

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : July 1, 2013

TO : Supervisor Marina Dimitrijevic, Chairwoman, County Board of Supervisors

FROM : Scott B. Manske, Comptroller, Office of the Comptroller

SUBJECT : Submission of a Report on the Results of the Sale of \$99,300,000 in Taxable General Obligation Pension Refunding Bonds, Series 2013B and the Direct Purchase of the 2024 Term Maturity of the County's Series 2009A Taxable General Obligation Promissory Notes

BACKGROUND

In March 2009, Milwaukee County sold \$400,000,000 in pension obligation bonds (POBs) to improve the funding ratios of the pension system and to take advantage of higher investment rates of returns compared to the interest rate of taxable general obligation bonds. The original debt consisted of two bond issues: \$265,000,000 in taxable general obligation promissory notes for a 20-year term and \$135,000,000 in taxable pension anticipation notes for a five-year term with a December 2013 maturity date.

In January 2013, the County issued \$138,730,000 in taxable general obligation pension promissory notes to fund the \$135,000,000 taxable pension anticipation notes. The actual interest rate achieved on the transaction was 3.28%. The lower than anticipated interest rate allowed the County to amortize the debt on a faster schedule. As a result of the lower rate and the faster amortization schedule the County saved approximately \$103,400,000 over the projected life of the bonds, as compared to the original estimates.

Following the County's January 2013 sale, the Office of the Comptroller was contacted by JP Morgan, who was the lead underwriter for the 2009 and 2013 POB transactions. One of the original purchasers of the \$265,000,000 Taxable Pension Promissory Notes (the "Notes") sold the Notes on the secondary market to a separate, investment division of JP Morgan. At the time, the investment division owned \$92,005,000 of the Notes maturing in 2024. JP Morgan contacted the Office of the Comptroller to inquire if the County would be interested in purchasing the notes on the secondary market. The Notes contain a "make whole" call and, therefore the County would be unable to refund the Notes for savings. Purchasing the Notes at the right price, however, could provide the County with savings.

In March 2013, the Office of the Comptroller received approval from the County Board and County Executive to issue a not-to-exceed amount of \$283,000,000 in bonds to purchase the entire outstanding balance of 2024 and 2029 Notes. The authorizing resolution also included parameters for purchasing the outstanding notes and selling new bonds. The parameters included the fact that the County would not proceed with the transaction unless there was a combined net present value (NPV) savings.

Working with the County's financial advisors, underwriters and bond counsel, the Office of the Comptroller was able to negotiate a purchase price for the Bonds owned by JP Morgan's investment division which would guarantee a savings to the County. This

purchase price was offered to the other owners of the Notes, but no other owner was interested in selling their bonds at the negotiated price. Since J. P. Morgan's 2024 maturity bonds were the only bonds offered in the tendering the bond issue decreased from \$253 million to \$100 million.

Subsequent to the approval of the March resolution, the POB workgroup met to discuss structures for the new bond issue. It was agreed by the work group that it would use the opportunity provided by the transaction to accelerate the debt service cycle and thus have a final maturity in 2023 rather than 2024. The acceleration of principal payments would increase the net present value (NPV) savings that the County would realize on the transaction.

On June 20 2013, the County sold \$99,300,000 million of taxable general obligation pension refunding bonds, series 2013B, at an actual interest rate of 2.76%. Since the County accelerated the principal payments on the transaction, it was able to achieve higher NPV savings than it would have if the savings were evenly spread based on the original schedule. The County achieved NPV savings of approximately \$1,571,000 on the transactions. Without the accelerated principal schedule, the County is projected to still have achieved NPV savings of approximately \$560,000 on the transaction. Total interest savings on the tendering was approximately \$3.4 million.

Committee Action

This is an informational report only. This report should be referred to and reviewed by the Finance and Audit Committee.



Scott B. Manske
Comptroller

Attachments

pc: Chris Abele, County Executive
Supervisor Willie Johnson, Jr., Co-Chair, Committee on Finance, Audit and Personnel
Supervisor David Cullen, Co-Chair, Committee on Finance, Audit and Personnel
Don Tyler, Director, Department of Administrative Services
Josh Fudge, Interim Fiscal and Budget Director, DAS
Amber Moreen, Chief of Staff, County Executive's Office
Raisa Koltun, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board
Pamela Bryant, Capital Finance Manager
Stephen Cady, County Board Fiscal and Budget Analyst
Justin Rodriguez, Capital Finance Analyst
Mark Grady, Corporation Counsel