



# **Debt Service Function**

## **Agency Budget Narratives**

- **Debt Issue Expense**
- **Debt Service**

DEBT ISSUE EXPENSE (1987) BUDGET

DEPT: Debt Issue Expense

UNIT NO. 1987  
FUND: General - 0001

**Budget Summary**

Beginning in 2015, the expenditures and revenues for debt issuance expense that were previously budgeted in Org. Unit 1987 – Debt Issuance Expense will instead be incorporated into Org. Unit 9960 – Debt Service.

DEBT SERVICE (9960) BUDGET

DEPT: Debt Service

UNIT NO. 9960  
FUND: Debt Service - 0016

**Budget Summary**

Category	2013 Budget	2013 Actual	2014 Budget	2015 Budget	2015/2014 Variance
<b>Expenditures</b>					
Personnel Costs	\$0	\$0	\$0	\$0	\$0
Operation Costs	\$0	\$0	\$0	\$0	\$0
Debt & Depreciation	\$107,009,294	\$342,843,284	\$105,268,403	\$90,203,767	(\$15,064,636)
Capital Outlay	\$0	\$0	\$0	\$0	\$0
Interdept. Charges	(\$39,489,094)	(\$52,430,490)	(\$41,474,462)	(\$39,680,926)	\$1,793,536
<b>Total Expenditures</b>	<b>\$67,520,200</b>	<b>\$290,412,794</b>	<b>\$63,793,941</b>	<b>\$50,522,841</b>	<b>(\$13,271,100)</b>
<b>Revenues</b>					
Direct Revenue	\$14,036,565	\$250,302,151	\$19,863,890	\$14,815,233	(\$5,048,657)
Intergov Revenue	\$1,920,157	\$1,851,031	\$1,740,502	\$1,750,364	\$9,862
Indirect Revenue	\$0	\$0	\$0	\$0	\$0
<b>Total Revenues</b>	<b>\$15,956,722</b>	<b>\$252,153,182</b>	<b>\$21,604,392</b>	<b>\$16,565,597</b>	<b>(\$5,038,795)</b>
<b>Tax Levy</b>	<b>\$51,563,478</b>	<b>\$38,259,612</b>	<b>\$42,189,549</b>	<b>\$33,957,244</b>	<b>(\$8,232,305)</b>
<b>Personnel</b>					
<b>Full-Time Pos. (FTE)</b>		0	0	0	0
<b>Seas/Hourly/Pool Pos.</b>		0	0	0	0
<b>Overtime \$</b>		\$0	\$0	\$0	\$0

\*2013 actual excludes balance sheet entries to record principal retired for proprietary fund departments. This adjustment is intended to allow 2013 information to be reported on a basis comparable to the subsequent year budget summaries. 2013 actual also includes transactions relating to the 2013 Pension Obligation Bond Promissory Notes and the 2013B Taxable General Obligation Pension Refunding Bonds.

\*\*County sales and use tax revenues are dedicated primarily to the payment of general obligation debt service costs. For budgetary purposes, the County's pledge to levy ad valorem taxes for the payment of debt service payments treats sales tax revenues and property tax revenues as interchangeable.

**Department Mission/Description:** The Debt Service Fund accounts for and reports the accumulation of resources that are restricted, committed or assigned for the payment of principal and interest on long-term general obligation debt. Because these items are largely technical in nature, they have no strategic outcomes and no activity data or performance measures.

