

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : June 5, 2018

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

FROM : Scott B. Manske, Comptroller
Joe Lamers, Director, Office of Performance, Strategy, and Budget

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

REVISED

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 \$3.7 million of 2010-2017 unspent bonds from the Debt Service Reserve (DSR) to apply towards refundings, finance interest expenses, and finance capital projects that have incurred deficits or are in progress and are anticipated to be substantially completed by the end of the year. The projects that are financed with bonds issued in 2010-2014 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 2016, it is recommended that the bonds are used to pay interest expenses.

The expenditure deadlines for the bonds from 2010-2017 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 2018 corporate purpose bonds. The bonds issued prior to 2015 should have already been expended.

Table 1: Unspent Bonds by Bond Issue Year/Series

Bond Issue	Amount Unspent*	Closing Date	Expenditure Deadline
2010A	\$4,140	5/1/2010	5/1/2013
2010C	\$281,899	12/21/2010	12/21/2013
2013A	\$11,622	8/14/2013	8/14/2016
2014A	\$231,626	11/6/2014	11/6/2017
2015A	\$488,781	11/12/2015	11/12/2018
2015C	\$37,162	11/12/2015	11/12/2018
2016A	\$1,107,290	11/10/2016	11/10/2019
2016C	\$178,063	11/10/2016	11/10/2019
2017A	\$1,293,846	11/8/2017	11/8/2020
2017C	\$20,272	11/8/2017	11/8/2020
2017D	\$18,000	11/8/2017	11/8/2020
Total	\$3,672,701		

*The unspent balance amounts are as of 06/5/2018. 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 2018, the Office of the Comptroller and the DAS-PSB submitted a report to the County Board and County Executive (File 18-311) for the May Committee cycle that requested authorization to lapse certain capital expenditures and revenues from 2017 to 2018.

The report indicated that there was approximately \$3.7 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 interest expenses, apply Build America Bonds (BAB) towards refundings, or to finance projects that would be able to spend the proceeds in a timely fashion (prior to the end of 2018). 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 \$3.7 million is recommended to be reallocated.

Table 2: Proposed Reallocation of Unspent Bonds

<i>Interest Expenses/Applied Towards Refundings</i>	
Org. Unit 9960 Debt Service (2018 Interest Expenses)	\$769,191
2010A BABs Apply Towards 2018 Refunding	\$4,140
2010C BABs Apply Towards 2019 Refunding	\$281,899
Subtotal	\$1,055,230
<i>Finance with Unspent Bonds in Place of New Bonds (Debt)</i>	
WC154 Criminal Justice Facility Elevators #1 and #2	\$794,420
WT077 Transit FDL Garage Roof	\$502,468
WO175 Fleet Central Garage Roof	\$500,000
WP532 Holler Park Playground	\$275,000
WO890 Marcus Center Stage Lifts	\$196,063
WP531 Garden Homes Playground PIP	\$120,000
WP544 McCarty Park Electrical Infrastructure	\$118,574
WC059 Courthouse Main Feeder Replacement	\$55,674
WO313 HOC Fleet Equipment	\$20,272
Subtotal	\$2,582,471
<i>Cover Project Shortfall</i>	
WP323 Menomonee River Streambank	\$35,000
Subtotal	\$35,000
Total	\$3,672,701

*The unspent balance amount total is \$3,672,701 as of 6/5/2018. If activity changes the dollar amounts prior to a transfer being processed after final board adoption an amount as close as possible to the current unspent amount as possible will be transferred.

Allocation of Unspent Bond Proceeds to Pay Interest Expenses or Apply Towards Refundings

2018 Interest Expenses (\$769,191)

Bonds that were issued prior to 2015 and have not been spent are currently out of compliance with IRS expenditure rules. The approximately \$3.7 million in unspent bonds includes \$243,248 of non-Build America Bond proceeds that were issued prior to 2015. In addition, there are \$525,943 of unspent 2015 bonds and notes that will be out of compliance by the end of the year. It is recommended that these proceeds be used to pay 2018 interest expenses. The expenditure authority (levy financed) that previously financed these interest expenses is recommended to be retained in Org. Unit 9960 Debt Service in order to reduce the size of the 2018 refundings. These funds are recommended to be applied towards the refundings in order to alleviate potential private activity issues and also reduce the amount of future debt service expenses.

