

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

DATE : April 19, 2024

TO : Supervisor Marcelia Nicholson, Chairwoman, County Board of Supervisors

FROM : Pamela Bryant, Director of Capital Finance, Office of the Comptroller

SUBJECT : Reallocation of Unspent Bond Proceeds from Active Projects

**REQUEST**

To comply with the Internal Revenue Service (“IRS”) expenditure rules for tax-exempt bonds, the Office of the Comptroller is seeking approval to reallocate approximately \$3.7 million of 2015-2022 unspent bonds and notes (“Bonds”) from active projects. Approximately \$3.5 million of the bonds will be reallocated to Project WH024201 – North Shop Improvements and the remaining Bonds will be reallocated to Org Unit 9960 General County Debt Service to pay eligible interest expenses. Tax-exempt Bonds issued in 2015-2021 are not compliant with IRS expenditure rules because the County has not been able to demonstrate a consistent pattern of spending that reflects a commitment to implementation.

The resolution also authorizes the transfer of approximately \$2.4 million of cash from the Debt Service Reserve (“DSR”) to pay 2024 debt service. Levy freed up by using funds from the DSR and unspent Bonds to pay debt service will be provided to projects that had older bonds removed and still require the funds for project completion.

The expenditure deadlines for the tax-exempt Bonds being reallocated are listed on *Table 1*. The amounts included in Table 1 are estimates based on a specific point in time. Since these projects are active the final amounts that are reallocated may be different.

*Table 1: Unspent Bonds by Bond Issue Year/Series*

Bond Issue	Amount Unspent	Closing Date	Expenditure Deadline
2015A	\$209	11/12/2015	11/12/2018
2016A	\$33,185	11/10/2016	11/10/2019
2017A	\$138,412	11/8/2017	11/8/2020
2018D	\$473,853	11/15/2018	11/15/2021
2018E	\$50,382	11/15/2018	11/15/2021
2019C	\$112,639	10/2/2019	10/2/2022
2019D	\$145,440	10/2/2019	10/2/2022
2020A	\$1,043,043	10/28/2020	10/28/2023
2020B	\$10,259	10/28/2020	10/28/2023
2020D	\$51,885	10/28/2020	10/28/2023
2021B	\$12,470	11/23/2021	11/23/2024
2021D	\$1,585,974	11/23/2021	11/23/2024
2022A	\$47,492	11/3/2022	11/3/2025
<b>Total</b>	<b>\$3,705,243</b>		

### **IRS Expenditure Rules for Tax Exempt Bonds**

To comply with IRS regulations, at the time the County issues tax-exempt bonds, the County states it expects to spend all the bond proceeds within three years and proceed with due diligence to complete the projects being financed and spend all the bond proceeds. If the bond proceeds have not been spent within three years, the County must restrict the investment yield that can be earned on the unspent proceeds to a yield not greater than the yield on the Bonds and must take action to demonstrate a consistent pattern of spending to reflect a commitment to completing and implementing the projects.

The investment rates have increased. The County is in the process of preparing the data to determine if the increased investment rates exceed the interest rate on the Bonds. The County has hired Public Financial Management – Asset Management to perform the calculations. If investment rates increase beyond the interest rate on the bond issue, the County could have a problem identifying investments with yields lower than the yield on the Bonds. The penalty for not complying with the investment rate restriction could be monetary or could be a loss of the subsidy payments on the Qualified Energy Conservation Bonds.

### **Allocation of Unspent Bond Proceeds**

Since the IRS expectation is that the County will proceed or demonstrate a consistent pattern of spending to demonstrate a commitment to implementation, approximately \$3.7 million of unspent bonds are recommended to be reallocated from active projects. In most cases, these unspent bonds will be replaced with tax levy. The total amount of levy being transferred to these projects is approximately \$2.6 million. There are some projects that are near completion that do not need the funding and will not have levy transferred to them. The listing of the projects along with the current estimated unspent bond amount and the amount of funding being restored with levy is included in *Table 2*.

