

FISCAL REVIEW SECTION—LEGISLATIVE REFERENCE BUREAU

2006 Proposed Budget Summary: City Debt

	<u>2005</u>	<u>2006 Proposed</u>	<u>Change</u>	<u>%Change</u>
Debt Budget	\$122,711,665	\$125,533,764	\$2,822,099	2.3%

2006 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, 2004, the outstanding debt service requirements for the City totaled \$879.8 million, an increase of \$11.2 million from 2003.
3. Approximately \$302.9 million or 34.4% of the \$879.8 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 \$134.1 million. The other components are: schools--\$48.9 million; Water Works--\$41.4 million; parking--\$20.2 million; special assessments--\$30.4 million; delinquent taxes--\$27.8 million; and land bank--\$239,000.
5. The debt needs of the City in 2006 total \$125.5 million, an increase of \$2.8 million from the 2005 debt budget.
6. The tax levy-supported portion of the 2006 debt budget is \$58.7 million, an increase of \$5.8 million from the 2005 tax levy contribution. The increase is due to a decrease in revenues of \$3 million and an increase in tax levy related debt of \$2.8 million.
7. Debt service costs related to city borrowing for capital improvement projects are estimated to total \$54.5 million in 2006, an increase of \$3.3 million from 2004.

**Outstanding Debt Service Requirements by Purpose
City of Milwaukee General Obligation Bonds and Notes
As of December 31, 2004
(In Millions)**

Purpose	Total	% of Total
<i>Self-Supporting Debt</i>		
Tax Incremental Districts	\$ 134,059	15.24%
Parking	20,236	2.30%
Water	41,396	4.71%
Delinquent Taxes	27,790	3.15%
Special Assessments	30,365	3.45%
Land Bank	239	0.03%
School Debt	48,854	5.55%
Subtotal	\$302,939	34.43%
<i>Tax Levy Debt</i>		
Economic Development	\$ 29,224	3.32%
Public Facilities	205,874	23.40%
Streets, Sewers, Bridges	200,327	22.77%
Other	14,767	1.68%
School Debt	126,658	14.40%
Subtotal	\$576,850	65.57%
TOTAL REQUIREMENTS	\$879,789	100.00%

CITY DEBT EXPENDITURES

PURPOSE	2005 ADOPTED	2006 PROPOSED	CHANGE (+/-)
<i>Self-Supporting Debt</i>			
Parking	\$ 3,968,083	\$ 2,620,828	\$ -1,347,255
Tax Increment Districts	13,063,219	11,953,000	-1,110,219
Delinquent Tax Financing	14,793,546	15,239,027	445,491
Special Assessments	3,468,496	3,555,000	86,504
Land Bank	0	42,000	42,000
Water Works	6,463,794	6,050,000	-413,794
Sewer Maintenance Fund	11,327,283	9,948,000	-1,379,283
Port – South Harbor	186,523	0	-186,523
Brewer MEDC Loan	1,808,660	1,749,352	-59,308
MPS Energy Retrofit	528,318	256,088	-272,230
MPS-Loans from State	4,194,487	2,182,046	-2,012,441
MPS – Pension Refunding Bonds	295,000	1,265,460	970,460
SUBTOTAL	\$ 60,097,409	\$ 54,860,801	\$ -5,236,608
<i>Tax Levy Debt</i>			
Schools	\$ 11,486,413	\$ 10,789,002	\$ -697,411
General City	51,223,839	54,528,961	3,305,122
Revenue Anticipation Notes, City & MPS	7,372,500	13,910,000	6,537,500
SUBTOTAL	\$ 70,082,752	\$ 79,227,963	\$ 9,145,211
TOTAL DEBT NEEDS	\$130,180,161	\$134,088,764	\$ 3,908,603
Deduction for PDAF Prepayment	\$ -4,000,000	\$ -5,000,000	\$ -1,000,000
Deduction for Segregated Special Assessment	-3,468,496	-3,555,000	-86,504
TOTAL	\$122,711,665	\$125,533,764	\$ 2,822,099

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 suspends the Infrastructure Cash Conversion Policy goal of 100%. The percentage of financing in 2006 is 76.6%. 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 2006 general city capital improvements budget totals \$151.7 million, an increase of \$56.8 million or 59.8% from the 2005 budget of \$94.9 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 \$75.9 million.
5. The largest source of funding for capital projects in 2006 is tax levy-supported debt financing, approximately \$67.2 million or 44.3% of total funding. This is a significant increase from 2005, resulting from funding the City Hall Restoration.
6. The second largest source of funding for capital projects is Tax Incremental District borrowing, representing \$45.8 million or 30.2% of total funding sources.
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. Tax levy (cash) financing totals \$12.9 million or 8.5% of total city capital funding in 2006, compared to \$14.2 million or 15.5% of the total in 2005.

9. Major capital borrowing highlights:

- The 2006 capital budget provides \$17.7 million for the multi-year City Hall Restoration project, comprising 22% of new general obligation borrowing in 2006.
- The 2006 capital budget includes \$24 million for the Menomonee Valley Facilities Relocation Project, which will relocate DPW facilities from 6th & Canal Streets to the Tower Automotive Site. This project represents 29% of 2006 borrowing authorizations.
- The 2006 budget includes \$50 million in funding (\$45.8 million is self-supporting borrowing and \$4.2 million in cash revenues) for Tax Incremental Financing Districts, an increase of \$25.8 million from 2005.

Public Debt Amortization Fund (PDAF)

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. The PDAF withdrawal for 2006 budget purposes totals \$5 million, an increase of \$1 million from 2005.
6. For the 2003 budget and prior years, 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. The

additional debt was immediately cancelled, avoiding future debt service costs. For 2004 budget purposes, the Public Debt Commission approved a \$4 million withdrawal, to be applied to reduce the city debt tax levy, rather than the capital improvements tax levy. At the end of 2003, fund assets were used to prepay a portion of the principal and interest on city debt due in 2003. This resulted in a reduction in the debt levy portion of the 2004 city debt budget. This change increased the tax levy supported portion of the 2004 Capital Improvements budget.

7. PDAF earnings in the late 1990's averaged about \$10 million annually. Declining interest rates in recent years have significantly reduced those returns. Hence, revenues are predicted to be about \$4 million this year. Combined with the \$4 million withdrawal, the \$44.2 million fund balance is expected to grow slightly in 2005.

Milwaukee Public Schools Debt

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 \$10.8 million in 2006, a decrease of \$0.7 million from 2005.
3. Since 1989, the City has provided MPS with a total of \$178.3 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 unfounded 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 2006 capital budget includes levy borrowing authority of \$9 million for MPS facilities, a decrease of \$3 million or 25% from 2005. Of that amount, \$7 million is for building maintenance projects and \$2 million is for the Bradley School of Technology Project to develop recreation facilities, including soccer fields.

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