

**COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION**

DATE : April 9, 2013

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

FROM : Craig Kammholz, Fiscal and Budget Administrator, DAS
Scott Manske, Comptroller, Office of the Comptroller

SUBJECT : **Report of 2012 Carryovers to 2013 Fiscal Year**

REQUEST

The Department of Administrative Services (DAS) is requesting approval of the recommended expenditures and revenues to be carried over from 2012 to 2013 in accordance with Section 32.91 of the Milwaukee County General Ordinances (Section 32.91). The DAS is required by Section 32.91 to prepare an annual report on operating and capital carryovers.

DISCUSSION

For several years, the DAS has limited operating carryovers to those that are offset with non-County revenue or for extenuating circumstances. This policy has been continued for the 2012 carryover process.

Operating Carryovers

Operating budget capital outlay, equipment and major maintenance appropriations recommended to be carried over from 2012 to 2013 total \$7,798,968.00 (See attachment Schedule A: Appropriations – Capital Outlay/Equipment/Major Maintenance Carried Over From 2012-2013 for details). Revenues (Schedule B) recommended to be carried over total \$12,149,591.00. This compares to carryovers from 2011 to 2012 of \$4,291,150.00 and \$8,163,101.00, respectively.

The majority of the operating expenditure and revenue carryover amounts are for Community Development Block Grant projects within the HOME Grant, Community Development Block Grant and Revolving Loan Program projects within the Department of Health and Human Services – Housing Division.

Historically, the Housing Division has not budgeted the expenditure and revenues in the appropriate objects and accounts. This practice has continued without any direction toward correction. The DAS recommends that the Housing Division submit an appropriation transfer to reallocate the budgeted authority from the 2012 carryovers and the 2013 Adopted Budget to the appropriate expenditure objects and revenue accounts.

Attachment Schedule A: Appropriations – Capital Outlay/Equipment/Major Maintenance Carryovers Not Recommended for 2012 - 2013 reflects total operating major maintenance items of \$4,539,631.10 that have been lapsed to the general fund for 2012. This amount will be included in the year-end 2012 results.

Capital Carryovers

Schedule C is included to summarize capital expenditures and revenues recommended to be carried over to 2013. Capital project fund expenditure appropriation carryovers from 2012 to 2013 total \$133,289,053.00 for corporate purpose projects. Associated revenues to be carried over total \$172,246,235.00. This compares to appropriation carryovers of \$108,109,865.18 for 2011 to 2012. The associated capital improvement revenue carryovers from a year ago totaled \$84,195,139.00.

Airport capital improvement expenditure and revenue carryovers from 2012 to 2013 total \$63,475,383.00 and \$97,430,494.00, respectively. Revenues exceed expenditure carryovers due primarily to the carryover of revenues associated with expenditures already encumbered. This compares to carryovers of \$97,731,455.00 in expenditures and \$128,136,862.55 in revenues for the Airport from 2011 to 2012.

Lapsed Unspent Bonds

Unspent bond proceeds of \$2,008,558.72 from the lapsed capital projects will be deposited into the County's debt service reserve. In addition, the DAS will work with departments to develop an appropriation transfer to utilize the lapsed Build America Bonds.

Airport Capital Results

The Airport will pay a contribution of \$1,892,181.44 to reconcile capital projects for deficits or revenue that has not been realized or booked in the capital projects. The contribution consists of \$542,493.43 in cash and \$1,349,688.01 in Airport bond proceeds.

General Fund Impact from Capital Program

A schedule of capital improvement appropriations and revenues not recommended for carryover is also attached. Excluding Airport appropriations and revenues, \$334,431.05 of cash is required from the County's general fund in 2012 to offset deficits in various capital projects. The net cash deficit is primarily a result of unrealized revenue of

\$436,984.29 for Highway projects.

Highway Capital Projects

The Milwaukee County Department of Transportation – Highway Division (MCDOT) has been working to reconcile deficits for multiple capital projects, including reconciling payments to and from the State of Wisconsin as well as municipalities. The Highway capital project deficit is primarily due to shortfalls in funding for the Project WH010072 - South 13th Street (Rawson to College Avenue) and Project WH022012 - North 107th Street (Brown Deer to North County Line Road) projects. An appropriation transfer is submitted with the carryover report to reconcile the project deficit for the South 13th Street project and reconcile the revenue shortfall for North 107th Street project. The total amount of reallocated expenditure authority and revenues is \$4,514,000.

