

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : January 8, 2016

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

FROM : Scott B. Manske, Comptroller, Office of the Comptroller

SUBJECT : Submission of a Report on the Results of the four Bond Sales that took place in 2015
(Informational-Only)

BACKGROUND

In January 2015, the Office of the Comptroller received approval from the County Board and County Executive to:

- Issue a not-to-exceed amount of \$53.6 million in bonds or notes¹ for various capital improvement projects included in the 2015 Capital Improvement Budget and previously approved projects appropriations made prior to that.
- Issue a not-to-exceed amount of \$5.5 million in Qualified Energy Conservation Bonds
- Issue a not to exceed amount of \$15.5 million in bonds to refund the outstanding debt for the General Obligation Corporate Purpose Bonds, Series 2006A.

The resolution also delegated the approval of the sale of the bonds to the Comptroller's Office subject to certain parameters.

The authorizing resolution also included parameters for selling the bonds.

GENERAL OBLIGATION BOND, SERIES 2015A SALE PARAMETERS

The parameters for the financing consisted of the following:

- Maximum true interest cost (TIC) of 4.0 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.
The actual TIC, including costs of issuance, is 2.58%.

¹ Financing for the Corporate Purpose Issuance was separated into two issuances 1) General Obligation Corporate Purpose, Series 2015A and 2) General Obligation Corporate Purpose Bonds, Series 2015C (Short Term, "notes")

- 10-year call provision – The 10-year call provision indicates that the County will be able to refund the new bonds prior to maturity. However, the parameters resolution provides that the call provision will be determined by the Comptroller at the time of the sale. *A 10-year call provision is included.*
- 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. *The actual purchase price is 101.58 percent of the par amount of the bonds. The County received a premium on the sale.*

Results of the Sale

On November 12 2015, the County closed on the sale of \$31,655,000 in General Obligation Corporate Purpose Bonds, Series 2015A (2015A Bonds). All parameters set by the Board and County Executive were met in the sale of the 2015A Bonds for October 2015. The County received seven bids. The winning bidder was Robert W. Baird & Co., Inc., who won with the lowest interest rate of 2.50%. The total interest costs are \$7,396,702.78.

The County received a total premium (including excess proceeds) on the sale of \$952,392. The premium means that the County met the rule that the minimum purchase price shall be at least 99 percent of the par amount of bonds. The remaining premium must be used to pay interest associated with the 2015A Bonds. Since there were no debt service payments due in 2015 for the 2015A Bonds, the balance of \$952,392 will be deposited to the debt service reserve so that it can be used to pay interest on the 2015A Bonds in future years in accordance with Wisconsin State Statutes.

The 2016 Adopted Budget allocated \$708,003 of the surplus 2015A Bonds to finance 2016 interest expenses. The balance of the unallocated 2015A Bonds will remain in the debt service reserve to finance future projects or interest expenses.

**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2015B SALE
PARAMETERS**

The parameters for the financing consisted of the following:

- Net present value savings of 3 percent – Net present value is a financing principle that allows for the analysis of costs that are incurred today and savings that occur in the future to be evaluated in today’s dollars (time value of money). Positive net present values reflect positive savings. The County has established a standard of at least 3 percent of refunded principal for advanced refundings; however, the County typically uses this rule as a criterion for refundings in general. **The preliminary analysis resulted in a net present value savings of approximately \$1.8 million or 12.1%**
- 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. ***The actual purchase price is 104.68 percent of the par amount of the bonds. The County received a premium on the sale, which was used to reduce the size of the issuance.***

Results of the Sale

On November 12 2015, the County closed on the sale of \$14,680,000 in General Obligation Refunding Bonds, Series 2015B (2015B Bonds). All parameters set by the Board and County Executive were met in the sale of the 2015B Bonds for October 2015. The County received four bids. The winning bidder was Citigroup Global Markets Inc., who won with the lowest interest rate of 1.25%. The total interest costs are \$1,319,298.89.

The County received a total premium (excluding excess proceeds) on the sale of \$705,914.10. The premium means that the County met the rule that the minimum purchase price shall be at least 99 percent of the par amount of bonds. The premium was used to reduce the size of the issuance. The remaining excess proceeds of \$523.58 must be used to pay interest associated with the 2015B Bonds. Since there were no debt service payments due in 2015 for the 2015B Bonds, the balance of \$523.58 will be deposited to the debt service reserve so that it can be used to pay interest on the 2015B Bonds in future years in accordance with Wisconsin State Statutes. The 2016 Adopted Budget allocated \$523.58 to finance interest expenses.

