REVISED

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : July 1, 2019

TO : Supervisor Theodore Lipscomb, Sr., Chairman, County Board of Supervisors

FROM : Scott B. Manske, Comptroller, Office of the Comptroller
Joe Lamers, Director, DAS-Office of Performance, Strategy, and Budget

SUBJECT : 2019 Budget Amendment 1B002 Self-Imposed Bonding Limit Study

1-BACKGROUND

The 2019 Adopted Capital Improvements Budget ("2019 Budget") included a request for the Office of the Comptrollers to work with the Department of Administrative Services – Office of Performance, Strategy and Budget ("DAS-PSB") to study the self-imposed bonding limit ("Bonding Limit") that was implemented in 2003 to determine if it should be updated.

History of the Bonding Limit

In May 2003, the Milwaukee County Board and County Executive approved County Board Resolution 03-263 ("2003 Resolution"). The 2003 Resolution authorized the issuance of a not-to-exceed amount of $110,000,000 of General Obligation Refunding Bonds ("Refunding Bonds"). The Refunding Bonds were issued in order to restructure that County's debt service payment and allow the County to meet other budgetary demands. The Resolution indicated that in connection with the restructuring of the County's debt service payment that it is deemed necessary and desirable to establish limits on the amount of future corporate purpose bonding.

The Resolution included the adoption of the Bonding Limit policy. For the fiscal years 2004-2007, the County's corporate purpose bond issues were to be limited in principal amount to no more than $1,000,000 over the principal amount of the previous year's corporate purpose bond issue. For fiscal year 2008, the principal amount of the corporate purpose bond issue was limited to $30,000,000 and in each subsequent fiscal year the amount of the corporate purpose bond issue was to be increased by no more than three percent over the principal amount of the corporate purpose bond issue for the preceding year.

Compliance with the Bonding Limit since 2013

Budget Year	Adopted GO Bond Amount	Bonding Limit	Amount Under (Over) Limit
2013	$35,530,152	$34,778,227	($751,925)
2014	$37,466,557	$36,596,057	($870,500)
2015*	$51,734,665	$38,590,554	($13,144,111)
2016	$39,234,810	$39,748,271	$513,461
2017	$41,147,918	$40,411,854	($736,064)
2018**	$39,642,309	$39,669,356	$27,047
2019	$43,619,074	$43,625,968	$6,894

* The 2015 Adopted Capital Improvements Budget included Project WP481 Parks Infrastructure Projects. The project included $9,154,472 of general obligation financing. The 2015 Budget indicated that the $9,154,472 of general obligation bond financing was not to be included in the 2016 bonding limit.

** The 2018 Bonding Cap was reduced to reflect County Board Resolution 17-496 that accelerated $2,713,000 of planned 2018 bond financing to 2017 for Project WZ11901 – Zoo Adventure Africa – Elephants Exhibit.

Available Funding for Capital Projects

The County's capital improvements program (excluding airport projects) is primarily locally financed by general obligation bonds/notes and cash (sales taxes, property tax levy). Projects that are eligible to be financed with general obligation/notes are typically financed with general obligation/notes. The Bonding Limit places a limitation on the County's local financing for the capital improvements program.

The County has a cash financing goal of twenty percent of the Net County Funding Contribution. The availability of sales tax revenue and property tax levy is limited by other operational needs and the State's local levy limit statutes.[1]

2-ANALYSIS

Assumptions

20 Year Capital Project Data Collection

The capital project data used in this report/analysis includes the following:

1. The current 2019 – 2023 Capital Improvement Plan (as included in the 2019 Adopted Capital Budget);[2]

---

[1] Wisconsin Statute 66.0602

[2] Please refer to Attachment 1 for further detail of the annual Capital Budget Development process.

2. Capital project needs forecast for years 2024 – 2038 as provided by departmental staff.[3]

3. The report includes estimates for the building of a new criminal courthouse and new medical examiner facility, due to their impact on future debt issuance. As a result, future improvements proposed for the existing Safety Building and the existing medical examiner facility are excluded from future capital needs. The future capital needs of the Behavioral Health Department buildings have also been excluded, due to the potential closure of these facilities. Due to continuing discussion of the future of the Mitchell Park Domes, this report only includes minimal capital needs of the current facility to provide maintenance of the equipment.

