Report of Projected Debt & Debt Service For the Years 2012 through 2021 City of Milwaukee October 1, 2017

Office of the Comptroller
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City of Milwaukee- Public Debt Commission

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For the Years 2012 through 2021
August 15, 2017

The Public Debt Commission's *Policy for the Use of the Balance of the Public Debt Amortization Fund,* approved on October 1, 2015, calls for the Comptroller as Commission Secretary to annually prepare an estimate of projected debt and debt service.

Trends 2012-2016

Over the period 2012-2016, the amount of General Obligation (GO) debt issued varied from $68 million to $241 million per year while the amount retired ranged from $111 million to $120 million per year. Much of the issuance variability between years was due to timing of debt issuance, and not as a result of changes in authorizations or capital spending. Some notable exceptions include: 2012 had lower GO issuance due to the conversion of the commercial paper program to non-GO extendable municipal commercial paper; 2013 had $62 million for early payment of the $60 million annual supplemental payment to the Employes' Retirement System (ERS); and 2016 had $20 million for temporary borrowing for water, $12 million for the new arena for the Bucks, and $25 million for the conversion of non-GO extendable municipal commercial paper to GO lines of credit.

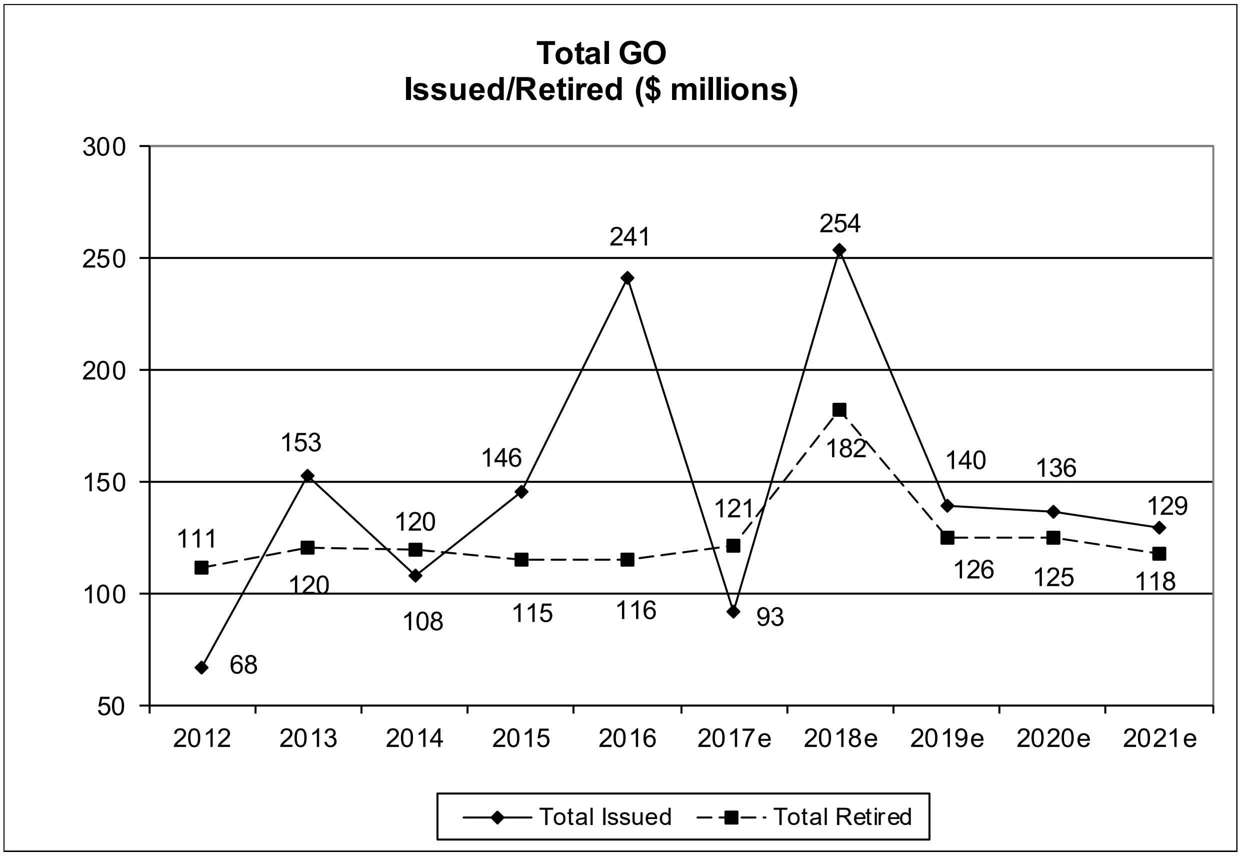
GO debt issuance is projected to average around $150 million per year.

The majority of the net new debt is projected to be for Tax Incremental Districts (Streetcar, and Lakefront Interchange) and Streets. The 2017 Budget and the Capital Improvement Plan has $30+ million per year of new borrowing for Streets and $25 million per year for Tax Incremental Districts. In 2018, it is anticipated that the ERS pre-payment program will be renewed for another 5 years with a $70 million borrowing.

