Report of Debt & Debt Service For the Years 2005 through 2014 City of Milwaukee August 10, 2010

Office of the Comptroller
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City of Milwaukee- Public Debt Commission

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The Public Debt Commission *Adopted Statement of Policy for the Use of the (Public Debt Amortization) Fund Balance,* as approved September 3, 1997, calls for the Comptroller as Commission Secretary to annually prepare an estimate of Outstanding Debt and resulting annual Debt Service requirements for each of the succeeding five (5) years.

Trends 2005-2009

Over the period 2005-2009, the amount of General Obligation (GO) debt issued varied from $49 million to $175 million per year while the amount retired ranged from $88 million to $117 million per year. Part of the increase in 2006, and the decline in 2007, was due to timing of debt issuance, and not as a result of decreased authorizations or capital spending. The year-end 2006 issuance financed expenditures that would have normally waited until the Spring of 2007. In addition, some projects that would have normally been financed in 2007 were delayed into 2008 in anticipation of completing the City's first Commercial Paper issue. The 2006/2007 average issuance of $112 million per year would be a better estimate of the long-term trends. The $117 million of 2008 debt retired includes $20 million of Sewer Debt refinanced by Clean Water Fund loans, for a net retirement amount of $97 million.

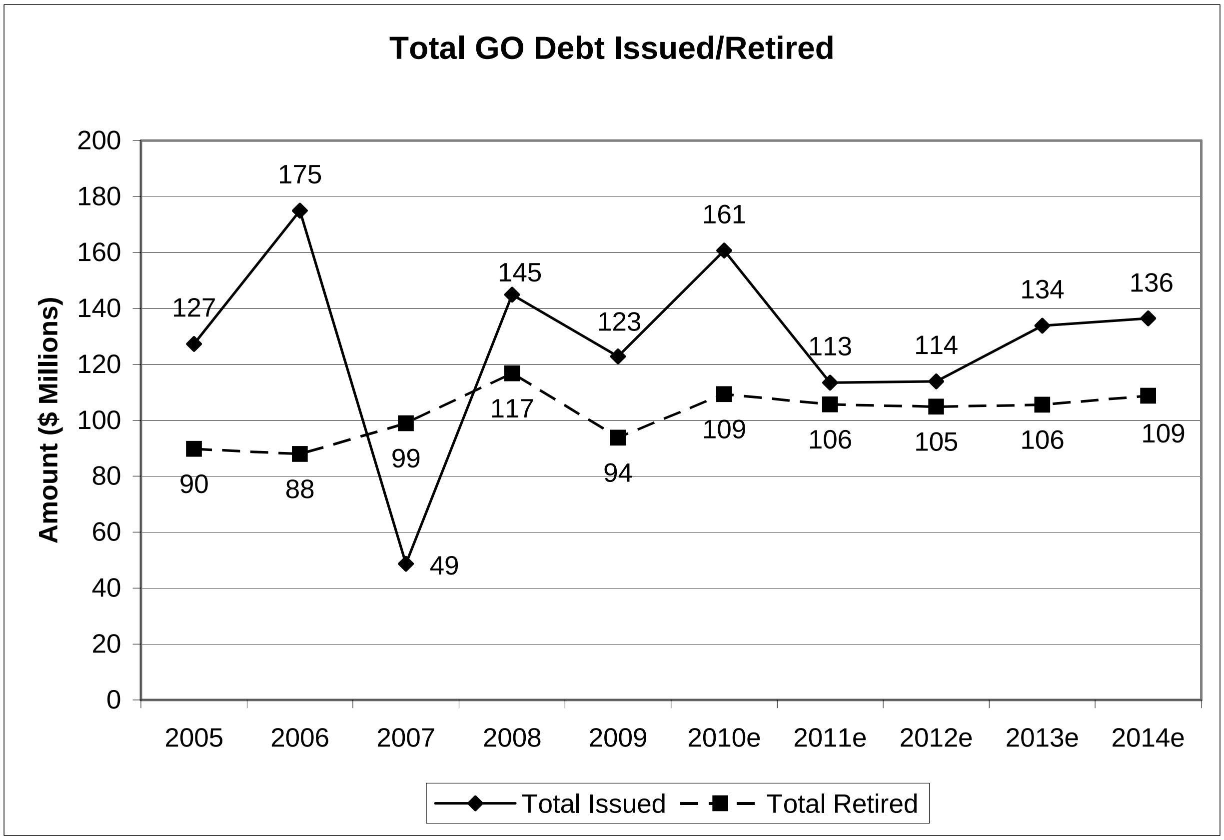
GO debt issuance is projected to average around $135 million per year.

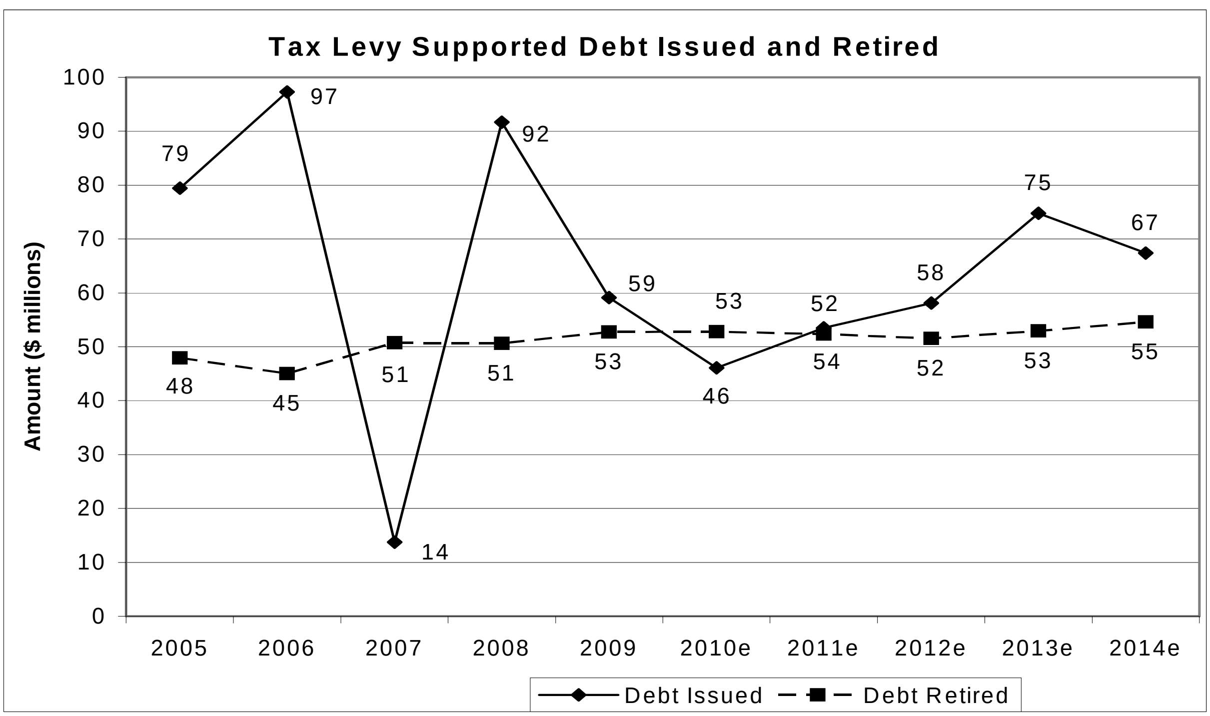
The majority of the new debt, especially when retirement of debt is considered, is projected to be for Tax Incremental Districts. The issuance of Tax Incremental District debt is highly variable since many of the projects are in their beginning stages. The issuance of other city debt is more predictable since that debt is authorized when projects are close to construction, or are part of an ongoing program. Although large, the issuance of Tax Incremental District Debt has a minor impact on the tax levy for debt service. Of more direct concern is the issuance of tax-levy supported debt.

