

DEBT SERVICE (9960) BUDGET

DEPT: GENERAL COUNTY DEBT SERVICE

UNIT NO. 9960
 FUND: Debt Service - 0016

Category	2016 Actual*	2017 Actual*	2018 Budget	2019 Budget	2019/2018 Variance
Expenditures					
Personnel Costs	\$0	\$0	\$0	\$0	\$0
Operation Costs	\$0	\$0	\$0	\$0	\$0
Debt & Depreciation	\$119,914,478	\$112,213,109	\$87,976,814	\$ 87,951,026	(\$25,788)
Capital Outlay	\$0	\$0	\$0	\$0	\$0
Interdept. Charges	(\$40,069,762)	(\$39,902,472)	(\$39,444,426)	(\$39,655,866)	(\$211,440)
Total Expenditures	\$79,844,716	\$72,310,637	\$48,532,388	\$48,295,160	(\$237,228)
Revenues					
Direct Revenue	\$32,442,433	\$31,181,138	\$9,677,959	\$10,064,746	\$386,787
Intergov Revenue	\$1,790,392	\$1,840,944	\$1,628,126	\$549,783	(\$1,078,343)
Indirect Revenue	\$15,574,848	\$6,750,000	\$6,554,710	\$3,347,553	(\$3,207,157)
Total Revenues	\$49,807,673	\$39,772,082	\$17,860,795	\$13,962,082	(\$3,898,713)
Tax Levy**	\$30,037,043	\$32,538,555	\$30,671,593	\$34,333,078	\$3,661,485
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

* 2016/2017 actual excludes balance sheet entries to record principal retired for proprietary fund departments and includes the Debt Service Reserve Contributions on the "Indirect Revenue" line. These adjustments are intended to allow 2016-2017 information to be reported on a basis comparable to the subsequent year budget summaries. The expenditures and revenues for 2016 and 2017 are higher than 2018-2019 since they include principal payments and proceeds from general obligation bond refundings.

** 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 12/31/18	2019 Requirements	
					Principal	Interest
N	2.55	11/15/09	08/01/19	1,000,000	1,000,000	35,000
C	4.79	12/21/10	10/01/26	27,385,000	1,330,000	1,360,958
N	2.82	12/21/10	10/01/20	3,825,000	1,855,000	139,088
R	1.00	12/03/12	12/01/20	6,075,000	4,230,000	243,000
C	2.43	08/14/13	09/01/23	13,935,000	2,790,000	418,050
C	2.60	11/06/14	12/01/29	28,765,000	2,615,000	826,994
C	2.50	11/12/15	10/01/30	27,505,000	1,395,000	716,000
N	1.27	11/12/15	10/01/19	900,000	900,000	18,000
Q	2.34	11/12/15	10/01/25	3,390,000	490,000	78,800
R	1.25	11/12/15	10/01/21	7,080,000	2,395,000	212,400
C	2.36	11/10/16	09/01/31	23,680,000	1,825,000	564,600
N	1.36	11/10/16	09/01/20	3,737,000	1,865,000	74,600
R	1.53	11/10/16	12/01/22	10,675,000	2,755,000	291,700
M	1.52	11/10/16	09/01/21	1,830,000	610,000	36,600
Q	2.42	11/10/16	10/01/26	5,690,000	715,000	110,150
C	2.04	11/08/17	09/01/27	18,675,000	2,075,000	399,438
R	1.48	11/08/17	12/01/23	12,515,000	2,560,000	351,300
N	1.29	11/08/17	09/01/21	4,960,000	1,655,000	103,326
M	1.22	11/08/17	09/01/20	2,785,000	1,395,000	69,650
C	TBD	TBD	08/01/28	TBD	1,800,000	532,429
N	TBD	TBD	08/01/22	TBD	1,995,000	237,577
R	TBD	TBD	08/01/24	TBD	7,860,000	1,488,534
T	TBD	TBD	08/01/23	TBD	785,000	114,259

Non-Pension Obligation Debt Projected Outstanding \$ 204,407,000 \$ 46,895,000 \$ 8,422,458
Balance as of December 31, 2018 and Associated Debt Service

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Summary of Bonds and Notes Outstanding Continued

Type of Issue	True Interest Rate	Date of Bond Issue	Final Maturity Date	Bonds or Notes Outstanding 12/31/18	2019 Requirements	
					Principal	Interest
<u>Penison Obligation Notes</u>						
Taxable GO Notes	6.84	12/01/09	12/01/33	\$ 116,072,211	\$ 5,011,614	\$ 7,819,256
Taxable GO Notes	3.28	03/15/13	12/31/30	113,365,000	5,240,000	3,693,160
Taxable GO Notes	2.76	06/27/13	12/01/23	52,475,000	9,865,000	1,628,448
Pension Obligation Note Balance as of December 31, 2018 and associated Debt Service				\$ 281,912,211	\$ 20,116,614	\$ 13,140,864

