

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : August 5, 2025

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

FROM : Liz Sumner, Comptroller

SUBJECT : Bond Proceeds Reallocation for Compliance and Efficiency

REQUEST

The Office of the Comptroller requests approval of the attached resolution that authorizes the replacement of approximately \$6.4 million of unspent tax-exempt bond proceeds that have not or will not been expended within the requirements of the Arbitrage Regulations for tax-exempt bonds described below.

To comply with the Arbitrage Regulations for tax-exempt bonds, the Office of the Comptroller is seeking approval to do the following:

- Authorize the reallocation (via administrative transfers) of approximately \$6.4 million in unspent bond proceeds from projects financed with 2021–2023 bond issues (“Older Projects”) to pay interest on bonds to the extent possible (\$38,976) and allocate \$5,982,983 to projects that will be able to spend the proceeds more quickly (“Newer Projects”). The 42 Older Projects are listed on Exhibit A. The two Newer Projects are financed by 2024 bonds. The remaining \$368,012 of older bonds from Project WF0600014 will be lapsed to the debt service reserve to be applied towards future interest payments. The reallocation of the bonds by project are listed in Exhibit B. The Newer Projects include:
 - Project WT0171014 – Bus Replacement Program – 2024 – Equipment (\$4,620,700)
 - Project WP0706032 – South Shore Breakwater North Section – Phase 2 (\$1,362,282).
- Allocate \$368,012 in cash from the debt service reserve to pay 2025 debt service to free up levy for WF0600014 - Countywide Vehicle and Equipment Replacement-2023 to replace lapsed older bonds.
- Allocate \$4,833,223 of 2024 bond proceeds from the Newer Projects to the Older Projects so that the Older Projects can continue spending while subject to the extended expenditure deadlines related to the 2024 bonds.
- Decrease the 2025 budgeted bond amount for Project WP0706032 – South Shore Breakwater North Section – Phase 2 by \$1,149,760 for an estimated savings of \$595,450 over a 15-year term. The project’s expenditure authority will not be impacted.
- Apply \$38,976 in bonds/notes from Older Fleet Equipment projects to pay interest on the 2022A (\$1,889) and 2023B (\$37,087) bonds.

Bond Proceeds Reallocation for Compliance and Efficiency

08/05/2025

Page 2

BACKGROUND

The County issues bonds to finance its capital improvement program. These bonds must be spent in accordance with IRS expenditure rules, which set specific timelines for the use of bond proceeds. Additionally, the investment earnings on bond proceeds cannot exceed the interest rate of the bonds. If earnings surpass this limit, the excess—referred to as arbitrage—must be repaid to the IRS. The County records both the bond revenue and any capitalized interest within the associated capital projects. As a result, any excess earnings are typically expended, and the County must cover the resulting IRS liability. When such a payment is required, the primary funding source will be the capital project itself, if sufficient funds remain. If project funds are unavailable, an additional appropriation would be required.

While the County's tax-exempt bonds have always been subject to the Arbitrage Regulations, in the recent past, compliance was easier because interest rates on investments were relatively low. With the rise of interest rates, the County now has to more actively manage unspent bond proceeds to ensure compliance.

IRS Expenditure Rules for Tax Exempt Bonds

To comply with IRS regulations, at the time the County issues tax-exempt bonds, the County states it expects to spend all the bond proceeds within three years and proceeds with due diligence to complete the projects being financed. If the bond proceeds have not been spent within three years, the County must either (1) 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 or (2) make a payment to the IRS of the Excess Earnings. The County does not have a mechanism for lowering the rate of investment of bond proceeds from other funds of the County, so the County will have to make a payment to the IRS if the Temporary Period Rules are not met.

The County's Plan for Compliance with Arbitrage Regulations.

In addition to this request to reallocate bond proceeds, the Office of the Comptroller has hired Public Financial Management – Asset Management (PFMAM) to perform the required calculations. This review will determine whether the County has any Excess Earnings that are required to be paid to the IRS as described above. If any penalties or rebate payments are identified, the Office will update the Finance Committee and present a recommended course of action to address the findings and ensure continued compliance with federal tax requirements.

The County records both the bond investment earnings and any capitalized interest within the associated capital projects. As a result, any Excess Earnings are typically expended, and the County must cover the resulting IRS liability from funds other than bond proceeds. When such a payment is required, the primary funding source will be the capital project itself, if sufficient funds remain. If project funds are unavailable, an additional appropriation would be required.

