

**COUNTY OF MILWAUKEE  
INTER-OFFICE COMMUNICATION**

DATE: March 1, 2021

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

FROM: Scott B. Manske, Comptroller

SUBJECT: **Authorizing and Parameters Resolutions for the issuance of general obligation bonds or notes for the construction of a Mental Health Emergency Center**

**REQUEST**

The Office of the Comptroller is requesting the approval of the attached initial authorizing resolutions and parameters resolution (the “Resolutions”) for the issuance of a not-to-exceed amount of \$5,470,000 of general obligation bonds or notes (the “Obligations”) to finance the construction of a Mental Health Emergency Center (the “Project”). The Resolutions authorize the reimbursement of expenses related to the Project that occur prior to the issuance of the Obligations. The Resolutions authorize an administrative transfer to pay costs associated with the debt issuances and deposit surplus proceeds to the Debt Service Reserve (“DSR”). The Resolutions delegate the bid opening and approval of the winning bidder for the sale of the Obligations to the Comptroller. The Comptroller’s approval is limited to sale results that fall within the parameters outlined in the Resolutions.

**BACKGROUND**

The Department of Health and Human Services - Behavioral Health Division (“BHD”) has been engaged in a long-term transition to a more community-based continuum of care for residents needing mental health and substance use treatment and services. The County is currently in the process of closing Milwaukee County’s Mental Health Complex (“MHC”) inpatient units and shifting services to a contract with a private provider for inpatient behavioral health services. The MHC is also the site of the BHD-operated psychiatric emergency department and observation unit (known as “Psychiatric Crisis Services” or “PCS”). With the shift to contracted inpatient units, it no longer makes programmatic or financial sense for BHD to operate a freestanding PCS at this site but there is still a strong need for a psychiatric emergency department in the community.

To continue this important service, BHD has partnered with the 4 private health systems in collaboration with the Milwaukee Health Care Partnership to create the new Mental Health Emergency Center. The Mental Health Emergency Center will allow for BHD to continue to satisfy its statutory responsibility to provide crisis mental health services to people who are a danger to themselves or others , and will be a key community resource supporting the entire continuum of crisis services for adults and youth. This new facility will be located on county-owned property at 12<sup>th</sup> and Walnut on the northern end of the existing parking lot that serves the Marcia P. Cogg Center.

**File 21-314 from the Director of DHHS**

The Director of DHHS has submitted File 21-314 to the County Board and County Executive. File 21-314 includes a resolution that authorizes the creation of Project WE12301 Mental Health Emergency Center. The resolution creates expenditure authority of \$5,360,000 and anticipates financing from general obligation bonds or notes for the Project.

The debt issuance resolutions included in this file should only be considered if File 21-314 is recommended/approved.

**Issuance and Repayment of the Debt**

The Office of the Comptroller has prepared Resolutions that facilitate the issuance of a not-to-exceed amount of \$5,470,000. The amount is the sum of the Project amount for the Mental Health Emergency Center (\$5,360,000), and Underwriter's Discount/Cost of Issuance (\$110,000). The estimated gross debt service from the not-to-exceed schedules is \$6,927,946 which includes \$1,457,946 of interest costs. The Office of the Comptroller anticipates that the length of debt service will be ten years.

In December 2020, BHD and the Health System Partners signed a Letter of Intent ("LOI") for a Proposed Psychiatric Hospital Joint Venture ("JV"). The purpose of the JV is to develop, own and operate the Psychiatric Hospital. The LOI indicates that for the first ten years after the Psychiatric Hospital opens that additional capital contributions are split 50%/50% between the County (BHD) and the Health System Partners.

According to File 21-314, annual debt service related to the bond financing will be included in the Behavioral Health Division operating budget.

**Draw down of the Funds**

Mental Health Emergency Center Inc. ("MHEC Inc.") is the joint venture between BHD and the four private health systems. MHEC Inc. will oversee the overall project and enter into contracts to complete construction of the Mental Health Emergency Center. MHEC Inc. will provide documentation for project draws to the County for the drawdown of Project funds so that payments can be made for construction work. The County's bond/note proceeds will only be used for construction work on the project.

