

**COUNTY OF MILWAUKEE
INTER-OFFICE COMMUNICATION**

DATE : January 14, 2013

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

FROM : Pamela Bryant, Capital Finance Manager, Office of the Comptroller

SUBJECT : **Corporate Purpose Initial Authorizing Resolutions**

REQUEST

The Office of the Comptroller is requesting the approval of the attached initial authorizing resolutions and final bond resolution for the issuance of a not-to-exceed amount of \$36.1 million to finance various capital improvement projects included in the 2013 Capital Improvement Budget and projects that were previously approved by the Board in 2011 and 2012.

The attached final bond resolution authorizes the issuance of the bonds and provides parameters for the issuance and delegates approval of the sale of the bonds¹ to the Comptroller. The Comptroller's approval is limited to results of the sale that fall within 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.

The resolution also delegates the bid opening for the sale of the bonds to the Comptroller's Office.

BACKGROUND

The 2013 Adopted Capital Improvements Budget included \$26,727,111 of new corporate purpose bond financing for various capital projects, a reallocation of \$2,959,920 of anticipated bond financing from Project WP191 Moody Pool Refurbishment to various Parks projects, a change in scope for the remaining \$2,038,622 in the Moody Pool Refurbishment project and \$3,804,499 in financing for three highway projects.

The three highway projects were approved as appropriation transfers to utilize bonds that would be issued in 2013 to finance \$300,000 for Project WH089012 – 13th Street and Puetz Intersection, \$2,207,819 for Project WH20052 – West Oklahoma Road (108th to 76th Street) and \$1,296,680 for Project WH02301 – West Mill Road (84th to 91st, 56th to 43rd).

The bond issue amount is \$36.1 million. The differences between the not-to-exceed amount and the budgeted bond amount reflects the estimated issuance costs and provides flexibility for any adjustments that may occur prior to the issuance of the bonds.

1. For purposes of this report, bond or bonds will refer to the combined issue of the not-to-exceed \$36.1 million unless otherwise indicated.

PROJECT WT070 BUS PROTECTOR SHIELDS

The 2013 Adopted Capital Improvements Budget included Project WT070 Bus Protector Shields. The total budget for the project is \$745,000 and financing was anticipated to be provided from Federal revenue of \$596,000 and general obligation bond proceeds of \$149,000. Upon further review by the Office of the Comptroller, it has been determined that the project is not eligible for general obligation bond financing due to the fact that the unit costs for the shields are below the County's capitalization threshold.

An appropriation transfer is being requested by the Director of the Department of Transportation for the January cycle to create a new **2012** capital project for Bus Protector Shields. The \$149,000 local match will be financed from the anticipated operating surplus of the Milwaukee County Transit System. The bonds budgeted for the **2013** project will not be issued and the \$149,000 in expenditure authority and bond revenue will be lapsed at year-end 2013 for a zero impact to the County's bottom line.

The \$26,727,111 included in the 2013 Adopted Capital Improvements Budget is reduced by \$149,000 to \$26,578,111. Therefore, the total bond financing for 2013 is \$35,381,153.

BOND SALE PARAMETERS

The parameters for the financing would consist of the following:

- Maximum coupon rate of 5 percent – A coupon rate is the interest rate for each maturity or principal amount.
- Maximum true interest cost (TIC) of 4.5 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.
- 10-year call provision – The 10-year call provision indicates that the County will be able to refund the new bonds prior to maturity.
- 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.

\$36.1 MILLION GENERAL OBLIGATION ISSUANCE

The Comptroller's Office has prepared estimated debt service schedules for the issuance of \$36.1 million in bonds/notes. The total estimated debt services costs would be \$50,384,583. The not-to-exceed amount of \$36.1 million in 2013 bonds includes an estimated principal amount of \$8.7

million. The County may issue a separate issue of notes for an estimated \$8.7 million and a bond issue of \$27.4 million. The Comptroller's Office is working with the Public Financial Management, the County's Co-Financial Advisor, to determine which approach is the most advantageous to the County.

QUALIFIED ENERGY CONSERVATION BONDS

The US Treasury Department allocated \$3.2 billion in QECBs to be issued by state and local governments. The allocation or maximum bond amount is allocated to each state based on the state's percentage of the U.S. population as of July 1, 2008. Each state is then required to allocate a portion of its allocation to "large local governments" within the state based on the local government's percentage of the state's population. Large local governments are defined as municipalities and counties with populations of 100,000 or more. Large local governments may reallocate their designated portion back to the state if they choose to do so. The State of Wisconsin was allocated \$58,387,000.

