RESEARCH & ANALYSIS SECTION—LEGISLATIVE REFERENCE BUREAU

2009 Proposed Budget Summary: City Debt

	2008	2009 Proposed	Change	%Change
Debt Budget	**$156,632,558**	**$258,680,815**	**$102,048,257**	**65%**

2009 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. The debt service needs for the City in 2009 total $258.86 million, an increase of approximately $102 million from the 2008 debt service budget. This is due to the inclusion of $115 million in revenue anticipation note (RAN) principal that has not been included in previous budgets. The City of Milwaukee annually issues short-term RANs to finance the City's operating budget until the City receives shared revenue payments from the State of Wisconsin. The remaining debt decreased by $12.9 million from 2008.

3. Tax levy debt service costs related to city borrowing for capital improvement projects are estimated to total $70.6 million in 2009, a decrease of $14.6 million from 2008.

4. The self-supported portion of the 2009 debt service budget is $58.4 million, an increase of approximately $3 million 2008.

5. The 2009 proposed debt service tax rate is $2.40 a $.21 decrease from the 2008 debt service tax rate of $2.61.

6. On August 12, 2008, the Public Debt Commission approved a $6.5 million withdrawal from the Public Debt Amortization Fund.

CITY DEBT EXPENDITURES

PURPOSE	2008 ADOPTED	2009 PROPOSED	CHANGE (+/-)
Self-Supporting Debt			
Parking	$ 2,265,167	$1,926,037	-$339,130
Tax Increment Districts	17,572,516	18,356,692	784,176
Delinquent Tax Financing	16,234,663	20,418,502	4,183,839
Special Assessments	2,575,084	2,297,220	-277,864
Land Bank	32,822	28,803	- 4,019
Water Works	3,804,016	2,839,635	-964,381
Sewer Maintenance Fund	9,319,003	10,421,333	1,102,330
Brewer MEDC Loan	1,063,339	1,063,339	0
MPS Energy Retrofit	130,475	5,125	- 125,350
MPS-Loans from State	2,370,256	1,000,224	- 1,370,032
SUBTOTAL	**$ 55,367,341**	**$58,356,910**	**$2,989,569**
Tax Levy Debt			
Schools	$13,111,271	$13,031,484	-79,787
General City	85,255,795	70,630,222	-14,625,573
RANs, City & MPS	12,830,000	125,612,500	112,782,500
SUBTOTAL	**$ 111,197,066**	**$209,274,206**	**$98,077,140**
TOTAL DEBT NEEDS	**$ 166,564,407**	**$267,631,116**	**$101,066,709**
Fees & Issuance Costs	1,040,000	1,400,000	360,000
Deduction for PDAF Prepayment	-7,400,000	-6,500,000	- 900,000
Deduction for Segregated Special Assessment	-3,571,849	-3.850,301	-278,452
TOTAL	**$156,632,558**	**$258,680,815**	**$102,048,257**

CITY DEBT SOURCES OF FUNDS

PURPOSE	2008 ADOPTED	2009 PROPOSED	CHANGE (+/-)
Self-Supporting Debt			
Brewer MEDC Loan	$1,063,339	$1,063,339	$0
Delinquent Tax Financing	15,484,663	17,269,003	1,784,340
Land Bank	0	0	0
MPS Energy Retrofit	130,477	5,125	-125,352
MPS-Loans from State	2,370,255	1,000,224	-1,370,031
Parking	2,270,167	1,926,037	-344,130
Sewer Maintenance Fund	32,110,000	11,933,333	-20,176,667
Tax Increment Districts	15,805,700	$22,869,085	7,063,385
Water Works	$5,104,016	4,139,635	-964,381
Subtotal	**$74,338,617**	**$60,205,781**	**-$14,132,836**
General Obligation Debt Financing			
Fees & Issuance Costs	$1,040,000	$1,400,000	$360,000
Other Revenues	$7,052,946	$126,451,224	119,398,278
Tax Levy	$74,200,995	$70,623,810	-$3,557,185
Subtotal	**$82,293,941**	**$198,475,034**	**$116,181,093**
Total Debt Needs	**$156,632,558**	**$258,680,815**	**$102,048,257**

Public Debt Amortization Fund Withdrawal

As of December 31, 2007, the unsegregated Public Debt Amortization Fund (PDAF) totaled $50.8 million. This was an approximately $2.1 million increase from the comparable 2006 year-end balance.

On August 12, 2008, the Public Debt Commission approved a $6.5 million withdrawal from the PDAF. The withdrawal is used to offset the tax levy impact of 2009 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 2009.

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 $65.5 million due to amount of tax levy debt outstanding increasing from $391.1 million at end of 2000 to $436.9 million at end of 2007. However, due to draws between 1995-2000, the balance of the PDAF has been well below the 15% policy minimum since 2000.

Based on $436.9 million of non-self sustaining GO debt outstanding, as of December 31, 2007, the 2007 minimum and maximum recommended limits for the PDAF balance are $65.5 million and $87.4 million, respectively. With a PDAF withdrawal of $6.5 million in 2008 for 2009 debt service the 2008 estimated PDAF year-end balance is projected to decrease by 1.4% to $50.1 million, which is $15.4 million below the $65.5 million minimum balance recommended by the current PDAF reserve policy.

The withdrawal of $6.5 million from the Public Debt Amortization Fund reduces the 2008 debt service tax rate from $2.60 to $2.40.

The table on page 4 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	$48.7	$ 7.3
2007	$50.8	$ 7.4
2008	$50.1 (estimate)	$ 6.5

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 approximately $13.0 million in 2009, a decrease of approximately $80,000 from 2008.

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.

Recent EBE Underwriting Participation

As in prior years, the Public Debt Commission (PDC) 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 2007, the PDC had two long-term competitive sales:

> $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.

In 2008, to date, the PDC had one long-term competitive sale:

> $44,050,000 Series 2008 N6/B7. The winning bidder was Robert W. Baird & Co., Inc., a non-minority firm, and reported Loop Capital Markets, LLC, a minority firm, in the underwriting syndicate. In total, the PDC received 3 qualified bids, with one reporting a minority firm in the underwriting syndicate.

In addition, for the City's 2008 C2 Commercial Paper Program, Citi (non-minority) and Loop Capital Markets, LLC (minority firm), were engaged as Commercial Paper Dealers for the program

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