In general, the first year of the 5-Year CIP includes estimates that are more realistic since (one or more) of the following steps have been completed:

1. County cost estimating staff to provide initial (or conceptual) cost estimate(s);[4]
2. Planning/Design have been completed in a previous phase and the final design and costs are known.

It is important to note that project costs become more generalized in nature further out (from year 1) as the majority of these projects have not had initial (or conceptual) cost estimates performed. Additionally, project needs are more difficult to anticipate.

In order to capture years six through twenty (2024 – 2038), departments were asked to provide anticipated capital needs based on their existing infrastructure. Departments also had the opportunity to include new projects. The County's facility assessment software system (VFA) was used to forecast future maintenance needs of the County's facilities.[5] Although a significant portion of the County's vertical assets are captured within the VFA, it is not inclusive of all County assets (including those that have not been assessed within the last 5 years). Additionally, the VFA does not include roads, bridges, vehicles/equipment, bus replacements, or technology. Forecasted needs for these types of capital projects were provided by the Department of Transportation (roads, bridges, vehicles/equipment, bus replacements) and DAS (technology projects) with projects being highly conceptually with costs that may vary significantly upon more rigorous cost estimate review(s).

[3] The DAS-PSB anticipates using the additional 15-years of data collected as a baseline capital infrastructure database. Departments will have the ability to use the database as a tool in order to update and maintain their infrastructure portfolio(s).

[4] A conceptual cost estimate refers to the efforts made to predict the cost of a project based on a generalized scope of work. The costs and scope of work become more refined as the project moves through the planning and design process and becomes more defined.

In general, year 1 preliminary capital project cost estimates are provided by staff from the DAS divisions (Facilities Management and Information Management Services Division), Department of Transportation divisions (Transportation Services, Fleet, and Transit/ParaTransit)

[5] The VFA system is administered by the DAS-Facilities Management division. Staff from this division provide a review/assessment/analysis of county owned facilities and update the system.

<u>*Bond Scenarios*</u>

The Office of the Comptroller and the DAS-PSB worked with Public Financial Management ("PFM"), the County's Financial Advisor, to develop scenarios based on the 20-year capital information provided by departments.

It is very important to note that the estimated requests for out-year capital projects are highly speculative. The actual budget amounts and projects could vary substantially.

These scenarios include:[6]

- full financing of estimated bond eligible project requests ("Full Financing")
- annual 3 percent bond increases ("Current Bond Limit Policy")
- annual 3 percent bond increases + financing of major capital items ("Modified Bond Limit Policy"). The Modified Bond Limit Policy assumes full funding for fleet and bus replacements with the remaining financing available for other projects. Major capital items with budgets greater than $20 million are also assumed to be fully funded.

For each scenario, the projected debt service expenses were developed. The projected debt service for the <u>Full Financing</u> and <u>Modified Bond Limit Policy</u> were compared to the <u>Current Bond Limit Policy</u>. The comparison includes the differences in total debt service, total tax levy and tax levy impact to individual households. The comparisons for debt service and property tax levy are done over a 20 year period.

The table below reflects the estimated available County (bond) financing available for (bond-eligible) capital projects over the next 20 years (2020-2039) relative to the three bonding scenarios.[7]

Bond Funding Amount Scenarios			
Bond Scenarios-------->	*Full Financing*	*Modified Bond Limit Policy*	*Current Bond Limit Policy*
5 YR AVG (2020-2024)	$166,875,849	$117,070,495	$47,705,395
10 YR AVG (2020-2029)	$131,777,525	$89,363,308	$51,504,511
15 YR AVG (2020-2034)	$122,421,813	$83,207,551	$55,707,028
20 YR AVG (2020-2039)	$119,922,332	$83,043,588	$60,361,134

Bond Analysis

[6] The Wisconsin State Statutes do not allow the County to issue bonds to finance expenses that are not capitalized. Based on the last five years of capital requests, it is estimated that seventy percent of capital requests will be able to be financed with general obligation bonds or notes and the remaining amount will need to be financed with cash.

