

**COUNTY OF MILWAUKEE
INTER-OFFICE COMMUNICATION**

DATE: February 17, 2017

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

FROM: Scott B. Manske, Comptroller

SUBJECT: Parameters Resolutions for the 2017 Corporate Purpose Bonds and Promissory Notes

REQUEST

The attached Parameters Resolutions give authority to the Comptroller to approve the sales of the Corporate Purpose Bonds and Promissory Notes 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 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 \$40,220,000 of general obligation bonds (the "Corporate Purpose Bonds") and a not-to-exceed amount of \$12,280,000 of general obligation notes ("Promissory Notes") 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 move projects between the Corporate Purpose Bond issuance and the Promissory Note issuance.

BACKGROUND

January 2017 resolutions (File 17-112) were approved that authorized the issuance of a not-to-exceed amount of \$51,555,000 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 17-112 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 2017 financings. If any projects are delayed then they will not be part of the 2017 financings and will be part of a future financing instead.

Capitalization/Bond Eligibility

The Office of the Comptroller will perform another review of projects that were budgeted with bond revenues, but may require additional cash financing. If the review results in any determinations that additional cash financing is required, the Office of the Comptroller will submit an appropriation transfer for consideration by the County Board and County Executive.

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 January 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 2,800 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.

The Franklin Landfill Infrastructure Project was delayed in 2016 and was not included in the 2016 financings due to the uncertainty surrounding the Ballpark Commons Development (Development) and how the Development would potentially impact the County's gas system infrastructure.

At this time it is still unknown what the potential impact of the Development may have upon the project timeline and the 2017 financing. The authorizing resolution includes the Franklin Landfill Infrastructure project in the not-to-exceed amount for the 2017 financings. The ultimate outcome of the Development may result in private activity concerns related to the 2017 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 may also be impacted by the Development. A final determination will be made prior to the issuance of the 2017 Corporate Purpose Bonds.

Marcus Center for the Performing Arts—Approximately \$4.1 million

The attached resolutions include the financing for the final phase of construction for the Marcus Center HVAC Upgrade project. An appropriation of \$4,094,000 for the HVAC Upgrade Project was included in the 2017 Capital Improvements Budget. The HVAC Upgrade project was also included in the Contribution Agreement (File 16-214) that was agreed to by the County and the Marcus Center for the Performing Arts.

2015 Wisconsin Act 60 (“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 of the Marcus Center HVAC project will likely be done for a term of three years or less. The last principal payment related to existing debt issued for improvements at the Marcus Center is due in 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.

PARAMETERS RESOLUTIONS

The two Parameters Resolutions delegate authority to the Milwaukee County Comptroller to approve the sale of a not to exceed amount of \$40,220,000 Corporate Purpose Bonds and a not to exceed amount of \$12,280,000 of Promissory Notes. 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 move projects between the Corporate Purpose Bonds and the Promissory Notes. Under any circumstance the total amount of Obligations to be issued in 2017 (not counting refundings) is limited to the \$51,555,000 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 parameters for the financing would consist of the following:

- A not-to-exceed amount of \$40,220,000.
- Payment Schedule – For the years 2018 through 2022, 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 Corporate Purpose Bonds and projected future debt based on the County’s annual bond limit, but excluding the 2016 Taxable General Obligation Promissory Notes, 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. The final maturity of the Bonds will not occur later than 2032.

- Maximum true interest cost (TIC) of 5.0 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.
- Call provision – The parameters resolution provides that the call provision will be determined by the Comptroller at the time of sale. However, it is anticipated that the bonds will have a 10-year call provision so that the County will be able to refund them prior to maturity.
- 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 parameters for the financing would consist of the following:

- A not-to-exceed amount of \$12,280,000
- Principal Payment Schedule –The Comptroller of the County will determine the amount, if any, of principal that shall be due in each year in an effort to make the annual debt service payments on all of the outstanding debt of the County, including the Corporate Purpose Bonds and projected future debt based on the County's annual bond limit, but excluding the 2016 Taxable General Obligation Promissory Notes, to be as level as possible in such years.
- 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.

DEBT ISSUANCE CONDITIONS

The parameters resolutions for the Corporate Purpose Bonds and Promissory Notes will require approval by a majority of a quorum of the County Board. File 17-112 was approved in January 2017 and authorized the issuance of a not-to-exceed amount of \$51,555,000 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 resolutions authorize and direct 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 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 January 2017 as part of File 17-112. The resolutions also authorize an administrative transfer to provide budget authority to pay cost of issuance expenses and allocate the net bid premium and surplus proceeds to the Debt Service Reserve. An informational report will be submitted to the Finance and Audit Committee to communicate the final results of the sales.

A handwritten signature in black ink, appearing to read "Scott B. Manske", is written over a horizontal line.

Scott B. Manske
Comptroller

Attachment

pc: Chris Abele, County Executive
Supervisor Peggy West, Chair, Finance 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, Director, DAS-PSB
Pamela Bryant, Capital Finance Manager
Stephen Cady, Research Director
George Christenson, County Clerk
David Cullen, County Treasurer
Brian Lanser, Quarles and Brady
Lafayette Crump, Crump Law Firm
David Anderson, PFM Financial Advisors LLC
Tionna Reed Pooler, Independent Public Advisors
Justin Rodriguez, Budget and Management Coordinator