Total 2019 Debt Service

\$ 88,574,936

*The 2018 Debt Issuances have not yet been issued. The 2019 Requirements in the table above for the 2018 issuances are estimates

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
- E- Enterprise Software Project

DEBT SERVICE EXPENSES (8021 and 8022)

The 2019 Budget (Budget) includes an increase of \$2,140,613 in principal payments associated with general obligation debt from \$64,006,001 to \$66,146,614. The Budget also includes a decrease of \$2,176,401 of interest expenses from \$23,920,813 to \$21,744,412. The net change to overall debt service principal and interest expenses is a decrease of \$35,788 from \$87,926,814 to \$87,891,026.

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 2019, the amount of levy for these expenses increases by \$10,000 to \$60,000.

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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 2019 debt service costs for the pension obligation notes issued in 2009 and 2013 is \$33,257,477.

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 2019 contribution from the Reserve for County Bonds is \$3,347,553, which is a decrease of \$3,207,157 compared to the 2018 Adopted Budget.

County Fleet Debt Service Abatement

The 2019 principal costs for the debt issued for vehicles and equipment in 2010-2018 is \$4,072,571. 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 6.6%.

In March 2018, the County Board and County Executive passed File 18-211 that authorized and provided parameters for the issuance of a not-to-exceed amount of \$57,325,000 of General Obligation Refunding Bonds to refund the balance of the outstanding: 2009C Build America Bonds, 2009E Build America Bonds, and 2010A Build America and Recovery Zone Bonds.

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.

The Office of the Comptroller has prepared estimated debt service schedules for the issuance of a not-to-exceed amount of \$57,325,000 in refunding bonds. The total estimated debt service costs would be \$62,727,498, including \$5,402,498 in interest costs. The combined estimated net present value savings is \$396,645 and includes the loss of the future Build America Bond subsidies.

For 2019, \$549,783 is anticipated to be received from the IRS as reimbursement for \$1,657,458 of 2019 interest expenses relating to the remaining Build America Bonds and Qualified Energy Conservation Bonds. The 2019 estimate reflects the refunding of the 2009 BABs, the 2009E BABs, and the 2010A BABs. The estimate also includes a reduction of 6.6% as a result of the continuing impact of Sequestration for the remaining outstanding Build America Bonds and Qualified Energy Conservation Bonds.

The 2019 reimbursement amount is \$1,078,344 less than the 2018 budgeted reimbursement amount of \$1,628,127.

Jail Assessment Surcharge (1315)

Jail Assessment Surcharge revenue of \$967,000 is projected to be used to pay 2019 debt service costs for the construction of the Criminal Justice Facility (CJF) as allowed by Wisconsin Statutes Section 302.46(2). The 2019 estimate represents the most recent (2017) full year of actual surcharges.

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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.

Based on the last five years of actuals the budget for 2019 is projected to be \$9,000,000.

<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	\$9,314,000	\$1,314,000
2018*	\$8,500,000	\$9,000,000	\$500,000
2019	\$9,000,000		

**2018 Actual is estimated as Froedtert is currently auditing its year-end financials. Froedtert staff anticipated final figures to be released in early October, 2018.*

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.

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 2019 is \$97,746 and represents the final year of the repayment schedule.

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INTEREST ALLOCATION* (9880)

Org. No.	Capitalized and Operating Interest Expense for Proprietary Fund Departments	2019 Amount
1160	DAS-Information Management Services Division	\$ 199,563
5300	Fleet Management Division (Vehicle Initiative-Principal)	4,072,571
5300	Fleet Management Division (Vehicle Interest)	541,191
5500	DAS - Utility	139,749
5605	Milwaukee County Transit/Paratransit Services	1,139,966
5725	DAS - Facilities Management Division	305,349
1200-1850*	Capital Projects	<u>0</u>
	Sub-Total	\$ 6,398,389
1950	Taxable Pension Obligation Notes	<u>\$ 33,257,477</u>
	Total Estimated 2019 Debt Service Abatement	\$ 39,655,866

* The interest allocation amounts on general obligation bonds and notes for capital projects will be calculated at the end of 2019. As in prior years, an administrative transfer will be processed by the Office of the Comptroller to modify capital project budgets and the Debt Service Budget to adjust budgets based on actual amounts.