2018 Refunding/2019 Refunding (Build America Bonds)

The approximately \$3.7 million in unspent bonds includes \$286,039 of Build America Bond proceeds that were issued prior to 2015. On April 11, 2018, the IRS published Revenue Procedure 2018-26 which, among other things, provides authority for the County to use unspent proceeds of its BABs issues to defease or redeem bonds of such issue. Previously, the proceeds of BAB issues were not permitted to be used to defease or redeem bonds and all proceeds had to be spent on capital projects. This new authority allows the County to use unspent proceeds of its BAB issues to reduce the amount of refunding bonds the County would otherwise issue to refund its BAB issues that can be redeemed in 2018. Of the \$286,039, \$4,140 are unspent 2010A Build America Bonds and \$281,899 are unspent 2010C Build America Bonds. The unspent 2010A BABs will be applied towards the 2018 refunding and the unspent 2010C BABs will be applied towards the anticipated 2019 refunding.

Allocation of Unspent Bond Proceeds to Reduce the Size of the 2018 Bond Issuances

The Office of the Comptroller and the DAS-PSB have reviewed existing adopted capital projects that are anticipated to be part of the 2018 bond issuances. Based on this analysis, there are seven adopted ongoing projects that were anticipated to be a part of the 2018 or future financing that are recommended to instead be financed with approximately \$2.1 million of unspent bonds. A list of these projects are included in Table 3.

Table 3: Adopted Projects That Will Be Financed With Unspent Bonds Rather Than 2018 Bonds

<u>Project Description</u>	<u>Unspent Bond Amount*</u>
WC154 Criminal Justice Facility Elevators #1 and #2	\$794,420
WT077 Transit FDL Garage Roof	\$502,468
WP532 Holler Park Playground	\$275,000
WO890 Marcus Center Stage Lifts	\$196,063
WP531 Garden Homes Playground PIP	\$120,000
WP544 McCarty Park Electrical Infrastructure	\$118,574
WC059 Courthouse Main Feeder Replacement	\$55,674
WO313 HOC Fleet Equipment	\$20,272
Total	\$2,082,471

Allocation of Unspent Bond Proceeds to Reduce the Size of the 2019 Bond Issuances

Table 4: Adopted Project That Will Be Financed With Unspent Bonds Rather Than 2019 Bonds

<u>Project Description</u>	<u>Unspent Bond Amount*</u>
WO175 Fleet Central Garage Roof	\$500,000
Total	\$500,000

WO17501 Fleet Central Garage Roof Replacement (\$500,000)

The 2018 Budget included an appropriation of \$2,838,064 for the replacement of two of the five sections of the Fleet Central Garage Roof. It was anticipated that a 2019 appropriation of \$3,311,414 would be requested to finance the replacement of the remaining three sections of the roof.

Although the original plan was to use a phased construction schedule, it was later determined that it would be more cost effective to bid out the entire roof under one construction contract with replacement of all five roof sections. The base bid covered one half of the work. The other half was bid as an alternate bid. Bids were opened on April 25, 2018. The bids came in lower than anticipated. The low responsible bid was \$1,500,411 for the base bid and an additional \$1,560,362 for the alternate bid. Total construction contract amount for the entire roof would be \$3,060,773. It is recommended that the existing appropriation is combined with an additional 2018 appropriation of \$500,000 financed by unspent bonds so that the work for the entire roof can be awarded and completed without a 2019 appropriation.

Allocation of Unspent Bond Proceeds to Increase Appropriations to Ongoing Projects

Table 5: Adopted Projects That Will Be Provided Additional 2018 Funds

<u>Project Description</u>	<u>Unspent Bond Amount*</u>
WP323 Menomonee River Streambank	\$35,000
Total	\$35,000

WP323 Menomonee River Streambank Stabilization (\$35,000)

The 2017 Adopted Budget included an appropriation of \$300,000 for the Menomonee River Streambank Stabilization project.

Since 2008, a 250 foot un-vegetated section of the Menomonee River streambank has eroded towards the golf course by approximately 50 feet. This section of the streambank is downstream of the Underwood Creek confluence. The gravel/cobble bar on the left bank forced flow against the sandy right bank causing this section to collapse. The scope of the project includes installation hard scape toe protection to limit undercutting, upper bank bioengineering treatments, and manipulation of the mid-channel bar.

The bids for the project were received in January of 2018. Although there was sufficient funding to accept the winning bidder, there are not sufficient funds for the construction contingency, construction administration, or A&E charges to the project. It is recommended that \$35,000 of unspent bonds be allocated to the project so that sufficient funding is available for completion. It is anticipated that the project will be substantially completed by July of 2018.