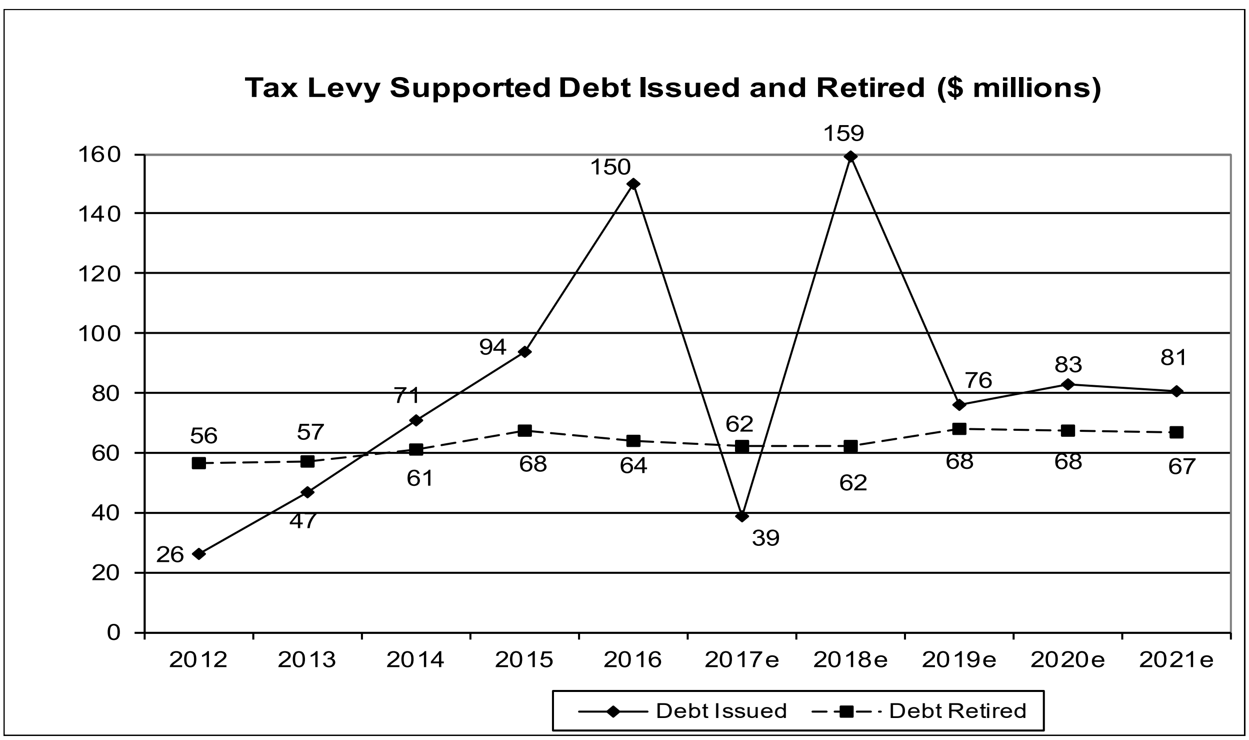
On average, the issuance of tax-levy supported debt has exceeded debt retired. It is projected that new tax-levy supported debt will exceed tax-levy retired debt by $15 million per year.

$62 million for debt for the ERS is categorized as self-supporting debt. Although it will be paid by the tax levy (or other general revenues of the City), it is not anticipated to be paid from the tax levy for debt service. The spike in self-supporting debt issued and retired in 2018 is due to the ERS financing (retirement of the 2013 financing, and issuance of a new 5-year financing).

CHART 1



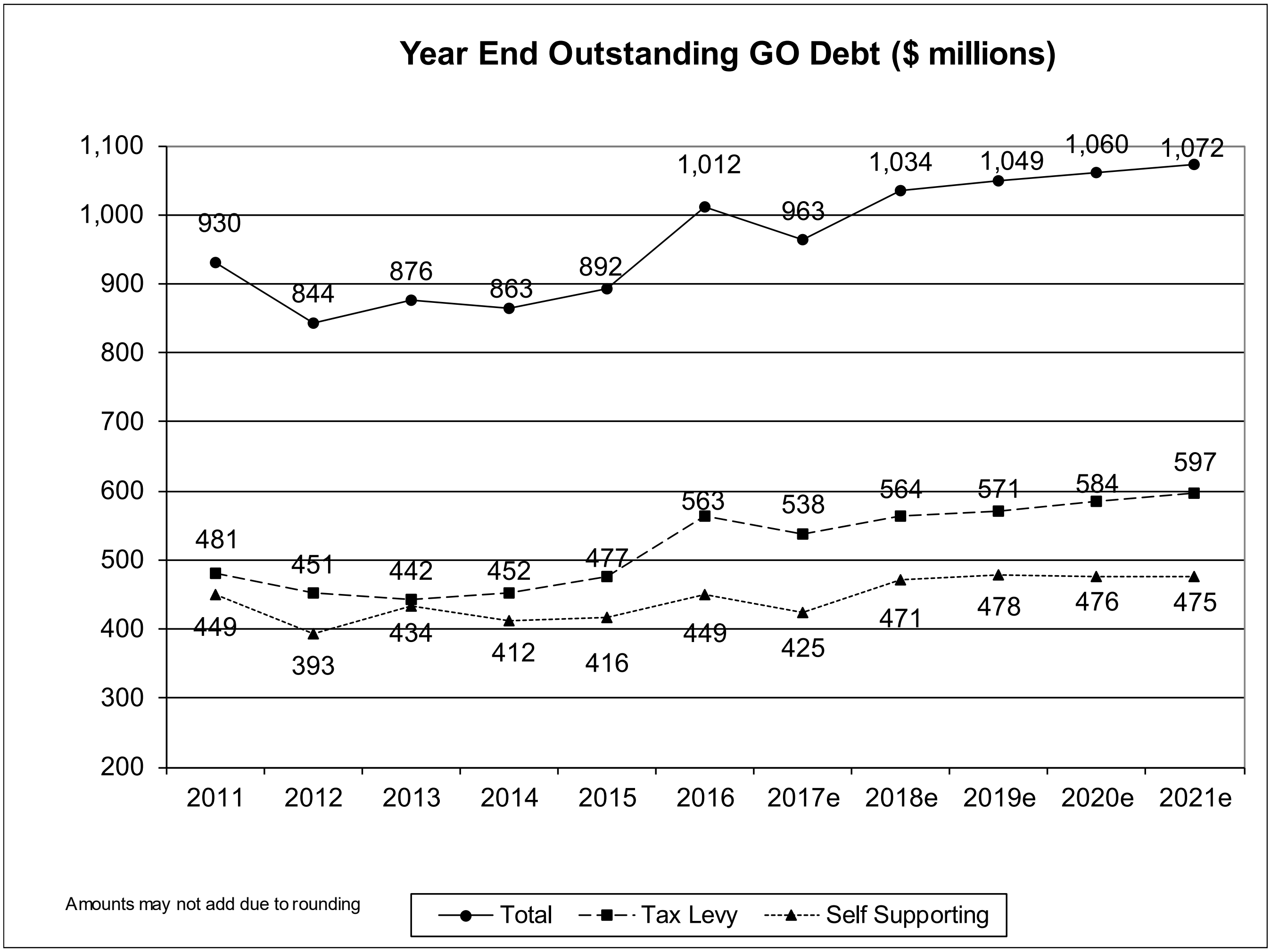
Total GO
Issued/Retired ($ millions)
300
250
200
150
100
50
2012
2013
2014
2015
2016
2017e
2018e
2019e
2020e
2021e
68
153
108
146
241
93
254
140
136
129
111
120
120
115
116
121
182
126
125
118
Total Issued
Total Retired



