

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : February 26, 2013
TO : Supervisor Dimitrijevic, Chairwoman, County Board of Supervisors
FROM : Scott Manske, Comptroller
SUBJECT : **Qualified Energy Conservation Bonds Delegation**

REQUEST

In January 2013, the Office of the Comptroller submitted a report to request for the delegation of the approval of the issuance/sale of a not-to-exceed amount \$10,000,000 in Taxable Qualified Energy Conservation Bonds (QECBs) and the authorization and delegation of the approval to issue a not-to-exceed amount of \$36,100,000 in General Obligation Corporate Purpose Bonds. The QECBs were authorized in 2009. Unfortunately, the resolutions attached to the January 2013 report did not include the QECBs. Therefore, the Office of the Comptroller has submitted the associated resolution for consideration at the Finance, Personnel and Audit Committee for the March 2013 cycle.

QUALIFIED ENERGY CONSERVATION BONDS

The US Treasury Department allocated \$3.2 billion in QECBs to be issued by state and local governments. The allocation or maximum bond amount is allocated to each state based on the state's percentage of the U.S. population as of July 1, 2008. Each state is then required to allocate a portion of its allocation to "large local governments" within the state based on the local government's percentage of the state's population. Large local governments are defined as municipalities and counties with populations of 100,000 or more. Large local governments may reallocate their designated portion back to the state if they choose to do so. The State of Wisconsin was allocated \$58,387,000.

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 designates 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. The allowable interest rate is set daily.

In June 2009, the County Board of Supervisors approved the issuance of a not-to-exceed amount of \$10 million in QECBs. This amount assumed an allocation of \$9.7 million to Milwaukee County based upon the County's population as a percentage of the State's population. At the time, it was thought that the full \$9.7 million was allocated to Milwaukee County government. In fact, the allocation was \$6,276,756 for the City of Milwaukee and \$3,638,332 for Milwaukee County. The Office of the Comptroller is working with the Department of Administrative Services to contact the City of Milwaukee to discuss reallocating their portion to the County. At this time, the \$3,638,332 will be used to finance eligible County projects.

The QECCBs will be used to finance approved capital projects, including projects approved as a part of the 2013 Adopted Capital Improvements Budget. This adjustment will not result in an increase in total bonding for 2013.

The QECCB projects have to finance projects that fulfill a qualified energy purpose. The program defines a qualified energy purpose as one or more of the following items:

- Capital Expenditures for the purpose of
 - Reducing energy consumption in publicly-owned buildings
 - Green community programs (including use of loans, grants, or other repayment mechanisms to implement such programs)
 - Certain rural electricity projects
 - New Clean Renewable Energy Bonds (NCREBs) projects
- Research for:
 - Development of cellulosic ethanol/non-fossil fuels
 - Capturing carbon dioxide from fossil fuels
 - Increasing efficiency for producing non-fossil fuels
 - Auto batteries and other technology
 - Reduce energy use in buildings
- Mass commuting
- Promoting commercialization of technology for:
 - Green buildings
 - Use of agricultural waste for fuel
 - Battery manufacturing
 - Reduction of peak use of electricity
 - Capture of carbon dioxide
- Public campaigns to promote energy efficiency

The Comptroller's Office requested a review by the Architecture Engineering and Environmental Services Division (AE&ES Division) to determine which projects could be financed with the QECCBs. Based on a preliminary review of the above requirements, AE&ES Division determined that the County could finance some heating, ventilation and air handling projects. This may include air handling units, variable air volume boxes and direct digital control systems. AE&ES Division is in the process of evaluating more projects.

BOND SALE PARAMETERS

The parameters for the financing would consist of the following:

- Maximum coupon rate of 5 percent – A coupon rate is the interest rate for each maturity or principal amount.
- Maximum true interest cost (TIC) of 5 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.
- 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. If there is a premium paid, the amount of the premium would be used to reduce the amount of the bond issue. Whether or not the bond purchase price is a par, discount or premium is dependent upon market conditions on the day of the sale.

INITIAL AUTHORIZING RESOLUTION AND NOTE RESOLUTION

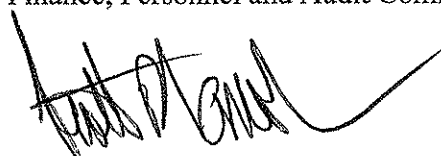
The attached resolution (Attachment 1) authorizes the delegation of the approval of the sale of the Qualified Energy Conservation Bonds to the Comptroller and provides parameters for the bonds. The authorized and delegated actions will require the Finance, Personnel and Audit Committee and County Board approval. Approval of the attached resolution will require a majority vote of the County Board of Supervisors. The attached resolution directs County staff to take the necessary actions for the sale of the bonds.

DEBT ISSUANCE EXPENSE

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. A DAS-only appropriation transfer will be processed to pay expenses related to this financing. The expenses will be paid with bond proceeds. Anticipated expenses may include underwriter(s), bond counsel, financial auditor, financial advisory fees, official statement printing and mailing costs, credit rating fees and expenses, and other issuance costs such as publication and express mail costs.

RECOMMENDATION

The Office of the Comptroller requests that the Finance, Personnel and Audit Committee approve and recommend approval by the full County Board of the attached resolutions. The resolution delegates to the Comptroller the authority to approve the final terms and conditions of the bond sale provided that those terms and conditions are within the parameters set forth in the attached resolution. The sale will consist of the issuance of a not-to-exceed amount of \$3,635,000 to finance eligible projects. An informational report will be submitted to the Finance, Personnel and Audit Committee to communicate the final results of the sale.



Scott Manske
Comptroller

Attachments

pc: Chris Abele, County Executive
Supervisor Dimitrijevic, Chairman, County Board of Supervisors
Don Tyler, Director, Department of Administrative Services
Amber Moreen, Chief of Staff, County Executive's Office
Raisa Koltun, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board
Pamela Bryant, Capital Finance Manager
Stephen Cady, County Board Fiscal and Budget Analyst
Justin Rodriguez, Fiscal and Management Analyst
Chuck Jarik, Chapman and Cutler LLP
David Anderson, Public Financial Management
Emile Banks, Emile Banks and Co.

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