South 13th Street Project (Rawson to College Avenue)

The South 13th Street Project has a deficit of \$730,000. In addition, in 2011 an appropriation transfer was approved that reallocated \$1,610,504 in expenditure authority and \$1,288,403 in reimbursement revenue from South 13th Street to Kinnickinnic Parkway Bridge (\$707,955 in expenditure authority and \$566,364 in reimbursement revenue) and Lake Park Ravine Bridge (\$902,549 in expenditure authority and \$722,039 in reimbursement revenue). In 2011, the MCDOT-TSD projected a savings of approximately \$2 million. The \$2 million in savings did not materialize. Therefore, MCDOT is requesting the reallocation of \$730,000 in expenditure and \$184,000 in State revenue from various highway capital projects to complete the project. The attached appropriation transfers reallocates lapsed expenditure authority from the following Highway capital projects: College Avenue (13th to 20th Street), (\$150,000); Oak Creek Parkway Bridge #741 (\$80,000); West Silver Spring Drive North 124th Street (\$400,000) and West Silver Spring Drive Bridge (\$100,000).

North 107th Street – Brown Deer to North County Line Road

In 2009, \$701,000 was budgeted for planning for the North 107th Street roadway from Brown Deer to North County Line Road. In 2010, MCDOT indicated that Surface Transportation Program funding was not provided for three Highway capital projects. Therefore, the Department abandoned the projects until additional funding was available. The budgeted general obligation bonds would be reallocated as the match for the North 107th Street project.

An appropriation transfer of \$2,140,700 was approved to establish expenditure authority to construct the roadway, with \$1,296,700 in reimbursement revenue and \$656,000 in general obligation bonds. An additional \$2,359,300 was budgeted in 2013, with \$1,914,816 in reimbursement revenue and \$444,484 in general obligation bonds, to complete construction. In December of 2012, the Department indicated that the reimbursement revenue for the project would be reduced by \$1,100,000. Therefore, the attached appropriation transfer reduces the reimbursement revenue by \$1,100,000,

increases general obligation bonds by \$700,000 and decreases expenditure authority by \$400,000. The \$700,000 in general obligation bonds is obtained by decreasing expenditure authority for the Resurface West Oklahoma Avenue 108th Street project by \$1,400,000, decreasing reimbursement revenue by \$700,000 and decreasing general obligation bonds by \$700,000.

Unspent Bond Proceeds

As of year-end 2012, the estimated total unspent bond balance is \$44,239,151 for 219 capital projects. The Internal Revenue Service regulations dictate the expenditure of the bonds within three years. If the bonds are not expended, the County will have to pay a penalty or rebate if the investment rate is higher than the interest rate of the bonds. The payment would be equal to the percentage that the investment rate exceeds the interest rate of the bonds. For example, if the interest rate for the bonds is 4 percent and the earnings rate for investing the bonds is 5 percent, the County would have to pay the value of 1 investment rate percent to the IRS. If the investment rate is lower than the interest rate on the bonds, which is the current situation, the County does not incur a penalty or rebate, but is not in compliance with IRS regulation regarding expending the bonds. If the investment rates increase the County could incur a penalty or rebate.

The County would be limited in terms of the type of investments of bond proceeds that are beyond the IRS expenditure timeline. The bond proceeds cannot be invested in (i) federally insured deposits or accounts (as defined in Section 149(b)(4)(B) of the Code), or (ii) investments constituting obligations of or guaranteed, directly or indirectly, by the United States of America (except obligations of the United States Treasury or investments in obligations issued pursuant to Section 21B(d)(3) of the Federal Home Loan Bank Act, as amended (e.g., Refcorp Strips).

In the past, the County would use the unspent bonds to pay interest on the individual bonds. However, the majority of the unspent bonds are Build America Bonds (BABs). The BABs can be used to finance capital improvement projects only. The other bonds can be applied towards the interest cost on the specific bond issue as well as financing capital improvements projects.

The unspent bonds represent bond issues for the years 1999-2010. The estimated amount of unspent bonds for the bond issue years 1999-2008 total \$655,787. The majority of the unspent bonds are from 2009-2010 bond issues. The table below displays the bond issue and the deadline for expending the bonds. The 1999-2009 bonds issues total an estimated \$11,503,981 and should have been expended. The remaining estimated unspent bond balance of \$32,735,170 consists of 2010 bond issues, including \$17,992,596 in 2010A BABs and 2010B Promissory Notes with a deadline of May 13, 2013 and \$14,742,574 in 2010C BABs and 2010D Promissory Notes with a deadline of December 13, 2013.