Tax Levy Supported Debt Issued and Retired ($ millions)
160
140
120
100
80
60
40
20
0
2012
2013
2014
2015
2016
2017e
2018e
2019e
2020e
2021e
26
47
71
94
150
39
159
76
83
81
56
57
61
68
64
62
62
68
68
67
Debt Issued
Debt Retired

At the end of 2016, GO debt outstanding was at $1,012 million. This amount represents an $82 million increase (9%) from $930 million at the end of 2011. During that same time period, tax-levy supported increased to $563 million from $481 million (17%), and self-supporting debt ended unchanged at $449 million.

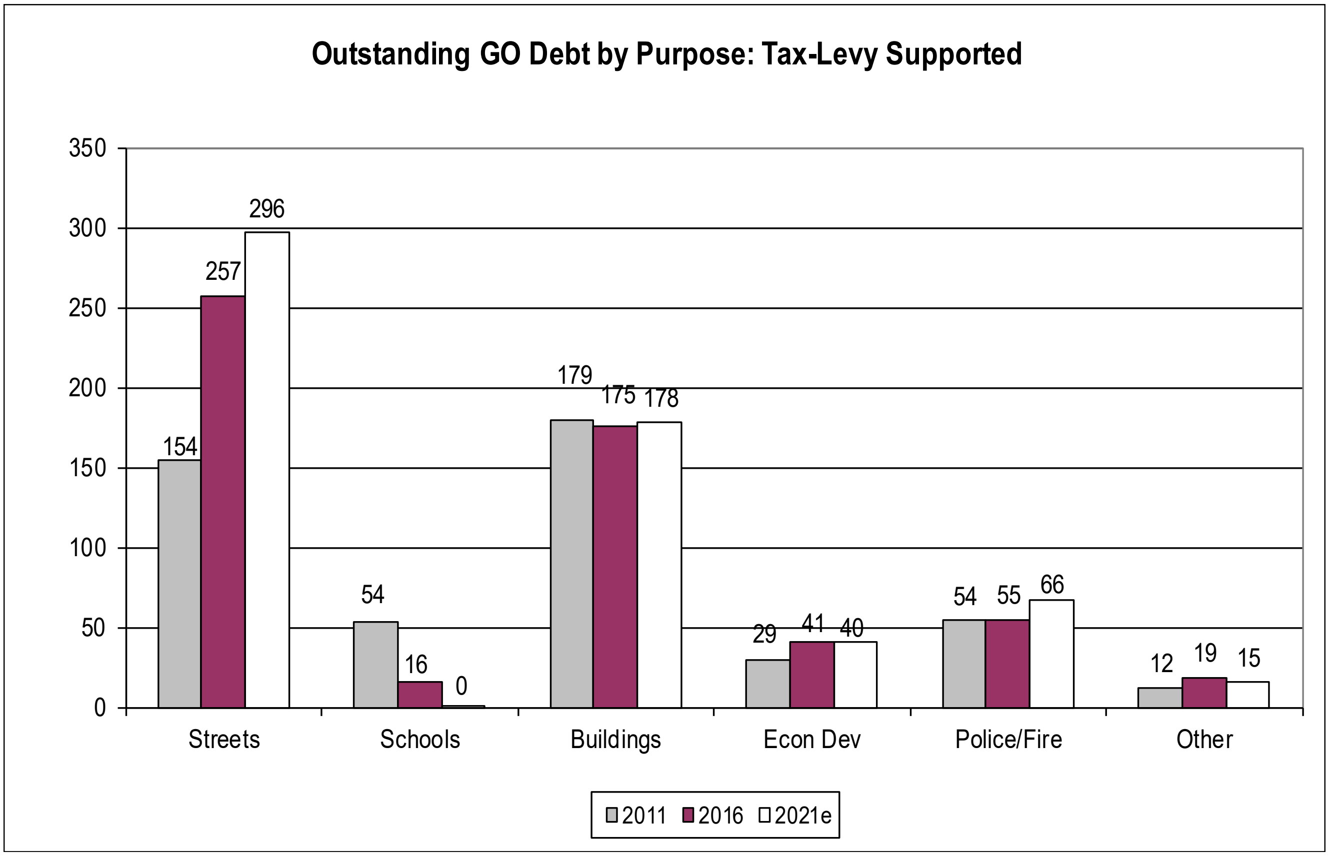
CHART 2



Total Outstanding GO debt is projected to increase by $60 million (6%), to $1,072 million in 2020, with tax-levy supported debt increasing by $34 million (6%).

The major increase in tax-levy supported debt is for the Streets program. The major increase in self-supporting debt is for Tax Increment Districts.

