

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

DATE : June 15, 2017

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

FROM : Scott B. Manske, Comptroller  
Steven Kreklow, Director, Office of Performance, Strategy, and Budget

SUBJECT : Reallocation of Unspent Bond Proceeds from the Debt Service Reserve

**REQUEST**

To comply with the Internal Revenue Service (IRS) expenditure rules for bonds, the Office of the Comptroller and the Department of Administrative Services - Office of Performance Strategy and Budget (DAS-PSB) are seeking approval to reallocate approximately \$1.8 million of 2008-2016 unspent bonds from the Debt Service Reserve (DSR) to provide financing for capital projects that have incurred deficits or are in progress and are anticipated to be substantially completed by the end of the year or in limited cases finance 2017 interest expenses. The projects that are financed with bonds issued in 2008-2013 are not compliant with IRS expenditure rules because the County has not been able to demonstrate a consistent pattern of spending that reflects a commitment to implementation. Therefore, this request relating to the transfer of unspent bond proceeds on capital projects is being done to comply with IRS rules. For non-Build America Bonds issues prior to 2014, it is recommended that the bonds are used to pay interest expenses.

The expenditure deadlines for the bonds from 2008-2016 are listed below. The County did not issue any corporate purpose (general, non-airport bonds) in 2011 and 2012 and has not yet issued the 2017 corporate purpose bonds. The bonds issued prior to 2014 should have been expended.

*Table 1: Unspent Bonds by Bond Issue Year/Series*

Bond Issue	Amount		Expenditure Deadline
	Unspent*	Closing Date	
2008A	\$21,908	6/4/2008	6/4/2011
2010A	\$166,879	5/1/2010	5/1/2013
2010C	\$141,934	12/21/2010	12/21/2013
2013A	\$134,764	8/14/2013	8/14/2016
2014A	\$257,496	11/6/2014	11/6/2017
2015A	\$1,035,064	11/12/2015	11/12/2018
2015C	\$38,110	11/12/2015	11/12/2018
2016A	\$49,561	11/10/2016	11/10/2019
2016D	\$7,752	11/10/2016	11/10/2019
<b>Total</b>	<b>\$1,853,468</b>		

\*The unspent balance amounts are as of 6/15/2017. If activity changes the dollar amounts prior to a transfer being processed after final board adoption, an amount as close to the current unspent amount as possible will be transferred.

## **BACKGROUND**

In April 2017, the Office of the Comptroller and the DAS-PSB submitted a report to the County Board and County Executive (File 17-375) for the May Committee cycle that requested authorization to lapse certain capital expenditures and revenues from 2016 to 2017.

The report indicated that there was approximately \$1.8 million of unspent bond proceeds (See Table 1) that was being lapsed to the DSR. The report also indicated that a future reallocation of bond proceeds would be submitted to the County Executive and County Board for approval.

The reallocation of bonds would be done to pay 2017 interest expenses or to finance projects that would be able to spend the proceeds in a timely fashion (prior to the end of 2017). In most cases, this would mean that only ongoing projects with shortfalls would be considered. Other factors such as capitalization and private activity also limit which projects are considered.

The report also indicated that the Office of the Comptroller would work with the Department of Administrative Services and other departments to identify projects that would meet the criteria above.

### **IRS Expenditure Rules for Tax Exempt Bonds**

The IRS regulations dictate the expenditure of bond proceeds within three years. If the bond proceeds have not been expended within three years, according to Quarles and Brady (the County's Bond Counsel), the IRS expectation is that the County will proceed or demonstrate a consistent pattern of spending to reflect a commitment to implementing the projects.

In addition, the County cannot invest the unspent bond proceeds in investments having a yield greater than the yield on the bonds. The County is complying with the requirement regarding investment yield since the investment yield is currently lower than the yield on the bonds. If investment rates increase, the County could have a problem identifying investments with yields lower than the yield on the bonds. The penalty for not complying with the investment rate restriction could be monetary or could be a loss of the subsidy payments on the Build America Bonds.

Furthermore, the County is limited in terms of the type of investments of bond proceeds that are beyond the IRS expenditure timeline. The bond proceeds cannot be invested in (i) federally insured deposits or accounts (as defined in Section 149(b)(4)(B) of the Code), or (ii) investments constituting obligations of or guaranteed, directly or indirectly, by the United States of America (except obligations of the United States Treasury or investments in obligations issued pursuant to Section 21B(d)(3) of the Federal Home Loan Bank Act, as amended (e.g., Refcorp Strips).

