Commercial Paper Program

City of Milwaukee, Wisconsin

December 5, 2007

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Outline – Commercial Paper Program Presentation

- Background on the City's Variable Rate Debt Program
- Introduction to the Commercial Paper Program
- Debt Policies for Variable Rate Debt
- Concurrence to Develop a Commercial Paper Program

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Current Debt Program

$817 million General Obligation debt (as of 12/31/2006)

of which $25 million Variable Rate (2005 V8)

Debt Policy:

Each bond issue: 1/15 of principal is repaid each year

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What is Variable Rate Debt?

Debt where its

- Interest cost changes with short-term interest rates
- As short-term rates rise, interest on debt rises
- As short-term rates fall, interest on debt falls

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Fixed Rate Debt compared to Variable Rate Debt

	Fixed Rate	Variable Rate (2005 V8)
Security:	General Obligation	General Obligation + Liquidity Facility
Interest Rate:	Fixed at Issuance	Varies over time *
Debt Service:	Fixed for life	Fixed in any year **
Final Maturity:	15 years	14 years (expected) **

* 2005 V8 has saved $100,000/yr of interest

** Principal payments are adjusted each year. Final payment (maturity) may be longer or shorter, depending upon future interest rates.

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Variable Rate Demand Bonds (2005 V8) vs. Commercial Paper

	Variable Rate Demand Bonds	Commercial Paper
Principal:	Fixed at time of issuance; can only be decreased	Can be increased and decreased over time
Interest Period:	7 days	1-270 days, depending upon what is best for the City.

Same: Security (GO + Liquidity Facility)
Expected Final Maturity (14 years)
Interest Rate (varies over time)
Set Debt Service for the year (adjust principal)

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Potential Uses for Commercial Paper

- Annual cash flow borrowing

  Currently use 1-year fixed rate RANs

- Temporary borrowing (construction loan, “bridge” loan, etc.)

  Improved cash management – higher Net Interest Earnings

- Long-term debt (variable rate component)

  Anticipated lower interest cost. Variable Rates have averaged lower than Fixed Rates.

  As a general guideline, Rating Agencies consider up to 25% of long-term debt in variable rate mode a manageable level of interest rate risk. An in-depth review could support a higher percentage.

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Debt Policies: Parameters for Long-Term Variable Rate Debt

Stable Debt Levy

Fixed Rate Debt: Principal is repaid over 15 years

Variable Rate Debt: Principal is anticipated to be repaid over 14 years

- Variable Principal Amortization

  Low interest rates, unused levy for interest is used to prepay principal (low interest expense, high principal expense).

  High interest rates, principal is deferred in order to pay interest (high interest expense, low principal expense).

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Debt Policies: Parameters for Long-Term Variable Rate Debt

Manage the Amount of Variable Rate Debt

• Up to 25% of Long-term GO Debt can be Variable Rate

10% target when Fixed Rates are below the 10-year historical average (future rates likely to be higher, lock in low rates now)

25% target when Fixed Rates are above the 10-year historical average (future rates likely to be lower, wait for lower interest rates)

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Debt Policies: Parameters for Long-Term Variable Rate Debt

Flexibility - Not locked into Variable Rate Debt

• May Convert to Fixed Rate at any time

In the event that maintaining Variable Rate debt is no longer advantageous, the City can convert the Variable Rate debt to Fixed Rate debt at any time

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Proposal for Commercial Paper Financing

At this meeting

- Concurrence to continue developing a Commercial Paper Program (hold file until the January 10th Meeting)

At the January 10th Meeting

- Presentation on the details of the Commercial Paper Program
- Approve resolution authorizing Commercial Paper Program