CHART 3



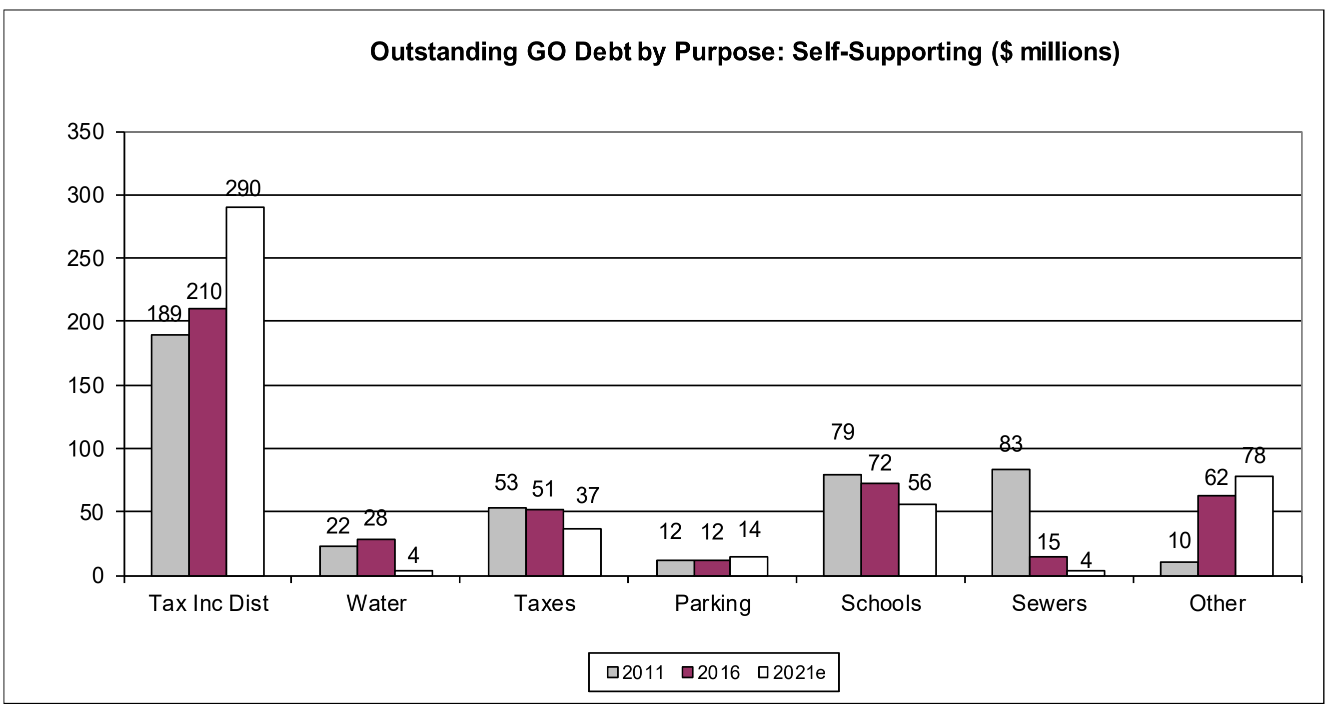


CHART 4

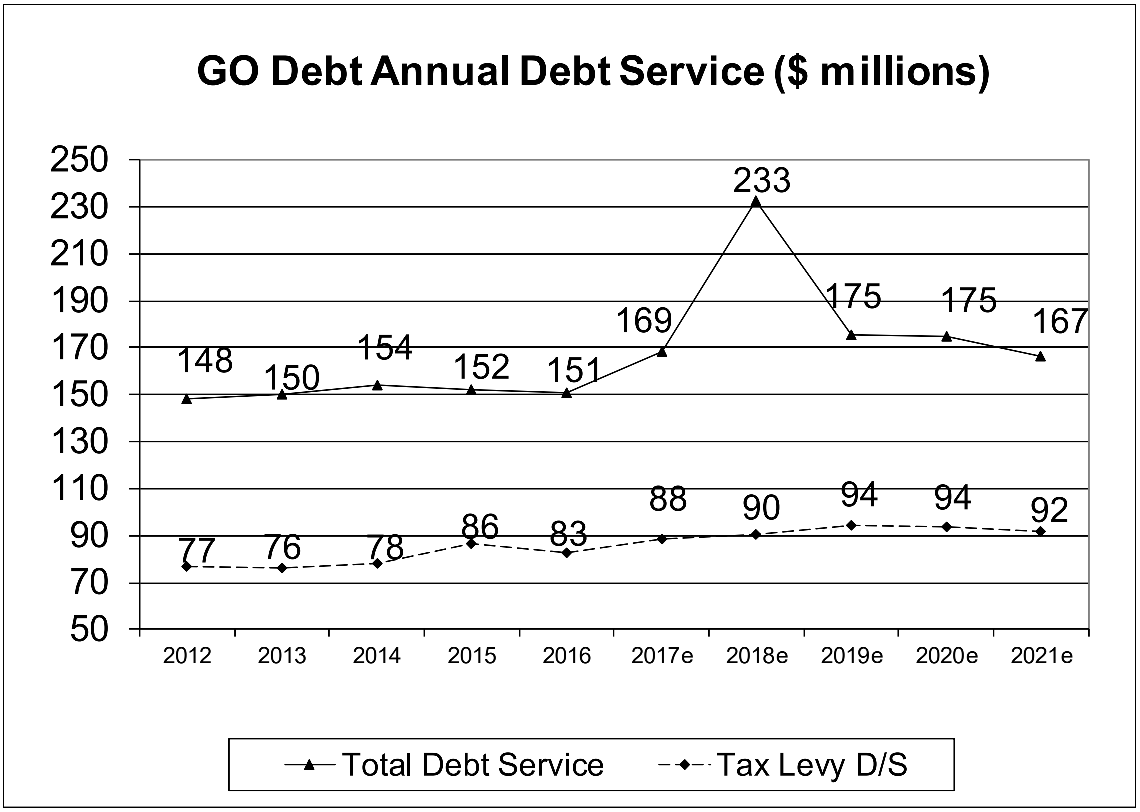


CHART 5

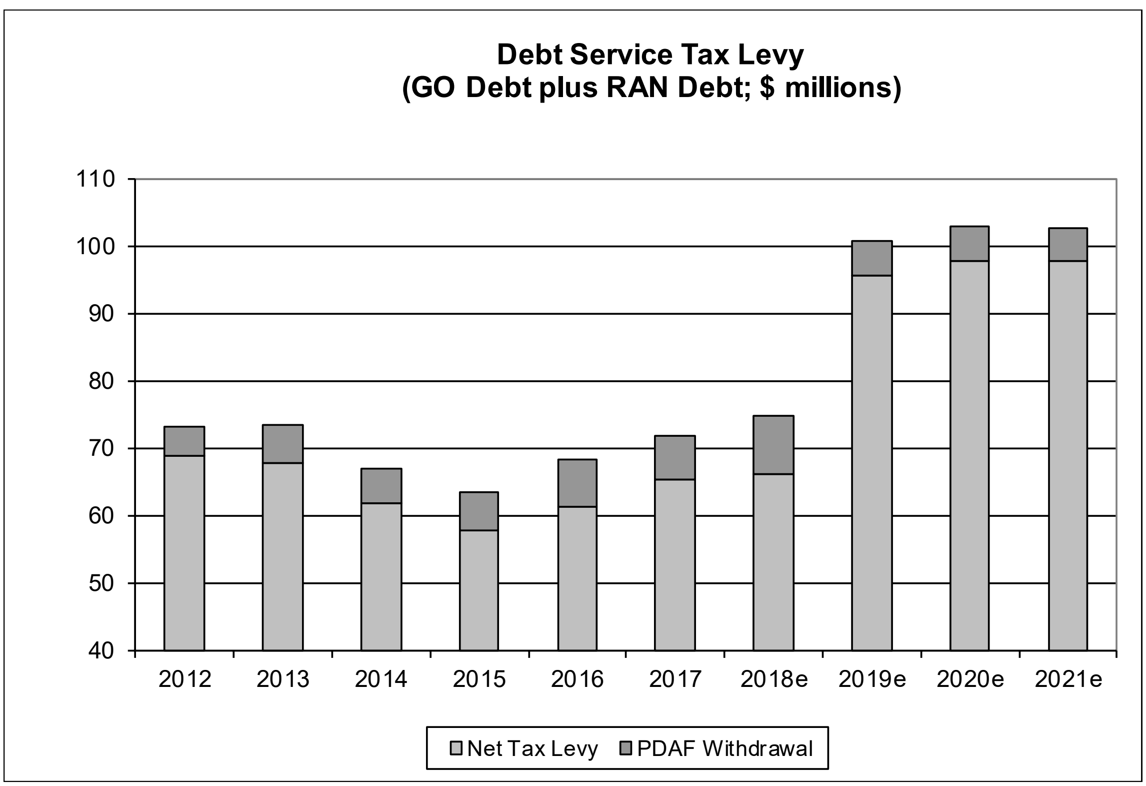


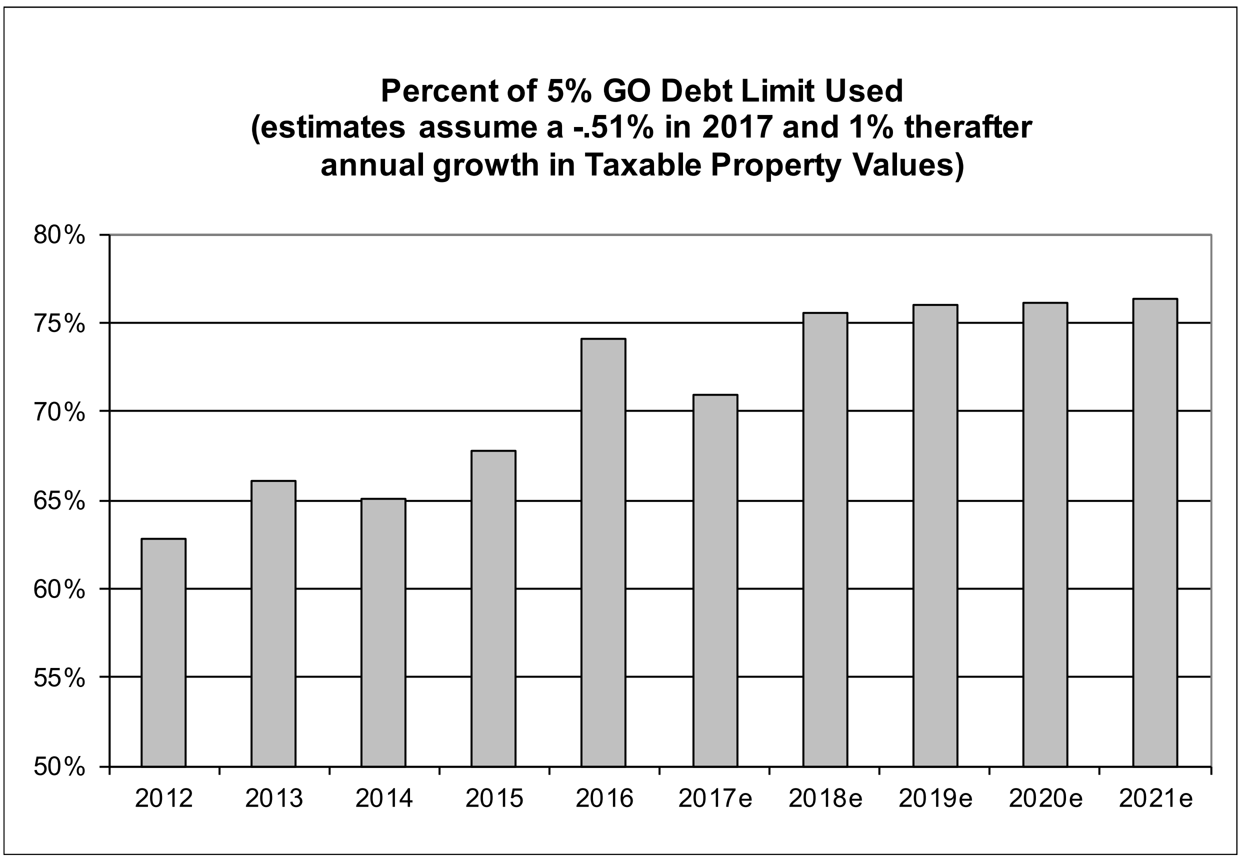
Chart 4 shows that the Debt Service on Tax Levy supported debt has been gradually increasing from $77 million in 2012 to an estimated $88 million in 2017. Chart 5 shows that the Tax Levy plus PDAF Withdrawal has totaled as low as $63 million. The difference being made up by drawdowns of accumulated excess in the Debt Service Fund. Currently, there is little, if any, excess remaining in the Debt Service Fund. The fully allocated cost, plus interest on cash flow borrowings, is projected to be over $100 million per year by 2019. Approximately $7 million of the projected growth in the tax levy over the next five years (from 2012-2016 levels) is due to a projected increase in short-term interest rates on the annual cash flow RAN borrowings. Short-term rates are projected to rise significantly from 0.50% in 2016 to a more normal 3.00% rate.

