



COUNTY OF MILWAUKEE INTEROFFICE COMMUNICATION

Office of the Comptroller
Scott B. Manske, Comptroller

DATE : October 14, 2022

TO : County Executive David Crowley
County Board Chairperson Marcelia Nicholson

FROM : Scott B. Manske, Comptroller

SUBJECT : Fiscal Impact of Exceeding the 2023 Bonding Cap

Policy Issue:

Total bonding for the 2023 Recommended Capital Improvements Budget (2023 Capital Budget) is \$108,718,761, which is \$62,878,236 over the capital bonding cap amount of \$45,840,525. The increase is primarily due to the \$62,899,560 in bonding for the Forensic Science Center. Outside of the 2023 recommended budget, the County previously approved, in March 2022, \$45,000,000 in bond financing for the construction of the new Milwaukee Public Museum building (new MPM building). No provision was made, related to the approval of the MPM building, for a reduction in future bonding caps. As a result, without any reduction in future bonding caps related to these two projects, the capital bonding cap would be exceeded by \$107,878,000.

The estimated debt service (interest and principal payments) to cover these two projects is \$161.3 million, over a 15-year term. The amortization of this debt would result in an increase in debt service in the year after issuance of \$12.7 million. The impact on tax levy would be an increase in tax levy of \$12.7 million in the first year (2025), declining to \$7.7 million for the final payment (2039) for an average of \$10.7 million over the 15-year life of the bonds.

This memo describes various financial impacts of increasing the bonding beyond the 2023 capital bonding cap limit of \$45,840,525 for the two capital projects: new Museum building and the new Forensic Science Center.

- Capital bonding cap and its impact on tax levy
- Average annual debt service increase
- Increase in the baseline annual debt service amount from \$1 million to \$12.7 million
- Total debt service increase updated from \$152.6 million to \$161.3 million
- Tax levy impact
- Impact on average Milwaukee County taxpayers

Capital Bonding Cap and Its Impact on Tax Levy

In 2003, the County established an annual capital bonding cap to minimize the impact of “pushing” the debt down from the years 2004-2007 to try and address its structural deficit at the time. As of 2008, the bonding has been limited to 3 percent of the previous year’s bonding amount. The County has, with a few exceptions, adhered to the bonding cap since its inception. Previous instances of exceeding the bond cap were, usually, accompanied by future decreases in the bonding cap to compensate for the increase. The original capital bonding cap was \$25.95 million in 2003 and has risen to \$45.8 million for the 2023 budget.

Currently, the Comptroller’s office, who is responsible for the issuance of debt, limits the change in the annual debt service to an increase or decrease of no more than \$1.0 million. This is accomplished by planning out debt issuances to match the useful lives of assets, not exceeding a 15-year maximum debt amortization, bonding based on project cash flow and planning future debt issue amortizations based on the bonding cap. This has assisted the County with its strong debt and fiscal management. The rating agencies consistently comment favorably on the County’s strong debt and fiscal management and rapid amortization.

Changes in any of these factors could cause the County to increase the tax levy to cover debt service. State Statute does not limit tax levy increases associated with increases in annual debt service associated with capital bond issuances. Such debt service tax levy increases do not decrease the annual operating tax levy increase provided for under State Statute.

Forensic Science Center

The 2023 Capital Budget includes an appropriation of \$112,899,560 for the construction of the Forensic Science Center, with financing provided from \$62,899,560 in bonds, \$10 million in cash from the debt service reserve¹, \$20 million in State funds from the American Rescue Plan Act of 2021 (ARPA funds) and \$20 million in County ARPA funds. In 2020 and 2021, the County budgeted \$11,191,328 and \$3,016,216, respectively, for the design and initial construction of the Forensic Science Center. Including the prior year’s appropriations mentioned above, the total project cost is \$127,107,104.

The developer is expected to break ground on the project in June of 2023. Therefore, the bonds are expected to be issued in 2024, with the initial debt service costs occurring in 2025.