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 \$3.3 unspent bonds from and the Debt Service Reserve. The balance of the unspent bonds are 2010C Build America Bonds that will remain in the Debt Service Reserve until they are callable in 2019 so that they can be used to reduce the par amount of the anticipated 2019 refunding bonds. If activity changes the dollar amounts prior to a transfer being processed after final board adoption, an amount as close as possible to the current unspent amount as possible will be transferred.



Scott B. Manske
Comptroller



Joe Lamers
Director, DAS- Performance, Strategy and Budget

pc: Chris Abele, County Executive
Supervisor Luigi Schmitt, Chair, Committee on Finance and Audit
Raisa Koltun, Chief of Staff, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board
Stephen Cady, Office of the Comptroller
Pamela Bryant, Office of the Comptroller
Justin Rodriguez, Office of the Comptroller
Greg High, Department of Administrative Services- AE&ES
Guy Smith, Department of Parks, Recreation and Culture
Sarah Toomsen, Department of Parks, Recreation and Culture

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(ITEM) From Director of Performance, Strategy and Budget and the Comptroller, requesting approval allocate unspent bond proceeds from the Debt Service Reserve, and to process administrative transfers by recommending adoption of the following:

A RESOLUTION

WHEREAS, in April 2018, the Office of the Comptroller and the DAS-PSB submitted a report to the County Board and County Executive (File 18-311) that requested authorization to lapse certain capital expenditures and revenues from 2017 to 2018; and,

WHEREAS, the report indicated that there was approximately \$3.7 million of unspent bond proceeds that was being lapsed to the Debt Service Reserve; and,

WHEREAS, the reallocation of bonds would be done to apply bonds towards debt refundings, pay interest expenses or to finance projects that would be able to spend the proceeds in a timely fashion; and,

WHEREAS, in most cases, this would mean that only ongoing projects with would be considered; and,

WHEREAS, other factors such as capitalization and private activity also limit which projects are considered; and,

WHEREAS, the Internal Revenue Service (IRS) regulations dictate the expenditure of bond proceeds within three years; and,

WHEREAS, 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; and,

WHEREAS, bonds that were issued prior to 2015 and have not been spent are currently out of compliance with IRS expenditure rules; and,

WHEREAS, bonds issued in 2015 will not be in compliance by the end of the year; and,

WHEREAS, the approximately \$3.7 million in unspent bonds includes \$286,039 of Build America Bond (BAB) proceeds; and,

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41 WHEREAS, on April 11, 2018, the IRS published Revenue Procedure 2018-26
42 which, among other things, provides authority for the County to use unspent proceeds
43 of its BABs issues to defease or redeem bonds of such issue; and,
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45 WHEREAS, this new authority allows the County to use unspent proceeds of its
46 BAB issues to reduce the amount of refunding bonds the County would otherwise issue
47 to refund its BAB issues that can be redeemed in 2018; and,
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49 WHEREAS, the \$286,039 of unspent BABs includes \$4,140 of Series 2010A
50 BABs that are being refunded in 2018 and \$281,899 of Series 2010C BABs that are
51 anticipated to be refunded in 2019; now therefore,
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53 BE IT RESOLVED, the Office of the Comptroller and the DAS-PSB are
54 authorized and directed to transfer approximately \$3.7 million of unspent bonds from the
55 Debt Service Reserve; and,

56 BE IT FURTHER RESOLVED, the Office of the Comptroller and the DAS-PSB
57 are authorized and directed to transfer \$769,191 of unspent bonds from the Debt
58 Service Reserve to Org. Unit 9960 Debt Service to pay interest costs; and,
59

60 BE IT FURTHER RESOLVED, the Office of the Comptroller and the DAS-PSB
61 are authorized and directed to transfer \$769,191 of levy financed expenditure authority
62 within Org. Unit 9960 Debt Service to apply the funds towards the 2018 Refunding
63 Issuance; and,
64

65 BE IT FURTHER RESOLVED, the Office of the Comptroller and the DAS-PSB
66 are authorized and directed to transfer \$4,140 of unspent Series 2010A BABs towards
67 the 2018 Refunding and \$281,899 of unspent Series 2010C BABs towards the
68 anticipated 2019 Refunding; and,
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70 BE IT FURTHER RESOLVED, the Office of the Comptroller and the DAS-PSB
71 are authorized directed to transfer \$2,582,471 of unspent bonds from the Debt Service
72 Reserve to the following previously adopted projects in order to reduce the size of future
73 bond issuances: Project WC154 Criminal Justice Facility Elevators #1 and #2
74 (\$794,420), Project WT077 Transit FDL Roof (\$502,468), Project WO175 Fleet Central
75 Garage Roof (\$500,000), WP532 Holler Park Playground (\$275,000), Project WO890
76 Marcus Center Stage Lifts (\$196,063), Project WP531 Garden Homes Playground PIP
77 (\$120,000), Project WP544 McCarty Park Electrical Infrastructure (\$118,574), Project
78 WC059 Courthouse Main Feeder Replacement (\$55,674) and Project WO313 HOC
79 Fleet Equipment (\$20,272); and,
80

