Milwaukee County

Pension Obligation Bonds Review

July 19, 2012

Agenda

- Background
- Results of Sale
- Original Plan of Finance
- Modification to Plan of Finance
  - Timing and Structure

Background – Why Issue POBs

On March 19, 2009 the County issued $400 million of Pension Obligation Bonds (POBs) to achieve the following benefits:

- Projected budgetary savings
- Greater certainty in annual pension contributions
- Reduced the Unfunded Actuarial Accrued Liability (UAAL)*
- Solid step toward addressing the County's structural deficit

* A UAAL exists when pension fund assets are less than the value of future pension liabilities

Background - Plan of Finance

Prior to the issuance of POBs to reduce its UAAL, the County analyzed the issuance of pension-related debt for several years. This cautious approach benefited the County several ways:

- Due to state legislation that was adopted on March 19, 2008, the County created additional flexibility when issuing pension-related debt, which it still maintains.

- The County created the Pension Obligation Bond Workgroup to study the issuance of pension-related debt thoroughly and created a consensus from all the major stakeholders.

- Market conditions for the issuance of debt and the investment of bond proceeds both improved.

Background - Paying Down the UAAL

Prior to the issuance of the 2009 Pension Bonds, the County was scheduled to make an annual payment over a 30-year period *(amortization schedule)*

- The annual UAAL payment schedule was created by actuaries
- The total UAAL grows at an 8% interest rate*

- The annual UAAL payments were estimated to increase from $25 million in 2009 to $44 million in 2018

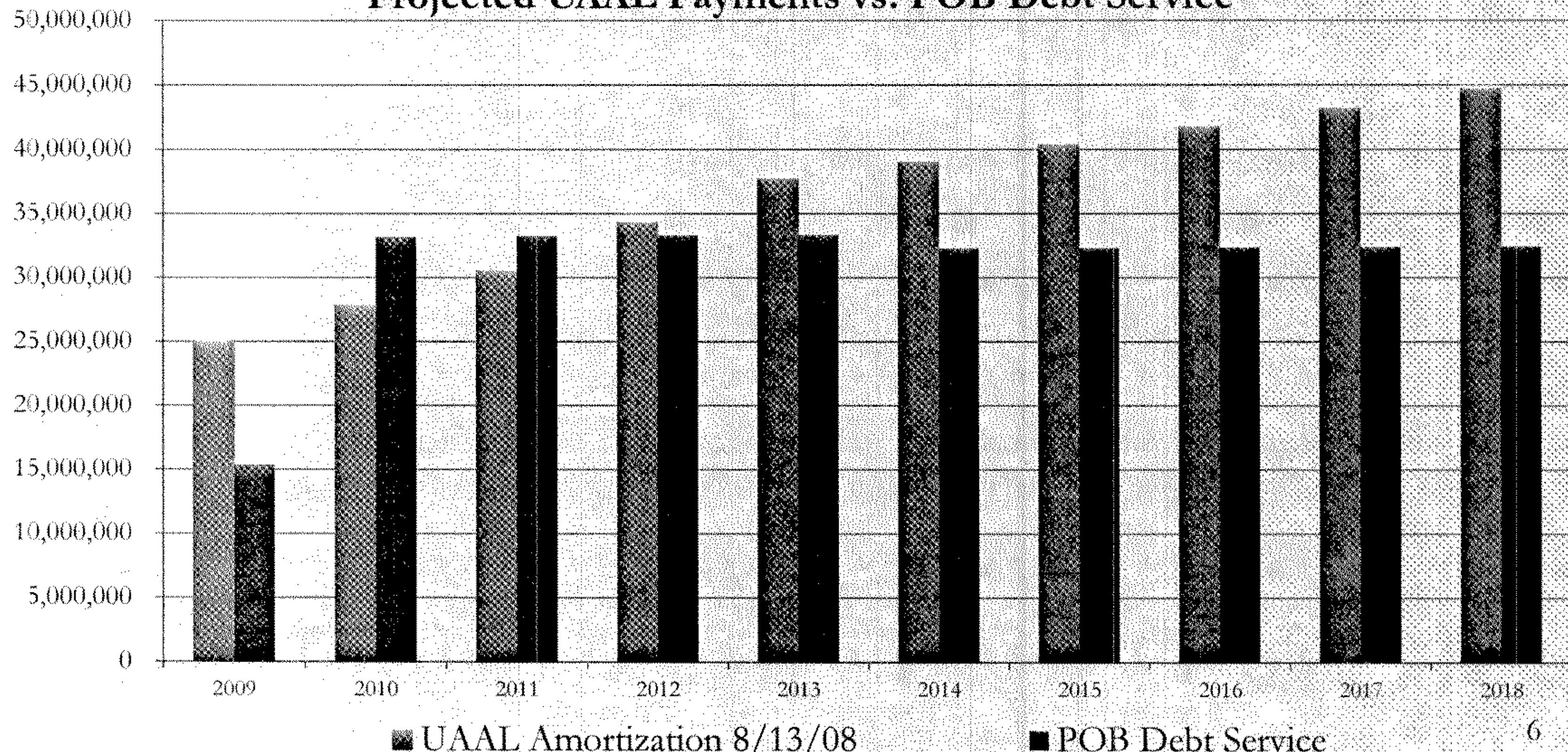
- Even if the County made all the scheduled annual UAAL payments the total UAAL was estimated to increase to $607 million by 2018.