[7] Table data is based upon the estimated capital project needs over the next 20 years and categorizes this information by (average) 5-year increments. Data collected from departments used uninflated (or nominal) dollar values. In order to account for inflationary effects, a four percent discount rate was used across all projects for purposes of this report.

Bond Rating Review

Rating agencies grade bonds on a scale that indicates the credit worthiness and risk. In general, entities that have a high bond rating will pay a lower amount of interest on debt. Moody's Investors Service, S&P Global Ratings and Fitch Ratings, respectively, have assigned the ratings of "Aa2", "AA" and "AA+" to the County's most recent debt issuance.

PFM has developed a proprietary rating calculator ("rating calculator") that forecasts an entities bond rating based on factors used by Moody's Investors Service ("Moody's"). Moody's uses a weighted average model based on the following factors:

- Economy (30%)
- Fund Balance (15%)
- Cash Balance (15%)
- Management (20%)
- **Direct Debt (10%)**
- Pension Liability (10%)

The projected maximum outstanding debt (par amount) for each of the scenarios was incorporated into PFM's rating calculator.[8] The rating calculator incorporates the factors used by Moody's that determine an entity's bond rating. For each of the three bonding scenarios, Full Financing, Modified Limit Policy, and Current Bond Limit Policy, the resulting maximum outstanding debt was input into the rating calculator.[9] Using the rating calculator, there were no changes to the bond rating for all scenarios.

It is difficult to anticipate the ratings impact of a dramatic increase in the County's outstanding debt. Based on Moody's weighted average model, the County's score would be negatively impacted by a significant increase in outstanding debt. The direct debt portion of the quantitative score represents ten percent of the overall score. Other factors such as the County's management score may also be negatively impacted by the increase in outstanding debt. Finally, the other rating agencies also have criteria that relate to the County's direct debt that would be impacted.

Capacity Review

The Bond Scenarios presented in the report indicate that there are large gaps that need to be overcome in order to fund the County's capital needs. However, even with the funding issue addressed, the County may not have the capacity to complete projects in a timely fashion.

[8] PFM's rating calculator does not provide a definitive representation of Moody's final rating calculations. It is a quantitative scorecard that helps estimate what Moody's could rate a municipality. To create a base case scenario, PFM input figures from the County's most recent Moody's ratings report from September 2018, which resulted in a calculated rating of Aa3, one notch below the County's actual Moody's rating of Aa2.

[9] All other factors were held constant based on current information, which are being used to determine the County's current bond rating.

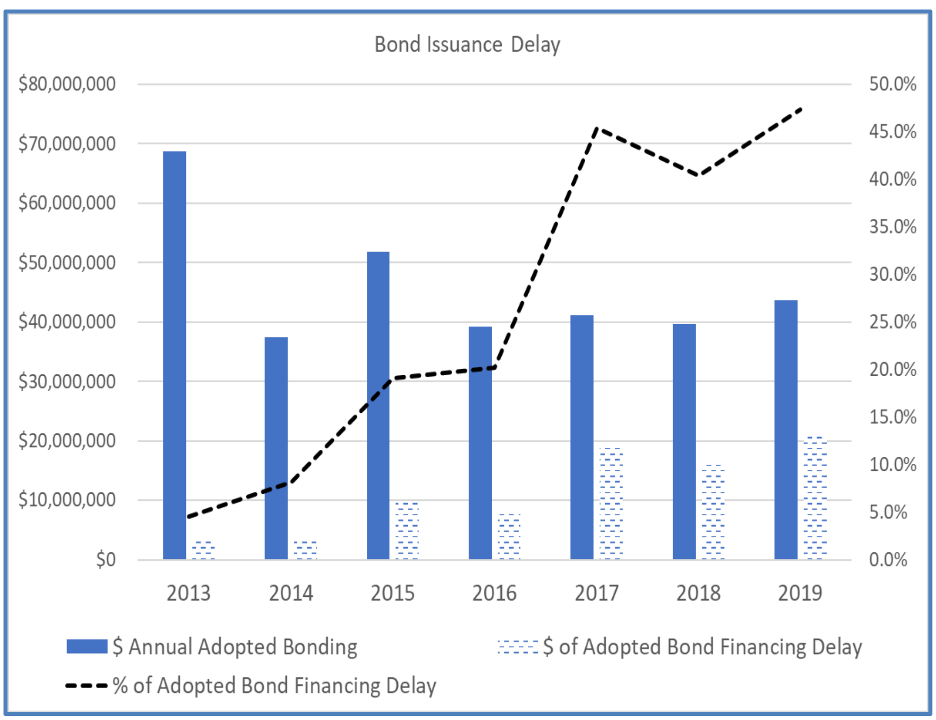
Since 2013, the Office of the Comptroller has actively delayed financing projects that were adopted by policymakers, but spending was not occurring. The delay in financing was recommended so that the County complies with Internal Revenue Service regulations regarding the timely spending of bond proceeds and so that the County does not pay interest costs for funds until they are needed. The delay in financing does not impact the expenditure authority that is available for the project.

