

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : May 18, 2022

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

FROM : Scott B. Manske, Comptroller
Joe Lamers, Director, Office of Strategy, Budget and Performance

SUBJECT : Reallocation of Unspent Bond Proceeds from the Debt Service Reserve

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 Strategy Budget and Performance (“SBP”) are seeking approval to reallocate approximately \$1.9 million of 2015-2021 unspent bonds and notes (“Bonds”) from the Debt Service Reserve (“DSR”) to finance debt service expenses and to reduce the size of the 2022 bond issuances. Tax-exempt Bonds issued in 2015-2018 for projects that are on hold or lapsed proceeds 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. For tax-exempt Bonds issued prior to 2020, it is recommended to use the bonds to pay interest expenses to the extent possible. It is also recommended to use surplus taxable bond proceeds to pay debt service expenses and to provide \$185,000 of additional funding to Project WO053501 War Memorial Green Print.

Most of the proceeds are requested to be used to pay debt service expenses. The resolution authorizes the transfer of \$1,028,585 from Org. Unit 9960 Debt Service to Org Unit 1945 Appropriation for Contingencies.

The expenditure deadlines for the tax-exempt Bonds issued in 2015-2021 are listed below. Except for the Series 2018D, Series 2019E, Series 2020C, and Series 2021E all of the Bonds were issued on a tax-exempt basis. The County has not yet issued the 2022 corporate purpose bonds.

Table 1: Unspent Bonds by Bond Issue Year/Series

Bond Issue	Amount Unspent	Closing Date	Expenditure Deadline
2015A	\$30,587	11/12/2015	11/12/2018
2016A	\$53,341	11/10/2016	11/10/2019
2017A	\$11,405	11/8/2017	11/8/2020
2018D	\$32,951	11/15/2018	N/A
2019C	\$639,815	10/2/2019	10/2/2022
2019E	\$588,413	11/7/2019	N/A
2020A	\$125,247	10/28/2020	10/28/2023
2020C	\$373,782	10/28/2020	N/A
2020D	\$1	10/28/2020	10/28/2023
2021D	\$979	11/23/2021	11/23/2024
2021E	\$53,876	11/23/2021	N/A
Total	\$1,910,396		

BACKGROUND

In April 2022, the Office of the Comptroller and the SBP submitted a report to the County Board and County Executive (File 22-628) for the May Committee cycle that requested authorization to lapse net surplus funds of \$2,378,157 from closed, non-airport capital projects to the DSR. Of the \$2,378,157, \$1,910,936 are unspent bond proceeds.

The report 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 eligible debt service expenses or to finance projects that would be able to spend the proceeds in a timely fashion. 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 Office of Strategy, Budget and Performance and other departments to identify projects that would meet the criteria above.

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 Qualified Energy Conservation 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 \$1.9 million is recommended to be reallocated from the Debt Service Reserve to the items in Table 2.

Table 2: Proposed Reallocation of Unspent Bonds

<u>Project Description</u>	<u>Unspent Bond Amount</u>
<i>Use Unspent Bonds to Pay Eligible Debt Service Expenses</i>	
Org. Unit 9960 Debt Service (2022 Debt Service Expenses)	\$1,028,585
Subtotal	\$1,028,585
<i>Replace new 2022 Bonds in Previously Approved Projects</i>	
WP062501 Dretzka Park-Lighting, Storm Water, Parking Improvements	\$696,811
Subtotal	\$696,811
<i>Additional Funding to Cover Project Shortfall</i>	
WO053501 War Memorial Green Print	\$185,000
Subtotal	\$185,000
Total	\$1,910,396

Tax exempt Bonds issued (2015-2019)

Tax exempt Bonds and notes that were issued prior to 2019 and have not been spent are currently out of compliance with IRS expenditure rules. 2019 tax-exempt Bonds that have not be spent will be out of compliance by the end of the year.

The approximately \$1.9 million in unspent Bonds includes \$735,148 of tax-exempt Bonds that were issued prior to 2020. Of the \$735,148, \$164,563 can be applied towards 2022 interest expenses. The balance of tax-exempt funds (\$570,585) will be applied to Project WP062501 Dretzka Park – Lighting, Stormwater, and Parking improvements. The Dretzka Park project has funds encumbered and construction is anticipated to be substantially completed in 2022. Applying unspent Bonds towards the Dretzka Park project will replace bonds that would have been issued in 2022.

Tax-exempt bonds issued after 2019

The approximately \$1.9 million in unspent bonds includes \$126,226 of tax-exempt Bonds that were issued after 2019. Tax-exempt Bonds issued after 2019 must be applied towards eligible project expenses. The \$126,226 of tax-exempt funds will be applied to Project WP062501 Dretzka Park – Lighting, Stormwater, and Parking improvements.

Taxable Bonds

Taxable proceeds may be either applied towards principal and interest payments or towards capital projects. There are unspent taxable bond proceeds of \$1,049,022. It is recommended that \$864,022 of these proceeds are used to pay debt service expenses and \$185,000 is used to cover a shortfall in Project WO053501 War Memorial Green Print.

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

Since \$1,028,585 of unspent Bonds is being used to pay debt service, a like amount of levy in Org. Unit 9996 General County Debt Service is freed up and can be reallocated. The Office of the Comptroller recommends \$1,028,585 to be reallocated to Org. Unit 1945 Appropriation for Contingency.

RECOMMENDATION

The Office of the Comptroller and the Office of Strategy, Budget and Performance recommends adoption of the attached resolution. The resolution authorizes the reallocation (via administrative transfers) of \$1,910,936 of unspent bonds from the Debt Service Reserve to pay debt service, reduce the size of the 2022 financing, and to increase funding for Project WO053501 War Memorial Green Print. The resolution also authorizes the transfer of \$1,028,585 from Org. Unit 9960 Debt Service to Org Unit 1945 Appropriation for Contingencies.

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Supervisor Liz Sumner, Chairwoman, Committee on Finance
Mary Jo Meyers, Chief of Staff, County Executive's Office
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