

**COUNTY OF MILWAUKEE
INTER-OFFICE COMMUNICATION**

DATE: January 9, 2015

TO: Supervisor Marina Dimitrijevic, Chairwoman, County Board of Supervisors

FROM: Scott B. Manske, Comptroller

SUBJECT: **2015 Corporate Purpose Bonds and Qualified Energy Conservation Bonds
Authorizing and Parameters Resolutions**

REQUEST

The Office of the Comptroller is requesting the approval of the attached initial authorizing resolutions and parameters resolutions for the issuance of a not-to-exceed amount of \$53.6 million of bonds (the "Corporate Purpose Bonds") and a not-to exceed amount of \$5.5 million of Qualified Energy Conservation Bonds (QECBs) to finance various capital improvement projects. The majority of the projects are included from the 2015 Capital Improvements Budget. The balance of the projects has been previously approved by the County Board and County Executive, but has not yet received financing.

The attached resolutions authorize the issuance of the Corporate Purpose Bonds and QECBs, provide parameters for the issuances and delegate approval of the sales of the Corporate Purpose Bonds and QECBs to the Comptroller. The resolutions also delegate the bid opening and approval of the winning bidder for the sales of the issuances to the Comptroller. The Comptroller's approval is limited to sale results that fall within the parameters outlined in the resolutions. An informational report will be submitted to the Finance, Personnel, and Audit Committee to communicate the final results of the bond sale.

BACKGROUND

The 2015 Corporate Purpose Bond Issuance will finance projects contained in the 2015 Capital Improvements Budget and other projects that have been approved, but not yet financed.

2015 Capital Improvements Budget

The 2015 Capital Improvements Budget included \$51,734,665 of budgeted bond revenue.

The 2015 Capital Improvements Budget included an appropriation of \$13,200,000 for the purpose of purchasing transit buses. Financing is provided from \$8,440,000 of Federal revenue and \$4,760,000 of bonds for the local share. Of the \$4,760,000, the Comptroller is requesting to finance **at least** \$3,635,000 with Qualified Energy Conservation Bonds (QECBs). The Office of the Comptroller has reached out to the Wisconsin Economic Development Corporation (WEDC) to determine if there is any additional QECB capacity available to finance the entire local share for the bus replacement project. The anticipated amount being issued for the Corporate Purpose Bonds will be reduced, should this additional QECB capacity be made available.

In addition, the 2015 Capital Improvements Budget included bond financing of \$45,088 for the construction phase of Project WH00118 N. 43rd St. (CTH G) & W. Mill Rd. (CTH S) Intersection within the Highway Safety Improvement Program. Based on conversations with the Department of Transportation (MCDOT), the financing on this project should be delayed till 2016. This will not inhibit spending on the project during 2015 if it were to occur.

There is a January 2015 appropriation transfer request reallocating approximately \$1 million in budgeted bond proceeds from Project WH01021 St. Martins Rd. to three other highway projects. The construction work on the St. Martins Rd. project has been delayed till 2016. If approved the Comptroller's Office will modify the 2015 Corporate Purpose Bond financing accordingly.

Prior Approved Projects Included in the Resolutions

South North Cape Road (Hi-View Drive to South Carroll Circle)

The 2014 Capital Improvements Projects included bond financing of \$2,224,306 for Project WH02015 South North Cape Road (Hi-View Drive to South Carroll Circle). Based on discussions with Department of Transportation, \$1,044,306 of the \$2,224,306 in general obligation bonds for capital project WH02015 – South North Cape Road (Hi-View Drive to South Carroll Circle) was delayed until 2015. This financing will be included in the 2015 financing.

Grounds South Reservoir Rehabilitation Project

The 2013 Adopted Capital Improvements Budget included an appropriation of \$1,219,200 to rehabilitate the South Reservoir on the Milwaukee County Grounds (Project WG01401). The recommended improvements were to consist of cleaning and applying a coating system to the interior and exterior of the tank, repairing the spalling concrete, and filling cracks. In addition, various piping and drainage improvements will need to be addressed. This is the only source of water to directly feed the water towers.