**ANALYSIS**

**Allocation of Unspent Bond Proceeds**

Since the IRS expectation is that the County will proceed or demonstrate a consistent pattern of spending to demonstrate a commitment to implementation, approximately \$1.8 million is recommended to be reallocated.

*Table 2: Proposed Reallocation of Unspent Bonds*

<u>Project Description</u>	<u>Unspent Bond Amount*</u>
Org. Unit 9960 Debt Service (2017 Interest Expenses)	\$156,672
WO452 Training Academy Firing Range Ventilation System	\$360,000
WC116 Courthouse Cooling Coils Replacements	\$240,000
WP487 McGovern Park Pavilion	\$47,000
WP488 Kern Park Pavilion	\$15,000
WP489 Doctors Park Pavilion	\$1,000
WT026 Bus Replacement Program (Reduce 2017 Bond Issuance)	\$1,033,796
<b>Total</b>	<b>\$1,853,468</b>

\*The unspent balance amount total is \$1,853,468 as of 6/15/2017. If activity changes the dollar amounts prior to a transfer being processed after final board adoption, the balance of the bonds being allocated to Project WT026 Bus Replacement Program will be modified and an amount as close to the current unspent amount as possible will be transferred.

**Allocation of Unspent Bond Proceeds to Pay 2017 Interest Expenses**

Bonds that were issued prior to 2014 and have not been spent are currently out of compliance with IRS expenditure rules. The approximately \$1.8 million in unspent bonds includes \$465,485 of bond proceeds that were issued prior to 2014. Of the \$465,485 issued prior to 2014, 308,813 are 2010 Build America Bonds that **must** be used to finance project expenses. The remaining balance of non-Building America Bonds (\$156,672) can be used to pay 2017 interest expenses.

The attached resolution will reallocate the bond proceeds to Org. Unit 9960 Debt Service in order to pay 2017 interest expenses. The expenditure authority (levy financed) that previously financed these interest expenses is requested to be allocated to the Appropriation for Contingency Account (Org. 1945) (\$149,303) and Project WO064 Wil-O-Way Recreation Center Entrance (\$7,369). The Wil-O-Way project has been completed and, the project was lapsed as part of the carryover process; however, there is an outstanding invoice that still needs to be paid that is related to the project.

**Allocation of Unspent Bond Proceeds to Projects that Require Additional Funding**

The Office of the Comptroller and the DAS-PSB have reviewed existing capital projects. Based on this analysis, there are two ongoing projects that require additional funding of \$600,000 and would be suitable candidates to be financed with unspent bond proceeds. The two projects are Project WO452 Training Academy Firing Range Ventilation System and Project WO452 Courthouse Cooling Coils. A discussion of these projects is included on the next page.

### WO452 Training Academy Firing Range Ventilation System

The 2016 Adopted Budget included an appropriation of \$339,494 to upgrade the Training Academy Firing Range Ventilation System. Financing was provided by 2016A Bonds. The original scope of the project included the replacement of Make Up Air (MUA) motors, installation of variable frequency drives (VFD) on each MUA, and installation of humidistats that are used to sense the relative humidity of the air in a controlled space and automatically turn on and off the HVAC equipment to control the humidity.

Subsequent to the adoption of the project, the Department of Administrative Services- Architecture and Engineering (DAS-AE) determined that the scope of the project would not fully alleviate the moisture issues on the four firing ranges. The current ventilation system is heating and ventilation only, no air conditioning, and supply air needs to be cooled for dehumidification and adding cooling to 100% outside air for each MUA unit would require 100 tons cooling for each range. Acceptable temperatures and humidity levels on each range are 78 to 80 degrees and 50-60% humidity. In addition to the temperature and humidity concerns there are indications of moisture penetration on the walls and flooring in firing range four, referred to as "Hogan's Ally". These matters were not foreseen in the creation of the original project and necessitate the additional project funding and expansion of the project scope.

The revised project scope will include an additional 25 ton direct expansion cooling system in each of the four firing ranges that will cool 25% of the air and bypass 75%, add VFDs on each supply and exhaust system providing a "soft start" of the fan systems, add a roof drainage system and perform outside foundation sealing, add landscaping to direct water and moisture away from the structure to prevent moisture penetration into the basement, and provide additional financing for soft costs.

The attached resolution will provide an additional \$360,000 that is necessary to complete the project. It is anticipated that the project will be substantially completed by the end of 2017.

### WC116 Courthouse Cooling Coils Replacements

The 2016 Adopted Capital Improvements Budget included an appropriation of \$242,000 to finance Project WC11601 Courthouse Cooling Coils Replacement. Financing was provided by 2016A Bonds. The original scope of work included replacement of the cooling coils in two of the air handling units (AHUs) along with drain pans and isolation valves.