Bond Proceeds Reallocation for Compliance and Efficiency

08/05/2025

Page 3

Older Projects and 2021-2023 Bond Proceeds Used for Reallocation

Bonds issued prior to 2024 are not in compliance with IRS expenditure rules. IRS rules generally require that the proceeds be spent within 18 months for equipment-related projects and within 24 months for construction projects. These bond proceeds should be fully expended by the dates below in Table 1.

*Table 1: Unspent Bonds Beyond the Expenditure Deadline**

Bond Issue	Amount	Rebate Exemption Ends	Spending Period (Months)
2021C	\$2,001,347.56	05/23/23	18
2021D	\$364,931.32	11/23/23	24
2022A	\$1,888.74	05/03/24	18
2022C	\$1,021,075.88	11/03/24	24
2023A	\$2,595,627.87	05/08/25	24
2023B	\$405,099.82	05/08/25	18
	\$6,389,971.19		

*Final amounts will change if additional financial activity occurs.

As of June 30, 2025, the Bus Replacement Program, financed with 2024F bonds, has total expenditures exceeding \$18,162,874. The South Shore Breakwater project, financed with 2024C bonds, has total expenditures of \$1,151,947. Total bond proceeds issued to finance the Bus Replacement Program are \$4,620,700. Total bond proceeds issued to finance South Shore Breakwater project are \$8,912,820. Given the scale and timing of the project, it provides an opportunity to absorb bond proceeds that must be spent sooner.

By reallocating \$6,389,971 of unspent bond proceeds from 2023 and earlier to the Bus Replacement Program and South Shore Breakwater project, the County can ensure these older bonds are expended within the required IRS timeframe. In turn, the 2024C and 2024F bonds, which have a later expenditure deadline (November 2026), can be used to finance Older Projects that need additional time to avoid exceeding the 18- or 24-month deadline. This reallocation helps the County maintain compliance with IRS expenditure rules and efficiently manage and monitor the bond proceeds.

Included in the \$6.4 million of unspent bond proceeds is \$1,149,761 in 2023A bonds from Project WH011101 W. Forest Home Ave. (CTHOO)-Hi-View Dr. To S. North Cape. The project is complete so these surplus funds will be applied to the South Shore Breakwater project. In the 2025 Capital Budget, \$3,761,000 in bonds/notes were approved for the South Shore Breakwater project. Applying the lapsed 2023A bonds to the project will reduce the 2025 bond issue by the \$1,149,761 and save an estimated \$595,450 in interest costs.

Vehicle and Equipment Replacement program

There is \$406,989 of the \$6,389,971 in unspent bonds that should have been expended that were issued to purchase equipment in the two separate Fleet projects. There is \$1,889 in 2022A bonds/notes in Project WO561014 Fleet Parks Equipment 2022 – Equipment (“Fleet Parks Equipment 2022”) and \$405,100 in 2023B bonds/notes in Project WF0600014 Countywide Vehicle and Equipment Replacement-2023.

The Fleet Parks Equipment 2022 project is complete and the remaining \$1,889 in 2022A bonds/notes will be applied towards the interest payment on the 2022A bonds/notes. The

Bond Proceeds Reallocation for Compliance and Efficiency

08/05/2025

Page 4

resulting \$1,889 of levy financed expenditure authority will be deposited in the debt service reserve.

The Vehicle and Equipment Replacement program has \$405,100 in 2023B bonds/notes that financed Project WF0600014 Countywide Vehicle and Equipment Replacement-2023. These bond proceeds should have been expended by May of 2025. There are no 2024 bonds/notes that could be used to replace the 2023B bonds/notes that would not disrupt the crosscharging allocation structure for the Fleet department. For example, using bonds/notes with a longer term would upset the payment structure for Fleet and complicate the maintenance of the bonds/notes. Therefore, the resolution requests the use of cash from the debt service reserve to replace the \$368,012 in 2023B bonds/notes in the Vehicle and Equipment Replacement-2023 project. The remaining \$37,087 is no longer needed for the project and will be lapsed to the debt service reserve and used to pay interest on the 2023B bonds/notes.