Table 2: Unspent Bond Amount by Project

Project	Project Name	Unspent Bond Amount	Amount Restored with Levy
WP0498012	Underwood Creek Parkway Replacement	\$ 822,839	\$ -
WC0062011	CJF - Building Roof Replacement	\$ 443,137	\$ 443,137
WT0083012	Bus Rapid Transit	\$ 364,634	\$ 364,634
WP0628022	Brown Deer Park Roadway Phase 2	\$ 350,188	\$ 350,188
WO0517102	War Memorial/MAM ADA Restroom Renovation	\$ 310,000	\$ 310,000
WP0536012	MITCHELL AIRPORT PARK PLAYGRND	\$ 258,895	\$ 258,895
WT0079011	MCTS Fleet Maintenance Roof Replacement	\$ 176,583	\$ 176,583
WT0078011	KK GARAGE ROOF REPLACEMENT	\$ 170,634	\$ 170,634
WO0200011	TRAIN ACADEM PARK LOT REPLACEM	\$ 136,957	\$ -
WP0484012	Lake Park Ravine Bridge	\$ 125,274	\$ 125,274
WP0372011	MCKINELY MARINA FLUSHING CHANL	\$ 120,333	\$ 120,333
WZ0119012	African Plains Exhibit	\$ 81,957	\$ -
WH0110013	W. Beloit Rd (CTH T)-S 124th to S Wollmer	\$ 75,000	\$ 75,000
WZ0119011	African Plains Exhibit	\$ 72,923	\$ -
WP0628021	Brown Deer Park Roadway Phase 2	\$ 64,374	\$ 64,374
WP0695012	WASHINGTON PK BRIDGE REPLACE	\$ 35,098	\$ 35,098
WV0047012	FROEMMING PAV WATER AND SANITA	\$ 32,959	\$ 32,959
WP0536011	MITCHELL AIRPORT PARK PLAYGRND	\$ 29,396	\$ 29,396
WP0727012	OLT ZIP LINE SINKHOLE	\$ 21,385	\$ 21,385
WO0342014	SHERIFF FLEET EQUIPMENT 2021	\$ 12,470	\$ -
WP0529011	Oak Leaf Trail Bender Racine Connector	\$ 209	\$ 209
WH0114011	MILL RD BRIDGE OVER OAK CREEK	\$ -	\$ -
WP0050461	Lincoln Park Baseball Lighting	\$ -	\$ -
<b>Grand Total</b>		<b>\$ 3,705,243</b>	<b>\$ 2,578,098</b>

### Allocation of Bonds to Project WH024201 North Shop Improvements

The North Shop Improvement project is currently under construction and is anticipated to be substantially completed by October 2024. The Office of the Comptroller submitted CB Resolution 24-104 and CB Resolution 24-291 to authorize the issuance and establish parameters for the 2024 Bond/Note Issuances. These resolutions included an anticipated \$15 million financing for the North Shop Improvements. Approximately \$2.8 million has already been spent for construction and \$11.3 million remains under contract. The Office of the Comptroller recommends allocating approximately \$3.5 million of unspent bonds to this project so that the Bonds can be spent quickly.

This allocation of unspent Bonds will reduce the size of the 2024 bond issue by \$3.5 million. As a result, future principal and interest expenses are estimated to be reduced by \$5.2 million.

### Allocation of Bonds to Org. 9960 to Pay Interest Expenses

Approximately \$221,000 of unspent bonds will be used to pay eligible 2024 interest expenses. Since these unspent bonds are being used to pay 2024 interest expenses, a like amount of levy in Org. Unit 9960 General County Debt Service is freed up and can be allocated back to the active projects.

**Allocation of cash from the Debt Service Reserve**

The Office of the Comptroller recommends approximately \$2.4 million of cash from the Debt Service Reserve be allocated to Org. 9960 General County Debt Service to pay 2024 debt service expenses. Using these funds from the DSR will free up levy that is recommended to be allocated to active capital projects that had their unspent Bonds removed.

As of April 2024, the balance of cash in the DSR was \$94.6 million. In addition, County Board Resolution 24-352 authorized the Comptroller to contribute all but \$5 million of the 2023 surplus to the DSR. The estimated 2023 surplus is \$30 million. This resolution would reduce the cash balance by approximately \$2.4 million.

**RECOMMENDATION**

The Office of the Comptroller recommends adoption of the attached resolution. The resolution authorizes the reallocation (via administrative transfers) of approximately \$3.7 million of unspent bonds from active capital projects to pay debt service and to finance Project WH024201 – North Shop Improvements. The resolution also authorizes the transfer of \$2.4 million of cash from the DSR to Org. Unit 9960 Debt Service to pay eligible 2024 debt service. Finally, the resolution authorizes the transfer of levy from Org. 9960 Debt Service to active projects to replenish allocated unspent Bonds.

*Pamela Bryant* \_\_\_\_\_

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Director of Capital Finance

cc: David Crowley, County Executive  
Chairperson, Committee on Finance  
Liz Sumner, Milwaukee County Comptroller  
Mary Jo Meyers, Chief of Staff, County Executive's Office  
Kelly Bablitch, Chief of Staff, County Board  
Stephen Cady, Office of the Comptroller  
Justin Rodriguez, Office of the Comptroller  
Joe Lamers, Office of Strategy. Budget, and Performance  
Vince Masterson, Office of Strategy. Budget, and Performance