Typically project budgets are created/approved in the annual adopted budget. Funds are available to be spent in January. The Office of the Comptroller reviews projects that may be included in bond issuances throughout the year. The bond issuances typically close in the 4th quarter each year.

Projects Delayed 1 year (or more) from the time of Adopted Appropriation(s)

	YEAR	$ Annual Adopted Bonding	$ of Adopted Bond Financing Delay	% of Adopted Bond Financing Delay	# of Adopted Projects Delayed
*	2013	$68,708,361	$3,139,541	4.6%	4
*	2014	$37,466,557	$3,044,306	8.1%	2
*	2015	$51,734,665	$9,852,407	19.0%	15
	2016	$39,234,810	$7,939,667	20.2%	12
	2017	$41,147,918	$18,687,345	45.4%	17
*	2018	$39,642,309	$15,992,220	40.3%	3
	2019	$43,619,074	$20,627,324	47.3%	5
	TOTAL	***$321,553,694***	***$79,282,810***	***24.7%***	***58***

**Indicates Adopted Budget Bonding that exceeded the Bonding Limit. Refer to page 2 of this report for information related to the Bonding Limit policy (i.e. Adopted Bpnding amount over/(under) the policy, etc.).*



<u>Other Key Indicators</u>[10]

Three key indicators were also considered as part of this report. [11]

- Debt Service comparison(s)
- Compliance with State Statue (outstanding debt relative equalized value within the County)
- Tax Levy changes (County and Homeowners)

1 - Debt Service Comparison(s)

The following table compares the estimated debt service as it relates each bond scenario.[12]

	$ Debt Service		
Scenarios--->	*Full Financing*	*Modified Bond Limit Policy*	*Current Bond Limit Policy*
5 YR AVG (2020-2024)	$57,256,575	$38,633,208	$17,977,071
10 YR AVG (2020-2029)	$92,537,929	$64,575,818	$32,423,868
15 YR AVG (2020-2034)	$116,156,435	$80,478,076	$46,802,686
20 YR AVG (2020-2039)	$127,127,698	$87,953,617	$57,907,907

Full Debt Service for each of the scenarios can be found in Attachment 2.

2 - Compliance with State Statue

Under existing State law, the County maintains the ability to increase its annual tax levy relative to pay for debt service costs as long as the outstanding debt does not exceed five percent of the equalized value of the County.

All three scenarios remain within State law limits as reflected in the following two tables.

