COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : December 4, 2012

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

FROM : Scott Manske, Comptroller

SUBJECT : **Final Details from the Sale of the General Obligation Refunding Bonds, Series 2012A**

REQUEST

The County Board of Supervisors approved Resolution File No. 12-862 that provided the parameters for the advanced refunding of 2004 and 2005 Corporate Purpose Bond Issues and delegated approval of the sale of the bonds to the Comptroller. The Comptroller's approval was limited to results of the sale that fall within the parameters outlined in the resolution. The resolution also indicated that an informational report would be submitted to the Finance, Personnel and Audit Committee to communicate the final results of the bond sale. The County received bids from 11 firms. The best bid was provided by Robert W. Baird & Co. with a true interest rate of .999111 percent. The section below provides the details from the sale of the General Obligation Refunding Bonds, Series 2012A that occurred on Monday, December 3, 2012.

BOND SALE DETAILS

The parameters for the financing would consist 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. 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.

  Final Results: The sale resulted in a net present values savings of $2.5 million which represents 10.27 percent of the refunded principal amount of $24,790,000. This is 7.27 percentage points above the standard of 3 percent.

- Maximum coupon rate of 5 percent – A coupon rate is the interest rate for each maturity or principal amount.

  Final Results: The final coupon rate is 4 percent.

- 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.

  Final Results: The TIC is 1.0 percent. The actual bid TIC was .999111 percent. The bonds sold at a premium of $3,466,412.65, which was used to resize the issue. The resizing of the issue reduced the par amount of the bonds from $24,095,000 to $23,105,000 and adjusted the TIC to 1.0 percent. The estimated par amount of $24,095,000 anticipated a premium amount of approximately $2.5 million. The approximately $1.0 million difference between the premium and actual premium allowed for a reduction in the par amount from $24,095,000 to $23,105,000.

- 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.

  Final Results: There is no call provision for the refunding 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.

  Final Results: The coupon rate exceeds the market rate; therefore, the bonds were sold at a premium. As stated above the premium was $3,466,413 and was used to resize the issue to $23,105,000.

RECOMMENDATION

This report is for informational purposes only.

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
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David Anderson, Public Financial Management
Justin Rodriguez, Fiscal and Management Analyst
Carol Mueller, Finance and Audit Committee Clerk