The revised construction estimate was approximately \$380,000. Since the revised estimate is much higher than the budget, the project was bid with an alternate that only included the replacement of the cooling coils in one of the two AHUs. The revised estimate for replacing the cooling coils in one of the AHUs is approximately \$207,000, excluding soft costs of approximately \$60,000. A January 2017 appropriation transfer request provided an additional \$25,000 for the project that is necessary to provide sufficient funding for replacement of the cooling coil of **one** of the AHUs. The cooling coil for the AHU one has been completed. The January appropriation transfer stated that an additional future appropriation would be required in order to replace the cooling coil on the second AHU. Other related work such as abatement work on the existing pipe insulation and adding waterproof seal on the floor will also be done.

The attached resolution will provide an additional \$240,000 to the project in order to replace the cooling coil in the second AHU and other related improvements.

Parks Pavilions (McGovern, Kern, Doctors)

The 2015 Adopted Budget included an appropriation of \$9,154,472 for infrastructure improvements to the County Parks System. The exact projects to be performed were to be determined after the budget was adopted.

In May 2015, the County Board passed Resolution 15-348 that allocated \$2,000,000 to the demolition and replacement of three parks pavilions. An appropriation of \$870,000 was allocated for McGovern Park Pavilion (WP487), an appropriation of \$565,000 was allocated for Kern Park Pavilion (WP488), and an appropriation of \$565,000 Doctors Park Pavilion (WP489). Financing related to these appropriations was provided from the 2016A Corporate Purpose Bonds. Subsequent to the initial appropriation, \$130,000 was shifted from the McGovern Park Pavilion to the Kern Park Pavilion.

Each of the three pavilions has been substantially completed and project close out is in progress; however each of the three pavilions has a financial shortfall. There is an estimated shortfall of \$15,000 in the Kern Park Pavilion project, \$47,000 in the McGovern Park Pavilion project and \$1,000 in the Doctors Park Pavilion project.

The shortfall in the Kern Park Pavilion project (-\$15,000) was primarily driven by unforeseen site conditions. There was a foundation from an older pavilion was not known to be in place which resulted in additional excavation costs and the water and sanitary lines were not in the locations that were indicated on the property files.

The shortfall in the McGovern Park Pavilion project (-\$47,000) was primarily driven by the replacement of a 6" water service line with a 2" water service line, which was not in the project scope. The 6" water service line was put in place when McGovern Park had a deep well pool. Since McGovern Park no longer has a deep well pool, the 2" water service line is sufficient for the park's needs and is anticipated to result in lower operating expenses.

The attached resolution will authorize the reallocation of \$63,000 of unspent bonds to the three parks pavilion projects.

**Reduction of 2017 Corporate Purpose Issuance**

**WT026 Bus Replacement Program**

The 2017 Adopted Capital Improvements Budget included an appropriation of \$7,500,000 for the purchase of fifteen (15) 40-foot replacement buses for the Milwaukee County Transit System. Financing for the buses was budgeted to include \$1,700,000 in general obligation bonds.

A March 2017 appropriation transfer was approved that added surplus expenditure authority to Project WT087 Kinnickinnic Maintenance Bay Improvements. Financing was provided, in part, by reducing the bonds needed to finance the bus replacements from by \$233,886 from \$1,700,000 to \$1,466,114.

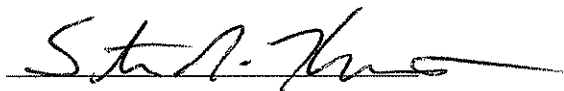
The attached resolution will authorize the reallocation of approximately \$1,033,796 of unspent bond proceeds to Project WT026 Bus Replacement Program. This reallocation will allow the 2017 Corporate Purpose bond issuance to be reduced. The 2017 buses are anticipated to be received prior to the end of 2017.

**RECOMMENDATION**

The Office of the Comptroller and the DAS-PSB recommend adoption of the attached resolution. The resolution authorizes the reallocation (via administrative transfers) of approximately \$1.8 million of unspent bonds from and the Debt Service Reserve. If activity changes the dollar amounts prior to a transfer being processed after final board adoption, an amount as close to the current unspent amount as possible will be transferred and the balance being allocated to Project WT026 Bus Replacement Program will be adjusted. The resolution will also allow for expenditure authority (levy financed) in Org. Unit 9960 that is being replaced with expenditure authority (unspent bond proceeds financed) to be transferred to Org. Unit 1945 Allocation for Contingencies (\$149,303) and Project WO064 Wil-O-Way Recreation Center Entrance (\$7,369).



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