

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

DATE : October 9, 2012

TO : Supervisor Marina Dimitrijevic, Chairwoman, County Board of Supervisors

FROM : Scott Manske, Comptroller

SUBJECT : **Initial Authorizing Resolution for the General Obligation Refunding Bonds**

**REQUEST**

The Comptroller's Office is requesting approval of the attached resolution authorizing the refunding of the 2004 and 2005 General Obligation Corporate Purpose Bond Issues for a not-to-exceed amount of \$27,000,000.

The attached resolution provides parameters for the refunding 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. An informational report will be submitted to the Finance, Personnel and Audit Committee to communicate the final results of the bond sale.

**BACKGROUND**

At the request of the Department of Administrative Services (DAS)<sup>1</sup>, Public Financial Management (PFM), the County's Co-Financial Advisors, performed an analysis of the County's outstanding bond issues from September 2011 to April 2012. The purpose of the analysis was to determine if any of the County's outstanding bond issues could be refunded to generate net present value savings equal to a minimum of 3 percent of the refunded principal amount. The County's debt management policies state that the net present value savings for proposed advanced refundings provide a minimum of 3 percent of refunded principal.

This proposal to refund the 2004 and 2005 General Obligation Corporate Purpose Bond Issues is a result of the preliminary analysis and review.

The refunded maturities are for the years 2014-2020. The County would issue a not-to-exceed amount of \$27,000,000 to refund \$24,790,000, which includes amounts for cost of issuance and market changes that may increase the bond amount.

**BOND SALE PARAMETERS**

The parameters for the financing would consist of the following:

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1. Debt issuance and management are now responsibilities of the Comptroller's Office. At the time of the inquiry they were under the responsibility of the Department of Administrative Services.
  2. The Comptroller's Office has submitted a separate report and resolution to the Finance and Audit Committee a request approval to issue not-to-exceed amount of \$145,000,000 General Obligation Pension Refunding Bonds to refund the \$135,000,0000 Pension Note Anticipation Notes.

- 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. As discussed above the County has established a standard of at least 3 percent of refunded principal. The preliminary analysis resulted in a net present value savings of approximately 2 million, which represents in excess of 8 percent of refunded principal.
- Maximum coupon rate of 5 percent – A coupon rate is the interest rate for each maturity or principal amount.
- Maximum true interest costs (TIC) of 2.5 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.
- No call provision – The no call provision indicates that the County will not be able to refund the new bonds prior to maturity. The remaining years of the refunded bonds is 6 years, so it is unlikely that the County would refund the new bonds. In addition, due to the short term of the bonds, a no call provision may be necessary to obtain a low interest rate and encourage investor interest in the bonds.
- Minimum purchase price of 100 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.

## **RECOMMENDATION**

The Comptroller’s Office requests that the Finance, Personnel and Audit Committee approve and recommend approval by the full County Board of the attached resolution. The resolution 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 General Obligation Refunding Bonds to refund the 2004 and 2005 Corporate Purpose Bond Issues for a not-to-exceed amount of \$27,000,000. An informational report will be submitted to the Finance, Personnel and Audit Committee to communicate the final results of the bond sale.

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Scott Manske  
Comptroller

pc: Chris Abele, County Executive  
Supervisor Willie Johnson, Co-Chairman, Finance and Audit Committee  
Supervisor David Cullen, Co-Chairman, Finance and Audit Committee  
Pat Farley, Director, Department of Administrative Services  
Amber Moreen, Chief of Staff  
Kelly Bablitch, Chief of Staff, County Board  
Pamela Bryant, Capital Finance Manager  
Stephen Cady, County Board Fiscal and Management Analyst  
Joseph Czarnecki, County Clerk  
Daniel Diliberti, County Treasurer  
Chuck Jarik, Chapman and Cutler LLP  
Emile Banks, Emile Banks and Associates  
David Anderson, Public Financial Management  
Justin Rodriguez, Fiscal and Management Analyst  
Carol Mueller, Finance and Audit Committee Clerk

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