RESEARCH & ANALYSIS SECTION—LEGISLATIVE REFERENCE BUREAU

2007 Proposed Budget Summary: City Debt

	2006	2007 Proposed	Change	%Change
Debt Budget	**$125,541,827**	**$131,976,403**	**$6,434,576**	**5.1%**

2007 Budget Highlights

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

2. As of December 31, 2005, the outstanding debt service requirements for the City totaled $979 million, an increase of $100 million from 2004.

3. Approximately $333.7 million or 34.1% of the $979 million total General Obligation (GO) Debt outstanding is classified as "self-supporting debt." The concept of "self-supporting" debt is that proceeds from borrowing will fund projects that generate a revenue stream sufficient to offset debt service obligations. Examples of this type of debt include Tax Increment Financing, Special Assessments and the Parking Fund. GO self-supporting debt is a general City obligation and must be paid from the property tax levy if the offsetting revenue stream is insufficient to meet debt service.

4. The largest component of self-supporting debt is tax incremental districts, which total $164.5 million in 2007. The other components are: schools--$62 million; Water Works--$34.9 million; parking--$17.2 million; special assessments--$26.8 million; delinquent taxes--$27.9 million; and land bank--$162,000.

5. The debt needs of the City in 2007 total $132 million, an increase of $6.4 million from the 2006 debt budget.

6. The tax levy-supported portion of the 2007 debt budget is $54.4 million, a decrease of $503,567 from the 2006 tax levy contribution.

7. Debt service costs related to city borrowing for capital improvement projects are estimated to total $62.9 million in 2007, an increase of $8.3 million from 2006.

Outstanding Debt Service Requirements by Purpose
City of Milwaukee General Obligation Bonds and Notes
As of December 31, 2005
(In Millions)

Purpose	**Total**	**% of Total**
Self-Supporting Debt		
Tax Incremental Districts	$ 164,497	16.80%
Parking	17,226	1.76%
Water	34,931	3.57%
Delinquent Taxes	27,981	2.86%
Special Assessments	26,802	2.74%
Land Bank	162	0.01%
School Debt	62,066	6.34%
Subtotal	**$333,665**	**34.08%**
Tax Levy Debt		
Economic Development	$ 32,058	3.27%
Public Facilities	252,357	25.78%
Streets, Sewers, Bridges	226,831	23.17%
Other	9,857	1.01%
School Debt	124,204	12.69%
Subtotal	**$645,307**	**65.92%**
TOTAL REQUIREMENTS	**$978,972**	**100.00%**

CITY DEBT EXPENDITURES

PURPOSE	2006 ADOPTED	2007 PROPOSED	CHANGE (+/-)
Self-Supporting Debt			
Parking	$ 2,620,828	$ 2,256,394	$ -364,434
Tax Increment Districts	11,953,000	15,723,326	3,770,326
Delinquent Tax Financing	15,239,027	15,130,432	-108,595
Special Assessments	3,555,000	2,833,261	-721,739
Land Bank	42,000	37,104	-4,896
Water Works	6,050,000	4,482,529	-1,567,471
Sewer Maintenance Fund	9,948,000	9,796,003	-151,997
Brewer MEDC Loan	1,749,352	1,063,339	-686,013
MPS Energy Retrofit	256,088	250,623	-5,465
MPS-Loans from State	2,182,046	2,759,223	577,177
MPS – Pension Refunding Bonds	1,265,460	25,000	-1,240,460
SUBTOTAL	**$ 54,860,801**	**$ 54,357,234**	**$ -503,567**
Tax Levy Debt			
Schools	$ 10,789,002	$ 12,132,978	$ 1,343,976
General City	54,537,024	62,862,453	8,325,429
Revenue Anticipation Notes, City & MPS	13,910,000	12,437,500	-1,472,500
SUBTOTAL	**$ 79,236,026**	**$ 87,432,931**	**$ 8,196,905**
TOTAL DEBT NEEDS	**$134,096,827**	**$141,790,165**	**$ 7,693,338**
Fees & Issuance Costs	$ 0	$ 1,040,000	$ 1,040,000
Deduction for PDAF Prepayment	$ -5,000,000	$ -7,300,000	$ -2,300,000
Deduction for Segregated Special Assessment	-3,555,000	-3,553,762	1,238
TOTAL	**$125,541,827**	**$131,976,403**	**$ 6,434,576**

Cash Financing of Recurring Infrastructure

1. In 1986, the Common Council adopted Resolution File Number 85-1157, approving in principle a policy for financing the recurring infrastructure preservation costs of the City of Milwaukee's Capital Improvements Budget. In essence, the resolution approved a 20-year conversion program to complete cash financing of recurring infrastructure costs. This 20-year period offered the best balance between increased cash requirements on the tax levy and the benefits of long-term savings realized through reduced future debt service.

2. The cash conversion policy goal was not met in the 2004 Adopted City Budget, due to a Common Council amendment to the Proposed Budget which increased funding for Recreation Facilities from $219,000 to $400,000 and changed program financing from cash to borrowing.

3. The 2006 capital budget suspended the Infrastructure Cash Conversion Policy goal of 100%. The suspension is intended to relieve pressure on the tax levy resulting from the State of Wisconsin's mandated property tax levy limit.

