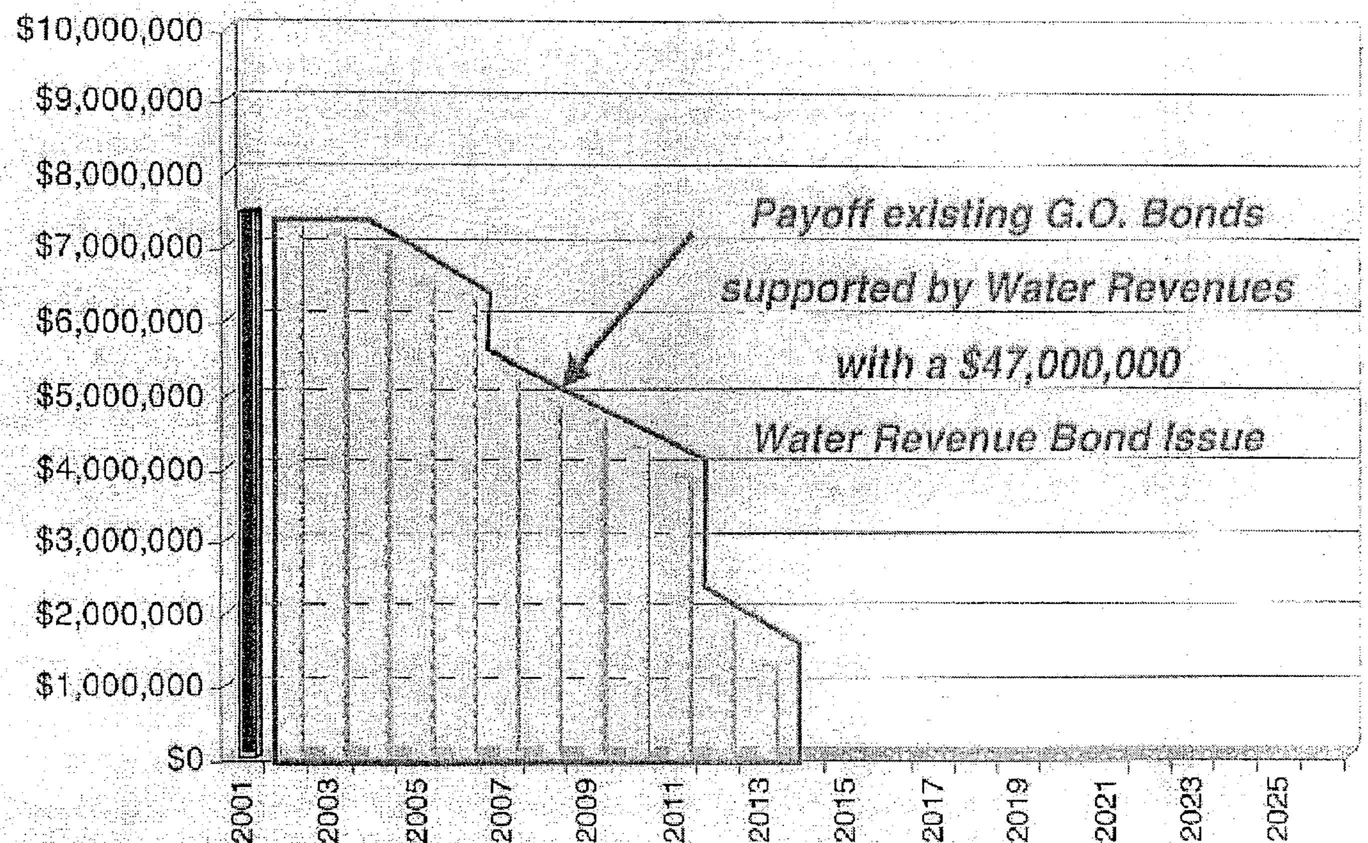
4. Alternatives

- Refunding of Water Works debt (as in "Refunding") could make additional funds of approximately $3.3 million available for a potential annual dividend.
- Transferring available Water Works surplus as a dividend would be a more efficient method to leverage available revenues from the Water Works.
- Bond rating agencies would expect that a policy recognizing the joint interests of the Water Works and City would be developed before any transfers would occur. Tying a City TSF reserves policy to the annual dividend would be a preferred way to serve these joint interests.

Current Water Utility Annual Loan Payments



Refunding of Future Water Utility Annual Loan Payments



Projected Water Utility Annual Loan Payments