COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : January 6, 2017

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

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

SUBJECT : Request to allocate 2016 surplus bond/note proceeds to the Debt Service Reserve and a Report on the Results of the 2016 Bond Sales

BACKGROUND

In 2016, the Office of the Comptroller received approval from the County Board and County Executive to:

- Issue a not-to-exceed amount of $54.8 million in bonds or notes[1] for various capital improvement projects included in the 2016 Capital Improvement Budget and previously approved projects appropriations.
- Issue a not to exceed amount of $17.2 million in bonds to refund the outstanding debt for the General Obligation Corporate Purpose Bonds, Series 2007A.

The resolutions also delegated the approval of the sale of the bonds or notes to the Comptroller's Office subject to certain parameters.

GENERAL OBLIGATION CORPORTATE PURPOSE BONDS, SERIES 2016A SALE PARAMETERS

The parameters for the financing consisted of the following:

- A not-to-exceed amount of $46,865,000. ***The actual par amount of the bonds was $25,505,000***

[1] Financing for the Corporate Purpose Issuances was separated into four issuances 1) General Obligation Corporate Purpose Bonds, Series 2016A 2) Taxable General Obligation Mass Transit Bonds (QECBs – Direct Payment), Series 2016B 3) General Obligation Promissory Notes, Series 2016C (Marcus Center) and 4) General Obligation Promissory Notes, Series 2016D (Short-Term Equipment)

- 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. ***This criteria was met.***

- 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. ***The actual TIC is 2.27%.***

- 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 the sale. ***A 10-year call provision is included.***

- 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. ***The actual purchase price is 101.93 percent of the par amount of the bonds. The County received a premium on the sale.***

Results of the Sale

On November 10, 2016, the County closed on the sale of $25,505,000 in General Obligation Corporate Purpose Bonds, Series 2016A (2016A Bonds). All parameters set by the Board and County Executive were met for the sale of the 2016A Bonds. The County received nine bids. The winning bidder was Fifth Third Securities, Inc., who won with the lowest interest rate of 2.27%. The total interest costs were $5,401,389.17.

The County received total estimated excess proceeds (including net bid premium) on the sale of $758,534. Of the $758,534, $492,734 relates to the net bid premium, which in accordance with Wisconsin State Statutes must be used to pay interest expenses associated with the 2016A Bonds. The remaining $265,800 of estimated surplus proceeds may be used to either pay interest expenses associated with the 2016A

Bonds or finance eligible capital project expenditures. Since there were no debt service payments due in 2016 for the 2016A Bonds, the balance of the surplus bond proceeds will be deposited to the debt service reserve.

The attached resolution seeks approval of a 2016 appropriation transfer that will deposit surplus bond proceeds to the debt service reserve. A future appropriation transfer will be submitted in 2017 to allocate the funds from the debt service reserve to finance interest expenses associated with the 2016A Bonds and/or eligible project costs.

TAXABLE GENERAL OBLIGATION MASS TRANSIT BONDS (QECBs – DIRECT PAYMENT), SERIES 2016B SALE PARAMETERS

The parameters for the financing consisted of the following:

- A not-to-exceed amount of $12,650,000. ***The actual par amount of the bonds was $7,120,000***
- Term – The term of the QECBs will be ten years. ***The actual term is ten years.***
- 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 (the credit rate on the date of the parameter resolution was 4.59%), as required by the Resolution.) 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. ***The actual TIC (before the estimated IRS rebate) was 2.12% which is less than 4.16% (the credit rate determined by the Secretary of the Treasury on October 12, 2016). The IRS will reimburse the County 93.1% of its interest costs, which includes the 6.9% reduction due to the Federal Sequestration. Therefore, the total $760,918 interest costs will be reduced to $52,503 after the reimbursement.***

- Minimum purchase price of 99 percent and 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. 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. ***The bonds sold at par.***

Results of the Sale

On November 10, 2016, the County closed on the sale of $7,120,000 in Taxable General Obligation Mass Transit Bonds (QECBs – Direct Payment), Series 2016B (2016B Bonds). All parameters set by the Board and County Executive were met in the sale of the 2016B Bonds. The County received six bids. The winning bidder was Raymond James & Associates, Inc., who won with the lowest interest rate of 2.12% and total interest costs are $760,918. Including the estimated IRS rebate, the total net interest costs are estimated to be $52,503.

