

**-COUNTY OF MILWAUKEE-  
INTEROFFICE COMMUNICATION**

DATE : July 2, 2012

TO : Marina Dimitrijevic, Chairwoman, County Board of Supervisors

FROM : Scott Manske, Comptroller, Comptroller's Office

SUBJECT : Pension Obligation Bonds Review

**REQUEST**

The Comptroller's Office is requesting an opportunity to present an overview of the Pension Obligation Notes issued in 2009, along with an overview of the payout and replacement of the five year anticipation notes with longer term debt. The presentation would be to the Finance Personnel and Audit Committee.

**OVERVIEW:**

In 2009, the County issued pension obligation notes of \$400 million to place funds in the Milwaukee County ERS pension plan, and decrease the unfunded liability of the ERS pension plan. The goal was to issue debt which would have a twenty-five year life that would match the amortization of the unfunded liability. Due to market conditions, only twenty year and five year debt was issued.

Current:

Description	Issue Date	\$ Value	Interest Rate	Maturity Date	Term
Genl Obligation Promissory Notes	2009	\$265 Million	6.36%	2028	20 Years
Note Anticipation Notes	2009	\$135 Million	5.52%	2013	5 Years

The twenty-five year average payback that was originally planned will occur when the five-year debt matures and twenty-year debt is issued to replace it. The five-year anticipation notes have a value of \$135 million and will mature in 2013. The replacement of the five-year anticipation notes with longer term debt will provide the County with overall twenty-five year average debt. For the future, the 2009 twenty year notes will remain outstanding.

Future:

Description	Issue Date	\$ Value	Interest Rate	Maturity Date	Term
Genl Obligation Promissory Notes	2009	\$265 Million	6.36%	2028	20 Years
Genl Obligation Promissory Notes	2013	\$135 Million	6.5%	2033	20 Years

**BACKGROUND**

In 2009, Milwaukee County (the "County") analyzed and subsequently issued \$400 million in Pension Obligation Notes to address the unfunded actuarial accrued liability (UAAL) as it existed on January 1, 2008. An unfunded actuarial accrued liability occurs when the liabilities of the pension plan exceed the assets of the pension plan. The goal of the issuance of the Pension Obligation Notes was to fund \$400 million of unfunded pension liability at a lower cost than the return that could be gained from the investment of these funds in the pension plan. The debt was issued at an average rate of 6.2%, with a goal of being less than 6.5% for the full term of the debt. The anticipated rate of return on the investment of the pension funds was 8.0%. The market return of the pension plan has been 20.4% for 2009, 11.7% for 2010 and 0.2% for 2011.

Wisconsin State Statute limits the term of general obligation bonds to 20 years. Although the County was given the authority to issue appropriation bonds that do not have a maximum term, market conditions at the time resulted in, limited, to no interest by investors for appropriation bonds. Therefore, the County utilized an alternative structure that consisted of 20-year General Obligation Promissory Notes for \$265 million and 5-year Note Anticipation Notes for \$135 million. The combined structures matched the 25-year amortization of the County's UAAL.

The 5-year Anticipation Note was structured with the entire principal due approximately five years after the date of issuance or 2013, with the understanding that the County would issue the long term debt at that time with new Notes maturing in the years 2029 through 2033 (after the final payment on the original 20 year Promissory Notes). The County will need to issue the long term debt prior to its due date of December 1, 2013.

To begin that process, the Comptroller's Office has submitted a Pension Obligation Bonds Review as an initial discussion regarding the issue the long term to replace the Note Anticipation Notes.

**RECOMMENDATION**

This report is for information purposes.



Scott Manske  
Comptroller's Office

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