

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

DATE : June 03, 2019

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 \$1.3 million of 2010-2018 unspent bonds from the Debt Service Reserve (DSR) to finance interest expenses, apply towards refundings, 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 2010-2015 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 bonds issues prior to 2017, it is recommended that the bonds are used to pay interest expenses.

The expenditure deadlines for the bonds from 2010-2018 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 2019 corporate purpose bonds. The bonds issued prior to 2016 should have already been expended.

*Table 1: Unspent Bonds by Bond Issue Year/Series*

Bond Issue	Amount Unspent*	Closing Date	Expenditure Deadline
2010C	\$61	12/21/2010	12/21/2013
2013A	\$6,397	8/14/2013	8/14/2016
2014A	\$145,742	11/6/2014	11/6/2017
2015A	\$196,754	11/12/2015	11/12/2018
2015C	\$8,141	11/12/2015	11/12/2018
2016A	\$295,492	11/10/2016	11/10/2019
2016D	\$1	11/10/2016	11/10/2019
2017A	\$583,092	11/8/2017	11/8/2020
2017C	\$13,062	11/8/2017	11/8/2020
2018A	\$7,184	11/15/2018	11/15/2021
2018D	\$41	11/15/2018	11/15/2021
2018F	\$2	11/15/2018	11/15/2021
<b>Total</b>	<b>\$1,255,969</b>		

\*The unspent balance amounts are as of 6/3/19. 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 2019, the Office of the Comptroller and the DAS-PSB submitted a report to the County Board and County Executive (File 19-342) for the May Committee cycle that requested authorization to lapse certain capital expenditures and revenues from 2018 to 2019.

The report indicated that there was \$1,432,217 of unspent bond proceeds 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 or to finance projects that would be able to spend the proceeds in a timely fashion (prior to the end of 2019). 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.

Upon further review of the \$1,432,217 of funds that were lapsed to the Debt Service Reserve as part of File 19-342, it was determined that \$1,255,569 of the funds were unspent bonds (See Table 1) and the remaining funds are cash. The \$1,255,569 of bonds are requested to be reallocated as described in this request and the remaining \$176,648 will remain in the DSR.

### **IRS Expenditure Rules for Tax Exempt Bonds**

In order to comply with IRS regulations, at the time the County issues tax-exempt bonds the County states it expects to spend all of the bond proceeds within three years and proceed with due diligence to complete the projects being financed and spend all of the bond proceeds. If the bond proceeds have not been spent within three years, the County must restrict the investment yield that can be earned on the unspent proceeds to a yield not greater than the yield on the bonds and must take action to demonstrate a consistent pattern of spending to reflect a commitment to completing and implementing the projects.

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.

## **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 \$1.3 million is recommended to be reallocated.

**Table 2: Proposed Reallocation of Unspent Bonds**

<u>Project Description</u>	<u>Unspent Bond Amount*</u>
<i>Interest Expenses/Applied Towards Refundings</i>	
Org. Unit 9960 Debt Service (2019 Interest Expenses)	\$652,588
Subtotal	\$652,588
<i>Finance with Unspent Bonds in Place of New Bonds (Debt)</i>	
WT10401 Bus Replacement Program - 2018	\$568,381
Subtotal	\$568,381
<i>Cover Project Shortfall</i>	
WO46501 Training Academy Boiler System Replacement	\$35,000
Subtotal	\$35,000
<b>Total</b>	<b>\$1,255,969</b>

\*The unspent balance amount total is \$1,255,969 as of 6/3/2019. 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**

**2019 Interest Expenses (\$652,588)**

Bonds that were issued prior to 2016 and have not been spent are currently out of compliance with IRS expenditure rules. The approximately \$1.3 million in unspent bonds includes \$357,095 of unspent proceeds that were issued prior to 2016. In addition, there are \$295,493 of unspent 2016 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 2019 interest expenses.

It is also recommended that the expenditure authority (levy financed) that previously financed these interest expenses is retained in Org. Unit 9960 Debt Service in order to reduce the size of the 2019 refundings. These funds are recommended to be applied towards the refundings in order to alleviate potential private activity issues and to reduce the amount of future debt service expenses.

**Allocation of Unspent Bond Proceeds to Reduce the Size of the 2019 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 2019 bond issuances. Based on this analysis, it is recommended that \$568,381 of unspent bond proceeds are used to reduce the amount of new bonds/notes that are needed to be issued in 2019 for Project WT10401 Bus Replacement Program – 2018.

*Table 3: Adopted Projects That Will Be Financed With Unspent Bonds Rather Than 2019 Bonds*

<u>Project Description</u>	<u>Unspent Bond Amount</u>
WT10401 Bus Replacement Program - 2018	\$568,381
<b>Total</b>	<b>\$568,381</b>

**Allocation of Unspent Bond Proceeds to Increase Appropriations to Ongoing Projects**

*Table 4: Adopted Projects That Will Be Provided Additional 2019 Funds*

<u>Project Description</u>	<u>Unspent Bond Amount*</u>
WO46501 Training Academy Boiler System Replacement	\$35,000
<b>Total</b>	<b>\$35,000</b>

**WO46501 Training Academy Boiler System Replacement (\$35,000)**

The 2017 Adopted Budget included an appropriation of \$188,000 for the Training Academy Boiler Replacement Project. The project was financed by Series 2017A general obligation bonds.

During the design stage consultant was made aware that many areas of building had cold spots and were lacking proper heating. The consultant included two alternate bids to attempt to address the issue. Despite implementing these alternates, the heating system could not provide sufficient heating in many areas of building.

Additional funds are required in order to address the proper functioning of hot water system for entire building. Assuming approval of this additional funding, the project is anticipated to be completed and closed in July 2019.

## 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 **\$1.3 million** of unspent bonds from the Debt Service Reserve. 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.



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Comptroller



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