This project has not started and the status of the negotiations is uncertain. If the County retains the water utility the work would need to be completed. If the County transfers the water utility the work may or may not need to be completed by the County and is dependent upon the negotiations of the transfer. This project is being included in the not-to-exceed amount since the potential still exists that the County will be financing the project.

If there is no expenditure activity recorded in the project in 2015, the project will have to be lapsed.

Courthouse Complex Infrastructure Improvements Relating to the Courthouse Fire project

In September 2013, Resolution File No. 13-708 established capital project WO151 - Courthouse Infrastructure Improvements Relating to Courthouse Fire to provide a budget and financing mechanism for expenditures that the County believes are related to the Courthouse Fire but are not reimbursable by insurance. In addition, the County Board and County Executive approved a reimbursement resolution to express the County's intent to reimburse itself with future bond proceeds to finance these expenditures. The not-to-exceed amount for the reimbursement resolution is \$2 million. To date, there have been no charges to the project.

The attached initial authorizing resolution includes the \$2 million to finance bond-eligible expenditures that are related to the Courthouse Complex fire, but are not reimbursable by insurance. According to the Department of Administrative Services (DAS), there is currently no indication that there will be a need for this funding; however, since the restoration work due to the Courthouse fire is still in progress, the DAS is requesting that the potential funding remain in place through the completion of the project.

Prior Authorized Project Not Being Included in Resolutions

Estabrook Dam Rehabilitation Project

The 2010 Capital Improvements Budget included an appropriation of \$2,100,000 to repair the Estabrook Dam by applying structural repairs to the dam and other nearby structures and the removal of debris to access the dam and structures for repairs. These costs were financed with 2010 general obligation bonds.

In 2013, the Office of the Comptroller received authorization from the County Board to reallocate unspent bonds, primarily from projects that had been delayed, to various capital projects that are continuing projects and/or contained in the Five Year Capital Improvements Plan. This would enable the County to comply with IRS rules regarding tax-exempt bonds.

The Estabrook Dam Rehabilitation project was one of the projects that had been delayed due to permitting requirements for the project and an Environmental Assessment (EA) required for the dam repairs and the impoundment river remediation work being conducted upstream from the dam by the Environmental Protection Agency (EPA). The river remediation work needed to be completed prior to re-commissioning the repaired dam or other options regarding the dam. The County Board and County Executive through the approval of Resolution File No. 13-537 authorized the reallocation of the bond proceeds and directed the DAS to administratively transfer a not-to-exceed amount of \$1,630,000 in expenditure authority and general obligation bond proceeds to reestablish capital project WP063022 – Estabrook Dam Rehabilitation Project. The actual amount of expenditure authority and 2010 bond proceeds reallocated in 2013 from the Estabrook Dam Rehabilitation project to various capital projects was \$1,589,789.

The 2015 Capital Improvements Budget included a policy change calling for the removal of the Estabrook Dam. However, there are no funds provided by the County to support this policy, and the policy remains subject to change or modification through further legislation. Since the funds included in project WP063022 Estabrook Dam Rehabilitation are to be used for rehabilitation of the dam, and since that is no longer the policy of Milwaukee County, the \$1,630,000 is not being included in the 2015 corporate purpose bond issuance.

Not-to-Exceed \$53.6 Million Corporate Purpose Bond Issuance

The Office of the Comptroller has prepared estimated debt service schedules for the issuance of a not-to-exceed amount of \$53.6 million in bonds/notes. The \$53.6 million bond amount is the sum of the 2015 Capital Improvements Projects, Project WH02015 S. North Cape Rd. (2014 Budget), Project WG01401 Grounds South Reservoir Rehabilitation (2013 Budget) and WO15001 Courthouse Infrastructure Improvements Relating to the Courthouse Fire (2013 Transfer). The sum also includes funding for cost of issuance expenses and rounding.

