

**COUNTY OF MILWAUKEE  
INTER-OFFICE COMMUNICATION**

DATE : February 16, 2018

TO : Supervisor Theodore Lipscomb, Sr., Chairman, County Board of Supervisors

FROM : Scott B. Manske, Comptroller

SUBJECT : **Authorizing/Parameters Resolution for the 2017 General Obligation Refunding Bonds**

**Request**

The Office of the Comptroller is requesting the approval of the attached resolution for the issuance of a not-to-exceed amount of \$57,325,000 of General Obligation Refunding Bonds (Refunding Bonds) to refund the balance of the outstanding:

- Taxable General Obligation Corporate Purpose Bonds, Series 2009C (Build America Bonds – Direct Payment )
- Taxable General Obligation Corporate Purpose Bonds, Series 2009E (Build America Bonds – Direct Payment )
- Taxable General Obligation Corporate Purpose Bonds, Series 2010A (Build America Bonds – Direct Payment )

The attached resolution authorizes the issuance of the bonds, provides parameters for the issuance and delegates approval of the sale of the bonds to the Comptroller. The Comptroller's approval is limited to results of the sale that fall within the parameters outlined in the resolution.

**Background**

*Build America Bond Program and Subsidies*

The American Recovery and Reinvestment Act of 2009 created the Build America Bond program, which authorized state and local governments to issue Build America Bonds as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt governmental bonds. Local governments receive a direct federal subsidy payment for a portion of their borrowing costs on Build America Bonds equal to 35 percent of the total coupon interest paid to investors. The direct federal subsidy payment for the borrowing costs of Economic Development Zone Bonds is equal to 45 percent.

Since 2012, the Build America Bond subsidy amounts have been subject to Federal sequestration. Sequestration are automatic spending cuts that were triggered by the failure of Congress to meet deficit reduction targets mandated by the Budget Control Act of 2011. The sequestration percentages have ranged from 8.7% to 6.6%.

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The future of the Build America Bond subsidy remains uncertain. For example during the passage of the Tax Cuts and Jobs Act of 2017, the additional growth the federal deficit would have triggered the Statutory Pay-As-You-Go Act and resulted in the elimination of the Build America Bond subsidies. However, Congress in 2017 passed a waiver to the Pay-As-You-Go Act, which allowed the Build America Bond subsidies to continue.

Based on concerns related to the uncertainty of the Build America Bond subsidies, the County's financial advisor has recommended that the County refund its outstanding Build America Bond debt.

#### Milwaukee County Build America Bond Issuances

In 2009, the County issued \$24,775,000 in Series 2009C Build America Bonds – Direct Payment. The \$19,360,000 in outstanding Series 2009C BABs is callable beginning October 1, 2018. The estimated net present value savings from refunding the 2009C BABs is \$251,376 when factoring in the loss of the Build America Bond Subsidy. If the BAB subsidies were discontinued, the estimated net present value savings would be \$1,605,426.

Also in 2009, the County issued \$30,365,000 in Series 2009E Build America Bonds – Direct Payment. The \$21,965,000 in outstanding Series 2009E BABs is callable beginning August 1, 2018. The estimated net present value savings from refunding the 2009E BABs is \$279,008 when factoring in the loss of the Build America Bond Subsidy. If the BAB subsidies were discontinued, the estimated net present value savings would be \$1,568,514.

In 2010, the County issued \$22,725,000 in Series 2010A Build America Bonds/Recovery Zone Bonds. The \$15,135,000 in outstanding Series 2010A BABs is callable beginning October 1, 2018. The estimated net present value savings from refunding the 2010ABABs is (\$133,739) when factoring in the loss of the Build America Bond Subsidy. If the BAB subsidies were discontinued, the estimated net present value savings would be \$986,247.

The Office of the Comptroller has prepared estimated debt service schedules for the issuance of a not-to-exceed amount of \$57,325,000 in refunding bonds. The total estimated debt service costs would be \$62,727,498, including \$5,402,498 in interest costs. The combined estimated net present value savings is \$396,645 and includes the loss of the future Build America Bond subsidies.

#### **BOND SALE PARAMETERS**

The parameters for the financing would consist of the following:

- Final Maturity no later than 2025.
- Bonds may be issued on a tax-exempt or a taxable basis. It is anticipated that bonds will be issued on a tax-exempt basis unless the County needs to perform remedial action related to the debt that is being refunded in order to comply with certain provisions of the Internal Revenue Code.

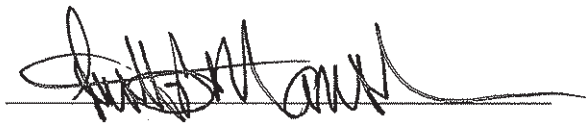
- Principal Payments –
  - Bonds issued on a tax-exempt basis shall have principal payments due in the years and in the amounts as the Comptroller of the County shall determine so that in each year the annual debt service on the Bonds shall not be greater than the combined annual debt service on the Refunded Obligations (without regard to any subsidy from the Treasury) in that year.
  - Bonds issued on a taxable basis for the purpose of complying with certain provisions of the Internal Revenue Code of 1986, as amended and any applicable Treasury Regulations shall have principal payments due in the years and in the amounts as the Comptroller of the County shall determine without regard to whether there is annual debt service savings.
- 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 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.

## **DEBT ISSUANCE EXPENSES**

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. An administrative appropriation transfer will be processed to increase expenditure authority to pay for the cost of issuance. Anticipated expenses include bond counsel, financial auditor and financial advisory fees, official statement printing and mailing costs, credit rating fees and expenses and other issuance costs such as publication costs and express mail.

## RECOMMENDATION

The Office of the Comptroller requests that the Finance and Audit Committee approve and recommend approval by the full County Board of the attached resolution. The resolution authorizes the issuance of the bonds, allows for the processing of administrative fund transfers to facilitate the transaction, allows for the processing of administrative fund transfers to deposit net bid premiums and surplus bonds to the Debt Service Reserve and 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 \$57,325,000 in bonds to refund the balance of the outstanding Taxable General Obligation Corporate Purpose Bonds, Series 2009C, Taxable General Obligation Corporate Purpose Bonds, Series 2009E, and Taxable General Obligation Corporate Purpose Bonds, Series 2010A.



Scott B. Manske  
Comptroller

### Attachment

pc: Chris Abele, County Executive  
Supervisor Peggy West, Chairwoman, Finance and Audit Committee  
Raisa Koltun, Chief of Staff, County Executive  
Kelly Bablitch, Chief of Staff, County Board  
Pamela Bryant, Capital Finance Manager  
Stephen Cady, Research Director  
George Christenson, County Clerk  
David Cullen, Treasurer  
Brian Lanser, Quarles & Brady LLP  
Lafayette Crump, Crump Law Firm  
David Anderson, PFM Financial Advisors LLC  
Tionna Pooler, Independent Public Advisors, LLC  
Justin Rodriguez, Budget and Management Coordinator