Based upon projected issuance, the tax levy for debt service is projected to grow from $61 million in 2016 to $97 million in 2021. This assumes an annual draw on the PDAF of $8.5 million for 2018, and $5 million for 2019-2021.

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 GO debt a municipality can issue to five percent of its equalized (market) property value (e.g., the property tax base). Since 2012, the growth in debt has resulted in an increase in the legal debt limit used from 63% in 2012 to 74% in 2016. The chart below assumes a -.51% change in Equalized Value in 2017, and +1.0% in 2018-2021.

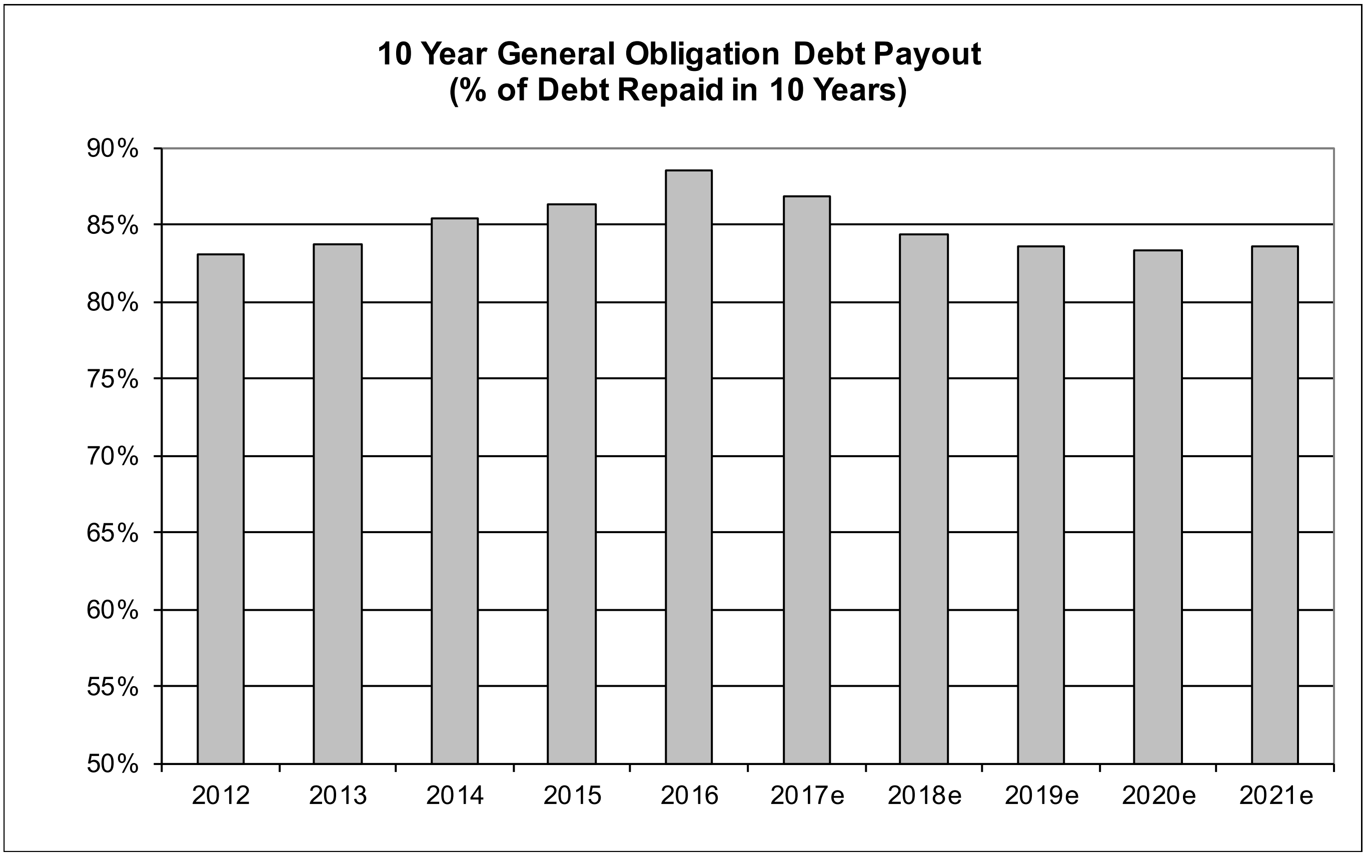
Between 1996-2000, the percent of legal debt limit used, grew from 57% to 69%. Between 2000-2007, the ratio declined to 45% due to the unusually large increases in the valuation of properties. The 60-65% level is high, but manageable. Exceeding the 70% level is a concern. Assuming a limit of 80%, in 2019, the available practical debt limit would be $49 million of additional debt. Some of the total available capacity is required to be maintained for the $200 million Lines of Credit, and $70 million in 2018 for a continuation of the ERS prepayment program.

