

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

DATE : December 27, 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 tax-exempt bonds, the Office of the Comptroller is seeking approval to reallocate approximately \$2.6 million of 2013-2022 unspent bonds and notes (“Bonds”) from the Debt Service Reserve (“DSR”) to finance debt service expenses and to finance ongoing projects. Tax-exempt Bonds issued in 2013-2020 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 2022, it is recommended to use the bonds to pay interest expenses to the extent possible.

The resolution authorizes the transfer of \$2,587,326 of unspent Bonds to pay \$944,333 of debt service expenses and to provide \$1,642,993 of financing for Project WT015401 Bus Replacement – 30 Clean Diesel to reduce the size of the 2024 Bond issuances. Finally, the resolution allocates \$944,333 of levy from Org. Unit 9960 General County Debt Service to projects with shortfalls and the balance to the unallocated contingency account.

The expenditure deadlines for the tax-exempt Bonds issued in 2013-2022 are listed on *Table 1*.

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

Bond Issue	Amount Unspent	Closing Date	Expenditure Deadline
2013A	\$13,639	8/14/2013	8/14/2016
2014A	\$7,982	11/6/2014	11/6/2017
2015A	\$5,196	11/12/2015	11/12/2018
2017A	\$37,713	11/8/2017	11/8/2020
2018D	\$398,782	11/15/2018	11/15/2021
2019A	\$25,160	10/2/2019	10/2/2022
2019C	\$181,728	10/2/2019	10/2/2022
2020A	\$957,926	10/28/2020	10/28/2023
2021B	\$67,146	11/23/2021	11/23/2024
2021D	\$821,049	11/23/2021	11/23/2024
2022C	\$71,004	11/3/2022	11/3/2025
<b>Total</b>	<b>\$2,587,326</b>		

## **BACKGROUND**

In December 2023, the Office of the Comptroller submitted a report to the County Board and County Executive (File 23-945) for the December committee cycle that requested authorization to lapse net surplus funds of \$2,933,005 from closed, non-airport capital projects to the DSR. Of the \$2,933,005, \$2,587,326 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 departments to identify projects that would meet the criteria above.

### **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 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.

### **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 \$2.6 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 (2024 Tax-Exempt Interest Expenses)	\$944,333
<b>Subtotal</b>	<b>\$944,333</b>
<i>Use Unspent Bonds to Reduce 2024 Bond Issue</i>	
WT015401 - Bus Replacement - 30 Clean Diesel	\$1,642,993
<b>Subtotal</b>	<b>\$1,642,993</b>
<b>Total</b>	<b>\$2,587,326</b>

Tax exempt bonds and notes that were issued prior to 2021 and have not been spent are currently out of compliance with IRS expenditure rules. 2021 tax-exempt Bonds that have not be spent will be out of compliance by the end of the year.

The approximately \$2.6 million in unspent tax-exempt Bonds includes \$1,628,127 of tax-exempt Bonds that were issued prior to 2021 and \$888,195 that were issued in 2021. Of these unspent bonds, \$944,333 can be used to pay 2024 interest expenses. The balance of the tax-exempt bonds will be allocated to Project WT015401 Bus Replacements - 30 Clean Diesel, which will reduce the amount of 2024 bonds/notes that need to be issued for the bus replacement project.

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

Since \$944,333 of unspent bonds is being used to pay 2024 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 \$920,000 be reallocated to ongoing capital projects with shortfalls and the balance of \$24,332 is allocated to the countywide unallocated contingency account as indicated in *Table 3*.

Table 3: Allocation of Funds from Debt Service to Projects and Contingency

<u>Project Description</u>	<u>Amount</u>
<i>Provide Funding for Projects with Shortfalls</i>	
WP068801 - McKinley Parking Lots - Phase 2	\$485,000
WP032001 - Northpoint Parking Lot	\$70,000
WT008001 - MCTS Maintenance Building Lighting	\$85,000
WO088901 - Marcus Center Pedestrian Pavement	\$5,000
WS012701 - Kelly Senior Center & Nutrition Site Boiler Replacement	\$20,000
WS014306 - Senior Centers Backup Generators (Design)	\$45,000
WS014406 - Senior Centers Fire Protection Systems (Design)	\$50,000
WO011701 - Marcus Center Roof Replacement	\$100,000
WO065401 - Safety Building 6th Floor District Attorney Office Security	\$20,000
WP062802 - Brown Deer Park Roadway - Phase 2	\$40,000
Subtotal	\$920,000
Org Unit 1945 - Appropriation for Contingencies (Unallocated)	\$24,333
Subtotal	\$24,333
Total	\$944,333

**RECOMMENDATION**

The Office of the Comptroller recommends adoption of the attached resolution. The resolution authorizes the reallocation (via administrative transfers) of \$2,587,326 of unspent bonds from the Debt Service Reserve to pay debt service and to finance Project WT015401 – Bus Replacement 30 Clean Diesel. The resolution also authorizes the transfer of \$944,333 from Org. Unit 9960 Debt Service to ongoing projects with shortfalls and to the countywide unallocated contingency account.

Scott B. Manske \_\_\_\_\_

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Comptroller

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cc: David Crowley, County Executive  
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Mary Jo Meyers, Chief of Staff, County Executive's Office  
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