There are $53,677 of surplus bond proceeds available from the sale of the 2016B Bonds. The attached resolution seeks approval of a 2016 appropriation transfer that will deposit surplus bond proceeds to the debt service reserve. In accordance with Federal Treasury rules these proceeds must be used for eligible projects. In this case, the only eligible project is the bus replacement program.

The attached resolution also seeks approval of a 2016 appropriation transfer that will modify the budgeted revenues in Project WT026 Bus Replacements to reflect the actual breakout of 2016B Bonds and 2016A Bonds.

GENERAL OBLIGATION PROMISSORY NOTES, SERIES 2016C and GENERAL OBLIGATION PROMISSORY NOTES, SERIES 2016D SALE PARAMETERS

The General Obligation Promissory Note sale was split into two different series. The 2016C Promissory Notes relate to improvements at the Marcus Center for the Performing Arts. The 2016D Promissory Notes relate to equipment purchases and technology projects.

The parameters for the financing consisted of the following:

- A not-to-exceed amount of $12,690,000. ***The combined actual amount is $10,520,000.***

- Principal Payment Schedule – The principal payments will be substantially equal for each year. ***This criteria was met for each of the series.***

- 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. ***The actual TIC for the 2016C Promissory Notes and the 2016D Promissory Notes were 1.28% and 1.18% respectively.***

- Term – The promissory notes are limited to a ten-year term. ***The term of the 2016C Promissory Notes is five years and the term of the 2016D Promissory Notes is four years.***
- Minimum purchase price of 99 percent of the par amount of the notes – The price of the note reflects the maximum price an investor would want to pay for the note based on the coupon rate and the market rate. This is known as the yield or rate of return on the note. When the coupon rate on the note 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 notes will be purchased at a discount. If the coupon is higher than the market rate, the notes will be purchased at a premium. Whether or not the note purchase price is a par, discount or premium is dependent upon market conditions on the day of the sale. ***The actual purchase price for the 2016C Promissory Notes and the 2016D Promissory Notes were 101.98 percent and 101.86 percent of the par amounts of the notes respectively.***

Results of the Sales

General Obligation Promissory Notes, Series 2016C

On November 10, 2016, the County closed on the sale of $3,055,000 in General Obligation Promissory Notes, Series 2016C (2016C Promissory Notes). All parameters set by the Board and County Executive were met in the sale of the 2016C Promissory Notes. The County received four bids. The winning bidder was Morgan Stanley & Co, LLC, who won with the lowest interest rate of 1.28%. The total interest costs are $171,389.

The County received total estimated excess proceeds (including net bid premium) on the sale of $104,117. Of the $104,117, $60,418 relates to the net bid premium, which in accordance with Wisconsin State Statutes must be used to pay interest expenses associated with the 2016C Promissory Notes. The remaining surplus proceeds of $43,699 may be used to either pay interest expenses associated with the 2016C Promissory Notes or finance eligible capital project expenditures. The final amount of surplus notes will be determined once all cost of issuance expenses are finalized. Since there are no debt service payments due in 2016 for the 2016C Promissory Notes, the surplus note proceeds will be deposited to the debt service reserve.

The attached resolution seeks approval of a 2016 appropriation transfer that will deposit the 2016C surplus note proceeds to the debt service reserve. A future appropriation transfer will be submitted in 2017 to allocate the funds from the debt service reserve to finance interest expenses associated with the 2016C Promissory Notes and/or eligible project costs.

