

DEBT SERVICE (9960) BUDGET

DEPT: DEBT SERVICE

UNIT NO. 9960
 FUND: Debt Service - 0016

Budget Summary

Category	2014 Budget	2014 Actual*	2015 Budget	2016 Budget	2016/2015 Variance
Expenditures					
Personnel Costs	\$0	\$0	\$0	\$0	\$0
Operation Costs	\$0	\$0	\$0	\$0	\$0
Debt & Depreciation	\$105,268,403	\$105,260,543	\$90,203,767	\$89,751,032	(\$425,735)
Capital Outlay	\$0	\$0	\$0	\$0	\$0
Interdept. Charges	(\$41,474,462)	(\$46,180,191)	(\$39,680,926)	(\$39,451,433)	\$229,493
Total Expenditures	\$63,793,941	\$59,080,352	\$50,522,841	\$50,299,599	(\$223,242)
Revenues					
Direct Revenue	\$19,863,890	\$10,312,917	\$14,815,233	\$19,059,468	\$4,244,235
Intergov Revenue	\$1,740,502	\$1,768,387	\$1,750,364	\$1,790,396	\$40,032
Indirect Revenue	\$0	\$0	\$0	\$0	\$0
Total Revenues	\$21,604,392	\$12,081,304	\$16,565,597	\$20,849,864	4,284,267
Tax Levy**	\$42,189,549	\$46,999,047	\$33,957,244	\$29,449,735	(\$4,507,509)
Personnel					
Full-Time Pos. (FTE)		0	0	0	0
Seas/Hourly/Pool Pos.		0	0	0	0
Overtime \$		\$0	\$0	\$0	\$0

*2014 actual excludes balance sheet entries to record principal retired for proprietary fund departments. This adjustment is intended to allow 2014 information to be reported on a basis comparable to the subsequent year budget summaries.

**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.

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Summary of Bonds and Notes Outstanding

Type of Issue	True Interest Rate	Date of Bond Issue	Final Maturity Date	Bonds or Notes Outstanding 12/31/15	2016 Requirements	
					Principal	Interest
R	3.48	07/01/03	08/01/17	13,335,000	6,680,000	513,385
C	4.12	06/01/08	12/01/22	19,845,000	2,835,000	807,975
C	3.93	06/01/08	12/01/23	21,600,000	2,700,000	867,375
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	2,435,000	2,435,000	63,919
C	4.87	11/15/09	08/01/24	27,170,000	1,455,000	1,314,013
N	2.55	11/15/09	08/01/19	4,970,000	1,485,000	152,888
C	4.60	05/01/10	10/01/25	21,195,000	2,020,000	944,930
N	2.37	05/01/10	10/01/18	5,000,000	1,620,000	137,738
C	4.79	12/21/10	10/01/26	33,965,000	1,725,000	1,603,323
N	2.82	12/21/10	10/01/20	5,780,000	965,000	184,375
R	1.73	03/15/11	10/01/18	11,780,000	6,235,000	589,000
R	1.00	12/03/12	12/01/20	17,795,000	3,745,000	711,800
C	2.43	08/14/13	09/01/23	22,305,000	2,790,000	613,350
C	2.60	11/06/14	12/01/29	36,620,000	2,620,000	984,094
C	2.50	11/12/15	10/01/30	31,655,000	1,380,000	708,003
N	1.27	11/12/15	10/01/19	3,600,000	900,000	55,825
Q	2.34	11/12/15	10/01/25	4,860,000	490,000	81,766
R	1.25	11/12/15	10/01/21	14,680,000	2,625,000	322,899
Projected Outstanding Balance as of December 31, 2015 and Associated Debt Service				\$ 341,070,000	\$ 44,705,000	\$ 11,878,388
Taxable GO Notes	6.84	12/01/09	12/01/33	\$ 129,499,246	\$ 4,222,077	\$ 8,556,464
Taxable GO Notes	3.28	03/15/13	12/31/30	128,695,000	5,065,000	3,869,045
Taxable GO Notes	2.76	06/27/13	12/01/23	80,860,000	9,305,000	2,125,058
				\$ 339,054,246	\$ 18,592,077	\$ 14,550,567
Totals				\$ 680,124,246	\$ 63,297,077	\$ 26,428,955
Total 2016 Debt Service					\$ 89,726,032	

*The 2015 Corporate Purpose Issuance, 2015 QECB Issuance, and 2015 Refunding Issuance have not yet been issued. The 2016 Requirements in the table above for the 2015 issuances are estimates

Type of Issue Explanation

- C- Corporate Purpose Bonds
- N-General Obligation Notes
- R -Refunding Bonds or Notes
- Q-Qualified Energy Conservation Bonds

DEBT SERVICE (9960) BUDGET

DEPT: DEBT SERVICE

UNIT NO. 9960
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DEBT SERVICE EXPENSES (8021 and 8022)

The 2016 Budget includes an increase of \$1,227,644 in principal payments associated with general obligation debt from \$62,069,433 to \$63,297,077. The Budget also includes a decrease of \$1,693,879 of interest expenses from \$28,122,834 to \$26,428,955. The net change to overall debt service principal and interest expenses is a decrease of \$466,232 from \$90,192,267 to \$89,726,032.

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 were instead incorporated into Org. Unit 9960 – Debt Service.

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 2016 it is anticipated that one corporate purpose issuance, one corporate purpose refunding, and two airport refundings 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.