81 BE IT FURTHER RESOLVED, the Office of the Comptroller and the DAS-PSB
82 are authorized and directed to transfer \$35,000 unspent bonds from the Debt Service
83 Reserve to increase the expenditure authority for Project WP323 Menomonee River
84 Streambank; and,
85

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86 BE IT FURTHER RESOLVED, if activity changes the dollar amounts prior to a
87 transfer being processed after final board adoption, an amount as close as possible to
88 the current unspent amount as possible will be transferred.
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MILWAUKEE COUNTY FISCAL NOTE FORM

DATE: 06/5/18

Original Fiscal Note

Substitute Fiscal Note

SUBJECT: Unspent Bond Reallocations from the Debt Service Reserve

REVISED

FISCAL EFFECT:

- | | |
|--|--|
| <input type="checkbox"/> No Direct County Fiscal Impact
<input type="checkbox"/> Existing Staff Time Required
<input type="checkbox"/> Increase Operating Expenditures
(If checked, check one of two boxes below)
<input type="checkbox"/> Absorbed Within Agency's Budget
<input type="checkbox"/> Not Absorbed Within Agency's Budget
<input type="checkbox"/> Decrease Operating Expenditures
<input type="checkbox"/> Increase Operating Revenues
<input type="checkbox"/> Decrease Operating Revenues | <input type="checkbox"/> Increase Capital Expenditures
<input type="checkbox"/> Decrease Capital Expenditures
<input type="checkbox"/> Increase Capital Revenues
<input type="checkbox"/> Decrease Capital Revenues
<input type="checkbox"/> Use of contingent funds |
|--|--|

Indicate below the dollar change from budget for any submission that is projected to result in increased/decreased expenditures or revenues in the current year.

	Expenditure or Revenue Category	Current Year	Subsequent Year
Operating Budget	Expenditure	See Explanation	See Explanation
	Revenue		
	Net Cost		
Capital Improvement Budget	Expenditure		
	Revenue		
	Net Cost		

DESCRIPTION OF FISCAL EFFECT

In the space below, you must provide the following information. Attach additional pages if necessary.

- A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.
 - B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated. ¹ If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.
 - C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.
 - D. Describe any assumptions or interpretations that were utilized to provide the information on this form.
- A. The Department of Administrative Services – Office of Performance, Strategy and Budget (DAS-PSB) and the Office of the Comptroller (Comptroller) are requesting approval to reallocate approximately \$3.7 million of unspent bonds from the Debt Service Reserve.
 - B. The resolution will provide of unspent bonds of \$769,191 to pay interest expenses. The \$769,191 of tax levy currently budgeted to pay interest expenses will be combined with the \$4,140 of unspent Series 2010A Build America Bond proceeds so \$773,331 can be used to reduce the size of the 2018 Refunding. The County will also avoid approximately \$80,000 in future interest costs.

The resolution will provide \$281,899 of unspent Series 2010C Build America Bonds proceeds towards the anticipated 2019 refunding bond issuance.

The resolution will also provide \$2,582,471 towards already adopted projects in order to avoid issuing new bonds for these projects. The County will also avoid approximately \$915,000 in future interest costs.

This resolution will also provide \$35,000 of unspent bonds to increase expenditure authority for Project WP323 Menomonee River Streambank.

¹ If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.

² Community Business Development Partners' review is required on all professional service and public work construction contracts.

<i>Interest Expenses/Applied Towards Refundings</i>	
Org. Unit 9960 Debt Service (2018 Interest Expenses)	\$769,191
2010A BABs Apply Towards 2018 Refunding	\$4,140
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Subtotal	\$2,582,471
<i>Cover Project Shortfall</i>	
WP323 Menomonee River Streambank	\$35,000
Subtotal	\$35,000
Total	\$3,672,701

C. See B

D. The estimated interest savings included in the Fiscal Note for reducing the size of the 2018 refunding are based on a six-year term and the interest savings for reducing the longer term bond issuance are based on a ten-year term. Rate assumptions for both issuances are based on current market conditions.

Department/Prepared By Justin Rodriguez

Authorized Signature 

Did DAS-Fiscal Staff Review? Yes No

Did CBDP Review?² Yes No Not Required