New Milwaukee Public Museum Building

The Milwaukee Public Museum (MPM) requested and received approval of \$45 million towards the construction of a new facility (File No. 22-454). The total cost of the new facility is estimated at \$240 million with \$40 million to be funded by the State of Wisconsin, \$45

¹ In accordance with State Statute, the use of the debt service reserve is limit to the payment of debt service. Therefore, the project narrative for WC020901 – Forensic Science Center provides language for the authorization of an administrative appropriation transfer to be processed to move the revenue budget associated with the Debt Service Reserve contribution (\$10 million) to Organizational Unit 9960 General County Debt Service to reflect the use of the reserve to pay debt service expenses.

million to be funded by Milwaukee County and the remaining \$155 million balance to be raised through MPM’s major capital fund raising campaign. The \$45 million in bonds, as currently approved, did not suggest any adjustment to the capital bonding cap. As a result, it is our assumption that such debt issuance would be over and above the existing bond cap for 2023.

Fiscal Impact of Exceeding the 2023 Bonding Cap

As discussed above, the County has exceeded the 2023 cap by \$107.9 million. (See Table 1 below for the details for the calculation of the exceeding amount.) This increase is primarily driven by the \$62.9 million for the Forensic Science Center and \$45.0 million for the new MPM building.

Table 1

Category	Bond Amount
Forensic Science Center	\$62,900
Various 2023 Capital Projects	\$45,819
2023 Capital Budget Bonding	\$108,719
2023 Bonding Cap	(\$45,841)
Total Amt. Above the Cap	\$62,878
New MPM Building	\$45,000
Total Increase Above Cap	\$107,878
All numbers in (000)'s	

The Office of the Comptroller provided a combined estimated total debt service for both projects for the 2023 Capital Budget of \$152.6 million. Based on changes in interest rates, the estimated total debt service amount is now \$161.1 million, an increase of \$8.5 million or 5.6 percent.

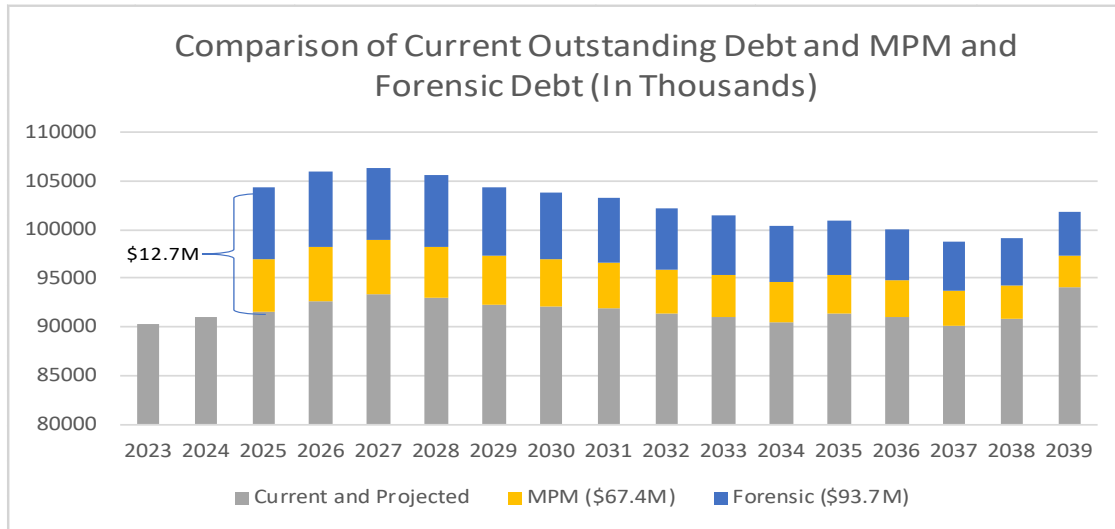
Table 2

Description	New Museum Building	New Forensic Science Center	Combined
Principal Issued	\$ 45,000	\$ 62,878	\$ 107,878
Total Debt Service	\$ 67,419	\$ 93,704	\$ 161,124
Avg Debt Svc 15 years	\$ 4,495	\$ 6,247	\$ 10,742
All numbers are in (000)'s			

