

**COUNTY OF MILWAUKEE
INTER-OFFICE COMMUNICATION**

DATE : February 8, 2019

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

FROM : Scott B. Manske, Comptroller

SUBJECT : **Authorizing/Parameters Resolution for the 2019 General Obligation Refunding Bonds or Notes**

Request

The Office of the Comptroller is requesting the approval of the attached resolution for the issuance of a not-to-exceed (“NTE”) amount of \$29,500,000 of General Obligation Refunding Bonds or Notes (“Obligations”) to refund the balance of the outstanding Taxable General Obligation Corporate Purpose Bonds, Series 2010C (Build America Bonds – Direct Payment).

The attached resolution authorizes the issuance of the Obligations, provides parameters for the issuance and delegates approval of the sale of the Obligations to the Comptroller. The Comptroller’s approval is limited to results of the sale that fall within the parameters outlined in the resolution.

Background

Build America Bond Program and Subsidies

The American Recovery and Reinvestment Act of 2009 created the Build America Bond program, which authorized state and local governments to issue Build America Bonds as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt governmental bonds. Local governments receive a direct federal subsidy payment for a portion of their borrowing costs on Build America Bonds equal to 35 percent of the total coupon interest paid to investors. The direct federal subsidy payment for the borrowing costs of Economic Development Zone Bonds is equal to 45 percent.

Since 2012, the Build America Bond subsidy amounts have been subject to Federal sequestration. Sequestration are automatic spending cuts that were triggered by the failure of Congress to meet deficit reduction targets mandated by the Budget Control Act of 2011. The sequestration percentages have ranged from 8.7% to 6.6%.

The future of the Build America Bond subsidy remains uncertain. For example during the passage of the Tax Cuts and Jobs Act of 2017, the additional growth the federal deficit would have triggered the Statutory Pay-As-You-Go Act and resulted in the elimination of the Build America Bond subsidies. However, Congress in 2017 passed a waiver to the Pay-As-You-Go Act, which allowed the Build America Bond subsidies to continue.

Based on concerns related to the uncertainty of the Build America Bond subsidies, the County's financial advisor has recommended that the County refund its outstanding Build America Bond debt.

In November 2018, the County refunded the outstanding series 2009C Build America Bonds, series 2009E Build America Bonds, and series 2010A Build America Bonds. The County issued \$46,890,000 in Series 2018A Tax-Exempt General Obligation Refunding Bonds¹, \$4,325,000 in Series 2018B Taxable General Obligation Refunding Bonds, and used 1,306,798 of cash on hand² to refund the outstanding 2009C, 2009E and 2010A Build America Bonds.

Milwaukee County Series 2010C Build America Bond Refunding

In 2010, the County issued \$38,165,000 in Series 2010C Build America Bonds ("2010C BABs" or "Refunded Obligations"). The \$27,385,000 in outstanding Series 2010C BABs is callable. The Office of the Comptroller has prepared estimated debt service schedules for the issuance of a not-to-exceed amount of \$29,500,000 in refunding bonds or notes³. The Office of the Comptroller anticipates issuing tax-exempt and taxable Obligations. The total estimated debt service costs are \$29,775,382, including \$5,655,382 interest costs. The estimated net present value savings from refunding the 2010C BABs is \$251,062 when factoring in the loss of the Build America Bond Subsidy. If the BAB subsidies were discontinued, the estimated net present value savings would be \$2,075,636.

Private Activity Issues

The resolution indicates that if any of the Obligations are issued on a tax-exempt basis, the County will comply with Federal Tax Law. The resolution represents and covenants that the projects financed by tax-exempt Obligations and the ownership, management and use of the projects will not cause tax-exempt Obligations (other than the Qualified 501 (c) (3) Bonds) to be private activity bonds within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended (the "Code") and applicable Treasury Regulations (the "Regulations").

The Office of the Comptroller, with assistance of the County's Bond Counsel, will perform a review of projects that will be financed to identify any private activity issues that may prohibit their financing with tax-exempt 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.