DEBT SERVICE (9960) BUDGET

DEPT: Debt Service

UNIT NO. 9960  
FUND: Debt Service - 0016

**Strategic Program Area 1: Debt Service**

Summary of Bonds and Notes Outstanding						
Type of Issue	True Interest Rate	Date of Bond Issue	Final Maturity Date	Bonds or Notes Outstanding 12/31/14	2015 Requirements	
					Principal	Interest
R	3.48	07/01/03	08/01/17	20,085,000	6,750,000	756,385
R	3.89	02/01/06	10/01/15	3,065,000	3,065,000	160,913
C	4.14	04/01/07	10/01/21	17,705,000	2,525,000	885,250
C	4.12	06/01/08	12/01/22	22,680,000	2,835,000	921,375
C	3.93	06/01/08	12/01/23	24,300,000	2,700,000	968,625
C	5.04	08/01/09	10/01/24	24,775,000	0	1,221,733
R	2.00	08/01/09	10/01/16	4,850,000	2,415,000	124,294
C	4.87	11/15/09	08/01/24	28,510,000	1,340,000	1,357,563
N	2.55	11/15/09	08/01/19	6,455,000	1,485,000	191,869
C	4.60	05/01/10	10/01/25	22,725,000	1,530,000	992,743
N	2.37	05/01/10	10/01/18	6,580,000	1,580,000	171,313
C	4.79	12/21/10	10/01/26	35,545,000	1,580,000	1,645,983
N	2.82	12/21/10	10/01/20	6,745,000	965,000	203,675
R	1.73	03/15/11	10/01/18	18,005,000	6,225,000	900,250
R	1.00	12/03/12	12/01/20	21,365,000	3,570,000	854,600
C	2.43	08/14/13	09/01/23	25,095,000	2,790,000	669,150
C	2.60	11/06/14	12/01/29	39,240,000	2,620,000	1,108,472
Projected Outstanding Balance as of December 31, 2014 and Associated Debt Service				\$ 327,725,000	\$ 43,975,000	\$ 13,134,190
Taxable GO Notes						
	6.84	12/01/09	12/01/33	\$ 133,487,910	\$ 3,988,664	\$ 8,754,614
Taxable GO Notes						
	3.28	03/15/13	12/31/30	133,725,000	5,030,000	3,902,746
Taxable GO Notes						
	2.76	06/27/13	12/01/23	90,075,000	9,215,000	2,192,052
				\$ 357,287,910	\$ 18,233,664	\$ 14,849,412
<b>Totals</b>				<b>\$ 685,012,910</b>	<b>\$ 62,208,664</b>	<b>\$ 27,983,602</b>
<b>Total 2015 Debt Service</b>					<b>\$ 90,192,266</b>	

\*The 2014 Corporate Purpose sale occurred on October 23, 2014. The 2015 Requirements in the table above for the 2014 issuance include a total of \$3,728,473 in related debt service costs.

Type of Issue Explanation

- A -Airport Bonds
- B -Building Bonds
- C -Corporate Purpose Bonds
- D -Detention Facility Bonds
- N -General Obligation Note
- R -Refunding Bonds
- AR -Airport Refunding Bonds
- TB -Taxable Bonds
- STFLP- State Trust Fund Loan Program

## DEBT SERVICE (9960) BUDGET

DEPT: Debt Service

UNIT NO. 9960  
FUND: Debt Service - 0016

### **DEBT ISSUANCE EXPENSE (8026)**

Beginning in 2015, the expenditures and revenues for debt issuance expense that were previously budgeted in Org. Unit 1987 – Debt Issuance Expense will instead be incorporated into Org. Unit 9960 – Debt Service. In previous years, \$11,500 of tax levy was budgeted for expenses that were not eligible to be paid from financing proceeds; this amount is unchanged for 2015.

Currently, a significant portion of debt issue expenses are paid from the proceeds of each financing. Under current federal law, up to 2 percent of each financing may be used to cover expenses related to the issue.

For 2015 it is anticipated that a single corporate purpose issuance will be done. Once the corporate purpose financing amounts have been determined and more robust debt issuance expense estimates have been identified by the Office of the Comptroller, the Department of Administrative Services will process an administrative appropriation transfer in order to make the necessary adjustments.

There is no airport financing anticipated for 2015.

### **PENSION OBLIGATION BONDS**

#### **Pension Obligation Bond Debt Service**

In 2009, Milwaukee County sold \$400 million in pension obligation bonds to improve the funding ratios of the pension system and to take advantage of higher investment rates of returns compared to the interest rate of taxable general obligation bonds. The original debt consisted of two bond issues: \$265 million in taxable general obligation promissory notes for a 20-year term and \$135 million in taxable pension anticipation notes for a five-year term with a December 2013 maturity date. In March 2013, the County issued taxable general obligation pension notes to replace the anticipation notes.