Bond Issue	Expenditure Deadline	Unspent Bond Total
1999 Corporate Purpose	10-May-02	\$1,491
2000 Corporate Purpose	7-Mar-03	\$698
2006 Corporate Purpose	3-Apr-09	\$5,156
2007 Corporate Purpose	7-Jun-10	\$112,032
2008 Corporate Purpose	4-Jun-11	\$536,410
2009C Build America Bonds	12-Aug-12	\$2,825,097
2009D Promissory Notes	12-Aug-12	\$335,861
2009E Build America Bonds	19-Nov-12	\$7,379,197
2009F Promissory Notes	19-Nov-12	\$308,039
2010A Build America Bonds	13-May-13	\$17,327,001
2010B Promissory Notes	13-May-13	\$665,595
2010C Build America Bonds	10-Dec-13	\$14,235,295
2010D Promissory Notes	10-Dec-13	\$507,278
Total		\$44,239,151

Although the proceeds have not been expended within 3 years, the IRS expectation is that the County will proceed or demonstrate a consistent pattern of spending to reflect a commitment to implementing the projects. Therefore, projects where the County will not be able to demonstrate this consistent pattern or commitment shall have the bond proceeds reallocated to an existing project or new project that can.

The Office of the Comptroller met with departments to determine when the projects that are financed with the unspent bonds will be completed. Some of the projects are on hold. For projects that will not be completed in 2013, it may be prudent to reallocate the unspent bonds to the capital projects in the 2013 Adopted Capital Improvements Budget or other capital projects, particularly in the Five Year Capital Improvements Plan, to expend the bonds. This will reduce the bonding for the 2013 projects or future bond issues.


In an effort to avoid future non-compliance, the Office of the Comptroller will be meeting with departments monthly to discuss the status and update the timetable of the capital projects. Another review of projects status and expenditure plans will be conducted prior to issuing the bonds to finance the project. The Office of the Comptroller will report to Finance and Audit Committee any projects that are not in compliance with the IRS regulations and suggest compliance measures.

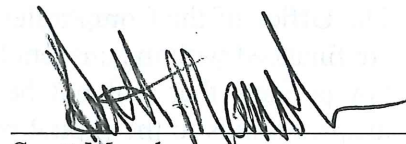
The table below lists projects with unspent bond balances of at least \$1,000,000. Eight (8) projects represent almost half of the estimated unspent bond balance, \$21,383,746 of \$44,239,151.

Project Number	Description	Bond	Unspent Bond Amount	Expenditure Deadline
WJ051012	HOC Security Camera System	2009E	\$1,139,220.01	19-Nov-09
WE033012	Behavioral Health Facility Renovator	2010A	\$10,017,769.00	13-May-10
WO606014	Rewire County Facilities	2010A	\$1,071,129.23	13-May-10
WZ083012	Zoo Pavement and Lighting	2010A	\$1,152,898.60	13-May-10
WO114052	Museum Facade Replacement	2010C	\$1,151,285.52	21-Dec-10
WO614014	Build Out Ten Sites To Digital	2010C	\$1,835,848.20	21-Dec-10
WP063022	Estabrook Dam Rehabilitation	2010C	\$1,706,621.60	21-Dec-10
WT026034	Bus Replacement Program (110)	2010C	\$3,308,973.62	21-Dec-10
	Total		\$21,383,745.78	

Recommendation

The Department of Administrative Services recommends the carryover of \$7,798,967.71 in operating budget expenditures and \$12,149,590.38 in operating revenues, \$133,289,053.00 in expenditures and \$172,246,235.00 in revenues for corporate purpose projects, \$63,475,383.00 in expenditures and \$97,430,494.00 in revenues for airport capital projects. The recommendation for lapsed items consists of \$2,008,558.72 in unspent bonds to the debt service reserve and a negative cash balance of \$436,984.29 to the general fund. The recommended contribution from the Airport will consist of \$1,892,181.44 to reconcile capital projects for deficits or revenue that has not been realized or booked to the capital projects. In addition, \$4,514,000 in expenditure authority and revenues are recommended for reallocation to various Highway capital projects.


 Craig Kammholz
 Fiscal and Budget Administrator


 Scott Manske
 Comptroller

Attachments

pc: Chris Abele, County Executive
 Amber Moreen, Chief of Staff, Milwaukee County Executive
 Kelly Bablitch, Chief of Staff, Milwaukee County Board
 Pamela Bryant, Capital Finance Manager, Office of the Comptroller
 Stephen Cady, County Board Fiscal and Budget Analyst
 Department Heads
 DAS-Fiscal Staff