

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : May 18, 2023

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

FROM : Scott B. Manske, Comptroller

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 is seeking approval to reallocate approximately \$1.2 million of 2015-2022 unspent bonds and notes (“Bonds”) from the Debt Service Reserve (“DSR”) to finance debt service expenses and to reallocate Bonds to ongoing projects. Tax-exempt Bonds issued in 2015-2020 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 2021, 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.

The resolution authorizes the transfer of \$1,182,537 of unspent Bonds to pay \$377,537 of debt service expenses and to provide \$805,000 of additional expenditure authority to ongoing projects with shortfalls. Finally, the resolution allocates \$351,371 of levy from Org. Unit 9960 General County Debt Service.

The expenditure deadlines for the tax-exempt Bonds issued in 2015-2022 are listed below. Except for the Series 2019E and the Series 2020C, all the Bonds were issued on a tax-exempt basis. The County has not yet issued the 2023 Bonds.

Table 1: Unspent Bonds by Bond Issue Year/Series

Bond Issue	Amount Unspent	Closing Date	Expenditure Deadline
2015A	\$1,488	11/12/2015	11/12/2018
2017A	\$1,001	11/8/2017	11/8/2020
2018D	\$211,206	11/15/2018	11/15/2021
2019C	\$334,681	10/2/2019	10/2/2022
2019E	\$59,414	11/7/2019	N/A
2020A	\$105,257	10/28/2020	10/28/2023
2020C	\$87,790	10/28/2020	N/A
2020D	\$124,426	10/28/2020	10/28/2023
2021D	\$209,783	11/23/2021	11/23/2024
2022A	\$47,492	11/3/2022	11/3/2025
Total	\$1,182,537		

BACKGROUND

In April 2023, the Office of the Comptroller and the SBP submitted a report to the County Board and County Executive (File 23-502) for the May Committee cycle that requested authorization to lapse net surplus funds of \$2,372,430 from closed, non-airport capital projects to the DSR. Of the \$2,372,430, \$1,182,537 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 \$1.2 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 (2023 Tax-Exempt Interest Expenses)	\$204,167
Org. Unit 9960 Debt Service (2023 Taxable Debt Service Expenses)	\$147,204
Org. Unit 9960 Debt Service (2024 Tax-Exempt Interest Expenses)	\$26,167
Subtotal	\$377,538
<i>Use Unspent Bonds to Cover Project Shortfalls</i>	
WO051710 - War Memorial Center/Milwaukee Restroom Renovation	\$310,000
WP062802 - Brown Deer Park Roadway Phase 2	\$230,000
WP069501 - Washington Park Bridge Replacements	\$135,000
WP069701 - Little Menomonee River Parkway OLT Reconstruction	\$105,000
WP062501 - Dretzka Park-Lighting, Storm Water, Parking Imprv	\$25,000
Subtotal	\$805,000
Total	\$1,182,537

Tax exempt Bonds issued

Tax exempt Bonds and notes that were issued prior to 2020 and have not been spent are currently out of compliance with IRS expenditure rules. 2020 tax-exempt Bonds that have not be spent will be out of compliance by the end of the year.

The approximately \$1.0 million in unspent tax-exempt Bonds includes \$548,375 of tax-exempt Bonds that were issued prior to 2020. Of the \$548,375, \$204,167 can be applied towards 2023 interest expenses and \$26,167 will be applied to 2024 interest expenses. \$805,000 is recommended to be applied towards ongoing projects that have funding shortfalls. Projects receiving unspent bonds are anticipated to spend the funds by the end of 2023.

Taxable Bonds

Taxable proceeds may be either applied towards principal and interest payments or towards capital projects. There are unspent taxable bond proceeds of \$147,204. It is recommended that these proceeds are used to pay 2023 debt service expenses.

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

Since \$351,371 of unspent Bonds is being used to pay 2023 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 \$351,371 to be reallocated to ongoing capital projects with shortfalls as indicated in Table 3.

Table 3: Allocation of Funds from Debt Service to Projects

<u>Project Description</u>	<u>Amount</u>
<i>Provide Funding for Projects with Shortfalls</i>	
WP076001 - McKinely Beach Improvements	\$319,371
WO088901 - Marcus Center Pedestrian Pavement	\$22,000
WS012801 - Wilson Sr Center Boiler and Exhaust Replacement	\$10,000
Total	\$351,371

RECOMMENDATION

The Office of the Comptroller recommends adoption of the attached resolution. The resolution authorizes the reallocation (via administrative transfers) of \$1,182,537 of unspent bonds from the Debt Service Reserve to pay debt service and to provide additional funding to ongoing projects with shortfalls. The resolution also authorizes the transfer of \$351,371 from Org. Unit 9960 Debt Service to ongoing projects with shortfalls.

Scott B. Manske

Scott B. Manske
Comptroller

cc: David Crowley, County Executive
Supervisor Liz Sumner, Chairwoman, 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
Jeremy Lucas, Department of Parks, Recreation, and Culture
Sean Hayes, Department of Administrative Services, Facilities AE&ES
Julie Bastin, Department of Administrative Services, Facilities AE&ES
Clif Jansen, Department of Administrative Services, Facilities AE&ES
Joe Lamers, Office of Strategy, Budget, and Performance
Vince Masterson, Office of Strategy, Budget, and Performance