

DEBT SERVICE (9960) BUDGETDepartment: **General County Debt Service**UNIT NO. **9960**FUND: **Debt Service — 0016****BUDGET SUMMARY**

Category	2015 Actual	2016 Actual*	2017 Budget	2018 Budget	2018/2017 Variance
Expenditures					
Personnel Costs	\$0	\$0	\$0	\$0	\$0
Operation Costs	\$0	\$0	\$0	\$0	\$0
Debt & Depreciation	\$105,638,442	\$119,914,478	\$91,056,268	\$87,976,814	(\$3,079,454)
Capital Outlay	\$0	\$0	\$0	\$0	\$0
Interdept. Charges	(\$44,720,905)	(\$45,020,938)	(\$39,652,102)	(\$39,444,426)	\$207,676
Total Expenditures	\$60,917,536	\$74,893,540	\$51,404,166	\$48,532,388	(\$2,871,778)
Revenues					
Direct Revenue	\$26,710,541	\$35,294,343	\$15,857,190	\$16,232,669	\$375,479
Intergov Revenue	\$1,801,806	\$1,790,392	\$1,930,538	\$1,628,126	(\$302,412)
Indirect Revenue	\$0	\$0	\$0	\$0	\$0
Total Revenues	\$28,512,347	\$37,084,735	\$17,787,728	\$17,860,795	\$73,067
Tax Levy**	\$32,405,189	\$37,808,805	\$33,616,438	\$30,671,593	(\$2,944,845)
Personnel					
Full-Time Pos. (FTE)	0.00	0.00	0.00	0.00	0.00
Seas/Hourly/Pool Pos.	0.00	0.00	0.00	0.00	0.00
Overtime \$	\$0	\$0	\$0	\$0	\$0

* 2016 actual excludes balance sheet entries to record principal retired for proprietary fund departments. This adjustment is intended to allow 2016 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.

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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 12/31/17	2018 Requirements	
					Principal	Interest
C	5.04	08/01/09	10/01/24	22,085,000	2,725,000	1,108,753
C	4.87	11/15/09	08/01/24	24,155,000	2,190,000	1,195,231
N	2.55	11/15/09	08/01/19	2,000,000	1,000,000	67,500
C	4.60	05/01/10	10/01/25	17,155,000	2,020,000	803,530
N	2.37	05/01/10	10/01/18	1,715,000	1,715,000	51,450
C	4.79	12/21/10	10/01/26	29,895,000	2,510,000	1,461,358
N	2.82	12/21/10	10/01/20	4,320,000	495,000	152,700
R	1.73	03/15/11	10/01/18	1,610,000	1,610,000	80,500
R	1.00	12/03/12	12/01/20	10,145,000	4,070,000	405,800
C	2.43	08/14/13	09/01/23	16,725,000	2,790,000	501,750
C	2.60	11/06/14	12/01/29	31,380,000	2,615,000	879,294
C	2.50	11/12/15	10/01/30	28,890,000	1,385,000	743,700
N	1.27	11/12/15	10/01/19	1,800,000	900,000	36,000
Q	2.34	11/12/15	10/01/25	3,880,000	490,000	85,170
R	1.25	11/12/15	10/01/21	9,535,000	2,455,000	261,500
C	2.36	11/10/16	09/01/31	25,505,000	1,825,000	601,100
N	1.36	11/10/16	09/01/20	5,595,000	1,865,000	111,900
R	1.53	11/10/16	12/01/22	13,485,000	2,810,000	347,900
M	1.52	11/10/16	09/01/21	2,440,000	610,000	48,800
Q	2.42	11/10/16	10/01/26	6,405,000	715,000	117,300
C	1.89	11/08/17	09/01/27	20,755,000	2,080,000	358,956
R	1.48	11/08/17	11/08/17	15,075,000	2,560,000	455,451
N	TBD	TBD	TBD	6,580,000	1,645,000	214,216
M	TBD	TBD	TBD	<u>4,185,000</u>	<u>1,395,000</u>	<u>139,500</u>

Non-Pension Obligation Debt Projected Outstanding **\$305,315,000** **\$44,475,000** **\$10,229,358**
 Balance as of December 31, 2017 and Associated Debt Service

Pension Obligation Notes

Taxable GO Notes	6.84	12/01/09	12/01/33	120,803,212	4,731,001	8,087,502
Taxable GO Notes	3.28	03/15/13	12/31/30	118,525,000	5,160,000	3,770,559
Taxable GO Notes	2.76	06/27/13	12/01/23	62,115,000	9,640,000	1,833,394

Pension Obligation Note Balance **\$301,443,212** **\$19,531,001** **\$13,691,455**
 as of December 31, 2017 and associated Debt Service

Total 2018 Debt Service **\$87,926,814**

**The 2018 Requirements in the table above for the 2017 Notes (C&D) issuances are estimates.*

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Type of Issue Explanation

- C-Corporate Purpose Bonds
- N-General Obligation Notes
- M-General Obligation Notes (Marcus Center)
- R-Refunding Bonds or Notes
- Q-Qualified Energy Conservation Bonds

DEBT SERVICE EXPENSES (8021 and 8022)

The 2018 Budget includes a decrease of \$732,956 in principal payments associated with general obligation debt from \$64,738,957 to \$64,006,001. The Budget also includes a decrease of \$2,356,498 of interest expenses from \$26,277,311 to \$23,920,813. The net change to overall debt service principal and interest expenses is a decrease of \$3,089,454 from \$91,016,268 to \$87,926,814.