Below is a list of the various components:

Project Number	Description	2015 Bond Issue
<u>2015 Budget</u>		
	2015 Adopted Capital Improvement Bond Financing	\$51,734,665
	Project WT026 Bus Replacement Project (Financed by separate 2015 QECB Financing)	(\$3,635,000)
	Project WH00118- CTH G & CTH S Intersection (Financing Delayed till 2016)	(\$45,088)
	<u>Total 2015 Budget Financing</u>	<u>\$48,054,577</u>
<u>Previously Adopted Projects</u>		
WH02015	S. North Cape Rd. (Hi-View Dr. to W Forest Home Ave)	\$1,044,306
WO151	Courthouse Infrastructure Improvements Relating to Courthouse Fire	\$2,000,000
WG014	Grounds South Reservoir Rehabilitation	\$1,219,200
	Estimated Cost of Issuance (Federal Allowable Amount)/Underwriter's Discount	\$1,072,000
	Rounding	\$209,917
	<u>Total Not-To-Exceed Amount</u>	<u>\$53,600,000</u>

The estimated debt structure for the bonds consists of a declining principal repayment over a 15-year term, beginning in 2016. The total estimated debt services costs would be \$69,915,844, including \$16,315,844 in interest.

Bond Sale Parameters- Corporate Purpose Bonds

The parameters for the financing would consist of the following:

- Maximum true interest cost (TIC) of 4.0 percent – The true interest cost is the actual interest rate paid on bonds, which is expressed as a percentage of the total debt in today’s dollars and includes the costs of issuance and other fees.
- 10-year call provision – The 10-year call provision indicates that the County will be able to refund the new bonds prior to maturity. However, the parameters resolution provides that the call provision will be determined by the Comptroller at the time of sale.

- Minimum purchase price of 99 percent of the par amount of the bonds – The price of the bond reflects the maximum price an investor would want to pay for the bond based on the coupon rate and the market rate. This is known as the yield or rate of return on the bond. When the coupon rate on the bond is equal to the market rate the purchase price is equal to the principal amount of the bond (par). If the coupon rate is lower than the market rate, the bonds will be purchased at a discount. If the coupon is higher than the market rate, the bonds will be purchased at a premium. Whether or not the bond purchase price is a par, discount or premium is dependent upon market conditions on the day of the sale.

Not-to-Exceed \$5.5 Million Qualified Energy Conservation Bond Issuance

The Office of the Comptroller has prepared estimated debt service schedules for the issuance of a not-to-exceed amount of \$5,500,000 million in bonds. The \$5,500,000 bond amount is the amount being financed for the Bus Replacement project and also includes funding for cost of issuance expenses.

The QECBs are qualified tax credit bonds under Section 54D (b) of the Internal Revenue Code and require that (a) 100 percent of the bond proceeds are used for one or more qualified energy conservation purposes; (b) the bonds are issued by a state or local government; and (c) the issuer designated the bonds as qualified energy conservation for purposes of Section 54D which provides a credit of 70 percent of the full allowable interest rate that is set by the US Treasury Department.

Each day the U.S Treasury publishes an interest rate for qualified energy conservation bonds at <http://www.treasurydirect.gov>. The Treasury will pay the county a direct subsidy payment on each interest payment date in an amount equal to the lesser of 70% of this rate or the actual interest rate on the bonds. The current rate (as of 1/6/15) is 4.05%.

The estimated debt structure for the bonds consists of a level principal repayment of \$5,500,000 over a 10-year term, beginning in 2016. The total estimated gross debt services costs would be \$6,331,233, including \$831,233 in interest.

The estimated debt structure includes credits from the IRS for the interest paid on the bonds. The estimate assumes that the current Federal reduction to the credits as a result of sequestration (7.3% decrease) will continue throughout the term of the bonds. The total estimated credits throughout the term of the bonds is \$770,553, which results in a total net debt service cost amount of \$5,560,680.

Bond Sale Parameters- Qualified Energy Conservation Bonds

- Maximum true interest cost (TIC) (computed taking the underwriter's compensation into account) will not be in excess of the applicable credit rate as of the date of the sale as determined by the Secretary of the Treasury and published by the Bureau of Public Debt, as required by the Resolution.

