

**COUNTY OF MILWAUKEE  
INTER-OFFICE COMMUNICATION**

DATE: February 18, 2016

TO: Supervisor Theodore Lipscomb, Sr., Chairman, County Board of Supervisors

FROM: Scott B. Manske, Comptroller

**SUBJECT: Parameters Resolutions for the 2016 Corporate Purpose Bonds, Promissory Notes, and Qualified Energy Conservation Bonds**

**REQUEST**

The attached Parameters Resolutions give authority to the Comptroller to approve the sales of the Corporate Purpose Bonds, Promissory Notes and Qualified Energy Conservation Bonds within certain parameters. The resolutions also authorize an administrative transfer to pay costs associated with the debt issuances. Collectively the bonds and notes being sold are referred to as the "Obligations." The resolutions also delegate the bid opening and approval of the winning bidder for the sales of the Obligations to the Comptroller. The Comptroller's approval is limited to sale results that fall within the parameters outlined in the resolutions. An informational report will be submitted to the Finance, Personnel, and Audit Committee to communicate the final results of the sales of the Obligations.

The Office of the Comptroller is requesting approval of the attached parameters resolutions for the issuance of a not-to-exceed amount of \$46,865,000 of general obligation bonds (the "Corporate Purpose Bonds"), a not-to-exceed amount of \$12,690,000 of general obligation notes ("Promissory Notes"), and a not-to exceed amount of \$12,650,000 of taxable mass transit general obligation bonds ("Qualified Energy Conservation Bonds"/ "QECBs") to finance various capital improvement projects. The total not-to-exceed amount in the parameters resolutions is higher than the total in the initial authorizing resolutions that were adopted in February (File 16-65) in order to provide the Comptroller's Office the flexibility to try to seek the maximum amount of QECBs possible from the State of Wisconsin and other local governments and also to provide flexibility to move projects between the Corporate Purpose Bond issuance and the Promissory Note issuance.

**BACKGROUND**

February 2016 resolutions (File 16-65) were approved that authorized the issuance of a not-to-exceed amount of \$54,750,000 in General Obligation Corporate Purpose Bonds or General Obligation Promissory Notes and allowed for the reimbursement of project costs that occur prior to the actual closing of the Obligations. File 16-65 did not include a parameters resolution since the Comptroller's Office was still preparing debt service schedules.

## COMPTROLLER REVIEW

### Timeliness of Project Spending

The Office of the Comptroller will perform a review of the progress that is being made on all projects that are authorized to be part of the 2016 financings. If any projects are delayed then they will not be part of the 2016 financings and will be part of a future financing instead. To date, the Office of the Comptroller is only aware of two 2016 projects that may be delayed. However, since these projects may still have substantial work done in 2016 they are still included in the 2016 parameters resolutions. These two projects are the Electrical Systems Upgrades (WO51711) and Elevator Updates (WO51714) for the War Memorial Center.

### Private Activity Issues

The Office of the Comptroller will perform a review of any private activity issues that may jeopardize the tax exempt status of the Obligations. Private activity issues may result in the need to cash finance or issue taxable debt for a project in lieu of tax-exempt financing. To date the Comptroller's Office is only aware of one project (WV02201 Franklin Landfill Infrastructure) that may be impacted by private activity issues that were not addressed in connection with the February authorizing resolutions.

The 2016 Adopted Capital Improvements Budget included an appropriation of \$1,151,000 for repairs and upgrades to the Franklin Landfill gas system. The cost estimate indicated that the upgrades would consist of the installation and/or replacement of approximately 840 feet of vertical gas wells; 21 well heads and two condensate tanks; replacement of approximately 2800 feet of 8-inch headers with 12-inch headers; electrical work for a new blower; site restoration and other costs such as waste relocation, mobilization and clearing. Financing was anticipated to be provided from the Corporate Purpose Bonds.