The bonds for both projects are expected to be issued in 2024, with the first debt service payment in 2025. The estimated increase in annual debt service from 2024 to 2025 is \$12.7 million. The 15-year debt service would be \$67.4 million for the New Museum Building and \$93.7 million for the new Forensic Science building. This would represent a total increase in debt service of \$161.1 million over the current and projected outstanding debt amount.

Chart 1 below illustrates the estimated debt service over the 15-year term of the bonds compared to the Current and Projected Outstanding Debt.

Chart 1



Tax Levy Impact

The County tax levy includes levy related to operations and levy related to debt. Under the State Statute, the County, like other governments, has the option to increase its tax levy anytime the debt service increases for capital needs. The County, again like other governments; however, must decrease its tax levy anytime debt service decreases. Debt service represents the principal and the interest payments on the County’s general obligation debt, which is supported by tax levy. For purposes of analyzing the estimated levy impact for the additional bonding, it is assumed that the overall tax levy would be increased to cover the additional debt service expenses rather than reducing the County’s operating levy.

The estimated tax levy impact from the additional bonding from the Forensic Science Center (\$93.7 million) and the new MPM building (\$67.4 million) is directly linked to the additional estimated debt service. The estimated increase in tax levy related to debt from 2024 to 2025 is \$12.7 million. The estimated total tax levy related to the additional bonding is \$161.3 million over the 15-year term of the bonds.

Impact to Property Taxpayers

The County’s total equalized value as of August 2022 is approximately \$87 billion. The two charts below show the estimated impact to the tax levy of homes that are valued at \$150,000, \$250,000, and \$350,000².

² The impact to taxpayers assumes that the changes to the overall county equalized value would mirror changes to the current home values used in the example.

Chart 2: Average Annual Impact to Homeowners from Additional Bonding

Use	Total Additional Levy	County Equalized Value	Rate per thousand	Home Value		
				\$ 150,000	\$ 250,000	\$ 350,000
New MPM Building	\$67,419,450	\$ 87,033,713,500	\$ 0.77	\$ 7.75	\$ 12.91	\$ 18.07
Forensice Science	\$93,704,067	\$ 87,033,713,500	\$ 1.08	\$ 10.77	\$ 17.94	\$ 25.12
Average Annual Impact for Both	\$161,123,517	\$ 87,033,713,500	\$ 1.85	\$ 18.51	\$ 30.85	\$ 43.20

Chart 3: Cumulative Impact to Homeowners over the life of the Bonds (15-Years)

Use	Total Additional Levy	County Equalized Value	Rate per thousand	Home Value		
				\$ 150,000	\$ 250,000	\$ 350,000
New MPM Building	\$67,419,450	\$ 87,033,713,500	\$ 0.77	\$ 116.20	\$ 193.66	\$ 271.12
Forensice Science Building	\$93,704,067	\$ 87,033,713,500	\$ 1.08	\$ 161.50	\$ 269.16	\$ 376.82
Total	\$161,123,517	\$ 87,033,713,500	\$ 1.85	\$ 277.69	\$ 462.82	\$ 647.95

RECOMMENDATION

This report is informational. It is recommended that the report is received and placed on file.



Scott B. Manske
Comptroller

- pc: Supervisor Liz Sumner, Chair, Committee on Finance and Audit
Mary Jo Meyers, Chief of Staff, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board
Aaron Hertzberg, Director, Department of Administrative Services
Joe Lamers, Director, SBP
Vince Masterson, SBP
Stephen Cady, Comptroller's Office
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