On average, the issuance of tax levy supported debt has exceeded debt retired. The $60 million renovation of the exterior of City Hall caused the issuance of tax levy supported debt to average $68 million per year between 2006 and 2008, or about $20 million more per year than was retired. Based upon current capital categorizations and planned capital spending in the Draft 2010-2014 Capital Improvement Plan, the issuance of tax levy supported debt is expected to exceed debt retired through 2014. The increase in debt is due to increases in the Street Programs and other one-time projects, such as $15 million for City Hall Hollow Walk project and $15 million for the Fire Repair Shop project.

Debt issued amounts shown in the following Chart 1 includes $49 million ($12 million in 2009, and $37 million in 2010) of reimbursed debt for Milwaukee Public Schools (MPS). The MPS debt is Qualified School Construction Bonds, which has the interest paid by the Federal Government, and the principal reimbursed by MPS.

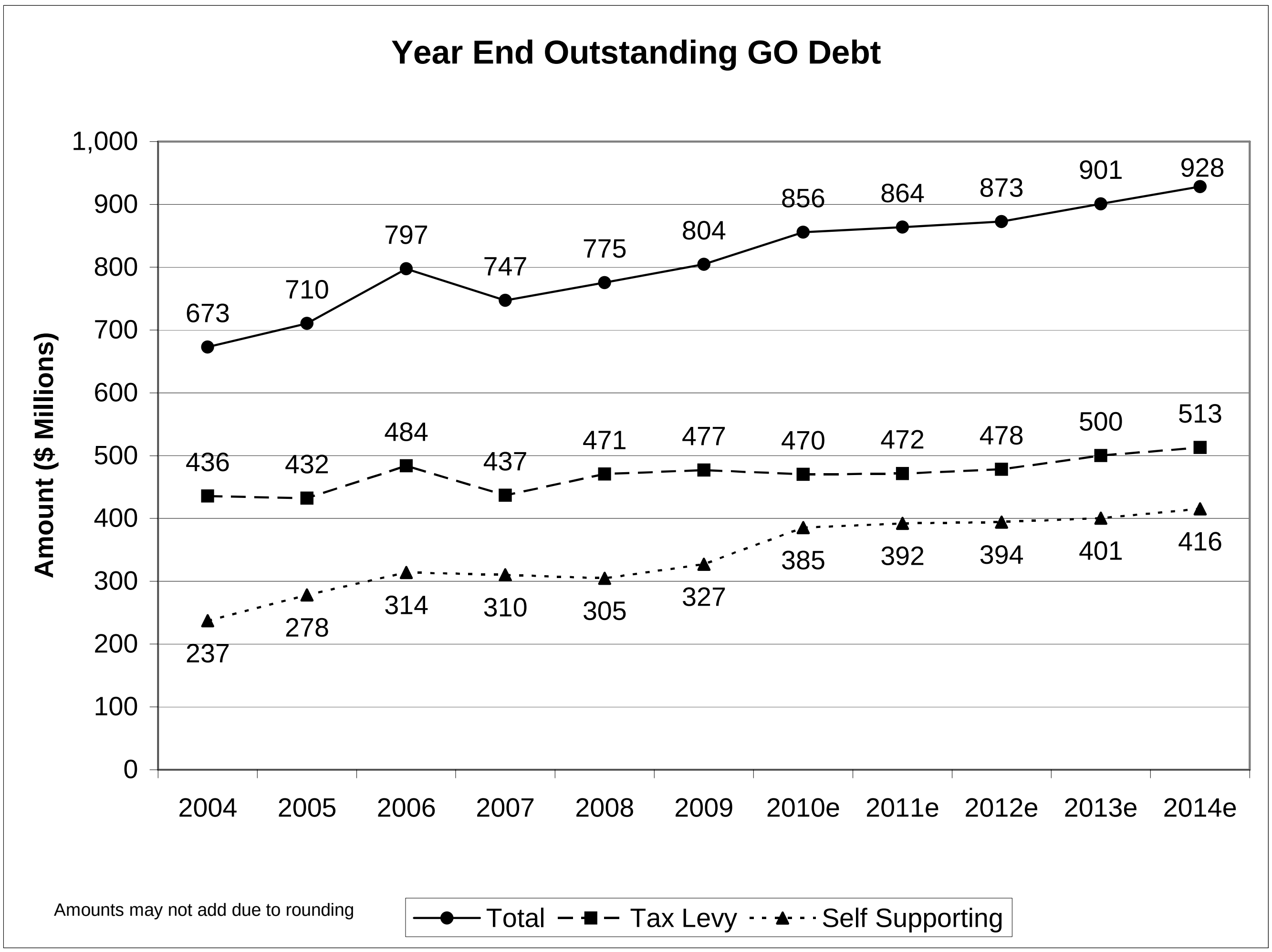
CHART 1


Total GO Debt Issued/Retired
Amount ($ Millions)
200
180
160
140
120
100
80
60
40
20
0
175
161
145
136
134
127
123
113
114
117
109
106
105
106
109
90
88
99
94
49
2005
2006
2007
2008
2009
2010e
2011e
2012e
2013e
2014e
Total Issued
Total Retired


