COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : August 30, 2013

TO : Supervisor Dimitrijevic, Chairwoman, County Board of Supervisors

FROM : Scott B. Manske, Comptroller, Office of the Comptroller

SUBJECT : Submission of a Report on the Results of the Sale of $47,095,000 in Airport Revenue Bonds, Series 2013A and $3,330,000 of Airport Revenue Refunding Bonds, Series 2013B

BACKGROUND

In February 2013, the Office of the Comptroller received approval from the County Board and County Executive to issue a not-to-exceed amount of $60,000,000 for various airport capital improvement projects included in the 2011-2013 Capital Improvement Budgets and a not-to-exceed amount of $3,500,000 in bonds to refund the balance of the outstanding debt for the 2003A Airport Revenue Bonds. The resolutions specified parameters for the sale and delegated the approval of the sale of the bonds to the Comptroller. The adopted resolutions also directed the Comptroller to submit an informational report to the Finance, Personnel and Audit Committee on the final sale results.

BOND SALE PARAMETERS

Series 2013A Airport Revenue Bonds

The parameters for the financing consisted of the following:

- Maximum coupon rate of 6 percent – A coupon rate is the interest rate for each maturity or principal amount.

- Maximum true interest cost (TIC) of 5.5 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.

Series 2013B Airport Revenue Refunding Bonds

The parameters for the financing consisted of the following:

- Maximum coupon rate of 5.0 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.

- 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 9 years, with an amount of $375,000 for each year. Therefore, it is unlikely that the County would refund the new bonds. In addition, due to the low maturity amount, a no call provision may be necessary to obtain a low interest rate and encourage investor interest in the bonds.

- 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. Under the rule adopted by the County Board and County Executive, the County could issue these bonds at any premium, par or a maximum discount of 1%. 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.

Results of the Sale

Series 2013A Airport Revenue Bonds

On August 14 2013, the County closed on the sale of $47,095,000 in Airport Revenue Bonds, Series 2013A (2013A Bonds). The negotiated true interest cost is 4.88%. The highest coupon on the bonds is 5.25%. The total interest costs are $39,558,675. The County received a net premium on the sale of $1,751,451. The premium must be used to pay debt service associated with the 2013A Bonds. Having a premium means the Airport bonds met the minimum purchase price of 99 percent of the par amount of bonds. The parameters for the financing were met in the sale of the Airport Revenue Bonds for 2013.

The size of the Airport Revenue Bonds, Series 2013A was significantly lower than the not-to-exceed amount due to the cancellation of the General Mitchell International Airport (GMIA) Snow Equipment Storage Building Replacement Project. The 2010 Airport Bond issue included $13,272,000 ($11,789,073) of proceeds to finance the Snow Equipment Storage Building Replacement Project. Since that date, the building project was cancelled and the 2010 bond funds were applied to the new Baggage Claim Project. As a result, the size of the 2013A Bond Issue (par amount) was reduced. The par amount was further reduced due to lower bids for the Baggage Claim Project.

One of the capital projects funded with 2013 Airport Bonds is no longer bond eligible, and the proceeds were transferred to the Baggage Claim Project. A separate memorandum is being sent to the County Board, which discusses the transaction, and requests approval to modify funding for that project.

Series 2013B Airport Revenue Refunding Bonds

On August 14 2013, the County closed on the sale of $3,330,000 in Airport Revenue Refunding Bonds, Series 2013B (2013B Bonds). The net present value savings generated from the transaction was $340,401 (9.1%). The true cost is 2.80%. The highest coupon on the bonds is 4.0%. The total interest cost is $563,010.53. The County received a net premium on the sale of $87,299.90. The premium must be used to pay debt service associated with the 2013B Bonds.

Committee Action

This is an informational report only. The Office of the Comptroller respectfully requests that this report be placed on file.

Scott B. Manske
Comptroller

Attachments

pc: Chris Abele, County Executive
Supervisor Willie Johnson, Co-Chair, Committee on Finance, Audit and Personnel
Supervisor David Cullen, Co-Chair, Committee on Finance, Audit and Personnel
Don Tyler, Director, Department of Administrative Services
Josh Fudge, Interim Fiscal and Budget Director, DAS
Amber Moreen, Chief of Staff, County Executive's Office
Raisa Koltun, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board
Pamela Bryant, Capital Finance Manager
Stephen Cady, County Board Fiscal and Budget Analyst
Justin Rodriguez, Capital Finance Analyst
Mark Grady, Corporation Counsel