* The interest rate is an actuarially assumed rate of return established by the Pension Board.

Background - UAAL vs. Debt Service

POB debt service payments were estimated to be significantly lower than scheduled UAAL amortization payments as of January 1, 2008.

Projected UAAL Payments vs. POB Debt Service



Background – Plan of Finance

The issuance of $400 million of pension-related debt addressed the UAAL as it existed on January 1, 2008.

The additional UAAL caused by market losses in 2008 will continue to be funded through additional annual contributions or future excess returns on pension fund investments.

The original plan of finance anticipated a 25-year level payment structure to provide budgetary stability.

In order to provide 25-year general obligation debt under state law, it was necessary to issue a portion of the debt as short term (5-year) Note Anticipation Notes to be refunded with 20-year notes.

Background – Plan of Finance

The pension financing consisted of 2 debt issues:

<u>Issue 1</u>

$265 million Taxable General Obligation Notes, Series 2009A

- 20-year permanent financing.
- Security is the County's general obligation pledge.
- Level debt service over the years 2010 through 2028.
- General Obligation "Notes" and "Bonds" are identical securities. "Notes" are specifically authorized to fund the County's UAAL.

Background – Plan of Finance

Issue 2

$135 million Taxable Note Anticipation Notes, Series 2009B

- 5-year interim financing.
- Appropriations to pay interest.
- Security is the County's pledge to issue general obligation promissory notes prior to maturity.
- Bullet maturity on December 1, 2013.

The 2009 financing plan anticipated that the County would issue taxable general obligation promissory notes in 2013 that would mature in the years 2029 through 2033.