BHD expects the total project budget of \$12,200,000 to be sufficient; however, should additional funds be required they would need to be approved by BHD and the health systems. It is anticipated that if additional BHD funding would be required that it would be provided from BHD reserves or the BHD operating budget. If there are surplus bond/note proceeds available after the project is completed; the proceeds will be used to pay debt service.

## **INITIAL AUTHORIZING RESOLUTIONS**

### **Debt Issuance Conditions**

Wisconsin State Statute Section 67.045 outlines the conditions under which a county may issue debt. To comply with the referenced State Statute, approval of the attached initial authorizing resolution will require a  $\frac{3}{4}$  vote of the County Board of Supervisors.

The authorizing resolutions also permit the County to reimburse itself for any expenditures made prior to the issuances. Each of the items in the resolution requires Finance Committee and County Board approval.

### **U.S. Treasury Regulation Compliance**

U.S. Treasury Regulation Section 1.150-2 describes the conditions under which the County may expend County funds on a project currently and later reimburse itself with bond proceeds. The first step in providing for such reimbursement to occur is an expression of intent by the County to reimburse itself for expenditures incurred prior to issuing the bonds. Therefore, the attached resolution expresses that intent.

Expressing this intent will allow the County to reimburse itself for expenditures incurred as long as the expenditures comply with IRS rules summarized below:

- No expenditure made 60 days prior to the date of the adoption of the reimbursement resolution can be reimbursed with bond proceeds (other than architectural and engineering fees and similar costs).
- Bonds must be issued within 18 months of the later of:
  - The first date that a reimbursed expenditure is made.
  - The placed-in-service date of the project for which the reimbursed expenditure was made (or the date of abandonment of the project for which the reimbursed expenditure was made).
- Bonds must be issued within three years of the date of the first reimbursed expenditure in any event.

## **PARAMETERS RESOLUTION**

The Parameters Resolution delegates authority to the Milwaukee County Comptroller to approve the sale of a not to exceed amount of \$5,470,000 of Obligations.

The specific parameters for each of the Obligations are identified in the sections below.

### **Sale Parameters**

The parameters for the financing would consist of the following:

- A not-to-exceed amount of \$5,470,000.
- Payment Schedule – The final maturity of the Obligations will not occur later than 2036. The amount of principle due in each year shall be as level as possible. It is anticipated that the length of the schedule will be ten years.
- Maximum true interest cost (TIC) of 5.0 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.
- Call provision – The parameters resolution provides that the call provision will be determined by the Comptroller at the time of sale. However, it is anticipated that the Bonds will have a 10-year call provision so that the County will be able to refund them 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. Whether or not the bond purchase price is a par, discount or premium is dependent upon market conditions on the day of the sale.
- Tax-exempt or taxable basis – The Comptroller of the County, in consultation with the County's bond counsel, will determine whether the Obligations of a particular series will be issued on a taxable basis or tax-exempt basis and whether a portion of any tax-exempt Obligations should be designated as Qualified 501 (c) (3) Bonds.

## DEBT ISSUANCE EXPENSES

The attached resolutions authorize and direct 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. An administrative appropriation transfer will be processed to increase expenditure authority to pay for the cost of issuance. Anticipated expenses include bond counsel, disclosure counsel, financial auditor and financial advisory fees, credit rating fees, and other issuance costs.

## RECOMMENDATION

The Office of the Comptroller requests that the Finance Committee approve and recommend the attached Resolutions. The Resolutions authorize the issuance of a not-to-exceed amount of \$5,470,000 of bonds or notes. The Resolutions also authorize the reimbursement of expenses related to the Project, and delegates, to the Comptroller, the authority to approve the final terms and conditions of the sale provided that those terms and conditions are within the parameters set forth in the attached Resolutions. Finally, the Resolutions authorizes the processing of an administrative transfer to pay costs associated with the debt issuances and deposit surplus proceeds to the Debt Service Reserve.

*Scott B. Manske*

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Scott B. Manske  
Comptroller

cc: David Crowley, County Executive  
Supervisor Jason Haas, Chairman, Finance Committee  
Mary Jo Meyers, Chief of Staff  
Kelly Bablitch, Chief of Staff, County Board  
Shakita LaGrant-McClain, Director, Department of Health and Human Services  
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