Exhibit A Older Projects – Projects with Bonds that Should Have Been Expended provides a listing of the Older projects and the respective 2021-2023 bond issues that are requested to be replaced with proceeds from the Newer projects.

Exhibit B Newer Projects – Reallocation of Bonds that were not Expended for Bonds that Are not Beyond Their Expenditure Deadline provides a list of the reallocation the bonds issues from Older projects to the Newer Projects.

RECOMMENDATION

The Office of the Comptroller recommends adoption of the attached resolution, which includes the following actions:

- Authorize the reallocation (via administrative transfers) of approximately \$6.4 million in unspent bond proceeds from projects financed with 2021–2023 bond issues (“Older Projects”) to pay interest on bonds to the extent possible (\$38,976) and allocate \$5,982,983 to projects that will be able to spend the proceeds more quickly (“Newer Projects”). The 42 Older Projects are listed on Exhibit A. The two Newer Projects are financed by 2024 bonds. The remaining \$368,012 of older bonds from Project WF0600014 will be lapsed to the debt service reserve to be applied towards future interest payments. The reallocation of the bonds by project are listed on Exhibit B. The Newer Projects include:
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 - Project WP0706032 – South Shore Breakwater North Section – Phase 2 (\$1,362,282).
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Bond Proceeds Reallocation for Compliance and Efficiency

08/05/2025

Page 5

- Decrease the 2025 budgeted bond amount for Project WP0706032 – South Shore Breakwater North Section – Phase 2 by \$1,149,760 for an estimated savings of \$595,450 over a 15-year term. The project's expenditure authority will not be impacted.
- Apply \$38,976 in bonds/notes from Older Fleet Equipment projects to pay interest on the 2022A (\$1,889) and 2023B (\$37,087) bonds.



Liz Sumner
Comptroller

cc: David Crowley, County Executive
Supervisor Willie Johnson, Jr., Chairman, 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
Andrea Weddle Henning, MCDOT – Transportation Services
Sean Hayes, Department of Administrative Services, Facilities
Tony Raab, Department of Administrative Services, Facilities AE&ES
Pat Carravetta, Office of the Sheriff
Joe Lamers, Office of Strategy. Budget, and Performance
Vince Masterson, Office of Strategy. Budget, and Performance