Tax Levy Supported Debt Issued and Retired
Amount ($ millions)
100
90
80
70
60
50
40
30
20
10
0
97
92
79
75
67
59
53
52
58
48
45
51
51
53
46
54
52
53
55
14
2005
2006
2007
2008
2009
2010e
2011e
2012e
2013e
2014e
Debt Issued
Debt Retired

GO debt outstanding has increased to $804 million at the end of 2009. This amount represents a $131 million increase (+20%) from $673 million at the end of 2004. Tax-levy supported debt increased by $41 million (+10%) and Self-supporting debt increased by $90 million (+38%). It should be noted that in 2005, $37 million of Sewer debt was reclassified from Tax-levy supported debt to Self-supporting debt. This was due to a new $7 million per year transfer from the Sewer Fund to the Debt Service Fund to pay a portion of the already existing GO debt relating to Sewers. In 2007, all Sewer Debt was reclassified to Self-supporting debt in anticipation of the Sewer Fund fully providing for Sewer GO Debt in 2008.

CHART 2

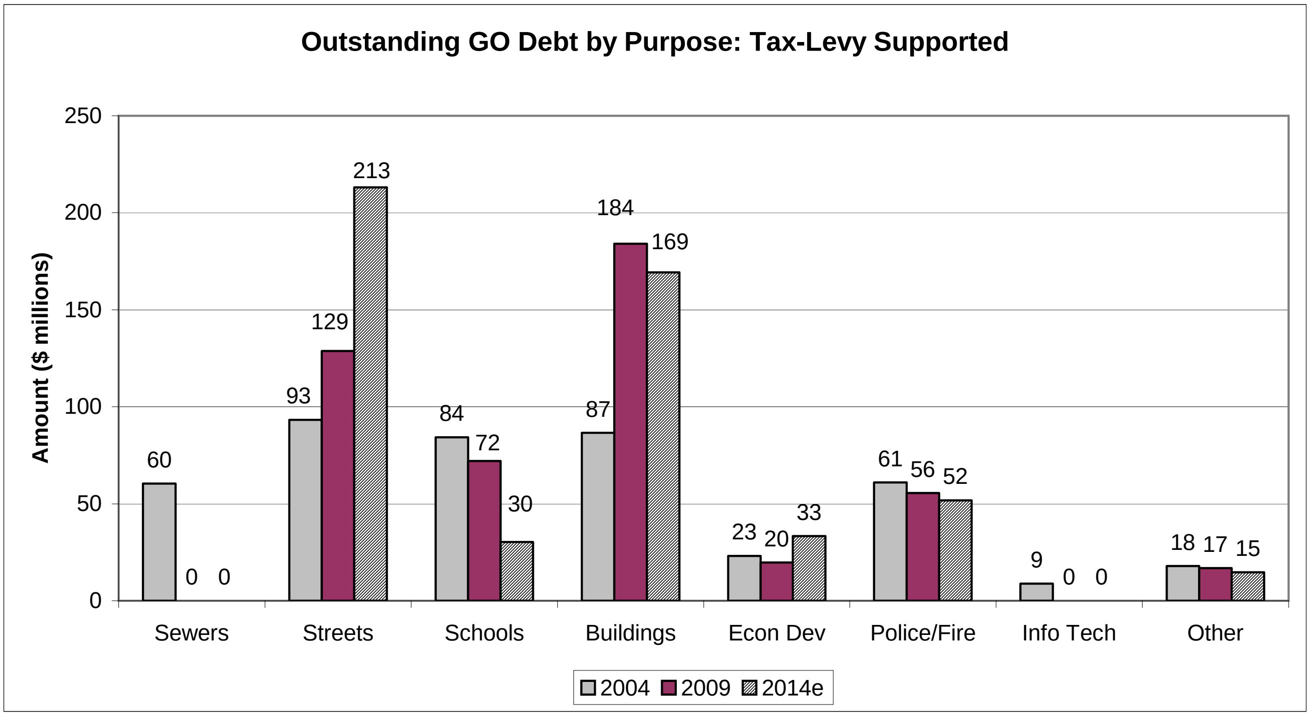


Based upon the Draft 2010-2014 Capital Improvement Plan, total Outstanding GO debt is projected to increase from $804 million in 2009 to $928 million in 2014 (+15%).

In addition to GO Debt, the City has other obligations including $21 million of TID loans from developers for their projects and lease obligations. The City has also provided additional security enhancement through repayment pledges to $20 million of City Redevelopment Authority bond issues secured by TID revenues.

Major increases in tax-levy supported debt were for Public Buildings and Streets. The major increases for Self-supporting debt were for Tax Increment Districts (new issuance) and Sewer debt (reclassification to self supporting).