General Obligation Promissory Notes, Series 2016D

On November 10, 2016, the County closed on the sale of $7,465,000 in General Obligation Promissory Notes, Series 2016D (2016D Promissory Notes). All parameters set by the Board and County Executive were met in the sale of the 2016D Promissory Notes. The County received five bids. The winning bidder was Citigroup Global Markets Inc., who won with the lowest interest rate of 1.18%. The total interest costs are $344,484.

The County received total estimated excess proceeds (including net bid premium) on the sale of $261,639. Of the $261,639, $138,594 relates to the net bid premium, which in accordance with Wisconsin State Statutes must be used to pay interest expenses associated with the 2016D Promissory Notes. The remaining surplus proceeds may be used to either pay interest expenses associated with the 2016D Promissory Notes or finance eligible capital project expenditures. The final amount of surplus note proceeds will be determined once all cost of issuance expenses are finalized. Since there are no debt service payments due in 2016 for the 2016D Promissory Notes, the balance of the 2016 Promissory Note proceeds will be deposited to the debt service reserve.

The attached resolution seeks approval of a 2016 appropriation transfer that will allocate the surplus notes to the debt service reserve. A future appropriation transfer will be submitted in 2017 to allocate the funds from the debt service reserve to finance interest expenses associated with the 2016D Promissory Notes and/or eligible project costs.

GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016E SALE PARAMETERS

The parameters for the financing consisted of the following:

- A not-to-exceed amount of $17,245,000. ***The combined actual amount is $16,330,000.***

- Net present value savings of 3 percent – Net present value is a financing principle that allows for the analysis of costs that are incurred today and savings that occur in the future to be evaluated in today's dollars (time value of money). Positive net present values reflect positive savings. The County has established a standard of at least 3 percent of refunded principal for advanced refundings; however, the County typically uses this rule as a criterion for refundings in general. At the time the refunded bonds were authorized, the estimated net present value savings is $857,869 or 5.04% of the refunded bonds. ***The actual net present value savings is $1,483.570 or 8.72%; including excess proceeds of $3,461.***

- 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. ***The actual purchase price is 104.93 percent of the par amount of the bonds. The County received a premium on the sale, which was used to reduce the size of the issuance.***

Results of the Sale

On November 10, 2016, the County closed on the sale of $16,330,000 in General Obligation Refunding Bonds, Series 2016E (2016E Refunding Bonds). All parameters set by the Board and County Executive were met in the sale of the 2016E Refunding Bonds. The County received five bids. The winning bidder was Citigroup Global Markets Inc., who won with the lowest interest rate of 1.32%. The total interest costs are $1,591,113.

The County received a premium on the sale of the issuance that was used to reduce the size of the issuance. The remaining estimated excess proceeds of $3,461 must be used to pay interest associated with the 2016E Refunding Bonds. The final amount of surplus bonds will be determined once all cost of issuance expenses are finalized. Since there were no debt service payments due in 2016 for the 2016E Refunding Bonds, the balance of $3,461 will be deposited to the debt service reserve so that it can be used to pay interest on the 2016E Refunding Bonds in 2017.

The attached resolution seeks approval of a 2016 appropriation transfer that will allocate the surplus refunding bond proceeds to the debt service reserve. A future appropriation transfer will be submitted in 2017 to allocate the funds from the debt service reserve to finance interest expenses associated with the 2016E Refunding Bonds.

Committee Action

The Office of the Comptroller recommends approval of the attached resolution that would reallocate surplus proceeds from the 2016 corporate purpose bonds/notes sales to the debt service reserve and realign bond proceeds between issuances in Project WT026 Bus Replacements.

Scott B. Manske
Comptroller

Attachments

pc: Chris Abele, County Executive
Supervisor Peggy West, Chair, Committee on Finance and Audit
Steven Kreklow, Director, DAS-PSB
Raisa Koltun, Chief of Staff, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board
Pamela Bryant, Capital Finance Manager
Stephen Cady, Research Director
Justin Rodriguez, Budget and Management Coordinator