CHART 6



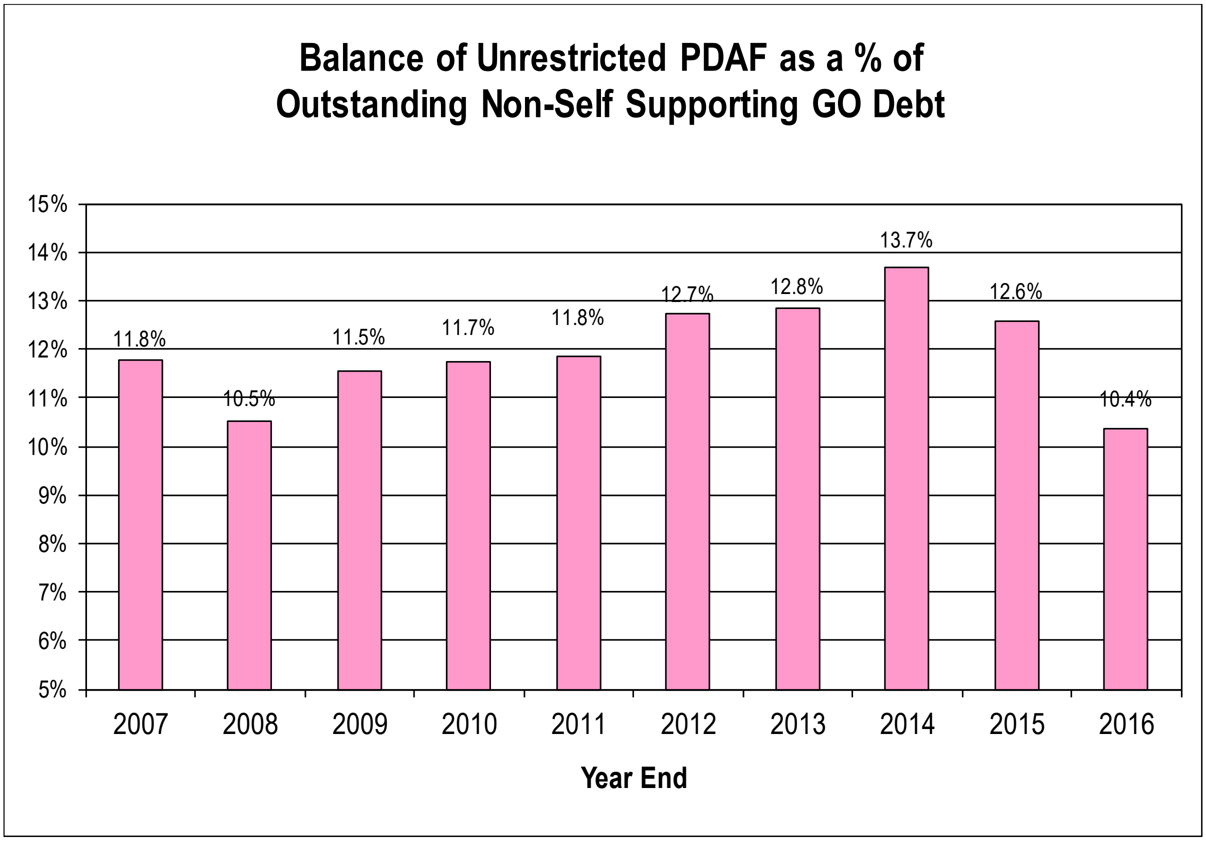
The rate of debt payout is another important facet of debt management (see Chart 7). The term “10 Year Debt Payout” is defined as the percent of total GO debt that will be retired/repaid within the next 10 years. It is a measure of how aggressively the City is repaying its debt. The higher the percentage, the faster debt is scheduled to be paid off. The City’s 10 Year Debt Payout percentage remains very high, ranging from 83% to 88% in 2012-2016. It is projected to decline to 84% in 2018, still well above the industry guideline of 50%.

CHART 7



The Commission's Policy (adopted 10/1/15) targets an Unrestricted PDAF balance between 5-15% of non-self supporting (tax-levy) GO debt (the "Balance Ratio"). The increase for 2014 is due to a transfer of $4.9 million of the excess in the Segregated portion to the Unrestricted portion of the PDAF.

CHART 8



Projections 2017-2021

The following table presents the data supporting the historic trends and projections presented above. These projections are based on the borrowing projections and the adopted 2017 Budget.

TABLE 1

Report of Past & Projected Debt and Debt Service For the Years 2012 to 2021 ($ in millions)

	Actual					Act/Proj	Projected			
Outstanding General Obligation Debt - Year End	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Self-Sustaining Debt	$393	$434	$412	$416	$449	$425	$471	$478	$476	$475
Non Self-Sustaining (Tax Levy) Debt	$451	$442	$452	$477	$563	$538	$564	$571	$584	$597
Total Oustanding G.O. Debt	$844	$876	$863	$892	$1,012	$963	$1,034	$1,049	$1,060	$1,072
	Actual					Act/Proj	Projected			
Debt Service for the Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total G.O. Debt Service	$148.1	$149.9	$154.4	$152.1	$150.6	$168.6	$232.6	$175.4	$174.8	$166.5
Plus: Net RAN Debt Service	0.3	0.3	0.4	0.2	0.6	2.2	2.7	4.9	7.5	9.6
Total Debt Service	$148.3	$150.2	$154.8	$152.3	$151.2	$170.8	$235.2	$180.3	$182.3	$176.1
Debt Service Revenues	(75.1)	(76.9)	(87.9)	(89.0)	(83.0)	(99.0)	(160.5)	(79.7)	(79.6)	(73.4)
Debt Levy Requirements before PDAF Draw	$73.2	$73.3	$66.8	$63.3	$68.2	$71.8	$74.7	$100.6	$102.7	$102.7
Application of PDAF Draw	$4.5	$5.5	$5.0	$5.5	$7.0	$6.5	$8.5	$5.0	$5.0	$5.0
Debt Service Levy after PDAF Draw	**$68.7**	**$67.8**	**$61.8**	**$57.8**	**$61.2**	**$65.3**	**$66.2**	**$95.6**	**$97.7**	**$97.7**

