

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : May 18, 2022

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

FROM : Scott B. Manske, Comptroller

SUBJECT : Corrective Actions for Active Projects to address issues related to Bonds and other Project Adjustments

REQUEST

The Office of the Comptroller requests approval of the attached resolution that adjusts capital improvements budgets. These adjustments are being done to address compliance issues related to unspent bonds and to move surplus funds for projects that are substantially completed, but not yet closed.

The resolution will:

- Lapse \$940,655 of bond funding for seven (7) projects to the Debt Service Reserve. A listing of the seven (7) projects, whose bond funding is being lapsed, are shown in Table 1. Five (5) of the projects are substantially complete and no longer need the bond funds. Remaining two projects represent old bond issuances, which will now be funded by cash.
- Utilize the lapsed bond proceeds of \$940,655 from the Debt Service Reserve (“DSR”) to ensure timely spending of the bond proceeds. (Table 2)
 - Use \$413,842 of unspent bond proceeds to reduce the size of the 2022 Corporate Purpose Bond Issuances
 - Use \$526,813 to pay eligible 2022 debt service expenses. Debt Service interest is an eligible expense for lapsed tax-exempt bonds and immediately utilizes old debt proceeds to meet IRS guidelines.
- Utilize the \$526,813 of tax levy freed by payment of 2022 debt service expenses to increase Appropriation for Contingency and complete funding on another project. (Table 3)
 - Increase the Org Unit 1945 Appropriation for Contingencies by \$359,608.
 - Allocate \$167,205 from Org unit 9960 Debt Service to capital project WP0682 – Whitnall Clubhouse HVAC Replacement and Kitchen Improvements.
- Cash Fund two (2) lapsed bond capital projects with cash. Replace Series 2015A Bonds that financed Project WP054801 Kletzsch Dam Repairs and Improvements and Series 2016A Bonds that financed Project WO051710 War Memorial Restroom Renovations with \$505,661 of cash from the Debt Service Reserve. The remaining bond proceeds for these two projects were lapsed in the first bullet above. (Table 1)
- Lapse \$500,000 of Bond budget and expenditure authority from Project WO028901- CJF Intercoms and Door Controls. This does not represent bond proceeds being lapsed but simply the authority for the issuance of the bonds. These funds are no longer needed for the project.
- Transfer \$118,079 from Project WO060201 Enterprise Platform Modernization – Phase 1 to Project WO064701 Enterprise Platform Modernization – Phase 3.

Since all the projects listed in the report/resolution are still active, the dollar amounts are subject to change. An amount as close as possible to the amounts listed will be used.

BACKGROUND

IRS Expenditure Rules for Tax Exempt Bonds

In order to comply with IRS regulations, at the time the County issues tax-exempt bonds the County states it expects to spend all of the bond proceeds within three years and proceed with due diligence to complete the projects being financed and spend all of 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 County is complying with the requirement regarding investment yield since the investment yield is currently lower than the yield on the bonds. If investment rates increase, 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.

Table 1: Projects with Surplus Bonds - \$940,655

Bond Issue	Project	Lapse Amount	Project Status	Amount Replaced with cash from DSR
2015A*	WP054801 Kletzsch Park Dam Repairs and Improvements	\$165,000	Ongoing	\$165,000
2016A*	WO051710 - War Memorial Restrooms Renovations	\$340,661	Ongoing	\$340,661
2015A*	WP068501 - Lyons Bridge Replacements	\$10,394	Substantially Complete	Lapse surplus bonds
2015A*	WP052901 - OLT Bender Racine Connector	\$167,409	Substantially Complete	Lapse surplus bonds
2020A	WT010801 - HVAC Replacement - Bus Storage/Washhouse	\$42,113	Substantially Complete	Lapse surplus bonds
2020C	WM004901 - MPM 4th Floor Roof Replacement	\$86,741	Substantially Complete	Lapse surplus bonds
2021D	WT007901 - MCTS Maintenance Roof Replacement	\$128,337	Substantially Complete	Lapse surplus bonds
Total		\$940,655		\$505,661

* Tax exempt bonds and notes that were issued prior to 2019 and have not been spent are currently out of compliance with IRS expenditure rules.

Projects with Surplus Bonds

The Office of the Comptroller has identified \$940,655 of unspent bonds in active projects that are recommended to be lapsed to the Debt Service Reserve so that the bonds can be reallocated. The lapsed bonds related to Project WP054801 Kletzsch Park Dam Repairs and Improvements and Project WO051710 War Memorial Restroom Renovations will be replaced with \$505,661 of cash from the Debt Service Reserve. These projects are still ongoing and still require funding to complete the projects, but bond funds can no longer be utilized due to the age of the bonds, and the project is not expected to be completed by the end of the year. The unspent bonds related to Project WP068501 Lyons Bridge, WP052901 OLT Bender Racine Connector, WT010801 – HVAC Replacement – Bus Storage/Warehouse, WM004901 – MPM 4th Floor Roof Replacement, and WT007901 – MCTS Maintenance Roof Replacement can be lapsed since the projects are substantially complete.