CHART 3



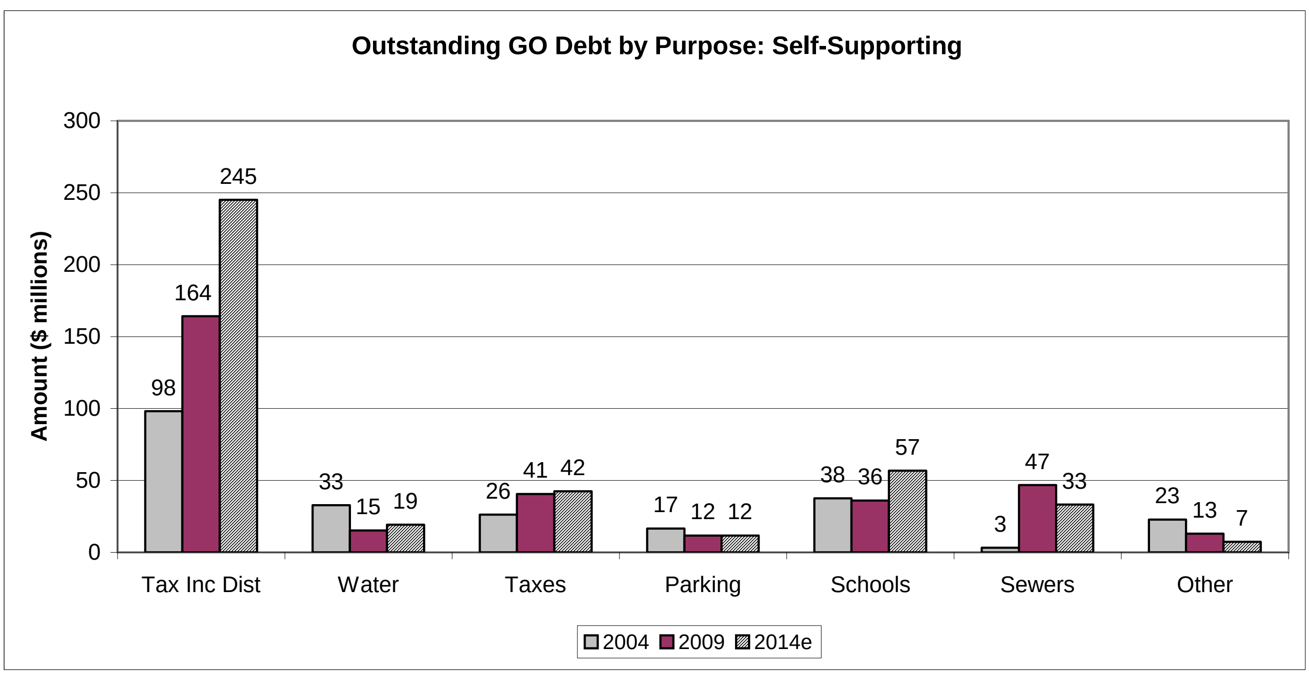
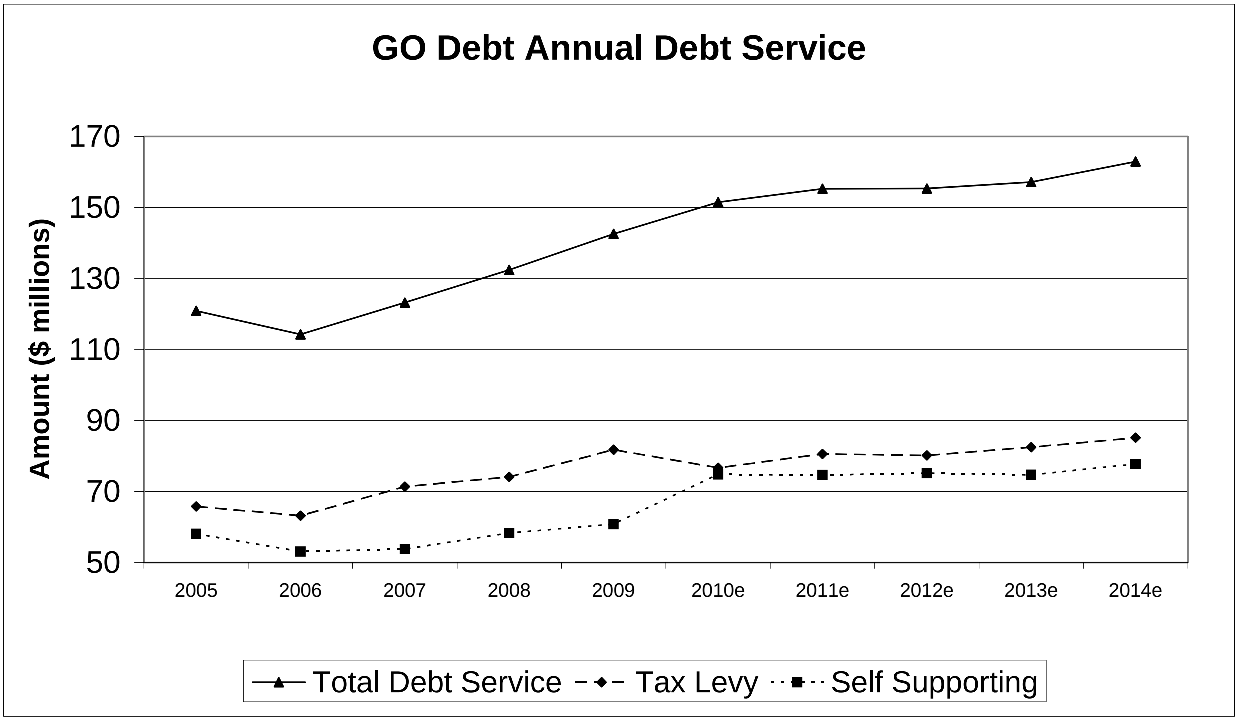