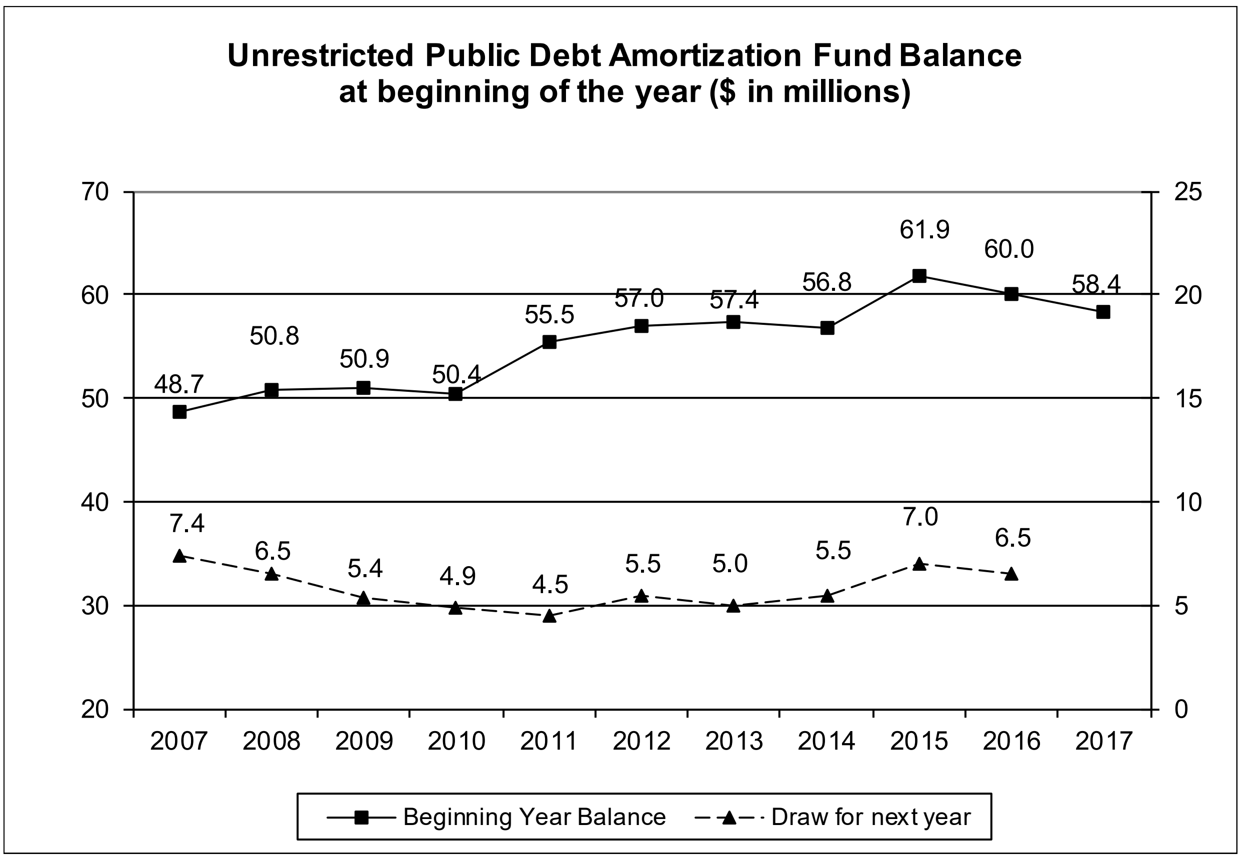
Amounts may not add due to rounding

Trends in the Public Debt Amortization Fund Balance

Each summer, 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 9 below shows the trend in annual PDAF withdrawals and the beginning unrestricted reserve balance levels. Over the past 10 years, withdrawal amounts have ranged between $4.5 to $7.4 million. The PDAF Unrestricted balance at the start of 2007 totaled $48.7 million. The balance on January 1, 2017 totaled $58.4 million, an increase of $9.6 million (20%) over the last ten years.

CHART 9



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 for debt service. Such borrowing includes: financing of delinquent property taxes; special assessment financing; parking; sewers; tax incremental district financing (TID); Water Works capital borrowing; school borrowing reimbursed by MPS; and the ERS borrowing.

Tax-Levy Supported Debt includes: streets, bridges, buildings, police, fire, economic development, public schools – not reimbursed, and other non-reimbursed purposes.

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 in 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 and Sewer utilities, delinquent tax payments, parking, special assessments, and interest earned by the Debt Service Fund.

Debt Service Levy: 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.

2. GO Borrowing Projections – For 2017 through 2021, capital borrowing is based upon anticipated levels as appearing in the draft City of Milwaukee 2017 - 2022 Capital Improvements Plan (the "CIP"), recent trends, Contingent Borrowing approved through August 1, 2017, and continuation of the ERS prepayment program.

3. Borrowing Levels - Delinquent Taxes: Estimate is based upon recent historical experience.

4. Interest Cost: Interest rates are projected, and maturity dates reflect the specific structuring of each type issue. For instance, Tax Incremental District related interest levels are structured for 17-year level 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, 2017.

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

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