	$ Below State Statute Limit		
Scenarios--->	*Full Financing*	*Modified Bond Limit Policy*	*Current Bond Limit Policy*
5 YR AVG (2020-2024)	$2,428,722,162	$2,613,537,859	$2,808,658,220
10 YR AVG (2020-2029)	$2,475,877,625	$2,709,125,799	$2,918,966,635
15 YR AVG (2020-2034)	$2,588,955,447	$2,843,042,490	$3,012,936,677
20 YR AVG (2020-2039)	$2,723,617,405	$2,978,236,457	$3,103,332,035

[10] It is important to note that the key indicators provide a general forecasting model. The indicators are estimates and are subject to change based on a variety of factors. For example, the indicator used to show the impacts to property taxes paid by Milwaukee County homeowners is only the Milwaukee County portion of the property tax bill. Homeowners would also experience increases/decreases relative to tax levy changes by other taxing authorities/jurisdictions (i.e. local school districts, municipalities, etc.) or changes in property values.

[12] The table is not inclusive of pre-existing debt and only reflects debt issuance(s) beginning in year 2020 through 2039. To see the full debt service comparison (that includes pre-existing debt), please see Attachment 2.

% Below State Statute Limit			
Scenarios--->	*Full Financing*	*Modified Bond Limit Policy*	*Current Bond Limit Policy*
5 YR AVG (2020-2024)	75%	80%	86%
10 YR AVG (2020-2029)	74%	81%	87%
15 YR AVG (2020-2034)	75%	83%	88%
20 YR AVG (2020-2039)	77%	84%	88%

3 - Property Tax Levy Impact

The tables below include a review of the estimated property tax levy impact to Milwaukee County homeowners based on home values of $100,00, $150,000, and $200,000.

Property Tax Levy Impact to Milwaukee County-

*County Levy Impact -- Incr from Bond Policy *		
Scenarios--->	*Full Financing*	*Modified Bond Limit Policy*
5 YR AVG (2020-2024)	$39,279,504	$20,656,137
10 YR AVG (2020-2029)	$60,114,061	$32,151,950
15 YR AVG (2020-2034)	$69,353,749	$33,675,390
20 YR AVG (2020-2039)	$69,219,791	$30,045,710

Property Tax Levy Impact to Homeowner-

Full Financing -- Incr from Bond Policy			
Home Value-->	*$100,000*	*$150,000*	*$200,000*
5 YR AVG (2020-2024)	$60	$90	$119
10 YR AVG (2020-2029)	$89	$133	$178
15 YR AVG (2020-2034)	$100	$150	$200
20 YR AVG (2020-2039)	$98	$147	$196

Modified Bond Limit Policy -- Incr from Bond Policy			
Home Value-->	*$100,000*	*$150,000*	*$200,000*
5 YR AVG (2020-2024)	$31	$47	$63
10 YR AVG (2020-2029)	$48	$71	$95
15 YR AVG (2020-2034)	$49	$73	$97
20 YR AVG (2020-2039)	$43	$64	$86

Full (estimated) property tax levy projections for each bond scenario are included Attachment 3a/b.

Cash Analysis

Cash Financing Gap

The funding options included in this report assume that approximately 30 percent of the annual capital needs are non-bond eligible and must be financed by cash. Non-bond eligible projects require financing with sales taxes, property taxes, Vehicle Registration Fees (VRF) or some other cash financing source.

Beginning with the 1995 capital budget, the County established a cash-financing goal of 20 percent to be implemented over a ten-year period. The annual cash goal is based off 20 percent of the Net County Funding Contribution (which excludes Federal/State/Local revenue sources).[13]

Non-bond eligible projects at the Departmental Request Phase, consistently and significantly, outpace the County's ability to cash finance projects using sales tax, tax levy, and/or VRF revenue as illustrated by the table below.

County Cash Funding Gap (Excluding Airport and Private Contributions)					
	CASH	CASH	CASH	% of REQ CASH PROJECTS:	
BUDGET YR	REQ	ADOPTED	SURPLUS/(GAP)	FUNDED	NOT FUNDED
2017	$23,400,414	$10,286,987	($13,113,427)	44.0%	56.0%
2018	$36,785,176	$5,409,618	($31,375,558)	14.7%	85.3%
2019	$33,085,532	$11,476,492	($21,609,040)	34.7%	65.3%
3-Year AVG	$31,090,374	$9,057,699	($22,032,675)	31.1%	68.9%

Even assuming the County is able to meet its cash financing goal of 20 percent of the Net County Funding Contribution for each year, there are large gaps anticipated that will not be able to be financed based on current available resources without making significant reductions to operating departments.