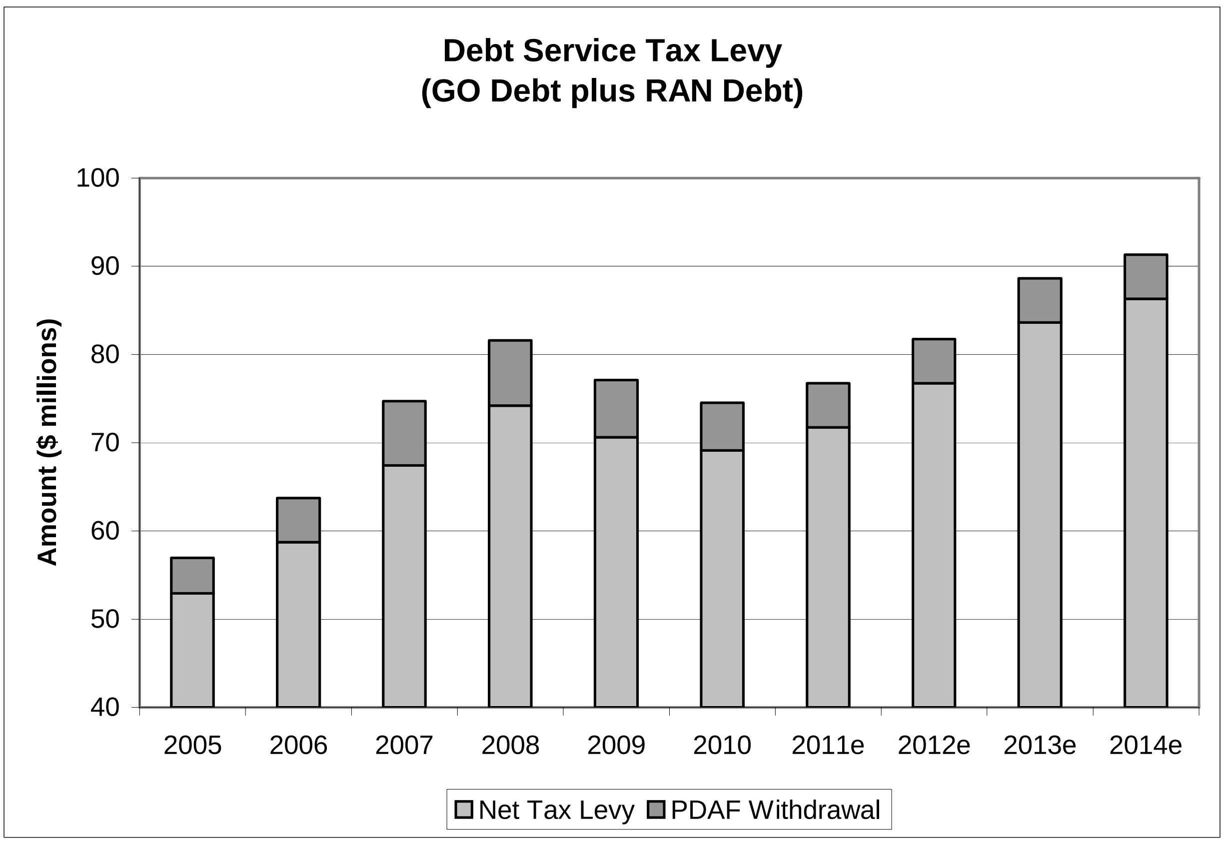
CHART 4


GO Debt Annual Debt Service
Amount ($ millions)
170
150
130
110
90
70
50
2005
2006
2007
2008
2009
2010e
2011e
2012e
2013e
2014e
Total Debt Service
Tax Levy
Self Supporting

The City's tax levy for debt service grew between 2005-2008, and is expected to resume a growth trend in 2011. Debt service tax levies were restrained by growing Tax Increment District (TID) revenues, use of debt reserves, developer financed (non-GO) loans to the City, and one-time refinancings of City debt to lower interest rates. Half of the projected growth in the tax levy is due to a projected increase in interest rates on the annual cashflow RAN borrowings that are anticipated to rise significantly from 0.50% to a more normal 3.00% rate.

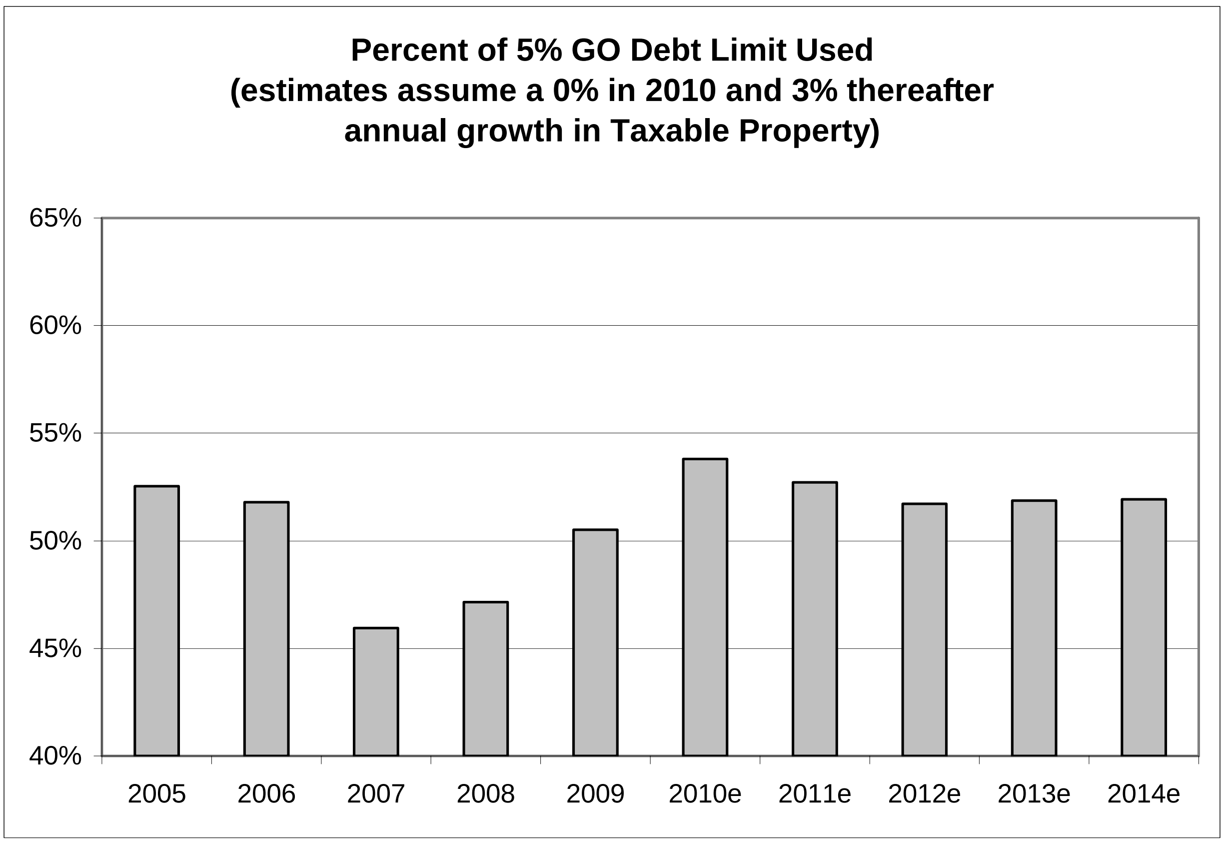
Assuming existing capital authorizations and capital spending as projected in the Draft 2010-2014 City Capital Improvements Plan, the tax levy for debt service is projected to grow from $69 million in 2010 to $86 million in 2014. This assumes an annual draw of $5 million on the PDAF for 2011-2014.

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 debt a municipality can issue to five percent of its equalized (market) property value (e.g., the property tax base). Since 2005, outstanding debt has grown by 14%, and property values have grown by 19%, resulting in a relatively unchanged legal debt limit used from 53% in 2005 to 51% in 2009. Over the last five years, the City tax base growth has averaged 4% annually despite a drop of 3% in 2009. Property values are anticipated to be unchanged for 2010. Assuming a 3.0% growth in property values in 2011-2014, the projected increase in outstanding debt will result in 52% of the debt limit being used by 2014.