- Minimum purchase price of 99 percent of the par amount of the bonds – The price of the bond reflects the maximum price an investor would want to pay for the bond based on the coupon rate and the market rate. This is known as the yield or rate of return on the bond. When the coupon rate on the bond is equal to the market rate the purchase price is equal to the principal amount of the bond (par). If the coupon rate is lower than the market rate, the bonds will be purchased at a discount. If the coupon is higher than the market rate, the bonds will be purchased at a premium. Whether or not the bond purchase price is a par, discount or premium is dependent upon market conditions on the day of the sale.

DEBT ISSUANCE CONDITIONS

Wisconsin State Statute 67.045 outlines the conditions for which a governing body may issue debt. To comply with the referenced State Statute, approval of the attached an initial authorizing resolution with respect to the General Obligation Bonds will require a $\frac{3}{4}$ vote (14 votes) of the County Board of Supervisors. The parameters resolutions for the Corporate Purpose Bonds and the QECBs will require approval by a majority of a quorum of the County Board.

DEBT ISSUANCE EXPENSES

The 2015 Budget authorizes the Office of the Comptroller to increase the amount of the 2015 borrowing to pay debt issuance expenses. The attached resolution authorizes and directs the Comptroller to request credit ratings and to pay all professional services and other issuance expenses related to the issuance of the bonds from debt proceeds. An administrative appropriation transfer will be processed to increase expenditure authority to pay for the cost of issuance. Anticipated expenses include bond counsel, financial auditor and financial advisory fees, official statement printing and mailing costs, credit rating fees and expenses and other issuance costs such as publication costs and express mail.

PUBLIC HEARING REQUIREMENTS FOR PRIVATE ACTIVITY BONDS

Some projects included in the 2015 bond issue are considered private activities within the meaning of the federal tax code. The issuance of tax-exempt bonds for these purposes requires that a public hearing be scheduled to allow citizens to comment on the issuance of the bonds. A public hearing will need to be scheduled to allow for public comment on the projects authorized for such entities as the Milwaukee Public Museum, Research Park, St Charles Youth and Family Services (CATC building), War Memorial and the Charles Allis Museum.

AUTHORIZING RESOLUTIONS

Attached are the authorizing resolutions for the 2015 Corporate Purpose Bonds and QECBs which include an initial resolution, parameters resolution, a resolution directing publication of notices to the electors and a resolution authorizing the sale of the General Obligation Bonds. Each of the items in the resolution requires Finance, Personnel and Audit Committee and County Board approval.

RECOMMENDATION

The Comptroller's Office requests that the Finance, Personnel and Audit Committee approve and recommend approval by the full County Board of the attached resolutions. The resolutions authorize the issuance and sale of the Corporate Purpose Bonds and the QECBs, and delegate, to the Comptroller, the authority to approve the final terms and conditions of the bond sales provided that those terms and conditions are within the parameters set forth in the attached resolutions. The sale will consist of the issuance of a not-to-exceed amount of \$53.6 million in general obligation bonds/notes to finance various capital improvement projects and a not-to-exceed amount of \$5.5 million of QECBs to finance the Bus Replacement Project. An informational report will be submitted to the Finance, Personnel and Audit Committee to communicate the final results of the bond sales.



Scott B. Manske
Comptroller

Attachment

pc: Chris Abele, County Executive
Supervisor Willie Johnson, Co-Chairman, Finance and Audit Committee
Supervisor Theodore Lipscomb, Sr., Co-Chairman, Finance and Audit Committee
Scott B. Manske, Comptroller
Don Tyler, Director, Department of Administrative Services
Raisa Koltun, Chief of Staff
Kelly Bablitch, Chief of Staff, County Board
Josh Fudge, Budget Director
Stephen Cady, Research Director
Joseph Czarnecki, County Clerk
Daniel Cullen, County Treasurer
Brian Lanser, Quarles and Brady
Lafayette Crump, Crump Law Firm
David Anderson, Public Financial Management
Tionna Reed Pooler, Independent Public Advisors
Justin Rodriguez, Budget and Management Coordinator