The Budget also includes an assumption related to a prepayment on the outstanding 2016 US Bank Loan. In July 2016, the County received a taxable bank loan to finance the County's responsibilities under the 2003 Standby Reimbursement Agreement. Milwaukee County entered into a Credit Assistance Agreement with Midwest and Skyway Airlines in October 2003 (County Board Resolution 03-265 (a) (a)). The Credit Assistance Agreement required Milwaukee County to be the guarantor of letters of credit issued by US Bank, for the account of Midwest and Skyway. The letters of credit guaranteed payment on two industrial revenue development bonds (IDRBs) issued by the City of Milwaukee for Midwest and Skyway to build hangars. In February 2016, Republic Airlines (Midwest/Skyway) filed for Chapter 11 reorganization. In September 2016, the County received \$3,993,549.76 from the sale of the former Skyway Airlines hangar and used the proceeds to make a prepayment on the outstanding amount of the 2016 US Bank Loan. The County is in the process of selling the former Midwest Hangar before the end of 2017 and anticipates that the proceeds will be sufficient to pay off the balance of the 2016 US Bank Loan.

DEBT ISSUANCE EXPENSE (8026)

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. 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 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, leasing/contracting out areas in which the County has or may issue tax exempt debt and complying with the new disclosure rules that have been implemented by the Federal government. For 2018, the amount of levy requested for these expenses increases by \$10,000 to \$50,000.

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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 2018 debt service costs for the pension obligation notes issued in 2009 and 2013 is \$33,222,456.

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)

The 2018 contribution from the Reserve for County Bonds is \$6,554,710, which is a decrease of \$195,290 compared to the 2017 Adopted Budget.

County Fleet Debt Service Abatement

The 2018 principal costs for the debt issued for vehicles and equipment in 2009-2017 is \$3,791,825. 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 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. The ARRA also provided state and local governments the opportunity to issue Recovery Zone Bonds and Qualified Energy Conservation Bonds (QECBs). The RZBs provide a tax credit of 45 percent on the interest payments on the bonds and the QECBs provide a tax credit that covers the entire interest payments.

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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.

The Internal Revenue Service (IRS) issued guidance regarding the sequestration reduction for reimbursements between October 1, 2016 and September 30, 2017. The sequestration rate during this period is 6.9%.

For 2018, \$1,628,126 is anticipated to be received from the IRS as reimbursement for \$4,775,997 of 2018 interest expenses relating to Build America Bonds, Recovery Zone Bonds, and Qualified Energy Conservation Bonds. The 2018 estimate includes a reduction of 6.9% as a result of the continuing impact of Sequestration.

Jail Assessment Surcharge (1315)

Jail Assessment Surcharge revenue of \$987,000 is projected to be used to pay 2018 debt service costs for the construction of the Criminal Justice Facility (CJF) as allowed by Wisconsin Statutes Section 302.46(2). The 2017 estimate represents an increase of \$75,000 from \$912,000 to \$987,000 and is based on the five year trend of actual surcharges.

Sale of Capital Asset (4905)

Doyle 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 previous year’s actual amount, the budget for 2018 is projected to be \$8,500,000.

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>Surplus (Deficit)</u>
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	\$8,550,000	\$1,550,000
2016	\$7,200,000	\$7,534,046	\$334,046
2017*	\$8,000,000	\$8,500,000	\$500,000
2018	\$8,500,000		

**2017 Actual is estimated as Froedtert is currently auditing its year-end financials. Froedtert staff anticipated final figures to be released in early October, 2017.*

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.

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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 2018 is \$190,959.

INTEREST ALLOCATION (9880)

Org. No.	Capitalized and Operating Interest Expense for Proprietary Fund Departments	2018 Amount
1160	DAS-Information Management Services Division	\$ 258,835
5041	DOT-Airport Divison	0
5300	Fleet Management Division (Vehicle Initiative-Principal)	3,791,825
5300	Fleet Management Division (Vehicle Interest)	390,998
5500	DAS - Utility	161,959
5605	Milwaukee County Transit/Paratransit Services	1,265,386
5725	DAS - Facilities Management Division	352,967
	Sub-Total	\$ 6,221,970
1950	Taxable Pension Obligation Notes	\$ 33,222,456
	Total Estimated 2018 Debt Service Abatement	\$ 39,444,426