

RESEARCH & ANALYSIS SECTION—LEGISLATIVE REFERENCE BUREAU

2010 Proposed Budget Summary: City Debt

	<u>2009</u>	<u>2010 Proposed</u>	<u>Change</u>	<u>%Change</u>
Debt Budget	\$258,662,815	\$280,197,069	\$21,534,254	8.3%

2010 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 2010 total \$280.2 million, an increase of approximately \$21.5 million from the 2009 debt service budget. Over half of the increase is due to a \$11.9 increase in Revenue Anticipation Notes. 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 portion of the increase is due to a \$7.8 million increase in TID debt expenditures and a \$4 million increase in debt expenditures for delinquent taxes.
3. Debt expenditures for 2010 TIDs increase by approximately \$7.8 million to approximately \$26.2 million. However, the 2010 TID increments will generate \$23.8 million, leaving approximately \$2.4 million of 2010 TID expenditures to be covered by the tax levy.
4. Debt expenditures for delinquent taxes increase by approximately \$4.0 million to \$24.4 million. It is estimated that the collection of delinquent taxes, interest and penalties will provide \$23.7 million as source of debt funds, an increase of \$6.4 million from 2009.
5. Tax levy debt service costs related to city borrowing for capital improvement projects are estimated to total \$67.1 million in 2010, a decrease of \$3.5 million from 2009.
6. The self-supported portion of the 2010 debt service budget is \$68.5 million, an increase of approximately \$10.2 million in 2009.
7. The 2010 proposed debt service tax rate is \$2.49, a \$.08 increase from the 2009 debt service tax rate of \$2.41.
8. On August 18, 2008, the Public Debt Commission approved a \$5.4 million withdrawal from the Public Debt Amortization Fund. (See Page 3)

CITY DEBT EXPENDITURES

PURPOSE	2009 ADOPTED	2010 PROPOSED	CHANGE (+/-)
<i>Self-Supporting Debt</i>			
Brewer MEDC Loan	\$ 1,063,339	\$ 1,063,339	\$0
Delinquent Tax Financing	20,418,502	24,409,994	\$3,991,492
Industrial Land Bank	28,803	15,787	-13,016
MPS-State Loans, ADA, IS	1,005,349	1,231,756	226,407
Parking	1,926,037	2,130,725	204,688
Sewer Maintenance Fund	10,421,333	8,321,297	-2,100,036
Special Assessments	2,297,220	1,949,617	-347,603
Tax Increment Districts	18,356,692	26,189,852	7,833,160
Water Works	2,839,635	3,269,050	429,415
SUBTOTAL	\$58,356,910	\$68,581,417	\$10,224,507
<i>Tax Levy Debt</i>			
General City	\$70,612,222	\$67,131,343	-\$3,480,879
RANs City & MPS	125,612,500	137,540,000	11,927,500
Schools	13,031,484	12,893,929	-137,555
SUBTOTAL	\$209,256,206	\$217,565,272	\$8,309,066
TOTAL DEBT NEEDS	\$267,631,116	\$286,146,689	\$18,533,573
Fees & Issuance Costs	\$1,400,000	\$1,400,000	\$0
Deduction for PDAF Prepayment	-6,500,000	5,400,000	- 1,100,000
Deduction for Segregated Special Assessment	-3,850,301	\$1,949,620	1,900,691
TOTAL	\$258,662,815	\$280,197,069	\$21,534,254

CITY DEBT SOURCES OF FUNDS

PURPOSE	2009 ADOPTED	2010 PROPOSED	CHANGE (+/-)
<i>Self-Supporting Debt</i>			
Brewer MEDC Loan	\$1,063,339	\$1,063,339	\$0
Delinquent Tax Financing	17,269,003	23,659,994	6,390,991
Land Bank	0	0	0
MPS-State Loans, ADA, IS	1,005,349	1,223,881	218,532
Parking	1,926,037	2,130,725	204,688
Sewer Maintenance Fund	11,933,333	9,021,297	-2,912,036
Tax Increment Districts	\$22,869,085	23,829,873	960,788
Water Works	4,139,635	4,569,050	429,415
Subtotal	\$60,205,781	\$65,498,159	\$5,292,378
<i>General Obligation Debt Financing</i>			
Fees & Issuance Costs	\$1,400,000	\$1,400,000	\$0
Other Revenues	\$126,451,224	\$144,119,680	\$17,688,456
Tax Levy	\$70,623,810	\$69,179,230	-1,426,580
Subtotal	\$198,475,034	\$214,698,910	\$16,241,676
Total Debt Needs	\$258,662,815	\$280,197,069	\$21,534,254

Public Debt Amortization Fund Withdrawal

As of December 31, 2008, the unsegregated Public Debt Amortization Fund (PDAF) totaled \$50.9 million. This was a slight increase of approximately \$100,000 from the comparable 2007 year-end balance.

On August 18, 2009, the Public Debt Commission approved a \$5.4 million withdrawal from the PDAF. The withdrawal is used to offset the tax levy impact of 2010 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 2010.

The current PDAF balance and withdrawal policy, adopted in 1997, primarily utilizes measurements of non-self-sustaining (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 \$71.5 million due to amount of tax levy debt outstanding increasing from \$391.1 million at end of 2000 to \$476.7 million at end of 2008.

Based on \$476.7 million of non-self sustaining GO debt outstanding, as of December 31, 2008, the 2007 minimum and maximum recommended limits for the PDAF balance are \$71.5 million and \$95.3 million, respectively. With a PDAF withdrawal of \$5.4 million in 2009 for 2010 debt service the 2008 estimated PDAF year-end balance is projected to decrease by 0.4% to \$50.7 million, which is \$20.8 million below the \$71.5 million minimum balance recommended by the current PDAF reserve policy.

The withdrawal of \$5.4 million from the Public Debt Amortization Fund reduces the 2010 debt service tax rate from \$2.71 to \$2.49.

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 BALANCE (1)	PDAF PREPAYMENT (In Following Year)
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	\$50.9	\$ 6.5
2009	\$50.7 (estimate)	\$ 5.4

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 will be approximately \$12.9 million in 2009, a decrease of approximately \$140,000 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. Other MPS debt service expenditures are related to loans from the state, ADA and Information System improvements. 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 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. Public Debt Commission staff has met and spoken with numerous minority firms, and have 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. As a result, over the past few years, the Public Commission has instituted changes to further encourage minority participation, but have 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 2008, the Public Debt Commission 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.

In 2009, to date, the PDC has had one long-term negotiated sale:

\$110,630,000 Series 2009 N1/B2. Due to extraordinary market conditions, the commission conducted a negotiated sale with Morgan Stanley, a non-minority firm, as the Senior Manager, and with Siebert Brandford Shank & Co., LLC, a minority firm, as a Co-manager.

In addition to the above, the City, from time to time, sells long-term debt to the State under its Clean Water Fund program.

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