

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : May 20, 2021

TO : Supervisor Marcelia Nicholson, Chairwoman, County Board of Supervisors

FROM : Scott B. Manske, Comptroller
Joe Lamers, Director, Office of Performance, Strategy, and Budget

SUBJECT : Reallocation of Unspent Bond Proceeds from the Debt Service Reserve

REQUEST

To comply with the Internal Revenue Service (“IRS”) expenditure rules for bonds, the Office of the Comptroller and the Department of Administrative Services - Office of Performance Strategy and Budget (“DAS-PSB”) are seeking approval to reallocate approximately \$1.8 million of 2015-2020 unspent bonds from the Debt Service Reserve (“DSR”) to finance debt service expenses and to reduce the size of the 2021 bond issuances. Tax-exempt bonds issued in 2015-2017 are not compliant with IRS expenditure rules because the County has not been able to demonstrate a consistent pattern of spending that reflects a commitment to implementation. For tax-exempt bonds/notes issued prior to 2019, it is recommended that the bonds are used to pay interest expenses to the extent possible. It is also recommended to use surplus taxable bond proceeds to pay debt service expenses.

Most of the proceeds are requested to be used to pay debt service expenses. The resolution also authorizes the transfer of \$1,659,395 from Org. Unit 9960 Debt Service to Org Unit 1945 Appropriation for Contingencies and various capital projects.

The expenditure deadlines for the tax exempt bonds/notes issued in 2015-2020 are listed below. Except for the Series 2018C, 2018F, Series 2019E, and Series 2020C all of the bonds and notes were issued on a tax-exempt basis. The County has not yet issued the 2021 corporate purpose bonds.

Table 1: Unspent Bonds by Bond Issue Year/Series

Bond Issue	Amount Unspent	Closing Date	Expenditure Deadline
2015A	\$249,363	11/12/2015	11/12/2018
2016A	\$192,901	11/10/2016	11/10/2019
2017A	\$544,633	11/8/2017	11/8/2020
2018C	\$441,489	11/15/2018	N/A
2018F	\$230,738	11/15/2018	N/A
2019C	\$112,639	10/2/2019	10/2/2022
2019D	\$284	11/7/2019	11/7/2022
2019E	\$5	11/7/2019	N/A
2020A	\$246	10/28/2020	10/28/2023
2020B	\$10,259	10/28/2020	10/28/2023
2020C	\$266	10/28/2020	N/A
2020D	\$16,787	10/28/2020	10/28/2023
Total	\$1,799,610		

BACKGROUND

In April 2021, the Office of the Comptroller and the DAS-PSB submitted a report to the County Board and County Executive (File 21-402) for the May Committee cycle that requested authorization to lapse certain capital expenditures and revenues from 2020 to 2021.

The resolution approved lapsing approximately \$1.8 million of unspent bond proceeds to the DSR. The report also indicated that a future reallocation of bond proceeds would be submitted to the County Executive and County Board for approval.

The reallocation of bonds would be done to pay eligible debt service expenses or to finance projects that would be able to spend the proceeds in a timely fashion. In most cases, this would mean that only ongoing projects with shortfalls would be considered. Other factors such as capitalization and private activity also limit which projects are considered.

The report also indicated that the Office of the Comptroller would work with the Department of Administrative Services and other departments to identify projects that would meet the criteria above.

IRS Expenditure Rules for Tax Exempt Bonds

In order to comply with IRS regulations, at the time the County issues tax-exempt bonds the County states it expects to spend all of the bond proceeds within three years and proceed with due diligence to complete the projects being financed and spend all of the bond proceeds. If the bond proceeds have not been spent within three years, the County must restrict the investment yield that can be earned on the unspent proceeds to a yield not greater than the yield on the bonds and must take action to demonstrate a consistent pattern of spending to reflect a commitment to completing and implementing the projects.

The County is complying with the requirement regarding investment yield since the investment yield is currently lower than the yield on the bonds. If investment rates increase, the County could have a problem identifying investments with yields lower than the yield on the bonds. The penalty for not complying with the investment rate restriction could be monetary or could be a loss of the subsidy payments on the Qualified Energy Conservation Bonds.

ANALYSIS

Allocation of Unspent Bond Proceeds

Since the IRS expectation is that the County will proceed or demonstrate a consistent pattern of spending to demonstrate a commitment to implementation, approximately \$1.8 million is recommended to be reallocated from the Debt Service Reserve.

Table 2: Proposed Reallocation of Unspent Bonds

<u>Project Description</u>	<u>Unspent Bond Amount</u>
<i>Use Unspent Bonds to Pay Eligible Debt Service Expenses</i>	
Org. Unit 9960 Debt Service (2021 Debt Service Expenses)	\$1,659,395
Subtotal	\$1,659,395
<i>Replace new 2021 Bonds in Previously Approved Projects</i>	
WC06201 CJF Building Roof Replacement	\$140,215
Subtotal	\$140,215
Total	\$1,799,610

Allocation of Unspent Bond Proceeds to Pay Eligible Debt Service Expenses**2021 Debt Service Expenses (\$1,659,395)**

Tax exempt bonds and notes that were issued prior to 2018 and have not been spent are currently out of compliance with IRS expenditure rules. The approximately \$1.8 million in unspent bonds includes \$986,897 of unspent proceeds that were issued prior to 2018. There are also unspent taxable bond proceeds of \$672,498 that are also able to be applied towards 2021 principal and interest payments. It is recommended that these proceeds that total \$1,659,395 be used to pay 2021 debt service expenses.