Bond Proceeds Reallocation for Compliance and Efficiency

08/05/2025

Page 6

Exhibit A Older Bonds – Projects with Bonds that Should Have Been Expended

Project	Description	Bond Issue	Final Pymnt Year	Bonds/Notes Amount
WF0600014	COUNTYWIDE VEHICLE AND EQUIPMENT REPLACEMENT-2023	2023B	2026	\$368,012.46
WF0600014	COUNTYWIDE VEHICLE AND EQUIPMENT REPLACEMENT-2023	2023B	2026	\$20,164.36
WF0600014	COUNTYWIDE VEHICLE AND EQUIPMENT REPLACEMENT-2023	2023B	2026	\$14,047.00
WF0600014	COUNTYWIDE VEHICLE AND EQUIPMENT REPLACEMENT-2023	2023B	2026	\$2,876.00
WH0010223	S. 13TH ST-WPUETZ TO DREXEL	2023A	2033	\$1,858.08
WH0102011	S. 76TH ST. BRIDGE OVER W. FOREST HOME AVE	2023A	2033	\$2,636.89
WH0111011	W. Forest Home Ave. (CTHOO)-Hi-View Dr. To S	2023A	2033	\$43,817.55
WH0111012	W. Forest Home Ave. (CTHOO)-Hi-View Dr. To S	2023A	2033	\$295,920.77
WH0111012	W. Forest Home Ave. (CTHOO)-Hi-View Dr. To S	2023A	2033	\$657,612.98
WH0111012	W. Forest Home Ave. (CTHOO)-Hi-View Dr. To S	2023A	2033	\$152,408.97
WH0250011	E MASON ST BRIDGE-LINCOLN MEMORIAL DR B-40-0524	2023A	2033	\$13,812.89
WH0255011	Signal at Forest Home Ave & Speedway Dr Intersec - Design	2022C	2032	\$372.54
WH0256012	Signal at Rawson Ave Intrscns 68th, 51st, 31st - Design	2022C	2032	\$38,751.97
WH0257011	Signal at College Ave & 20th St Intersection - Design	2022C	2032	\$521.44
WH0264011	Signal at College Ave & S 13th St Intersection	2023A	2033	\$19,510.90
WJ0112012	HOC ADMIN BLDG ROOF REPLACEMENT	2023A	2033	\$523,083.80
WO0169012	TRAINING ACADEMY ROOF REPAIRS	2023A	2033	\$340,064.93
WO0561014	Fleet Parks Equipment 2022 - Equipment	2022A	2026	\$1,888.74
WP0536012	MITCHELL AIRPORT PARK PLAYGRND	2023A	2033	\$35,000.00
WP0538012	Root River Parkway Reconstruction - 92nd & Park	2022C	2032	\$385,172.08
WP0625012	DRETZKA LIGHTING STRM WAT PRK	2022C	2032	\$50,214.28
WP0658011	CURRIE PLOT & CART PATH IMPRO	2022C	2032	\$162,189.58
WP0714011	KK - JACKSON PARK DRIVE	2022C	2032	\$68,341.36
WP0748011	Oak Leaf Trail Connectivity – Bender Park - DESIGN	2023A	2033	\$119,619.77
WP0749011	Oak Leaf Trail Extension – Kohl Park Connection - DESIGN	2023A	2033	\$162,183.72
WT0078012	KK GARAGE ROOF REPLACEMENT	2022C	2032	\$293,149.56
WT0083011	Bus Rapid Transit	2021C	2031	\$877,820.12
WT0083012	Bus Rapid Transit	2021C	2031	\$1,774.57
WT0083014	Bus Rapid Transit	2021C	2031	\$154,547.24
WT0083021	Vel Phillips Plaza BRT Stop - Design	2021C	2031	\$100,000.00
WT0083022	Vel Phillips Plaza BRT Stop - Construction	2021C	2031	\$247,205.63
WT0083024	Vel Phillips Plaza BRT Stop - Equipment	2021C	2031	\$620,000.00
WT0111012	KK GARAGE CONCRETE YARD REPLAC	2023A	2033	\$228,096.61
WT0149012	FDL GARAGE TRANSPORT BLDG ROOF	2022C	2032	\$14,327.31
WT0150012	FDL GARAGE TRAN BLDG HVAC	2022C	2032	\$2,719.78
WW0021012	OAK CREEK STREAMBANK STABILIZA	2022C	2032	\$5,315.97
WG0035012	VRJC ROOF REPLACEMENT	2021D	2035	\$39,108.84
WH0278012	Curb Ramps - Sidewalk at Layton and Nicholson Intersection	2021D	2035	\$1,470.55
WH0291011	Good Hope Rd (CTH PP)-N 76th St to .08 Miles East	2021D	2035	\$20,599.66
WP0498012	Underwood Creek Parkway Replacement	2021D	2035	\$86,828.27
WP0701012	GRANT N ACCESS RDS - PK LOTS 20	2021D	2035	\$2,343.62
WT0106012	BUS LIFT REPLACE 1-2 KK GARAGE	2021D	2035	\$73,111.43
WT0128011	KK GARAGE EMPLOYEE PLOT	2021D	2035	\$20,766.17
WT0141012	KK WASHHOUSE BLD EXST SYS RENE	2021D	2035	\$58,413.83
WT0149011	FDL GARAGE TRANSPORT BLDG ROOF	2021D	2035	\$64.19
WW0038012	DRETZKA PARK LIFT STATION	2021D	2035	\$62,224.76
	Total			\$6,389,971.19

Exhibit B – Reallocation of Bonds that were not Expended for Bonds that Are not Beyond Their Expenditure Deadline