The QECBs are qualified tax credit bonds under Section 54D(b) of the Internal Revenue Code and require that (a) 100 percent of the bond proceeds are used for one or more qualified energy conservation purposes; (b) the bonds are issued by a state or local government; and (c) the issuer designates the bonds as qualified energy conservation for purposes of Section 54D which provides a credit of 70 percent of the full tax credit rate that is set by the US Treasury Department. The tax rate is set daily.

In June 2009, the County Board of Supervisors approved the issuance of a not-to-exceed amount of \$10 million in Qualified Energy Conservation Bonds (QECBs). This amount assumed an allocation of \$9.7 million to Milwaukee County based upon the County's population as a percentage of the State's population. At the time, it was thought that the full \$9.7 million was allocated to Milwaukee County government. In fact, the allocation was \$6,276,756 for the City of Milwaukee and \$3,638,332 for Milwaukee County. The Comptroller's Office is working with the Department of Administrative Services to contact the City of Milwaukee to discuss reallocating their portion to the County. At this time, the \$3,638,332 will be used to finance eligible County projects.

The QECB projects have to finance projects that fulfill a qualified energy purpose. The program defines a qualified energy purpose as one or more of the following items:

- Capital Expenditures for the purpose of
 - Reducing energy consumption in publicly-owned buildings
 - Green community programs (including use of loans, grants, or other repayment mechanisms to implement such programs)
 - Certain rural electricity projects
 - New Clean Renewable Energy Bonds (NCREBs) projects
- Research for:
 - Development of cellulosic ethanol/non-fossil fuels
 - Capturing carbon dioxide from fossil fuels
 - Increasing efficiency for producing non-fossil fuels
 - Auto batteries and other technology

- Reduce energy use in buildings
- Mass commuting
- Promoting commercialization of technology for:
 - Green buildings
 - Use of agricultural waste for fuel
 - Battery manufacturing
 - Reduction of peak use of electricity
 - Capture of carbon dioxide
- Public campaigns to promote energy efficiency

The Comptroller's Office requested a review by the Architecture Engineering and Environmental Services Division (AE&ES Division) to determine which projects could be financed with the QECBs. Based on a preliminary review of the above requirements, AE&ES Division determined that the County could finance some heating, ventilation and air handling projects. This may include air handling units, variable air volume boxes and direct digital control systems. AE&ES Division is in the process of evaluating more projects.

DEBT ISSUANCE CONDITIONS

Wisconsin State Statute 67.045 outlines the conditions for which a governing body may issue debt. To comply with the reference State Statute, approval of the attached initial authorizing resolution will require a $\frac{3}{4}$ vote (14 votes) of the County Board of Supervisors.

DEBT ISSUANCE EXPENSES

The 2013 budget authorizes the Office of the Comptroller to increase the amount of the 2013 borrowing to pay 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.

PUBLIC HEARING REQUIREMENTS FOR PRIVATE ACTIVITY BONDS

Some projects included in the 2013 bond issue are considered private activities within the meaning of the federal tax code. The issuance of tax-exempt bonds for these purposes requires that a public hearing be scheduled to allow citizens to comment on the issuance of the bonds. A public hearing will need to be scheduled to allow for public comment on the projects authorized for such entities as the Marcus Center for the Performing Arts and the War Memorial.

AUTHORIZING RESOLUTIONS

Attached are the authorizing resolutions for the 2013 bonds, which include an initial resolution, a resolution directing publication of a notice to the electors for the bond issues authorized by the authorizing resolutions and a resolution authorizing the issuance and sale of the Bonds. Each of the items in the resolution requires Finance and Audit Committee and County Board approval.

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 resolutions. The resolution authorizes the sale of the bonds 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 \$36.1 million in bonds/notes to finance projects approved in the 2013 capital projects as well as Moody Park, projects financed with reallocated expenditures and bond proceeds, and various highway capital projects. An informational report will be submitted to the Finance, Personnel and Audit Committee to communicate the final results of the bond sale.



Pamela Bryant
Capital Finance Manager

Attachment

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