CHART 6

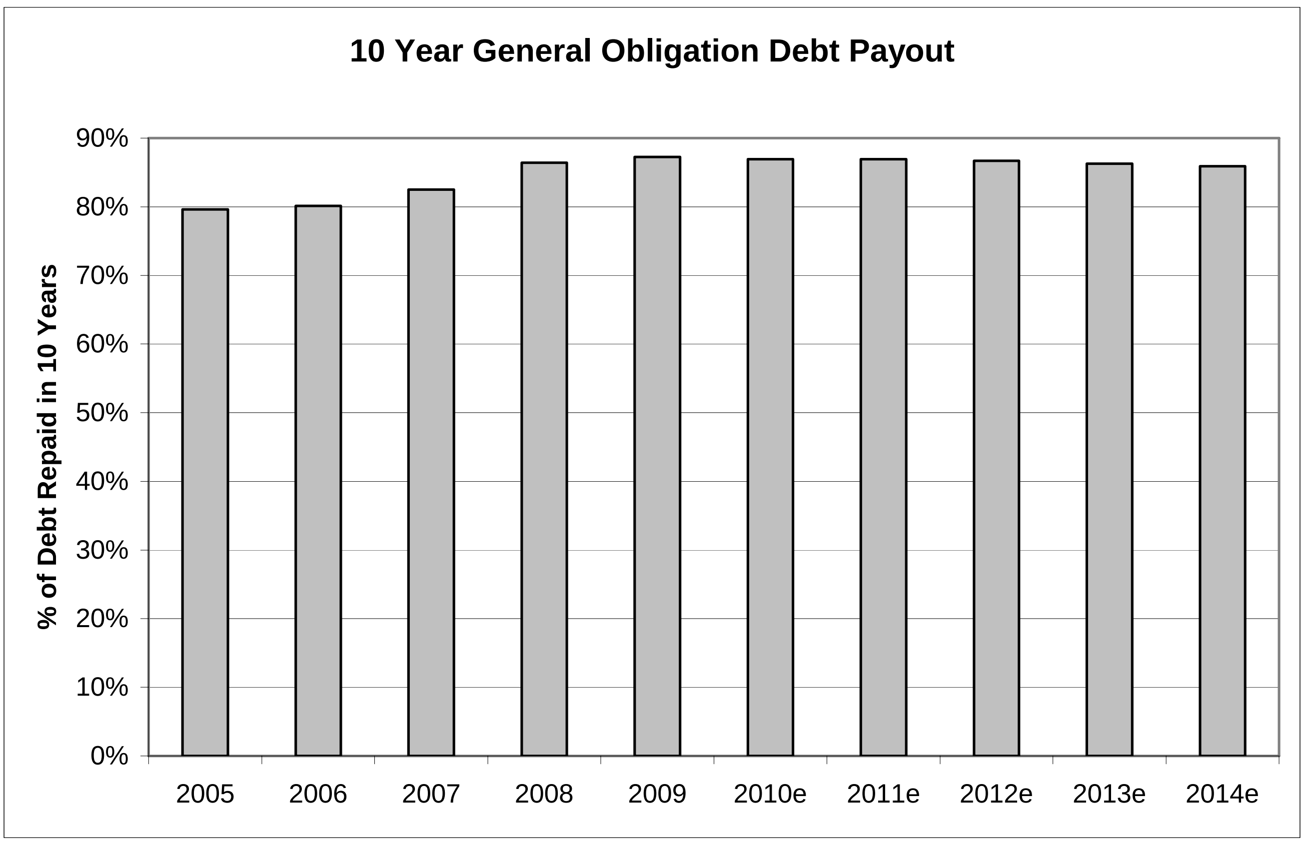


The rate of debt payout is another important facet of debt management (see Chart 7). The term “10 Year Debt Payout” is defined at a point in time as that percent of total GO debt that will be retired/repaid within the succeeding 10 years. It is a measure of how aggressively the City is repaying its debt. The higher the percentage, the faster debt will be paid off. The City’s 10 Year Debt Payout percentage remains very high, ranging from 80% to 87% in 2005-2009. It currently stands at 87%. It is projected to stay in the 80-85% range through 2014, well above the industry guideline of 50%.

In 2008, the percentage increased by 4% primarily due to the 10-year stated maturity of the $100 million of 2008 Commercial Paper.

The 2005 Variable Rate debt and the 2008 Commercial Paper are both ways for the City to take advantage of historically average low short-term interest rates. At this time, the structurally long stated maturity of the 2005 Variable Rate is substantially offset by the structurally short stated maturity of the 2008 Commercial Paper. It is anticipated that the long 2005 Variable Rate Debt will be amortized faster than the stated maturity, and a portion of the short 2008 Commercial Paper will remain outstanding longer than the stated maturity date (refinanced into longer fixed rate debt).

CHART 7



The Commission's "Statement of Policy" (adopted 9/3/97) targets an Unrestricted PDAF balance between 15 to 20% of non-self supporting (tax levy) General Obligation debt (the "Balance Ratio"). At the time the policy was adopted, the Balance Ratio was approximately 20%. At the end of 2009, the Balance Ratio was 10.6% compared to 11.6% in 2007, well below the 15% minimum target. Chart 8 shows the historical Balance Ratio, and Chart 9 compares the PDAF Balance with Total GO Debt.