At the January 2016 Committee of Parks, Energy and Environment meeting, a PowerPoint of the Draft Preliminary Development Concept of the Ballpark Commons was presented to the Committee. Based on the illustrations that were included in the presentation some of the locations of new private development may result in private activity concerns related to the 2016 Corporate Purpose Bonds. Additional analysis will need to be performed by the Office of the Comptroller to determine the County's options for financing (e.g. cash, tax-exempt debt, taxable debt) the scope of work adopted in the 2016 Capital Improvements Budget. A final determination will be made prior to the issuance of the 2016 Corporate Purpose Bonds.

### Marcus Center for the Performing Arts—Approximately \$2.7 million

The attached resolutions include the financing for the Marcus Center projects as part of both the Corporate Purpose Bond and Promissory Note parameter resolutions. The 2015 Budget included three capital projects for the Marcus Center. Financing of approximately \$2.7 million was to be provided by general obligation bonds or notes.

Prior to the 2015 corporate purpose financings, Wisconsin Act 60 ("Act 60") became law. Act 60 provides the terms for financing a sports arena in downtown Milwaukee. Section 115 of Act 60 also provides for the County to transfer ownership of the Marcus Center to the Wisconsin Center District (WCD). Due to the uncertainty surrounding the transfer of ownership to the WCD and the County's relationship with the Marcus Center, the financing for the 2015 Marcus Center Projects was delayed.

The Office of the Comptroller anticipates including the Marcus Center projects in the Promissory Note issuance so that the final maturity of the debt will be shorter than the last maturity for the current outstanding Marcus Center related debt, which is 2028. In addition, the attached parameters resolution for the Promissory Notes gives discretion to the Comptroller to issue the Marcus Center notes as a separate series and to issue these notes as taxable rather than tax-exempt. Issuing the notes as a separate series would make it easier to defease the debt if it becomes necessary.

#### Marcus Center Uihlein Hall Elevators - \$300,000

In 2015, \$625,108 was budgeted to complete phase five of the six phase Marcus Center Elevator Modernization project (capital Project WO88802), which consist of the replacement of the elevators in Uihlein Hall (Elevator #1). The project was bid in 2015 and was \$260,000 higher than the budgeted amount. The project will be rebid in 2016 due to the scheduling of performances at Uihlein Hall. It is anticipated that the shortfall will increase to \$300,000. An appropriation transfer will be submitted prior to the issuance of the bonds/notes to complete the project.

### **PARAMETERS RESOLUTIONS**

The three Parameters Resolutions delegate authority to the Milwaukee County Comptroller to approve the sale of a not to exceed amount of 1) \$46,865,000 Corporate Purpose Bonds 2) \$12,690,000 of Promissory Notes and 3) \$12,650,000 of Qualified Energy Conservation Bonds (QECCBs Direct Payment). The total not-to-exceed amount in the parameters resolutions is higher than the total in the initial authorizing resolutions in order to provide the Comptroller's Office the flexibility to try to seek the maximum amount of QECCBs possible from the State of Wisconsin and other local governments and also to provide flexibility to move projects between the Corporate Purpose Bonds and the Promissory Notes. Under any circumstance the total amount of Obligations to be issued in 2016 (not counting refundings) is limited to the \$54,750,000 that was approved in the Initial Authorizing Resolution.

The specific parameters for each of the Obligations are identified in the sections below.

#### Sale Parameters- Corporate Purpose Bonds

The Office of the Comptroller prepared estimated debt service schedules for the issuance of a not-to-exceed amount of \$46,865,000. The total estimated debt service costs would be \$61,546,567, including \$14,681,567 in interest.