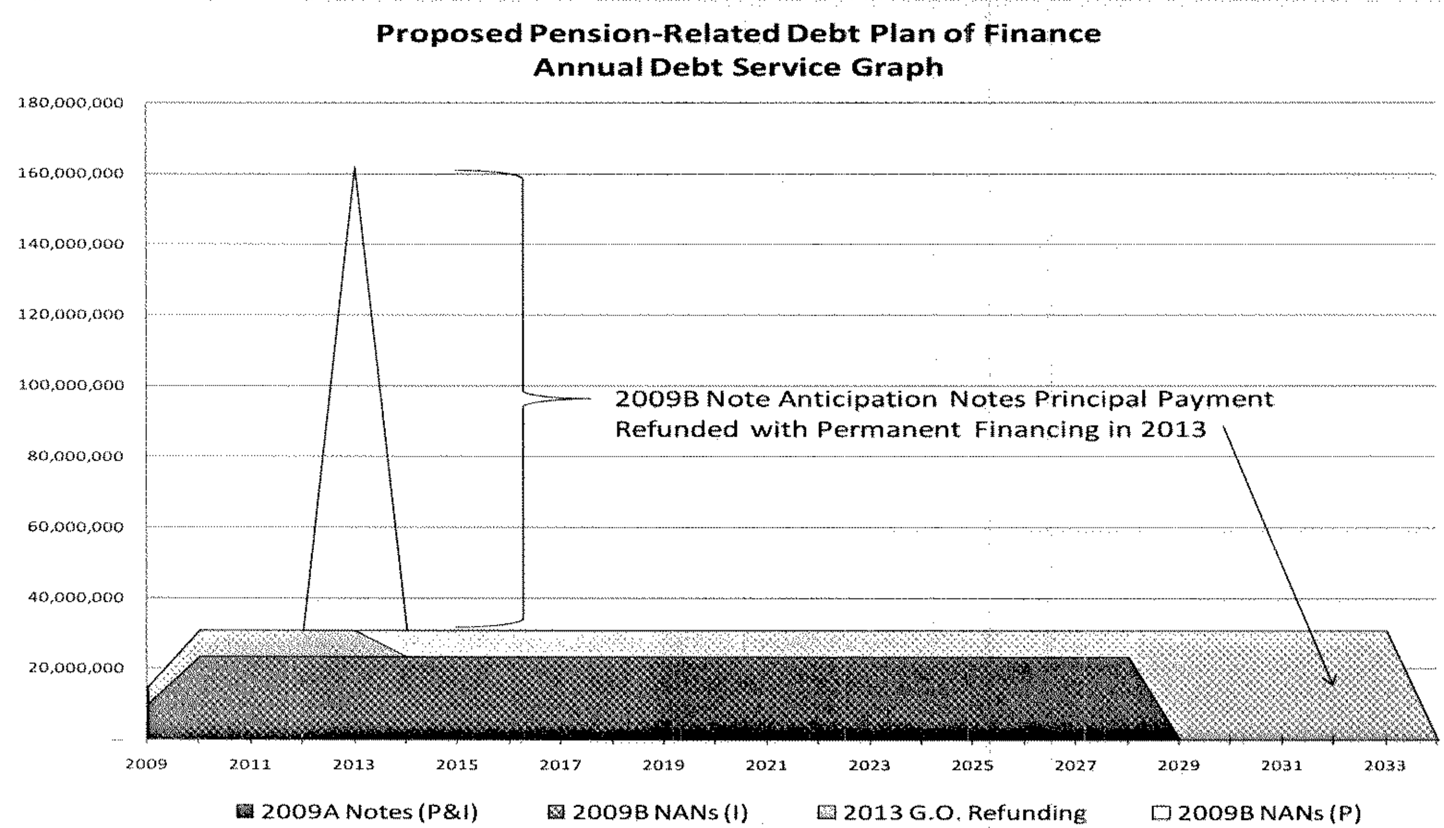
Results of Sale – Borrowing Rate

The borrowing rates on the 2009 POBs is presented below:

Series	Amount	Length	All-In True Interest Cost ("All-In TIC")
A	$265 million	20-year	6.36%
B	$135 million	5-year	5.52%
Total	$400 million		6.19%

Original Plan of Finance

The below graph shows the 2009 NANs being taken out with 20-year Notes to achieve overall level debt service.



Potential Modifications to Plan

Since the time of the 2009 financing plan, interest rates have declined and the new Notes could be issued at a substantially lower interest rate than anticipated in the original plan.

Due to the lower interest rate environment, the POB Workgroup is analyzing options for taking out the 2009 Note Anticipation Notes sooner than December of 2013.

The key issues to consider in revising the original financing plan are (1) timing and (2) debt structure.

On May 24, 2012 the County Board authorized the selection of an underwriting team to assist in determining the appropriate timing and structure of the takeout note issue.

Timing Considerations

The County could consider taking out the 2009 NANs prior to December 1, 2013. Issuing Notes early would provide the County with certain advantages:

- The ability to "lock in" to interest rates which are substantially lower than 6.5%.
- The elimination of the risk that interest rates will rise before December 1, 2013.
- The ability to select a time for issuing the Notes when market conditions are advantageous instead of being forced to accept whatever rate is available when the principal on the 2009 Note Anticipation Notes becomes due.

Debt Structure Considerations

The original plan anticipated that the final principal payment would be made on December 1, 2033. This is exactly 20 years after the date originally scheduled for issuance of the Notes.

Issuing the new Notes prior to December 1, 2013 would require a change to the repayment schedule anticipated in the original plan in order to comply with the 20 year maximum repayment allowed under state law.

However, with the current lower than "Baseline" interest rate environment, a level debt service schedule would pay off principal faster, thus having a last payment earlier than December 1, 2033.

Current Market Lower than Baseline

Current interest rates are much lower than the 2009 Baseline of 6.50%.