The table below shows the estimated cash amount requirement based on the 20 Year Capital Project Data Collection.

	2020 County	2021 County	2022 County	2023 County	2024 County	5-YR Avg 2025-2029	10-YR Avg 2030-2039
Existing 20% Cash Policy:	11,231,912	11,568,869	11,915,935	12,273,413	12,641,615	13,825,907	17,304,439
Estimated Non-Bond Eligible Projects (i.e. Cash):	56,510,708	49,018,438	63,293,720	56,753,139	60,069,847	44,939,685	50,233,174
Estimated Cash Surplus / (Shortfall)	(45,278,796)	(37,449,569)	(51,377,785)	(44,479,725)	(47,428,232)	(31,113,778)	(32,928,735)

Other Considerations

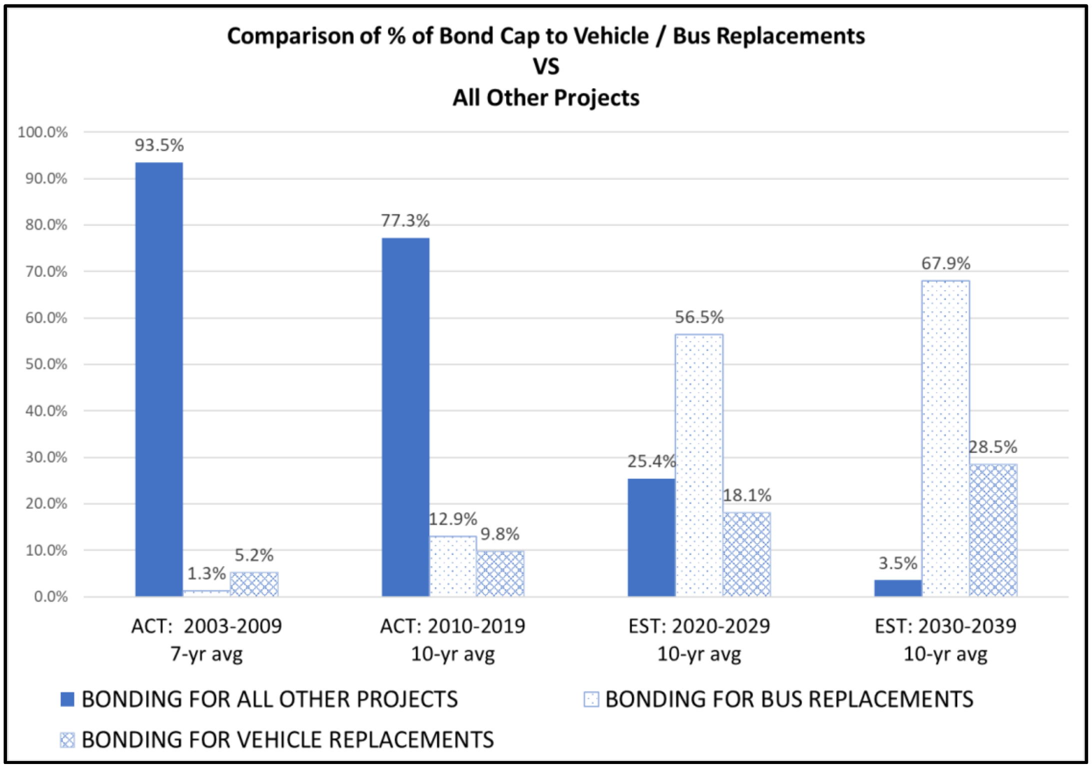
County may need to decrease its infrastructure footprint, generate more revenues, or both.

The County maintains a large infrastructure footprint. Another option for policymakers to consider is the potential for downsizing or modifying its current infrastructure relative to departmental programs and services that have changed over the years or may be suited to a better service delivery model. Such changes may relieve some of the pressure on the County's available bond and/or cash financing. In addition, operational savings may result.