Project	Description	Fleet	WP0706032	WT0171014	DSR	WP0706032 - Reduce 2025 Issue	Grand Total
WF0600014	COUNTY WIDE VEHICLE AND EQUIPMENT REPLACEMENT-2023	\$368,012.46			\$37,087.36		\$405,099.82
WG0035011	VRJC ROOF REPLACEMENT			\$0.00			\$0.00
WG0035012	VRJC ROOF REPLACEMENT		\$39,108.84				\$39,108.84
WH0010223	S. 13TH ST-WPUETZ TO DREXEL			\$1,858.08			\$1,858.08
WH0102011	S. 76TH ST. BRIDGE OVER W. FOREST HOME AVE.			\$2,636.89			\$2,636.89
WH0111011	W. Forest Home Ave. (CTH00)-Hi-View Dr. To S					\$43,817.55	\$43,817.55
WH0111012	W. Forest Home Ave. (CTH00)-Hi-View Dr. To S		\$657,612.98	\$152,408.97		\$295,920.77	\$1,105,942.72
WH0250011	EMASON ST BRIDGE-LINCOLN MEMORIAL DR B-40-0524			\$13,812.89			\$13,812.89
WH0255011	Signal at Forest Home Ave & Speedway Dr Intersec - Design			\$372.54			\$372.54
WH0256012	Signal at Rawson Ave Intrscnts 68th, 51st, 31st - Design			\$38,751.97			\$38,751.97
WH0257011	Signal at College Ave & 20th St Intersection - Design			\$521.44			\$521.44
WH0264011	Signal at College Ave & S13th St Intersection			\$19,510.90			\$19,510.90
WH0278012	Curb Ramps- Sidewalk at Layton and Nicholson Intersection		\$1,470.55				\$1,470.55
WH0291011	Good Hope Rd (CTH PP)-N 76th St to .08 Miles East		\$20,599.66				\$20,599.66
WJ0112012	HOC ADMIN BLDG ROOF REPLACEMENT			\$523,083.80			\$523,083.80
WO0169012	TRAINING ACADEMY ROOF REPAIRS			\$340,064.93			\$340,064.93
WO0561014	Fleet Parks Equipment 2022 - Equipment				\$1,888.74		\$1,888.74
WP0498012	Underwood Creek Parkway Replacement		\$86,828.27				\$86,828.27
WP0536012	MITCHELL AIRPORT PARK PLAYGRND			\$35,000.00			\$35,000.00
WP0538012	Root River Parkway Reconstruction - 92nd & Park			\$385,172.08			\$385,172.08
WP0625012	DREITZKA LIGHTING STRM WATPRK			\$50,214.28			\$50,214.28
WP0658011	CURRIE PLOT & CART PATH IMPRO			\$162,189.58			\$162,189.58
WP0701012	GRANTN ACCESS RDS- PKLOTS20		\$2,343.62				\$2,343.62
WP0714011	KK- JACKSON PARK DRIVE			\$68,341.36			\$68,341.36
WP0748011	Oak Leaf Trail Connectivity – Bender Park - DESIGN			\$119,619.77			\$119,619.77
WP0749011	Oak Leaf Trail Extension – Kohl Park Connection - DESIGN			\$162,183.72			\$162,183.72
WT0078012	KK GARAGE ROOF REPLACEMENT			\$293,149.56			\$293,149.56
WT0083011	Bus Rapid Transit			\$877,820.12			\$877,820.12
WT0083012	Bus Rapid Transit			\$1,774.57			\$1,774.57
WT0083014	Bus Rapid Transit			\$154,547.24			\$154,547.24
WT0083021	Vel Phillips Plaza BRT Stop - Design			\$100,000.00			\$100,000.00
WT0083022	Vel Phillips Plaza BRT Stop - Construction			\$247,205.63			\$247,205.63
WT0083024	Vel Phillips Plaza BRT Stop - Equipment			\$620,000.00			\$620,000.00
WTD106012	BUS LIFT REPLACE 1-2 KK GARAGE		\$73,111.43				\$73,111.43
WTD111012	KK GARAGE CONCRETE YARD REPLAC			\$228,096.61			\$228,096.61
WTD128011	KK GARAGE EMPLOYEE PLOT		\$20,766.17				\$20,766.17
WTD141012	KK WASH HOUSE BLD EXST SYSTRENE		\$58,413.83				\$58,413.83
WTD149011	FDL GARAGE TRANSPORT BLDG ROOF		\$64.19				\$64.19
WTD149012	FDL GARAGE TRANSPORT BLDG ROOF			\$14,327.31			\$14,327.31
WTD150012	FDL GARAGE TRAN BLDG HVAC			\$2,719.78			\$2,719.78
WW0021012	OAK CREEK STREAM BANK STABILIZA			\$5,315.97			\$5,315.97
WW0038012	DREITZKA PARK LIFT STATION		\$62,224.76				\$62,224.76
Grand Total		\$368,012.46	\$1,022,544.30	\$4,620,700.00	\$38,976.10	\$339,738.32	\$6,389,971.19