City Debt Overview

1. The City Budget for Debt Service includes Milwaukee Public School Debt and all City government-related debt. The City may use its own borrowing authority for school purposes.

2. The debt service needs for the City in 2011 total $323.9 million, an increase of approximately $43.1 million from the 2010 debt service budget. Over half of the increase is due to a $28.9 increase in Revenue Anticipation Notes (RANs) . The City of Milwaukee annually issues short-term RANs to finance the City's and the MPS operating budgets until the City receives shared revenue payments from the State of Wisconsin. The $28.9 million increase is related to issuing the City RAN. The budget includes $160 million for the principal portion of the City RAN, compared to $130 million in the prior year. In 2010 the City issued $147 million. The 2011 budget brings the budget closer to the principal amount expected to be issued in 2011. As this is the principal portion that is budgeted, it has no levy impact. Of the remaining $14.2 million in increases in the Debt Service budget, $9.5 million relates to self- supporting debt, including: $4 million for delinquent tax receivables, $3.6 million in MPS debt reimbursed by the school district and $2 million for TIDs..

   Of special note is the MPS RAN, of which the City only budgets the interest portion. The Public Debt Commission (PDC) and the Comptroller's office delayed issuance of the fall $225 million borrowing which comes due in 2011. This delay of two months saved $50,000 in interest paid by the debt service tax levy. in addition, the PDC and Comptroller's Office structured the borrowing in 2 parts maturing $50 million of borrowing $225 million at the end of 2010 with the remaining borrowing $175 million maturing in June 2011. This structure will save an additional estimated $127,000 of debt service tax levy.

3. Debt expenditures for 2011 TIDs increase by approximately $9.3 million to approximately $16.8 million. However, the 2010 TID increments will generate $25.8 million.

4. Debt expenditures for delinquent taxes increase by approximately $3.2 million to $27.8 million. It is estimated that the collection of delinquent taxes, interest and penalties will provide $27.7 million as source of debt funds, an increase of $4 million from 2010. The debt service tax levy after self-supporting sources are accounted for declined by $1.1 million with most of this reduction due to the elimination of $750,000 of bad debt reserve for delinquent taxes. The current bad debt reserve for delinquent taxes is not needed at this time due to the improvement of the condition of the delinquent tax fund.

5. Tax levy debt service costs related to City borrowing for capital improvement projects are estimated to

total $83.9 million in 2011, an increase of $16.8 million.

6. The self-supported portion of the 2010 debt service budget is $66.7 million, a decrease of approximately $1.8 million in 2010.

7. The 2010 proposed debt service tax rate is $2.56, a $0.07 increase from the 2009 debt service tax rate of $2.49.

Public Debt Amortization Fund

As of December 31, 2009, the unsegregated Public Debt Amortization Fund (PDAF) totaled $50.4 million. This was a slight decrease of approximately $500,000 from the comparable 2008 year-end balance.

On August 18, 2010, the Public Debt Commission approved a $4.9 million transfer from the PDAF. The withdrawal is used to offset the tax levy impact of 2011 debt service.

The current PDAF balance and withdrawal policy, adopted in 1997, primarily utilizes measurements of non-self-sustaining (tax levy-supported) general obligation (GO) debt outstanding as the basis for determining PDAF size and withdrawal parameters. The policy recommends limits on the annual PDAF withdrawal in a similar manner to those associated with the Tax Stabilization Fund withdrawal policy. The policy recommends that the unsegregated balance be maintained between a 15-percent minimum and a 20 percent-maximum of such nonself-supporting debt with a ”target level” at the mid point between these ranges. The 15% and 20% limits are recalculated annually, and may affect the target balance. This positions the PDAF balance to respond to changes in outstanding debt levels, i.e., the PDAF target balance increases as non-self-supporting outstanding debt levels grows. In fact, this is what has occurred since 2000; the minimum target balance in the PDAF has grown from $58.7 million to $71.6 million due to amount of tax levy-debt outstanding increasing from $391.1 million at end of 2000 to $477.1 million at end of 2009.

Based on $477.1 million of non-self-sustaining GO debt outstanding, as of December 31, 2009, the 2010 minimum and maximum recommended limits for the PDAF balance are $71.6 million and $95.4 million, respectively. With a PDAF withdrawal of $4.9 million in 2010 for 2011 debt service, the 2010 estimated PDAF year-end balance is projected to remain unchanged at $50.4 million, which is $21.1 million below the $71.6 million minimum balance recommended by the current PDAF reserve policy.

The withdrawal of $4.9 million from the Public Debt Amortization Fund reduces the 2011 debt service tax rate from $2.76 to $2.56.

The table below shows the PDAF fund balance and withdrawal for the last 10 years.

PUBLIC DEBT AMORTIZATION FUND (PDAF) *HISTORICAL PREPAYMENTS (WITHDRAWALS)* *($ in millions)*		
YEAR (Dec.31)	AMORTIZATION FUND UNSEGREGATED FUND BALANACE (1)	PDAF PREPAYMENT (In Following Year)
2001	$43.7	$ 7.0
2002	$44.6	$ 5.0
2003	$44.1	$ 4.0
2004	$45.0	$ 4.0
2005	$46.5	$ 5.0
2006	$48.7	$ 7.3
2007	$50.8	$ 7.4
2008	$50.9	$ 6.5
2009	$50.4	$ 5.4
2010	$50.4	$ 4.9

As in prior years, the PDC can encourage EBE firms to bid, and for lead firms to include EBE firms. However, the City Attorney has opined that in competitive sales, the City is limited to selecting the lowest cost bid without regard to EBE participation. Therefore, the extent of minority participation in competitive City bond and note sales is highly dependent on the extent of bidding by minority owned firms. The PDC has met and spoken with numerous minority firms, and has made it clear that participation in competitive transactions will be used as a significant selection criteria when selecting firms for the few negotiated transactions the City performs. As a result, over the past few years, the PDC has instituted changes to further encourage minority participation, but have only received limited success.

In the underwriting business, all firms would prefer to spend their time and use their capital in engagements with: 1) High probability of execution; 2) High compensation; and 3) Low underwriting risk. That means minority firms direct their resources towards negotiated sales, not competitive sales. Only the large firms have sufficient capacity to allocate resources, on a meaningful and consistent basis, to competitive sale transactions with low probability of execution, low compensation, and high underwriting risk. All of the City's regular issuance of debt is by competitive sale, a state law requirement for General Obligation Bonds.

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