

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : October 9, 2012
TO : Supervisor Dimitrijevic, Chairwoman, County Board of Supervisors
FROM : Pension Obligation Bond Workgroup
SUBJECT : **Initial Authorizing Resolution for the Pension Obligation Bonds**

REQUEST

The Pension Obligation Bond Workgroup, is seeking approval of the attached resolution authorizing the refunding of a not-to-exceed amount of \$145,000,000 in Taxable General Obligation Pension Obligation Notes to replace the \$135,000,000 Taxable Note Anticipation Notes (Anticipation Notes). The Anticipation Notes were issued, along with the \$265,000,000 Taxable Pension Obligation Notes, to partially fund the County's unfunded actuarially accrued liability (UAAL).

The attached resolution provides parameters for the refunding and delegates approval of the sale of the notes to the Comptroller. The Comptroller's approval is limited to results of the sale that fall within the parameters outlined in the resolution. An informational report will be submitted to the Finance, Personnel and Audit Committee to communicate the final results of the note sale.

BACKGROUND

At the July 2012 Finance, Personnel and Audit Committee, the Comptroller's Office submitted an informational report and PowerPoint presentation as a review of the 2009 note issuances and an overview of the replacement of the \$135,000,000 Anticipation Notes. The overview consisted of a review of the pension obligation notes issued in 2009 that were used to reduce the County's UAAL of \$398,000,000 which was in existence as of January 1, 2008.

The County issued \$400,000,000, which consisted of \$265,000,000 in Taxable General Obligation Promissory Notes (20-year term) and \$135,000,000 in Taxable General Obligation Note Anticipation Notes (5-year term). Wisconsin State Statutes limit the term for general obligation notes for this purpose to 20 years. The UAAL was amortized over a 25 year term. To match the UAAL, the County issued a 20-year note and a 5-year note.

The Anticipation Notes as the title indicates were issued in anticipation of the issuance of \$135,000,000 in notes to replace the 5-year Anticipation Notes with a structure that would amortize the \$135,000,000 over the years 2028-2033. The Anticipation Notes were structured so that the County would pay interest only for the first four years and principal and interest in the final year. The final year payment would include a \$135,000,000 principal payment. The principal payment of \$135,000,000 is due on December 1, 2013. Therefore, it is recommended that the County proceed with the plan to replace the \$135,000,000 prior to the December 1 payment date.

The attached initial authorizing resolution and note resolution requests permission to issue a not-to-exceed amount of \$145,000,000 in notes, which includes amounts for \$135,000,000 in principal, \$7,276,500 in interest, cost of issuance and an allowance for market changes that may increase the note amount. The POB Workgroup is in the process of determining the structure and term of the notes. (Please see Attachment 1 for estimated debt service schedules).

BOND SALE PARAMETERS

The parameters for the financing would consist of the following:

- Both maximum coupon rate and true interest costs (TIC) of 5.5 percent – A coupon rate is the interest rate for each maturity or principal amount. 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.
- Par Call Provision – The par call provision provides the County with the right to call the bonds after a specified number of years and only pay principal or the par amount of the bonds at the time of the call. The par call is the normal call provision that the County uses on its debt. Typically, the County uses a 10 year call date. The refunding bonds may or may not have that specific number, but the basics are the same.
- Make Whole Call Provision – The make whole call provision indicates that if the County were to call the bonds, it would have to make a lump sum payment to investors based on the net present value of the future bond payments. In other words, investors would be "made whole".

The lump sum payment associated with the make whole call provision is referred to as a "make whole penalty" due to the high cost associated with having to pay a lump sum payment to the bondholders. The lump sum payment is derived from an agreed upon formula that is based on the net present value of the future bond payments.

In 2009, the taxable bond market was not responsive to par call bonds. Therefore, the \$265,000,000 Taxable Pension Promissory Notes and the \$135,000,000 Taxable Note Anticipation Notes have a "make whole" provision.

The make whole call provision is a characteristic of the corporate debt model within the taxable bond market. The taxable market is more familiar with municipal debt since the introduction of the Build America Bond program. Municipal issuers have been able to issue taxable debt, including pension bonds, without this provision. However, the taxable bond market still provides a benefit for the make whole call provision, so the County may have an interest in pursuing it as an option for some of the bonds.

- Minimum purchase price of 98 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 refunding 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 2) for the proposed notes provides parameters for the notes and delegates approval of the sale of the notes to the Comptroller, which 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 authorizes the issuance of the notes and directs County staff to take the action necessary for the sale of the notes.

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 from debt proceeds. A DAS-only appropriation transfer will be processed to pay expenses related to this financing. Anticipated expenses may include bond counsel, financial auditor, financial advisory fees, official statement printing and mailing costs, credit rating fees and expenses, trust agent, and other issuance costs such as publication and express mail costs.

RECOMMENDATION

The POB Workgroup 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 note 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 \$145,000,000 to replace the \$135,000,000 Taxable Pension Note Anticipation Notes. An informational report will be submitted to the Finance, Personnel and Audit Committee to communicate the final results of the bond sale.

Pension Obligation Bond Workgroup

Attachments

pc: Chris Abele, County Executive
Supervisor Dimitrijevic, Chairman, County Board of Supervisors
Patrick Farley, Director, Department of Administrative Services
Amber Moreen, Chief of Staff, County Executive's Office
Tia Tohorst, 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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