In 2013, the Office of the Comptroller was contacted by JP Morgan to inquire if the County would be interested in purchasing the County's outstanding 2024 notes that were part of the 2009 issue. The Office of the Comptroller subsequently received initial authorization from the County Board and County Executive to issue new pension obligation notes to refund any of the 2009 pension obligation notes that the County is able to achieve an appropriate level of savings. In June 2013, the County closed on the issuance of \$99,300,000 of 2013B Taxable General Obligation Pension Refunding Bonds. These proceeds were used in order to purchase outstanding 2024 notes and the County achieved \$1,571,900 of net present value savings.

The 2015 debt service costs for the pension obligation notes issued in 2009 and 2013 are \$33,083,076.

To accurately reflect all benefit related costs, the pension obligation debt service expenses are budgeted in the Org. 1950 - Employee Fringe Benefits. In addition, to accurately reflect all debt service costs, this amount is also included in the principal and interest amounts within the General Debt Service Fund Budget. To avoid duplication of the debt service costs, the amount is abated in the General Debt Service Budget.

### **DEBT SERVICE CONTRIBUTIONS**

#### **Reserve for County Bonds (4703)**

A contribution of \$6,327,873 from the Reserve for County Bonds is included for 2015. The \$6,327,873 includes net surplus bonds of \$1,327,873 (784,800 in premium and \$543,073 in unallocated proceeds) from the 2014A General Obligation Corporate Purpose Bond Issuance.

## DEBT SERVICE (9960) BUDGET

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### **County Fleet Debt Service Abatement**

The 2015 principal costs for the \$30,045,000 issued for vehicles and equipment in 2009, 2010, 2013, and 2014 is \$3,985,000. To accurately reflect all fleet-related costs, this amount is budgeted in the Org. 5300 – Fleet Management Division and crosscharged to user departments. In addition, to accurately reflect all debt service costs, this amount is also included in the principal and interest amounts within the General Debt Service Fund Budget. To avoid duplication of the debt service costs, the amount is abated in the General Debt Service Budget.

### **Internal Revenue Service (IRS) Build America Bond (BAB)/Recovery Zone Bond Interest Payments Reimbursements (2410)**

In February of 2009, the U.S Congress enacted the American Recovery and Reinvestment Act (ARRA). The ARRA contained many provisions that provide Federal tax credits and stimulate the investment market. In an effort to expand the number of investors and broaden the tax-exempt municipal market, the ARRA contained provisions that allowed state and local governments to issue taxable Build America Bonds (BABs) that provide a credit to investors or credit to issuers that is equal to 35 percent of the interest costs for bonds issued in 2009 and 2010. The ARRA also provided state and local governments the opportunity to issue Recovery Zone Bonds. The Recovery Zone Bonds provide a tax credit of 45 percent on the interest payment on the bonds.

In March 2013, pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended (“Sequester”) automatic spending reductions occurred across various areas of the Federal Budget.

In September 2013, the Internal Revenue Service (IRS) issued guidance regarding the sequestration reduction for reimbursements between October 1, 2013 and September 30, 2014. The sequestration rate during this period is 7.2%.

For 2015, \$1,750,364 is anticipated to be received from the IRS as reimbursement for \$5,218,010 of 2015 interest expenses relating to Build America Bonds and Recovery Zone Bonds. The 2015 estimate includes a reduction of 7.2% as a result of the continuing impact of Sequestration.

### **Jail Assessment Surcharge (1315)**

Jail Assessment Surcharge revenue of \$1,284,898 is projected to be used to pay 2015 debt service costs for the construction of the Criminal Justice Facility (CJF) as allowed by Wisconsin Statutes Section 302.46(2). The 2015 estimate is based on the previous five years of fees.