It is also recommended that the expenditure authority (levy financed) that previously financed these debt service expenses is transferred to Org. Unit 1945 Appropriation for Contingency to increase the unallocated contingency account and to the projects listed in Table 3.

Allocation of Unspent Bond Proceeds to Reduce the Size of the 2021 Bond Issuances

The Office of the Comptroller has reviewed existing projects that are anticipated to be part of the 2021 bond issuances. Based on this analysis, it is recommended that \$140,215 of unspent bond proceeds are used to reduce the amount of new bonds/notes that are needed to be issued in 2021 for Project WC062 CJF Building Roof Replacement. Reducing the size of the 2021 bond/note issuances will reduce future principal and interest expenses.

Project WC06201 was approved by the County Board and County Executive. Construction is anticipated to begin before August 2021 and substantial completion is anticipated before the end of 2021

Table 3 Allocations from Org. 9960 Debt Service

<u>Description</u>	<u>Amount</u>
<i>Transfer to Org. 1945 Appropriation For Contingency**</i>	
Unallocated Contingency	\$1,504,195
Subtotal	\$1,504,195
<i>Additional Funding to Cover Project Shortfall</i>	
WP72901 Boerner Garden House Boiler Repair	\$40,000
WH09201 S. 76th St. & W. Layton Ave. Adaptive Signal System	\$10,000
Subtotal	\$50,000
<i>Provide Funding for New Capital Project</i>	
Project WH25201- Highway Capital Closeout Costs	\$50,000
Project WH249011-Signal Improvements S 76th, S 92nd & W Oklahoma	\$38,200
Project WH248011-Signal Improvements Silver Spring 124th to 91st	\$17,000
Subtotal	\$105,200
Total	\$1,659,395

Org. 1945 Appropriation for Contingency (\$1,504,195)

A vast majority of the levy transferred from Org. 9960 Debt Service (\$1,504,195) is recommended to be allocated to Org. 1945 Appropriation for Contingency. Of the remaining \$155,200, \$50,000 is recommended to be allocated to two projects that require additional funding. The remaining 105,200 will be used to provide funding for three new Highways projects.

Project WP72901 Boerner House Boiler Replacement

An appropriation of \$40,000 is recommended to be transferred to Project WP72901 Boerner Garden House Boiler Replacement (“Boiler Replacement Project”). The 2021 Capital Improvements Budget included an appropriation \$105,418 for the Boiler Replacement Project. The scope of work for the 2021 appropriation included design for the replacement of the existing steam boiler with piping and steam radiation with a new hot water boiler along with new hot water piping and new radiation. The design work for the project was completed by the Parks Department significantly under budget. Construction work on the project can be completed using the remaining design funding and \$40,000 that is being added through the attached resolution.

Project WH09201 S. 76th St. W. Layton Ave. Adaptive Signal System

An appropriation of \$10,000 is recommended to be transferred to Project WH09201 S. 76th St. W. Layton Ave. Adaptive Signal System. The scope of work included the modeling, selection, implementation and calibration of an traffic adaptive signal system on both corridors of S. 76th St. from Parkview Rd. to Forest Home Ave. and W. Layton Ave. from 92nd St. to 76th St. The project was substantially completed at the end of 2020. The remaining 2020 project funds were lapsed. The \$10,000 be added in the attached resolution are needed to finance the remaining project costs.

Project WH25201 Highway Capital Closeout Costs

An appropriation of \$50,000 is recommended to be transferred to newly created Project WH25201 – Highway Capital Closeout Costs. Many of the County’s highway and bridge projects include State or Federal funding. These funding sources require substantial time and effort on behalf of the State Department of Transportation (“WISDOT”) and the Milwaukee County Department of Transportation (“MCDOT”) to account for project costs and close out grants and projects. In many cases, bills with small amount(s) from WISDOT can come in years after a project has been completed and closed by the County due to the required and time consuming Federal and State audit/closing process. In order to alleviate problems with scrambling to identify funding long after a project has closed, the attached resolution provides \$50,000 to Project WH25201. The project will provide funding for MCDOT’s Highway Project capital costs that are billed by WISDOT after a project has been closed by the County and no funding remains.

Highway Congestion Mitigation Air Quality Projects

An appropriation of \$38,200 is recommended to be transferred to newly created Project WH249011-Signal Improvements S. 76th, S. 92nd & W Oklahoma. An appropriation of \$17,000 is recommended to be transferred to newly created Project WH248011 – Signal Improvements Silver Spring 124th to 91st. Both appropriations will provide the local share of the design phase of these Congestion Mitigation and Air Quality (“CMAQ”) projects. In addition, two separate appropriation transfers are being submitted by the MCDOT to create the revenue budget for the CMAQ grants and the related expenditure authority.

The County Board and County Executive approved Resolution 19-701 that authorized the Director of MCDOT to submit six applications for Federal CMAQ Improvement Program grant program funding to finance future capital projects. A list was provided by MCDOT that included the two CMAQ projects included in this resolution. CB Resolution 20-410 was approved that authorized the acceptance of the CMAQ funds covering the grant period of State of Wisconsin fiscal years 2020-2024.

RECOMMENDATION

The Office of the Comptroller and the DAS-PSB recommend adoption of the attached resolution. The resolution authorizes the reallocation (via administrative transfers) of \$1,799,610 of unspent bonds from the Debt Service Reserve. The resolution also authorizes the transfer of \$1,659,395 from Org. Unit 9960 Debt Service to Org Unit 1945 Appropriation for Contingencies as well as various capital projects.

Scott B. Manske _____

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Comptroller

Joe Lamers _____

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Supervisor Jason Haas, Chair, Committee on Finance and Audit
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