The parameters for the financing would consist of the following:

- A not-to-exceed amount of \$46,865,000.
- Payment Schedule – For the years 2017 through 2023, the Comptroller of the County will determine the amount, if any, of principal that shall be due in any such year in an effort to make the annual debt service payments on all of the outstanding debt of the County, including the Bonds, to be as level as possible in such years. For the years after 2023, the principal payments shall be in such amounts as are determined by the Comptroller of the County so that the remaining outstanding amount of the Bonds will be paid in substantially equal principal payment amounts in each of such years.
- Maximum true interest cost (TIC) of 4.0 percent – The true interest cost is the actual interest rate paid on bonds, which is expressed as a percentage of the total debt in today's dollars and includes the costs of issuance and other fees.
- 10-year call provision – The 10-year call provision indicates that the County will be able to refund the new bonds prior to maturity. However, the parameters resolution provides that the call provision will be determined by the Comptroller at the time of sale.
- Minimum purchase price of 99 percent of the par amount of the bonds – The price of the bond reflects the maximum price an investor would want to pay for the bond based on the coupon rate and the market rate. This is known as the yield or rate of return on the bond. When the coupon rate on the bond is equal to the market rate the purchase price is equal to the principal amount of the bond (par). If the coupon rate is lower than the market rate, the bonds will be purchased at a discount. If the coupon is higher than the market rate, the bonds will be purchased at a premium. Whether or not the bond purchase price is a par, discount or premium is dependent upon market conditions on the day of the sale.

#### Sale Parameters- General Obligation Promissory Notes

The Office of the Comptroller prepared estimated debt service schedules for the issuance of a not-to-exceed amount of \$12,690,000. The estimated debt schedule consists of a level principal repayment of \$12,690,000 over a 4-year term, beginning in 2017. The total estimated debt service costs would be \$13,873,800, including \$1,183,800 in interest.

The parameters for the financing would consist of the following:

- A not-to-exceed amount of \$12,690,000.
- Principal Payment Schedule – The principal payments will be substantially equal for each year.
- Maximum true interest cost (TIC) of 4.0 percent – The true interest cost is the actual interest rate paid on the Promissory Notes, which is expressed as a percentage of the total debt in today's dollars and includes the costs of issuance and other fees.
- Term – The promissory notes are limited to a ten-year term. Although the term is limited to ten years, it is anticipated that the final structure of the notes will have a term no longer than four years.

- Minimum purchase price of 99 percent of the par amount of the Promissory Notes – The price of the Promissory Notes reflects the maximum price an investor would want to pay for the Promissory Notes based on the coupon rate and the market rate. This is known as the yield or rate of return on the Promissory Notes. When the coupon rate on the Promissory Note is equal to the market rate the purchase price is equal to the principal amount of the Promissory Notes (par). If the coupon rate is lower than the market rate, the Promissory Notes will be purchased at a discount. If the coupon is higher than the market rate, the Promissory Notes will be purchased at a premium. Whether or not the Promissory Notes purchase price is a par, discount or premium is dependent upon market conditions on the day of the sale.

### Sale Parameters- Taxable General Obligation Mass Transit Bonds (QECCBs- Direct Subsidy)

#### *Background*

The Office of the Comptroller prepared estimated debt service schedules for the issuance of a not-to-exceed amount of \$12,650,000 QECCBs. The \$12,650,000 bond amount is the amount being financed for the Bus Replacement project and also includes funding for cost of issuance expenses. Currently, the County has \$1.6 million of QECCB capacity remaining. The Office of the Comptroller will reach out to the Wisconsin Economic Development Corporation (WEDC) and local governments that have unused QECCB allocations to seek out additional QECCB capacity to finance as much of the local share of the bus replacement project (\$12,150,000) as possible. The amount of Corporate Purpose Bonds being issued will be reduced, should this additional QECCB capacity be available.

The QECCBs are qualified tax credit bonds under Section 54D (b) of the Internal Revenue Code and require that (a) 100 percent of the bond proceeds are used for one or more qualified energy conservation purposes; (b) the bonds are issued by a state or local government; and (c) the issuer designated the bonds as qualified energy conservation for purposes of Section 54D which provides a credit of 70 percent of the full allowable interest rate that is set by the US Treasury Department.

Each day the U.S Treasury publishes an interest rate for qualified energy conservation bonds at <http://www.treasurydirect.gov>. The Treasury will pay the county a direct subsidy payment on each interest payment date in an amount equal to the lesser of 70% of this rate or the actual interest rate on the bonds. The current rate (as of 2/16/16) is 4.59%.