4. The 2007 general city capital improvements budget totals $152.1 million, a decrease of $12.8 million or 7.7% from the 2006 budget of $164.9 million. The tax levy supported portion of the capital budget, which includes tax levy cash resources as well as tax levy supported general obligation debt, totals $66.8 million. Tax levy (cash) financing will increase by $800,000 from $8.6 million in 2006 to $9.4 million in 2007.

5. For the first time, the largest source of funding for capital projects is Tax Incremental District borrowing, representing $70.3 million or 46.2% of total funding sources.

6. The second largest source of funding for capital projects in 2007 is tax levy-supported debt financing, approximately $57.5 million or 37.8% of total funding.

7. In addition to TID financing, other self-supporting funding sources include $12.9 million of cash revenues, which is 8.5% of the total, and $2.1 million of special assessments, which represent 1.4%. Capital grant and aids are expected to total $42.8 million in 2006.

8. Major capital borrowing highlights:

- City Hall Restoration: The 2007 capital budget provides $15 million for the multi-year City Hall Restoration project, which is expected to total $70 million.
- TID Debt Alternatives Study: The City frequently must spend its TID resources prior to generation of incremental revenue. The Administration has initiated the formation of a work group including representatives of the Comptroller, City Attorney, Department of City Development, Milwaukee Economic Development Corporation, Department of Administration, and the Common Council, to address TID debt issues and how to ensure minimal or no impact on the tax levy.

<u>Public Debt Amortization Fund (PDAF)</u>

1. In September 1997, the Public Debt Commission adopted a new policy concerning ongoing PDAF balances and annual withdrawal calculations. The old policy linked withdrawals to the ensuing year's net debt service. The new policy utilizes measurements of non-sustaining general obligation (GO) debt outstanding as the basis for determining PDAF size and withdrawal limits.

2. The former policy, which had a goal of maintaining a PDAF balance of between 110% and 115% of the next year's net debt service, had several shortcomings. These included the variability of debt service revenues and its impact on achieving the 110% to 115% targets, growth in self-supporting debt which has no direct call on the levy, and the relatively short-term outlook of the annual withdrawal decision.

3. The new policy installs limits on the annual PDAF withdrawal in a similar manner to those associated with Tax Stabilization Fund withdrawal policy. Withdrawals sufficient to prevent an equalized debt service tax rate increase of 5% over prior year's rate (or 3% from the last 3-year average) are allowed, but limited by an average of between 15% and 20% of outstanding non-self sustaining GO debt.

4. 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 will increase as non-self supporting outstanding debt levels grow.

5. For purposes of 2003 and prior budgets, the PDAF withdrawal was reflected in the capital improvements budget, by shifting cash funded improvements to debt funded improvements. Fund assets were used to purchase the additional debt, which was then immediately cancelled, avoiding future debt service costs. Beginning in 2004, the PDAF withdrawal was applied to reduce the city debt tax levy, instead of the capital improvements tax levy.

6. The PDAF withdrawal for 2007 budget purposes totals $7.3 million, an increase of $2.3 million from 2006.

7. PDAF earnings in the late 1990's averaged about $10 million annually. Declining interest rates in recent years have significantly reduced those returns. It is anticipated that the fund will have a 2006 year end balance of $47.3 million, based on projected growth of $500,000 from the 2005 balance of $46.8 million.

<u>Milwaukee Public Schools Debt</u>

1. State Statutes require the City to issue debt and pay debt service costs for the Milwaukee Public Schools.

2. Debt service costs associated with school borrowing are $12.1 million in 2007, an increase of $1.3 million from 2006.

3. Since 1989, the City has provided MPS with a total of $182.3 million in borrowing authority to help fund school improvements.

4. Besides providing assistance to MPS with their capital improvement needs, the City also issues Revenue Anticipation Notes (RANS) on behalf of the schools to assist them in meeting their cash flow needs. Two other MPS debt service expenditures are related to the Energy Retrofit Program and loans from the state. The City is fully reimbursed by MPS for debt service costs related to these issuances.

5. The 2004 city debt budget included a new appropriation of $5.1 million for expenses related to MPS's $170 million unfunded pension liability in the Wisconsin Retirement System (WRS) Pension Fund.

- The state merged 3 pension systems in the early 1980's, raising participant benefits and creating an $80 million unfounded pension liability, to be financed by all participating jurisdictions.
- At the time, WRS estimated an additional 2% payroll contribution would be sufficient to fund the liability over a 40-year period. This estimate was found to be too liberal, and the MPS portion of the liability has increased to its current level of $170 million, which is assessed at an 8% interest rate until it is repaid.
- As a result of low interest rates in the bond market, it was determined that it would be in the best interest of MPS taxpayers to borrow the funds at a lower rate and prepay the liability. The $200 million bond issue will be financed over 20 years and will provide for pre-payment of the liability, a reserve fund, if needed, and issuance costs.
- MPS will fully reimburse the City for any costs related to this issue, and will make annual debt service payments on the debt.

6. The 2007 capital budget includes levy borrowing authority of $4 million for MPS facilities, a decrease of $5 million or 55.6% from 2006. This $4 million assists MPS with its continuing program of maintaining its existing school capacity.

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