

**COUNTY OF MILWAUKEE
INTER-OFFICE COMMUNICATION**

DATE : November 12, 2021

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

FROM : Pamela Bryant, Capital Finance Manager, Office of the Comptroller

SUBJECT : **Establishment of an Escrow Account to Defeas the outstanding 2016E Refunding Bonds**

REQUEST

The Office of the Comptroller is requesting the approval of the attached resolution that would authorize the creation of an escrow account to defease the final maturity and accrued interest of the General Obligation Refunding Bonds, Series 2016E (“2016E Refunding Bonds”), dated November 10, 2016. The 2016E bonds were issued on a tax-exempt basis. The resolution also authorizes the Comptroller to select an Escrow Agent, an agent to take bids for securities held in the escrow account and a CPA firm to provide verification services to facilitate the transaction. Funding for the transaction is provided from operating funds in Org. Unit 9960 General County Debt Service in the 2022 Budget.

BACKGROUND

The 2016E Refunding Bonds were issued to refund tax-exempt, 2007 Bonds that were issued in part to finance capital improvements to the water system that services the Milwaukee Regional Medical Center (“MRMC”). There is one maturity of the 2016E Refunding Bonds remaining. The principal and interest due on December 1, 2022 are \$2,495,000 and \$99,800, respectively. These properties have been subjects of ongoing discussions and negotiations for sale to the Milwaukee Regional Medical Center (“MRMC”) or its partners.

Private Activity Rules

In general, the County finances its capital projects through the issuance of tax-exempt debt. Other than bonds issued as qualified 501 (c) (3) bonds, the County issues tax-exempt debt for governmental purposes. The debt issued for these purposes are subject to certain Internal Revenue Service (“IRS”) rules and regulations (“Private Activity Rules”) that restrict the use and ownership of projects financed with the proceeds of tax-exempt bonds. The IRS allows no more than 5% of tax-exempt bond proceeds (“bad money”) to be used for private activity purposes without the County having to take remedial actions.

A tax-exempt issuance may comply with IRS rules and regulations when it is issued. However, subsequent actions, such as the sale or lease of assets financed with the proceeds of tax-exempt bonds to a private or federal entity, may cause the bond issue to fail the private business tests and eventually exceed the 5% bad money threshold.

If the County has a particular issuance that exceeds the 5% bad money limit, then the redemption or defeasance of non-qualified bonds must occur within 90 days of the action occurring.

Status of Water System Transaction with Milwaukee Regional Medical Center (“MRMC”)

Previous Related Legislation:

File 20-236: An Informational Report regarding potential transfer of the County water system servicing portions of the Milwaukee County Grounds to the City of Wauwatosa and the Milwaukee Regional Medical Center.

File 21-766: From the Executive Director of Parks, requesting authorization to grant the City of Wauwatosa Permanent Easements for the water mains near 87th Street and Watertown Plank Road on County Grounds and at Menomonee River Parkway.

Milwaukee County currently owns and operates the water system that services the MRMC along with other facilities and homes along its connection to a water main on North Avenue. The water system includes, but is not limited to, the water delivery system pipes and pumps, water towers, sanitary sewer, and storm water systems serving the campus. Portions of the water system serving other quadrants of the County Grounds have previously been transfer to the City of Wauwatosa for operation (CB File 13-563).

The County has been working with the MRMC and City of Wauwatosa to explore disposition of the last portions of the system remaining under County control. The water lines and other water assets are anticipated for transfer. MRMC would take ownership of the water spheroid (central water tower) on campus, the water tower north of Watertown Plank Rd. (East Tower), sanitary sewer mains, and other associated assets. MRMC partners would also assume maintenance responsibility for the stormwater management pond north of Watertown Plank Road.

Terms of the transactions require MRMC and the City of Wauwatosa to pay for or inherit any outstanding debt related to the water system.

Milwaukee County will receive the full capitalized value for its prior investments and no longer be responsible for operating the water system or billing customers. The City of Wauwatosa and MRMC will take responsibility for future maintenance and operation of the system and will bill customers directly for services.

The closing of the transaction is planned to occur on December 1, 2021. The defeasance of the of the General Obligation Refunding Bonds, Series 2016E must occur prior to March 1, 2021 to satisfy IRS Private Activity Rules.

RECOMMENDATION

The Office of the Comptroller requests that the Finance Committee approve and recommend approval by the full County Board of the attached resolution. The resolution would authorize the creation of an escrow account to defease the final maturity and accrued interest of the General Obligation Refunding Bonds, Series 2016E (“2016E Refunding Bonds”), dated November 10, 2016. The resolution also authorizes the Comptroller to select an Escrow Agent and a CPA firm to provide verification services to facilitate the transaction. Funding for the transaction is provided from operating funds in the 2022 Budget Org. Unit 9960 General County Debt Service.

Pamela Bryant _____

Pamela Bryant
Capital Finance Manager

Attachment

cc: David Crowley, County Executive
Supervisor Jason Haas, Chairman, Finance Committee
Mary Jo Meyers, Chief of Staff, County Executive
Kelly Bablitch, Chief of Staff, County Board
Aaron Hertzberg, Director, DAS
Vince Masterson, DAS
Pamela Bryant, Capital Finance Manager
Stephen Cady, Research Director
Justin Rodriguez, Budget and Management Coordinator
David Farwell, Office of Corporation Counsel