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**Sale of Capital Asset (4905)**

**Doyme Hospital Sale Revenues**

Based on the sale agreement between Milwaukee County and Froedtert Memorial Lutheran Hospital (Froedtert), the County will receive annual payments over 25 years beginning in 1996 and ending in 2020 based on the net operating cash flow generated by Froedtert.

Based on the 2014 estimated payment, the budget for 2015 is projected to be \$7,000,000.

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>Surplus/(Deficit)</u>
2009	3,190,000	0	(3,190,000)
2010	3,900,000	6,125,756	2,225,756
2011	6,300,000	8,378,000	2,078,000
2012	6,300,000	4,439,000	(1,861,000)
2013	6,075,550	10,798,000	4,722,450
2014*	6,100,000	7,000,000	900,000

\*2014 Actual is estimated as Froedtert is currently auditing its year-end financials. Froedtert staff anticipates final figures to be released in early October, 2014.

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**Revenue from Project Rents (4999)**

Intergovernmental Cooperation Council

The County issued \$2,500,000 General Obligation Building Bonds, Series 1997A on July 17, 1997 on behalf of the Intergovernmental Cooperation Council (ICC) for the development of an animal control shelter. The County and ICC have developed a final agreement as required for the release of the bond proceeds to the ICC. The ICC will repay the County for actual debt service costs on this issue.

In 2005, Milwaukee County refunded the debt, which resulted in savings of \$55,643 over the life of the issue. The debt service payments reflect the savings per maturity. Reimbursement for debt service costs for 2013 totaled \$229,294 and represented the final year of repayments. There was no budgeted payment for 2014 and there is no budgeted payment for 2015.

**Private Geographic Members (PGMs)**

In 2003, Milwaukee County issued general obligation bonds to finance Project WG008 – Milwaukee County Grounds Roadway Rehabilitation. Milwaukee County Ordinance 98.01 states that the Private Geographic Members (PGM's) shall share in the cost of improvements at the County Grounds on an equitable basis. The PGM's consist of Milwaukee County (DHHS – Behavioral Health Division), Froedtert Hospital, Children's Hospital, Medical College of Wisconsin, Curative Rehabilitation and Blood Center of Southeastern Wisconsin.

The cost allocations for improvements are based on a cost sharing formula that is determined by the square footage of building area that the geographic members bear to the total gross square feet of the building area of all geographic members combined. The square footage is evaluated annually and is expressed as a percentage. Presently, the allocation for the County is 17.8 percent and the combined percentage for the remaining PGM's is 82.2 percent. Therefore, 82.2 percent of the debt service costs for the roadway improvements will be paid by the remaining PGMs. The budgeted amount for 2015 is \$202,462.

**INTEREST ALLOCATION (9880)**

<b>Org. No.</b>	<b>Capitalized and Operating Interest Expense for Proprietary Fund Departments</b>	<b>2015 Amount</b>
1160	DAS-Information Management Services Division <sup>1</sup>	\$ 290,495
5041	DOT-Airport Division	4,100
5300	Fleet Management Division (Prior Year Debt Service)	128,298
5300	Fleet Management Division (Vehicle Initiative-Principal)	3,985,000
5300	Fleet Management Division (Vehicle Initiative-Interest)	410,317
5500	DAS - Utility	206,304
5605	Milwaukee County Transit/Paratransit Services	1,132,030
5725	DAS - Facilities Management Division	441,306
	<b>Sub-Total</b>	<b>\$ 6,597,850</b>
1950	Taxable Pension Obligation Notes	<b>\$ 33,083,076</b>
	<b>Total Estimated 2015 Debt Service Abatement</b>	<b>\$ 39,680,926</b>

<sup>1</sup> The 2015 Budget moves the County's Radio function from the Department of Administrative Services- Information Management Services Division (DAS-IMSD) to the newly created Department of Emergency Preparedness. In previous years, the interest expense associated with the Radio Section was cross charged from the Debt Service Budget to DAS-IMSD Radio Section since it was part of an internal service fund department. Since the Radio Section will be part of a general fund department (Emergency Preparedness), the interest expense will no longer be cross charged to the Radio section. The 2015 interest amount for Radios is \$125,427.