# MILWAUKEE COUNTY FISCAL NOTE FORM

**DATE:** 02/26/13

Original Fiscal Note ☒

Substitute Fiscal Note ☐

**SUBJECT:** Recommendation for Tendering existing Notes and issuance of General Obligation Taxable Bonds

**FISCAL EFFECT:**

☐ No Direct County Fiscal Impact

☒ Existing Staff Time Required

☒ Increase Operating Expenditures (If checked, check one of two boxes below)

☐ Absorbed Within Agency's Budget

☐ Not Absorbed Within Agency's Budget

☐ Decrease Operating Expenditures

☐ Increase Operating Revenues

☐ Decrease Operating Revenues

☐ Increase Capital Expenditures

☐ Decrease Capital Expenditures

☐ Increase Capital Revenues

☐ Decrease Capital Revenues

☐ 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 | | |
| | Revenue | | |
| | Net Cost | | |
| **Capital Improvement Budget** | Expenditure | See Explanation | See Explanation |
| | 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 Office of the Comptroller was contacted by JP Morgan, who was the lead underwriter for the original Taxable Pension Promissory Notes, Series 2009A in 2009 and Taxable Pension Notes in 2013. One of the original purchasers of the $265,000,000 Taxable Pension Promissory Notes, Series 2009A (the "Notes") sold the Notes on the secondary market to a separate, investment division of JP Morgan. This investment division currently owns $92,005,000 of the Notes maturing in 2024. JP Morgan contacted the Office of the Comptroller to inquire if the County would be interested in purchasing these Notes. It is likely that JP Morgan is experiencing some difficulty selling the Notes on the secondary market at their desired price. If the County purchases the Notes, they may be able to obtain a higher price than the current market will provide, but a price at which would allow the County to reduce its future interest payments through the issuance of new bonds with lower interest rates.

   The Office of the Comptroller convened the POB Workgroup to discuss the offer and determine if there are projected to be savings from a tender offer. If the County is able to realize savings based on the noteholders interest in selling the 2024 or 2028 term bonds, the County would like to pursue purchasing all or a portion of the outstanding Notes through a tender offer.

   The process of purchasing the Notes from noteholders is called tendering. This process is not uncommon in corporate finance but is not often used by governmental entities. One of the reasons for the rarity to tendering government bonds is that, normally, the secondary market is a more efficient and effective option for buying and selling bonds or notes. The secondary market is the public bond market where bonds, once issued, are traded and sold. With the current low interest rates in the market place, there are sometimes opportunities to purchase bonds through a tendering process that provides a benefit both for the holder of the Notes and the issuer of the Notes: the County.

   The County recently sold $138 million of taxable pension notes. The taxable interest rate that the County achieved indicates that the County may be successful in a tender offer.

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[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.

B. The County will have to pay costs relating to the tendering of the Notes and the issuance of the new bonds. The County would only proceed with the transaction if the combined net present value savings in positive. The estimated costs associated with the transaction are $1,930,000. These costs would be financed with proceeds from the new bonds. However, if there are no positive savings, the County would have to execute a DAS-only appropriation transfer from the contingency fund to pay for the expenses associated with the analysis. If the net present values savings are not positive the estimated costs for the financial and legal analysis is estimated to be $20,000. These costs would be financed with funds from the appropriation for contingency budget.

   The Notes do not have a call date prior to maturity. Therefore, the County's only means to achieve additional savings are through a tender offer. In order to encourage a current Note holder to sell or tender their Notes to the County, the County would need to offer a premium to what is available in the secondary market.

   As stated, the County will only offer to do a tender, and issue refunding bonds, if the County has a positive savings. The savings would only occur if the County's total debt service cost for the taxable refunding bonds is less than the total debt service cost for the existing Notes. The County will evaluate savings based on a net present value calculation of the difference between the debt services.

   The POB workgroup examined the market exchange of Notes that mature in 2024 (2024 Term Bond). The County originally issued the 2024 Term Bond at an interest rate of 5.93%. In October 2012, the secondary market sold the 2024 Term Bond at an effective interest rate of 3.78%. The County's recent sale of $138 million of taxable pension notes in January 2013 had an effective interest rate of 3.28%. The effective rate on that issue for only the 2024 maturity was 2.80%. This brief analysis indicates that the County may be able to achieve net present value savings in the current market. It is understood that market conditions may change, and that that savings may no longer be available from a tender process. If this is the case, the County's cost ,as stated above would be $20,000.

C. As stated in Item B, a DAS-only appropriation transfer would be needed to pay for costs associated with the transaction. The Appropriation for Contingency budget would only be utilized if the County did not proceed with the tendering of the Notes and issuance of new bonds.

D. The estimated costs assume the issuance of $230 million in General Obligation Taxable Bonds. The cost include underwriting fees of $5.00 per $1,000 of principal ($5*230 million divided by 1000 equals $1,415,000), rating agency fees of $225,000 based upon fee schedules from Moody's Standard and Poor's and Fitch, Legal Fees in the amount of $175,000 for Bond Counsel and Underwriter' Counsel, financial advisory fees of $100,000 and information agent fees in the amount of $15,000. The fees assume that all current noteholders of the 2009A term bonds offer their Notes at a price which would be beneficial to the County. If fewer Notes are offered, fewer new bonds would be issued and the issuance costs would be reduced.

Department/Prepared By Pamela Bryant

Authorized Signature

Did DAS-Fiscal Staff Review? ☒ Yes ☐ No

Did CBDP Review?[2] ☒ Yes ☐ No ☐ Not Required