

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: March 21, 2017

TO: Supervisor Michael Mayo, Sr., Chair, Transportation and Mass Transit Committee

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

SUBJECT: Review and Fiscal Analysis of Informational Report - Wisconsin Volkswagen Settlement Mitigation Trust Fund Program

REQUEST

The Chairman of the County Board of Supervisors requested that staff from the Office of the Comptroller verbally share the findings related to the memo "Wisconsin Volkswagen Settlement Mitigation Trust Fund" (File 17-190) at the Transportation, Public Works and Mass Transit ("TPW") Committee meeting on Wednesday, March 8, 2017. After the presentation, the Chairman of the TPW Committee requested that the Office of the Comptroller provide the review and fiscal analysis in writing for the County Board of Supervisors. The following is a written presentation of the information that was shared with the Committee.

Please see the report Wisconsin Volkswagen Settlement Mitigation Trust Fund Program ("Informational Report") (File 17-190) for details.

Review and Fiscal Analysis

The review performed by the Office of the Comptroller is limited to the Informational Report from the Director of the Department of Administrative Services (DAS). As stated in the TPW Committee, the Office of the Comptroller made a few clarifying points and factual adjustment to the report, so it is important that readers review the Informational Report.

The factual adjustment is related to the number of vehicles that are eligible to be replaced with the settlement funds. The Informational Report indicates that the County will use the Settlement Funds in compliance with the Partial Consent Decree to purchase transit buses. The 96 eligible buses had to have engine models that were purchased in year 2006 or earlier. The Informational Report indicated at one point that there were 96 eligible buses and then 114 eligible buses and the engine model year was 2009 and earlier. The correct statement is 96 buses with engine models purchased in the year 2006 and earlier.

NPV Calculation

The Informational Report provides a net present value ("NPV") calculation associated with the County receiving settlement funds of \$21,000,000 in 2018 and \$5,000,000 in 2019, which the County would use to replace its borrowing associated with bus purchases. The NPV calculation also includes a \$1,950,000 annual reduction of Milwaukee County State Shared Revenue that would begin in 2018 and end in 2027. The estimated NPV included in the Informational Report is \$8,900,000. Based on the assumptions that were included in the informational report the Office of the Comptroller believes that the NPV savings are \$9,130,000.

The Office of the Comptroller believes that the use of a NPV calculation for evaluating the proposal included in the Informational Report is appropriate. However, the Office of the Comptroller would use current market rates rather than the consumer price index ("CPI") in calculating the NPV. The discount rate of 4.10 percent based on market rates from the week of March 6, 2017, including a 1 percent increase per maturity to reflect the Federal Reserve decision to increase rates. This yielded a net present value amount of \$9,129,341. This is a restated amount from the Comptroller. The NPV savings amount that the Office of the Comptroller reported in Committee was \$10.3 million. A lower discount rate without the additional 1 percent adjustment for the Federal Reserve projected increase was used initially. Upon further review, the Office of the Comptroller decided that the 1 percent increase was a more accurate representation.

2018 Budgetary Impact

Although the overall impact of the proposal from an NPV perspective is positive, there is a negative budgetary impact in the first year (2018). Policymakers will have to decide how the County will offset the estimated State Shared Revenue reduction of \$1,950,000 during the County's budget development and deliberation process.

Settlement Fund Spend Down

The Informational Report indicates that \$21,000,000 of the settlement funds will be used for 2018 bus purchases and \$5,000,000 would be used for 2019 bus purchases. Policymakers may want to determine if other spend down options are available. For example, using settlement funds to offset the 2017 bus purchases or using the settlement fund that reflects the current estimated County commitment in 2018 and 2019 as indicated in the 2017 Capital Improvements Budget.

Development of an Eligible Mitigation Action and the Governor's 2017-2019 Budget

The Informational Report stated that "Discussions between DAS and MCDOT along with the State Department of Administration have led to the development of a compliant EMA that the State can submit to the Mitigation Trust to be funded. The EMA includes the State providing \$26 million to the County for replacement of eligible transit buses", the EMA document has not been developed at this time. The amounts indicated in the Informational Report are in the Governor's Budget (Assembly Bill 64) that are currently be considered by the State Legislature.


Impact of EMA Funds on Bonding Caps

Acceptance of the EMA funds does not impact the County's Bonding Cap. Policymakers may decide to reduce the bonding cap, increase the amount of the available funding for capital projects or some other combination. Policymakers will have to decide which options to pursue during the County's budget development and deliberation process. In order to achieve the entire NPV savings identified in the Informational Report, the County would need to reduce its bonding cap for 2018 and 2019 for a total of \$26 million.

The Informational Report states that "the EMA funds will impact County finances by reducing the amount of interest-accruing bond debt issued in 2018 and 2019 through the capital financing process. The savings to the county will only be realized if the amount of bonds issued in those years do not exceed the typical 3% increase from year to year. The modeling for this report was done using the projected 2018 capital budget bonding cap, all other levels of revenue and expenditure were kept constant."

RECOMMENDATION

This report is for informational purposes only.



Scott B. Manske
Comptroller

cc: Chris Abele, County Executive
Sup. Theodore Lipscomb, County Board Chair
Milwaukee County Board of Supervisors
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