CHART 8

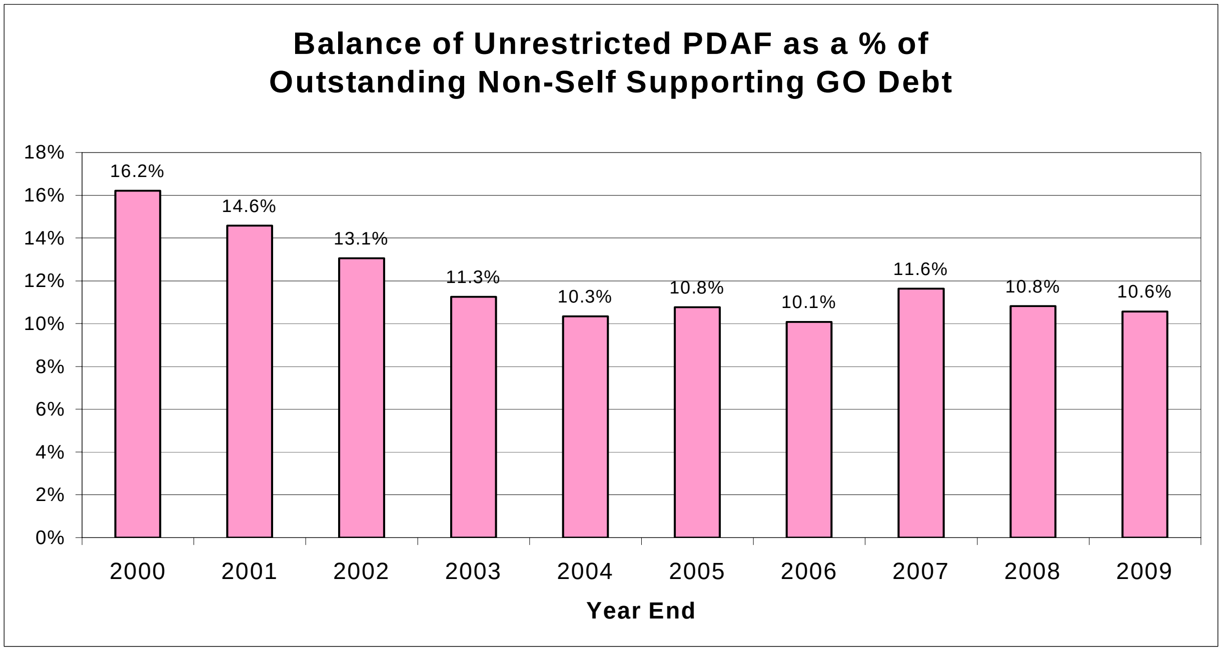
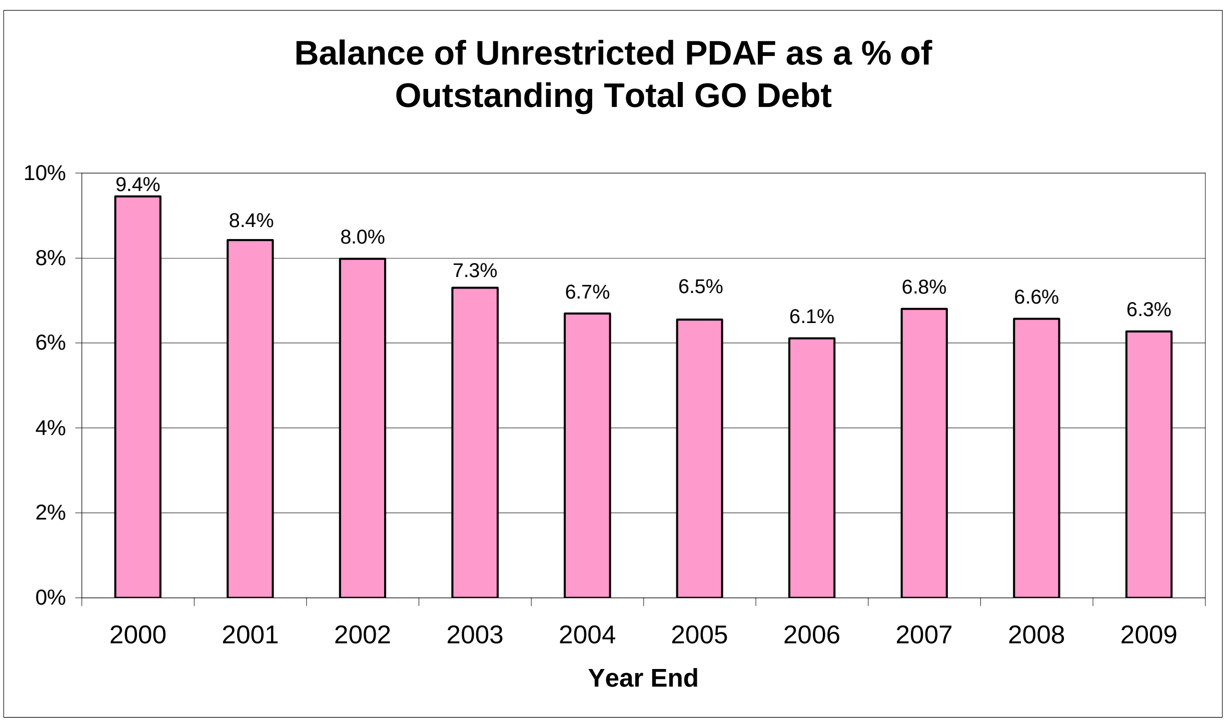


CHART 9



Projections 2010-2014

The following table presents the data supporting the historic trends and projections presented above. These projections are based on the draft CIP prepared by the City Budget Office, and the adopted 2010 Budget. A major assumption is that most future City borrowing for water and sewer replacement purposes will be accomplished through revenue supported obligations. A nominal amount of future GO debt for these purposes is assumed.

TABLE 1

Report of Past & Projected Debt and Debt Service
For the Years 2005 to 2014
($ in millions)

	Actual					Act/Proj	Projected			
Outstanding General Obligation Debt - Year End	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Self-Sustaining Debt	$278.4	$313.9	$310.4	$304.6	$327.3	$385.4	$392.0	$394.3	$400.7	$415.5
Non Self-Sustaining (Tax Levy) Debt	432.0	483.6	436.9	470.8	477.1	470.4	471.6	478.2	500.0	512.8
Total Oustanding G.O. Debt	$710.4	$797.5	$747.3	$775.4	$804.5	$855.8	$863.6	$872.5	$900.7	$928.4

	Actual					Act/Proj	Projected			
Debt Service for the Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total G.O. Debt Service	$120.9	$114.3	$123.2	$132.4	$142.5	$151.5	$155.3	$155.3	$157.2	$162.9
Plus: Net RAN Debt Service	4.0	7.9	8.7	8.0	3.8	1.3	2.1	5.4	9.0	9.0
Total Debt Service	$124.9	$122.1	$131.9	$140.5	$146.3	$152.8	$157.3	$160.7	$166.2	$171.9
Debt Service Revenues	(68.0)	(58.4)	(57.2)	(58.9)	(69.2)	(78.3)	(80.6)	(79.0)	(77.5)	(80.6)
Debt Levy Requirements before PDAF Draw	$56.9	$63.7	$74.7	$81.6	$77.1	$74.5	$76.7	$81.7	$88.6	$91.3
Application of PDAF Draw	$4.0	$5.0	$7.3	$7.4	$6.5	$5.4	$5.0	$5.0	$5.0	$5.0
Debt Service Levy after PDAF Draw	**$52.9**	**$58.7**	**$67.4**	**$74.2**	**$70.6**	**$69.1**	**$71.7**	**$76.7**	**$83.6**	**$86.3**