GENERAL OBLIGATION BOND, SERIES 2015C SALE PARAMETERS

The parameters for the financing consisted of the following:

- Maximum true interest cost (TIC) of 4.0 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. ***The actual TIC, including costs of issuance, is 1.59%.***
- 10-year call provision – The 10-year call provision indicates that the County will be able to refund the new bonds prior to maturity. However, the parameters resolution provides that the call provision will be determined by the Comptroller at the time of the sale. ***A 10-year call provision is not included since the term is only 4 years.***
- 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. ***The actual purchase price is 101.94 percent of the par amount of the bonds. The County received a premium on the sale.***

Results of the Sale

On November 12 2015, the County closed on the sale of \$3,600,000 in General Obligation Corporate Purpose Bonds, Series 2015C (2015C Bonds). All parameters set by the Board and County Executive were met in the sale of the 2015C Bonds for October 2015. The County received three bids. The winning bidder was Piper Jaffray & Company, who won with the lowest interest rate of 1.03% (excludes cost of issuance). The total interest costs are \$159,325.

The County received a total premium (including excess proceeds) on the sale of \$91,583. The premium means that the County met the rule that the minimum purchase price shall be at least 99 percent of the par amount of bonds. The remaining premium must be used to pay interest associated with the 2015C Bonds. Since there were no debt service payments due in 2015 for the 2015C Bonds, the balance of \$91,583 will be deposited to the debt service reserve so that it can be used to pay interest on the 2015C Bonds in future years in accordance with Wisconsin State Statutes.

The 2016 Adopted Budget allocated \$55,825 of the surplus 2015C Bonds to finance 2016 interest expenses. The balance of the unallocated 2015C Bonds will remain in the debt service reserve to finance future projects or interest expenses.

TAXABLE GENERAL OBLIGATION MASS TRANSIT BONDS (QECS – DIRECT PAYMENT), SERIES 2015D SALE PARAMETERS

The parameters for the financing consisted of the following:

- Maximum true interest cost (TIC)– (computed taking the underwriter’s compensation into account) will not be in excess of the applicable credit rate as of the date of the sale as determined by the Secretary of the Treasury and published by the Bureau of Public Debt, as required by the Resolution.). 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. *The actual TIC (before the estimated IRS rebate) was 2.57% which is less than 4.62% (the credit rate determined by the Secretary of the Treasury on October 29, 2015. The actual TIC (after the estimated IRS rebate) is estimated to be 0.21%.*
- 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. *The bonds sold at par.*

Results of the Sale

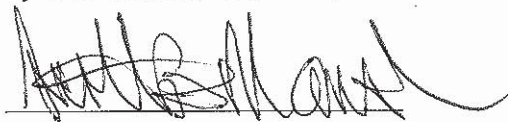
On November 12 2015, the County closed on the sale of \$4,860,000 in Taxable General Obligation Mass Transit Bonds (QECS – Direct Payment), Series 2015D (2015D Bonds). All parameters set by the Board and County Executive were met in the sale of the 2015D Bonds for October 2015. The County received five bids. The winning bidder was Fifth Third Securities., Inc., who won with the lowest interest rate of 2.34% and the total interest costs are \$600,415.90 (not including estimated IRS rebate). Including the estimated IRS rebate, the TIC is 0.21% and total net interest costs are estimated to be \$40,828.28.

The County had unallocated proceeds from the sale of \$31,758. The remaining surplus bonds must be used to pay interest service associated with the 2015D Bonds or used for 2016 bus replacements. Since there are no debt service payments due in 2015 for the 2015D Bonds, the balance of \$31,758 will be deposited to the debt service reserve.

The 2016 Adopted Budget allocated \$5,560 of the surplus 2015D Bonds to finance 2016 interest expenses. The balance of the bonds will be used to finance future bus replacement expenses.

Committee Action

This is an informational report only. This report should be referred to and reviewed by the Finance, Personnel, and Audit Committee.



Scott B. Manske
Comptroller

Attachments

pc: Chris Abele, County Executive
Supervisor Willie Johnson, Co-Chair, Committee on Finance, Audit and Personnel
Supervisor James "Luigi" Schmitt, Co-Chair, Committee on Finance, Audit and Personnel
Teig Whaley-Smith, Director, Department of Administrative Services
Steven Kreklow, Director, DAS-PSB
Raisa Koltun, Chief of Staff, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board
Pamela Bryant, Capital Finance Manager
Stephen Cady, Research Director
Justin Rodriguez, Budget and Management Coordinator