

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : May 21, 2025

TO : Supervisor Marcelia Nicholson, Chairwoman, County Board of Supervisors

FROM : Liz Sumner, Comptroller

SUBJECT : Reallocation of Lapsed Project Funds from the Debt Service Reserve

REQUEST

The resolution authorizes the transfer of approximately \$371,000 of lapsed project funds from the Debt Service Reserve (“DSR”) to pay 2025 debt service expenses. The resolution also allocates approximately \$371,000 of levy from Org. Unit 9960 General County Debt Service to projects with shortfalls. The lapsed funds are made up of \$197,518 of lapsed bonds/notes (“Bonds”) and \$174,850 of lapsed cash.

To comply with the Internal Revenue Service (“IRS”) expenditure rules for tax-exempt bonds, the Office of the Comptroller is seeking approval to reallocate approximately \$196,518 of 2019-2022 unspent Bonds from the DSR to finance debt service expenses. Tax-exempt Bonds issued in 2019-2021 are not compliant with IRS expenditure rules because the County has not been able to demonstrate a consistent pattern of spending. For tax-exempt Bonds issued prior to 2023, it is recommended to use the bonds to pay interest expenses to the extent possible.

The expenditure deadlines for the tax-exempt Bonds issued in 2019-2022 are listed on *Table 1*. There are no expenditure deadlines for taxable Bonds.

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

Bond Issue	Amount Unspent	Closing Date	Expenditure Deadline
2019E	\$61,257.91	11/7/2019	N/A
2021C	\$19,061.72	11/23/2021	11/23/2024
2021E	\$6,325.00	11/23/2021	N/A
2022A	\$16,439.31	11/3/2022	11/3/2025
2022D	\$24,142.36	11/3/2022	N/A
2022E	\$69,291.32	11/3/2022	11/3/2025
Total	\$196,517.62		

*Final amounts will change if additional financial activity occurs.

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BACKGROUND

In April 2025, the Office of the Comptroller submitted a report to the County Board and County Executive (File 25-300) for the May committee cycle that requested authorization to lapse net surplus funds of \$532,079 from closed, non-airport capital projects to the DSR. The \$532,079 is made up of approximately \$358,000 of Bonds and \$174,000 of cash.

The reallocation of Bonds is being done to pay eligible debt service expenses to the maximum extent possible (\$196,518). The remaining approximately \$161,000 will be included in a future request to the County Board and County Executive to pay next year's debt service.

IRS Expenditure Rules for Tax Exempt Bonds

To comply with IRS regulations, at the time the County issues tax-exempt bonds, the County states it expects to spend all the bond proceeds within three years and proceed with due diligence to complete the projects being financed and spend all 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 Office of the Comptroller is collaborating with Public Financial Management – Asset Management (“PFMAM”) to conduct the required arbitrage calculations in accordance with IRS regulations. This analysis will determine whether the County has realized investment earnings exceeding the bond yield, which may result in an arbitrage rebate liability or associated penalties. PFMAM will review investment performance, bond yields, and the timing of bond financed expenditures to prepare the necessary calculations for evaluating compliance. Should any rebate obligations or penalties be identified, the Office of the Comptroller will inform the Finance Committee and propose a recommended course of action to address the findings and ensure continued adherence to federal tax requirements.

Allocation of Lapsed Project Funds from the Debt Service Reserve

The Office of the Comptroller recommends that \$196,518 of Bonds and \$174,850 of cash is reallocated from the Debt Service Reserve to pay eligible 2025 debt service expenses. The total amount of reallocated funds is approximately \$371,000.

Allocation of Levy from Org. Unit 9960 General County Debt Service

Since approximately \$371,000 of lapsed project funds are being used to pay 2025 debt service, a like amount of levy in Org. Unit 9960 General County Debt Service is freed up and can be reallocated.

The Office of the Comptroller recommends \$371,368 be reallocated to ongoing capital projects with shortfalls as indicated in *Table 2*.

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Table 2: Allocation of Funds from Debt Service to Projects with Shortfalls or Projects that require a Local Match.

<u>Project Description</u>	<u>Amount</u>
WH001022 - S. 13th St. - W. Puetz Rd. to W. Drexel Ave.	\$196,547
WH011701 - Signals CTH PP (Good Hope Road)	\$70,000
WP069501 - Washington Park Bridge Replacements	\$30,918
WR021101 - Electronic Logging and Supporting System	\$30,000
WH024801 - Signal Improvements Silver Spring 124th to 91st	\$25,000
WO065501 - War Memorial Center Switchgear Replacement	\$18,600
WO053501 - War Memorial Green Print	\$303
Total	\$371,368

RECOMMENDATION

The Office of the Comptroller recommends adoption of the attached resolution. The resolution authorizes the reallocation (via administrative transfers) of approximately \$371,000 of lapsed project funds from the Debt Service Reserve to pay debt service. The resolution also authorizes the transfer of approximately \$371,000 from Org. Unit 9960 Debt Service to ongoing projects with shortfalls.



Liz Sumner
Comptroller

cc: David Crowley, County Executive
 Supervisor Willie Johnson, Jr., Chairman, Committee on Finance
 Mary Jo Meyers, 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
 Andrea Weddle Henning, MCDOT – Transportation Services
 Sean Hayes, Department of Administrative Services, Facilities
 Tony Raab, Department of Administrative Services, Facilities AE&ES
 Pat Carravetta, Office of the Sheriff
 Joe Lamers, Office of Strategy. Budget, and Performance
 Vince Masterson, Office of Strategy. Budget, and Performance