1 The 2018A Tax Exempt General Obligation Refunding Bonds included a net bid premium of \$4,610,815.

2 County Board Resolution File 18-398 provided \$773,331 of expenditure authority and a July 2018 appropriation transfer provided \$533,467 of expenditure authority to provide cash on hand in order to reduce the 2018 Refundings

3 The estimated par amount is \$24,120,000 and also includes an estimated premium of \$2,424,291 and use of \$2,010,411 that was budgeted to pay debt service related to the 2010C BABs.

BOND SALE PARAMETERS

The parameters for the financing would consist of the following:

- Final Maturity no later than 2026.
- Tax-exempt or taxable basis – The Comptroller of the County, in consultation with the County’s bond counsel, will determine whether the Obligations will be issued on a taxable basis or tax-exempt basis and whether a portion of any tax-exempt Obligations should be designated as Qualified 501 (c) (3) Bonds.
- Principal Payments –
 - Obligations issued on a tax-exempt basis shall have principal payments due in the years and in the amounts as the Comptroller of the County shall determine so that in each year the annual debt service on the Obligations shall not be greater than the combined annual debt service on the Refunded Obligations (without regard to any subsidy from the Treasury) in that year.
 - Obligations issued on a taxable basis for the purpose of complying with certain provisions of the Internal Revenue Code of 1986, as amended and any applicable Treasury Regulations shall have principal payments due in the years and in the amounts as the Comptroller of the County shall determine without regard to whether there is annual debt service savings.
- Minimum purchase price of 99 percent of the par amount of the Obligations – The price of the Obligation reflects the maximum price an investor would want to pay for the Obligation based on the coupon rate and the market rate. This is known as the yield or rate of return on the Obligation. When the coupon rate on the Obligation is equal to the market rate the purchase price is equal to the principal amount of the Obligation (par). If the coupon rate is lower than the market rate, the Obligations will be purchased at a discount. If the coupon is higher than the market rate, the Obligations will be purchased at a premium. If there is a premium paid, the amount of the premium would be used to reduce the amount of the refunding Obligation issue(s). Whether or not the Obligation purchase price is a par, discount or premium is dependent upon market conditions on the day of the sale.

DEBT ISSUANCE CONDITIONS

The Parameters Resolution for the Obligations will require approval by a majority of a quorum of the County Board.

PUBLIC HEARING REQUIREMENTS FOR PRIVATE ACTIVITY BONDS

Some projects included in the 2019 Obligations are considered private activities within the meaning of the Federal Tax Code. The issuance of tax-exempt Obligations for these purposes requires that a public hearing be scheduled to allow citizens to comment on the issuance of the Obligations. A public hearing will need to be scheduled to allow for public comment on the projects authorized for the Milwaukee Public Museum and the Washington Park Boathouse.

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, 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 Office of the Comptroller requests that the Finance and Audit Committee approve and recommend approval by the full County Board of the attached resolution. The resolution authorizes the issuance of the Obligations, allows for the processing of administrative fund transfers to facilitate the transaction, allows for the processing of administrative fund transfers to deposit net bid premiums and surplus bonds to the Debt Service Reserve and delegates, to the Comptroller, the authority to approve the final terms and conditions of the bond sale provided that those terms and conditions are within the parameters set forth in the attached resolution. The sale will consist of the issuance of a not-to-exceed amount of \$29,500,000 in Obligations to refund the balance of the outstanding Series 2010C Taxable General Obligation Corporate Purpose Bonds.

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 Luigi Schmitt, Chairman, Finance and Audit Committee
Raisa Koltun, Chief of Staff, County Executive
Kelly Bablitch, Chief of Staff, County Board
Joe Lamers, Director, DAS-PSB
Pamela Bryant, Capital Finance Manager, Office of the Comptroller
Stephen Cady, Research Director, Office of the Comptroller
George Christenson, County Clerk
David Cullen, Treasurer
Brian Lanser, Quarles & Brady LLP
Lafayette Crump, Crump Law Firm
David Anderson, PFM Financial Advisors LLC
Tionna Pooler, Independent Public Advisors, LLC
Justin Rodriguez, Budget and Management Coordinator, Office of the Comptroller

