RESEARCH & ANALYSIS SECTION—LEGISLATIVE REFERENCE BUREAU

2008 Proposed Budget Summary: City Debt

	2007	2008 Proposed	Change	%Change
Debt Budget	**$132,020,403**	**$156,630,308**	**$24,609,906**	**5.1%**

2008 Budget Highlights

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

2. As of December 31, 2006, the outstanding debt service requirements for the City totaled $1.02 billion, an increase of $41.8 million from 2005.

3. Approximately $358.2 million or 35.1% of the $1.02 billion total General Obligation (GO) Debt Service due 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 service 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 service is tax incremental districts, which total $201.6 million in 2006. The other components are: schools--$59.9 million; Water Works--$28.8 million; Parking--$15.6 million; special assessments--$23.8 million; delinquent taxes--$28.9 million; and land bank--$121,000.

5. The debt service needs for the City in 2008 total $156.6 million, an increase of $24.6 million from the 2007 debt service budget. The majority of the increase ($22.1 million) is related to a temporary cash flow borrowing for the Sewer Maintenance Fund, and is funded by an offsetting revenue from sewer revenue Refunding Bonds.

6. The tax levy-supported portion of the 2008 debt service budget is $55.4 million, an increase of approximately $1 million from the 2007 tax levy contribution.

7. Debt service costs related to city borrowing for capital improvement projects are estimated to total $85.3 million in 2008, an increase of $22.4 million from 2007 of which $22.1 million is related to the $22.1 million for temporary borrowing related to the Sewer Maintenance Fund.

Outstanding Debt Service Requirements by Purpose
City of Milwaukee General Obligation Bonds and Notes
As of December 31, 2006
(In Thousands)

Purpose	**Total**	**% of Total**
Self-Supporting Debt		
Tax Incremental Districts	$201,637	19.75%
Parking	$15,677	1.54%
Water	$28,876	2.83%
Delinquent Taxes	$28,908	2.83%
Special Assessments	$23,863	2.34%
Land Bank	$ 121	0.01%
School Debt	$59,098	5.79%
Subtotal	**$358,180**	**35.09%**
Tax Levy Debt		
Economic Development	$ 32,549	3.19%
Public Facilities	292,921	28.69%
Streets, Sewers, Bridges	211,058	20.67%
Other	11,912	1.17%
School Debt	114,199	11.19%
Subtotal	**$662,639**	**64.91%**
TOTAL REQUIREMENTS	**$1,020,819**	**100.00%**

CITY DEBT EXPENDITURES

PURPOSE	2007 ADOPTED	2008 PROPOSED	CHANGE (+/-)
Self-Supporting Debt			
Parking	$ 2,256,394	$ 2,265,167	$ 8,773
Tax Increment Districts	15,723,326	17,572,216	$1,849,190
Delinquent Tax Financing	15,130,432	16,234,663	1,104,231
Special Assessments	2,833,261	2,575,084	-258,177
Land Bank	37,104	32,822	-4,282
Water Works	4,482,529	3,804,016	-678,513
Sewer Maintenance Fund	9,796,003	9,319,003	-477,000
Brewer MEDC Loan	1,063,339	1,063,339	0
MPS Energy Retrofit	250,623	130,475	--120,148
MPS-Loans from State	2,759,223	2,370,256	-388,967
MPS – Pension Refunding Bonds	25,000	0	- 25,000
SUBTOTAL	**$ 54,357,234**	**$ 55,367,341**	**$1,010,107**
Tax Levy Debt			
Schools	12,182,978	13,111,271	928,293
General City	62,856,453	85,253,545	22,397,092
Revenue Anticipation Notes, City & MPS	12,437,500	12,830,000	392,500
SUBTOTAL	**$ 87,476,931**	**$ 111,194,816**	**$ 23,717,885**
TOTAL DEBT NEEDS	**$141,834,165**	**$ 166,562,157**	**$ 24,727,992**
Fees & Issuance Costs	$ 1,040,000	$ 1,040,000	$ 0
Deduction for PDAF Prepayment	-7,300,000	-7,400,000	-100,000
Deduction for Segregated Special Assessment	-3,553,762	-3,571,849	18,087
TOTAL	**$132,020,403**	**$156,630,308**	**$24,609,905**

Public Debt Amortization Fund Withdrawal

As of December 31, 2006, the unsegregated Public Debt Amortization Fund (PDAF) totaled $48.7 million. This was an approximately $2.2 million increase from the comparable 2005 year-end balance.