Table 2: Allocations of bonds to the Debt Service Reserve

<u>Project Description</u>	<u>Unspent Bond Amount</u>
<i>Use Unspent Bonds to Pay Eligible Debt Service Expenses</i>	
Org. Unit 9960 Debt Service (2022 Debt Service Expenses)	\$526,813
Subtotal	\$526,813
<i>Replace new 2022 Bonds in Previously Approved Projects</i>	
WP062501 Dretzka Park-Lighting, Storm Water, Parking Improvements	\$413,842
Subtotal	\$413,842
Total	\$940,655

Of the \$940,655 being lapsed, \$526,813 will be reallocated to pay 2022 debt service expenses. The remaining \$413,842 will be used applied to Project WP062501 Dretzka Park – Lighting, Stormwater, and Parking improvements. The Dretzka Park project has funds encumbered and construction is anticipated to be substantially completed in 2022. Applying unspent Bonds towards the Dretzka Park project will replace bonds that would have been issued in 2022. Reducing the size of the 2022 bond issuances will reduce future principal and interest expenses.

Table 3 Allocations from Org. 9960 Debt Service

<u>Project Description</u>	<u>Amount</u>
<i>Transfer to Org. 1945 Appropriation For Contingency</i>	
Unallocated Contingency	\$359,608
Subtotal	\$359,608
<i>Replace Funding for New Capital Project</i>	
Project WP0682 – Whitnall Clubhouse HVAC Replacement and Kitchen Improvements	\$167,205
Subtotal	\$167,205
Total	\$526,813

A vast majority of the levy transferred from Org. 9960 Debt Service (\$359,608) is recommended to be allocated to Org. 1945 Appropriation for Contingency. The remaining \$167,205 is recommended to be allocated to Project WP0682 – Whitnall Clubhouse HVAC Replacement and Kitchen Improvements. Project WP0682 was included in the 2021 Adopted Capital Improvements Budget. Financing was to be provided by general obligation bonds or notes. Since the project has not yet started and includes some elements that will not be able to be bond financed, the Office of the Comptroller recommends lapsing the bond budget and replacing the financing with cash from the Debt Service Reserve.

Lapsing/Transferring of Other Project Related Items

There is \$500,000 of Bonds that have not been issued for Project WO028901 - CJF Intercoms and Door Controls Replacement, but are recommended to be lapsed. Project WO028901 was included in the 2020 Adopted Capital Improvements Budget. The CJF Project was anticipated be financed by \$1.8 million of cash and \$500,000 of bonds. After further review of the project scope, it was determined that the items that were thought to be bond eligible were not. The bonds were not issued for the project. The project has a sufficient surplus to eliminate the bonding amount and expenditure authority. The Office of the Comptroller recommends lapsing the bond budget and a corresponding amount of expenditure authority.

There are surplus cash funds of \$118,079 available in Project WO060201 Enterprise Platform Modernization. The project was substantially completed in 2021. The project has not yet been closed out. It is recommended that the remaining non-encumbered funds of \$118,079 be reallocated to Phase 3 - of the Enterprise Platform Modernization project (WO0647).

RECOMMENDATION

The Office of the Comptroller recommends adoption of the attached resolution.

The resolution will:

- Lapse \$940,655 of bond funding for seven (7) projects to the Debt Service Reserve. A listing of the seven (7) projects, whose bond funding is being lapsed, are shown in Table 1. Five (5) of the projects are substantially complete and no longer need the bond funds. Remaining two projects represent old bond issuances, which will now be funded by cash.
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- Lapse \$500,000 of Bond budget and expenditure authority from Project WO028901- CJF Intercoms and Door Controls. This does not represent bond proceeds being lapsed but simply the authority for the issuance of the bonds. These funds are no longer needed for the project.
- Transfer \$118,079 from Project WO060201 Enterprise Platform Modernization – Phase 1 to Project WO064701 Enterprise Platform Modernization – Phase 3.

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pc: David Crowley, County Executive
Supervisor Liz Sumner, Chairwoman, Committee on Finance
Mary Jo Meyers, Chief of Staff, County Executive’s Office
Kelly Bablitch, Chief of Staff, County Board
Stephen Cady, Office of the Comptroller
Pamela Bryant, Office of the Comptroller
Justin Rodriguez, Office of the Comptroller
Vince Masterson, Office of Strategy, Budget and Performance