[13] Private contributions and airport projects are excluded from the cash financing calculation. Typically, private contributions are one-time (non-County) allocations to specific capital projects pursuant to specific agreement(s).

For example, the bus replacement and vehicle replacement programs comprise a significant amount of the County's available bond financing each year. A large driver is decreasing state/federal funding of buses, which has resulted in a larger proportion of the costs being absorbed by the County.

The table below reflects the increasing amount of bond financing (under the existing Current Bond Limit Policy) required to fund the replacement programs.[14]



Note: Bus costs are reflective of the departmental data included as part of the 20-year data collection (noted previously in the report).

This report is not intended to provide a detailed analysis regarding the efficacy of such an approach. However, a larger discussion around the appropriateness of the County's infrastructure footprint would be beneficial.

Fair Deal for Milwaukee County Workgroup (CB Resolution 19-161)

The size of the funding gap is included in this report is similar to the large fiscal challenges that were recognized by the Fair Deal for Milwaukee County Workgroup ("Workgroup"). The Workgroup recognized that, "the current array of revenue

[14] The County has maintained an annual Bus Replacement program and Vehicle Replacement program (starting in 2010). The replacements programs were put into place in order to mitigate significant maintenance costs due to less efficient equipment that required more frequent repairs and fixes due to keeping buses/vehicles well beyond their uselife. In turn, the County realizes operational savings due to more efficient (later model) buses/vehicles and less labor required for repairs and maintenance.

options, revenue sharing formulas, unfunded State mandates, and other limitations left unchanged will lead to the deterioration of public services and quality of life for citizens of the County".

The Workgroup recommended to the Intergovernmental Relations Committee of Milwaukee County a platform for legislative change that includes an opportunity to provide County government with additional options for local control over their own financial destiny, with new, additional revenue, and a reduction in the reliance on property taxes, through enabling legislation and a binding County-wide referendum. The Workgroup also recommended increased, fair contributions from the State toward the provision of State-mandated services provided by local governments.

In June 2019, the Milwaukee County Board adopted four resolutions ("Resolutions") that expressed support for the recommendations from the Fair Deal for Milwaukee County Workgroup. These Resolutions specifically supported:

- Additional options for county governments for local control over their own financial destiny, with new, additional revenue, and a reduction in the reliance on property taxes through enabling legislation and a binding county-wide referendum.[15]
- Amending Wisconsin law to require that state mandates to counties be fully funded.[16]
- Full funding for operational and capital costs of the new Secure Residential Care Centers for Youth and Family.[17]
- Indexing of state shared revenue payments from the State of Wisconsin to Wisconsin Counties to the rate of inflation in each State biennial budget.[18]

The Resolutions also directed the Government Affairs staff to provide the Resolutions to the Wisconsin Counties Association for consideration in their 2020 Legislative Platform.

---

[15] County Board Resolution 19-556
[16] County Board Resolution 19-557
[17] County Board Resolution 19-558
[18] County Board Resolution 19-559

3-COMMITTEE ACTION

This is an informational report only. This report should be referred to and reviewed by the Finance and Audit Committee.

Scott B. Manske
Comptroller

DocuSigned by:
Joe Lamers
B036187DBBE3492...

Joe Lamers
Director – DAS-Performance, Strategy and Budget

Attachments

pc: Chris Abele, County Executive
Luigi Schmitt, Chairman, Committee on Finance and Audit
Supervisor Willie Johnson, Jr., Vice-Chairman, Committee on Finance and Audit
Guy Smith, Director, Parks
Greg High, Director, DAS-A&E
Laurie Panella, CIO, DAS-IMSD
Donna Brown-Martin, Director- MCDOT
Raisa Koltun, Chief of Staff, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board
Justin Rodriguez, Office of the Comptroller
Pamela Bryant, Office of the Comptroller
Stephen Cady, Office of the Comptroller
Vince Masterson, Office of Performance, Strategy and Budget