The estimated debt structure for the bonds consists of a level principal repayment of \$12,650,000 over a 10-year term, beginning in 2017. The total estimated gross debt services costs would be \$15,375,372, including \$2,725,372 in interest.

The estimated debt structure includes credits from the IRS for the interest paid on the bonds. The estimate assumes that the current Federal reduction to the credits as a result of sequestration (7.3% decrease) will continue throughout the term of the bonds. The total estimated credits throughout the term of the bonds is \$2,526,420, which results in a net interest amount of \$198,952 and total debt service costs of \$12,848,952.

**Sale Parameters- Qualified Energy Conservation Bonds**

- Term – The term of the QECCBs will be ten years.
- Principal Payment Schedule – The principal payments will be substantially equal for each year.
- Maximum true interest cost (TIC) (computed taking the underwriter's compensation into account) will not be in excess of the applicable credit rate as of the date of the sale as determined by the Secretary of the Treasury and published by the Bureau of Public Debt, as required by the Resolution.
- Minimum purchase price of 99 percent and a maximum purchase price of 100 percent of the par amount of the bonds – The price of the bond reflects the maximum price an investor would want to pay for the bond based on the coupon rate and the market rate. This is known as the yield or rate of return on the bond. When the coupon rate on the bond is equal to the market rate the purchase price is equal to the principal amount of the bond (par). If the coupon rate is lower than the market rate, the bonds will be purchased at a discount.

**DEBT ISSUANCE CONDITIONS**


The parameters resolutions for the Corporate Purpose Bonds, Promissory Notes, and the QECCBs will require approval by a majority of a quorum of the County Board. File 16-65 was approved in February 2016 and authorized the issuance of a not-to-exceed amount of \$54,750,000 of Obligations and allowed for the reimbursement of project costs that occur prior to the actual closings of the Obligations.

**DEBT ISSUANCE EXPENSES**

The attached resolution authorizes and directs the Comptroller to request credit ratings and to pay all professional services and other issuance expenses related to the issuance of the bonds from debt proceeds. An administrative appropriation transfer will be processed to increase expenditure authority to pay for the cost of issuance. Anticipated expenses include bond counsel, disclosure counsel, financial auditor and financial advisory fees, official statement printing and mailing costs, credit rating fees and expenses and other issuance costs such as publication costs and express mail.

**RECOMMENDATION**

The Comptroller's Office requests that the Finance, Personnel and Audit Committee approve and recommend approval by the full County Board of the attached resolutions. The resolutions delegate, to the Comptroller, the authority to approve the final terms and conditions of the sales provided that those terms and conditions are within the parameters set forth in the attached resolutions and that the terms and conditions are within the authorizing resolution that was already passed in February 2016 as part of File 16-65. The resolutions also authorize an administrative transfer to provide budget authority to pay cost of issuance expenses. An informational report will be submitted to the Finance, Personnel and Audit Committee to communicate the final results of the sales.



Scott B. Manske  
Comptroller

## Attachment

pc: Chris Abele, County Executive  
Supervisor Willie Johnson, Jr., Co-Chairman, Finance, Personnel and Audit Committee  
Supervisor Jim "Luigi" Schmitt, Co-Chairman, Finance, Personnel and Audit Committee  
Teig Whaley-Smith, Director, Department of Administrative Services  
Raisa Koltun, Chief of Staff  
Kelly Bablitch, Chief of Staff, County Board  
Steven Kreklow, Budget Director  
Pamela Bryant, Capital Finance Manager  
Stephen Cady, Research Director  
Joseph Czarnecki, County Clerk  
David Cullen, County Treasurer  
Brian Lanser, Quarles and Brady  
Lafayette Crump, Crump Law Firm  
David Anderson, Public Financial Management  
Tionna Reed Pooler, Independent Public Advisors  
Justin Rodriguez, Budget and Management Coordinator