On August 14, 2007, the Public Debt Commission approved a $7.4 million withdrawal from the PDAF. The withdrawal is used to offset the tax levy impact of 2008 debt service. The withdrawal is implemented by the purchase and immediate cancellation of notes, the proceeds of which are deposited to the Debt Service Fund, increasing the year-end balance available to pay debt service in 2008.

The current PDAF balance and withdrawal policy, adopted in 1997, primarily utilizes measurements of non-selfsustaining (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 non-self 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 $72.6 million due to amount of tax levy debt outstanding increasing from $391.1 million at end of 2000 to $484 million at end of 2006. However, due to draws between 1995-2000, the balance of the PDAF has been well below the 15% policy minimum since 2000.

Based on $484 million of non-self sustaining GO debt outstanding, as of December 31, 2006, the 2006 minimum and maximum recommended limits for the PDAF balance are $72.6 million and $96.8 million, respectively. With a PDAF withdrawal of $7.4 million in 2007 for 2008 debt service the 2007 estimated PDAF year-end balance is projected to increase by $1.4 million to $50.1 million, which is $22.5 million below the $72.6 million minimum balance recommended by the current PDAF reserve policy.

The withdrawal of $7.4 million from the Public Debt Amortization Fund reduces the 2008 debt service tax rate from $2.88 to $2.61.

The table on page 5 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)
1998	$52.7	$11.0
1999	$45.1	$11.5
2000	$43.4	$11.0
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	$47.2	$ 7.3
2007	$50.1 (estimated)	$ 7.4

(1) Following the PDAF draw down for the subsequent year's budget

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 $13.1 million in 2008, an increase of $900,000 from 2007.
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.

Cash Financing of Recurring Infrastructure Improvements

1. The 2008 general city capital improvements budget totals $139.4 million, a decrease of $15.9 million or 10.3% from the 2007 budget of $155.5 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 $64.1 million. Tax levy (cash) financing will decrease by $5.1 million from $9.1 million in 2007 to $4 million in 2008.

2. 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.

3. The Infrastructure Cash Conversion (ICC) 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. The 2006 capital budget suspended the ICC Policy goal of 100%. According to the 2008 Proposed Executive Plan and Budget Summary:

"the focus has changed from the basic ICC goal of funding an increasing amount of cash for a defined set of projects considered recurring infrastructure to the larger issue of controlling all capital debt. Through the years, even while the cash percentage for the defined ICC projects increased, overall capital borrowing also increased at an unsustainable rate. This created a situation of significant annual increases to the debt service levy, impacting the city's ability to fund other programs. The capital budget will continue to move in the direction of limiting debt issuance to debt retirements to better stabilize the debt service levy".

Recent EBE Underwriting Participation

As in prior years, the Public Debt Commission has encouraged 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 staff of the Public Debt Commission has met and spoken with numerous majority and 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. Over the past few years, the Public Debt Commission has instituted changes to further encourage minority participation, but has 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.

In 2006, the Public Debt Commission had two long-term competitive sales:

- $108,850,000 Series 2006 N1/B2. The winning bidder was Merrill Lynch, a non-minority firm, and did not report a minority firm in the underwriting syndicate. In total, the Public Debt Commission received 12 qualified bids, none of which reported including a minority firm in the underwriting syndicate.

- $44,310,000 Series 2006 N9/B10. The winning bidder was J.P. Morgan Securities Inc., a non-minority firm, and reported SBK Brooks, a minority firm, in the underwriting syndicate. In total, the Public Debt Commission received 6 qualified bids, with one reporting a minority firm in the underwriting syndicate.

In 2007, to date, the Public Debt Commission has had one long-term competitive sale:

- $49,830,000 Series 2007 N4/B5. The winning bidder was Piper Jaffray, a non-minority firm, and did not report a minority firm in the underwriting syndicate. In total, the Public Debt Commission received 8 qualified bids, with one reporting a minority firm in the underwriting syndicate.

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