In previous years, \$11,500 of tax levy was budgeted for expenses that were not eligible to be paid from financing proceeds. In recent years, additional levy has been needed to finance additional bond counsel expenses associated with investigating the impact to outstanding bonds associated with the potential disposition of County assets and complying with the new disclosure rules that have been implemented by the Federal government. For 2016, the amount of levy for these expenses is increased by \$11,500 to \$25,000.

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 on which 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 2016 debt service costs for the pension obligation notes issued in 2009 and 2013 is \$33,142,644.

DEBT SERVICE (9960) BUDGET

DEPT: DEBT SERVICE

UNIT NO. 9960
FUND: Debt Service - 0016

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 \$10,500,000 from the Reserve for County Bonds is included for 2016. The 2016 contribution is made up of \$9,730,088 in cash and \$769,912 of surplus bond proceeds, which is detailed in the subsequent paragraphs. The use of reserves is higher in 2016 than in 2015 as the County is using the funds to phase in the fiscal impact of an increase in the annual required pension contribution and a reduction in stated shared revenue.

The Contribution from the Reserve includes:

- Net surplus bonds of \$708,003 from the County's 2015A General Obligation Corporate Purpose Bond (long-term) Issuance. The 2015A Bond Issuance resulted in \$952,392 of net surplus bonds (\$500,101 in premium and \$452,291 in unallocated bond proceeds) of which \$708,003 will be used to finance the 2016 interest expenses associated with the 2015A General Obligation Corporate Purpose Bonds. A balance of \$244,390 will remain in the debt service reserve to finance future projects or interest expenses.
- Net surplus bonds of \$524 from the County's 2015B General Obligation Refunding Bond Issuance. The 2015B Bond Issuance resulted in \$524 of net surplus bonds that will be used to finance the 2016 interest expenses associated with the 2015B General Obligation Refunding Bonds.
- Net surplus bonds of \$55,825 from the County's 2015C General Obligation Corporate Purpose Bonds (short-term). The 2015C Issuance resulted in \$91,583 of net surplus bonds of which \$55,825 will be used to finance the 2016 interest expenses associated with the 2015C General Obligation Corporate Purpose Bonds. A balance of \$35,758 will remain in the debt service reserve to finance future projects or interest expenses.
- Net surplus bonds of \$5,560 from the County's 2015D Taxable Mass Transit Qualified Energy Conservation Bonds (2015D QECBs). The 2015D issuance resulted in \$31,758 net surplus bonds of which \$5,560 will be used to finance the 2016 interest expenses associated with the 2015D QECBs. A balance of \$26,197 will remain in the debt service reserve to finance eligible mass transit bus purchases.

The balance of the Contribution from the Reserve of \$9,730,088 will be made up of cash financing.

County Fleet Debt Service Abatement

The 2015 principal costs for the \$36,845,000 issued for vehicles and equipment in 2009, 2010, 2013, 2014 and 2015 is \$3,720,000. To accurately reflect all fleet-related costs, this amount is budgeted in the Org. 5300 – Fleet Management Division and cross charged 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/Qualified Energy Conservation Payment 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

DEBT SERVICE (9960) BUDGET

DEPT: DEBT SERVICE

UNIT NO. 9960

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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 August 2015, the Internal Revenue Service (IRS) issued guidance regarding the sequestration reduction for reimbursements between October 1, 2015 and September 30, 2016. The sequestration rate during this period is 6.8%.

For 2016, \$1,714,191 is anticipated to be received from the IRS as reimbursement for \$5,083,998 of 2016 interest expenses relating to Build America Bonds and Recovery Zone Bonds issued in 2009 and 2010. For 2016, \$76,205 is anticipated to be received from the IRS as reimbursement for \$81,766 of interest expense relating to Qualified Energy Conservation Bonds issued in 2015. The total amount of reimbursements anticipated to be received from the IRS in 2016 is \$1,790,396. The 2016 estimates includes a reduction of 6.8% as a result of the continuing impact of Sequestration.

Jail Assessment Surcharge (1315)

Jail Assessment Surcharge revenue of \$1,160,000 is projected to be used to pay 2016 debt service costs for the construction of the Criminal Justice Facility (CJF) as allowed by Wisconsin Statutes Section 302.46(2). The 2016 estimate is based on 2014 surcharges.

Sale of Capital Asset (4905)

Doyne 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.

The budget for 2016 is projected to be \$7,200,000.

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>Suplus (Deficit)</u>
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	\$7,013,000	\$913,000
2015*	\$7,000,000	\$8,700,000	\$1,700,000
2016	\$7,200,000		

**2015 Actual is estimated as Froedtert is currently auditing its year-end financials. Froedtert staff anticipates final figures to be released in early October, 2015.*

Revenue from Project Rents (4999)

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.

DEBT SERVICE (9960) BUDGET

DEPT: DEBT SERVICE

UNIT NO. 9960

FUND: Debt Service - 0016

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 2016 is \$199,468.

INTEREST ALLOCATION (9880)

Org. No.	Capitalized and Operating Interest Expense for Proprietary Fund Departments	2016 Amount
1160	DAS-Information Management Services Division	\$ 369,968
5041	DOT-Airport Divison	2,752
5300	Fleet Management Division (Vehicle Initiative-Principal)	3,720,000
5300	Fleet Management Division (Vehicle Interest)	492,167
5500	DAS - Utility	190,231
5605	Milwaukee County Transit/Paratransit Services	1,149,395
5725	DAS - Facilities Management Division	384,276
	Sub-Total	\$ 6,308,789
1950	Taxable Pension Obligation Notes	\$ 33,142,644
	Total Estimated 2016 Debt Service Abatement	\$ 39,451,433