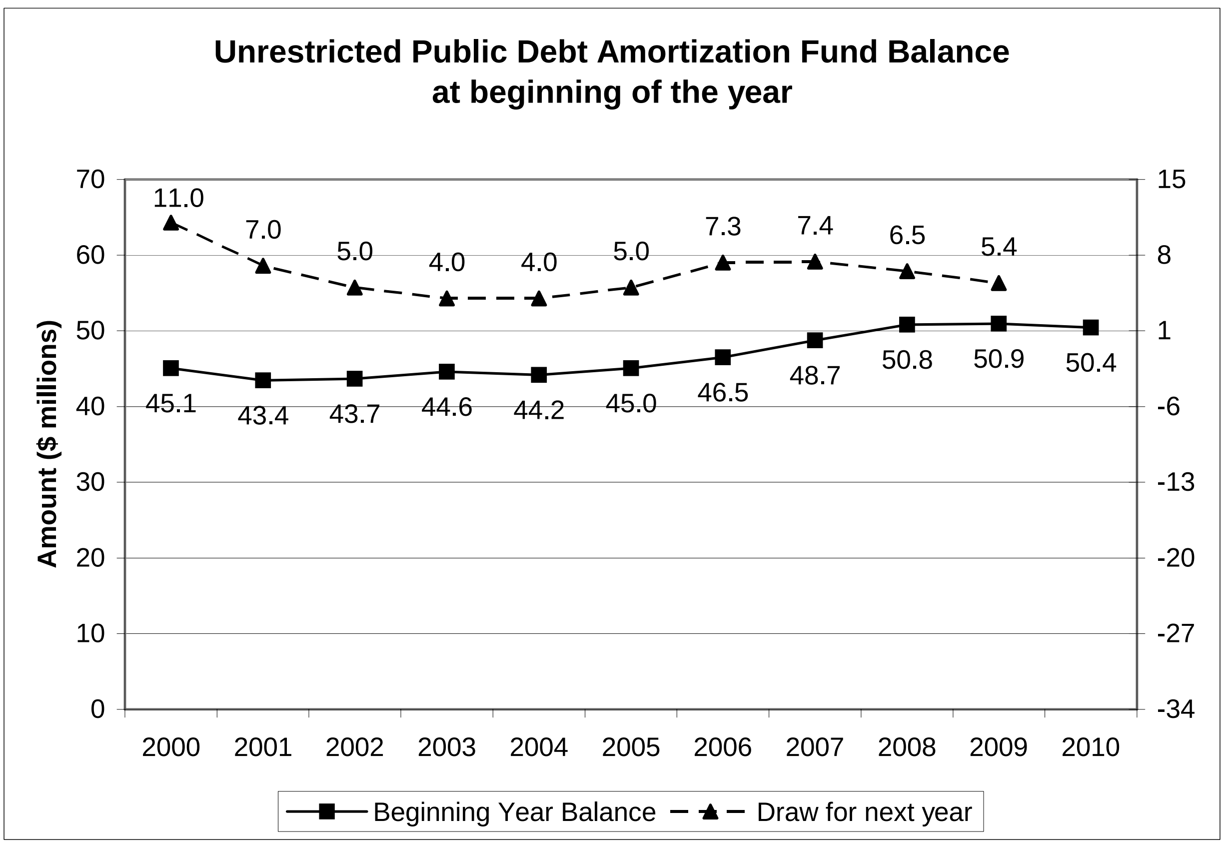
Amounts may not add due to rounding

Trends in the Public Debt Amortization Fund Balance

Each September, 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 10 below shows the trend in annual PDAF withdrawals and the remaining unrestricted reserve balance levels since 2000. Withdrawal amounts ranged from $11 million down to $4 million. After the reserve withdrawal for 2000 budget purposes, the PDAF unrestricted balance at the start of 2000 totaled $45.1 million. The current balance totals $50.4 million, an increase of $5.3 million (12%) over the last ten years.

CHART 10



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. Such borrowing is limited to the following purposes as defined in the Public Debt Commission "Statement of Policy" as follows: financing of delinquent property taxes; special assessment financing; parking; tax incremental district financing (TID); Water Works capital borrowing; and non-property tax supported school borrowing. In 2005, a $7 million per year transfer from the Sewerage Maintenance Fund to the Debt Service Fund was implemented in order to support debt issued for Sewerage purposes. By 2009, the amount was increased to $9 million. As such, Sewerage debt was reclassified to Self-supporting.

Tax Levy Supported Debt: General obligation borrowing for streets, new sewers, public schools, bridges, etc. - all purposes other than that as defined as "Self-Supporting". For Tax levy Supported debt, the City tax levy is the primary source of debt repayment.

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 for 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 payments from the Water utility and interest earned by the Debt Service Fund.

Debt Service Levy: Funding directly received from an 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. Without significant Sewer Rate increases, this assumption may not be realized.

2. GO Borrowing Projections – For 2010 through 2014, capital borrowing is based upon anticipated levels as appearing in the draft City of Milwaukee 2010 - 2014 Capital Improvements Plan (the "Plan").

3. Borrowing Levels - Delinquent Taxes: This borrowing level is as estimated by Comptroller and is based on recent historical experience.

4. Interest Rates: Are based upon Comptroller estimates and reflect the specific structuring of each type issue. For instance, Tax Incremental District related interest levels are structured for 17-year level principal 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 August 1, 2010.

6. No new borrowing or debt service is included to finance City or MPS pension contributions, or Other Post Employment Benefits, beyond what has already been issued.

7. General Debt Service revenues will not be subject to any material unanticipated change in interest rates, borrowing amounts or other major changes.

8. Revenues for enterprises, schools, and tax incremental districts, are adequate to reimburse the Debt Service Fund for debt service payments on self-supporting debt.