

DEBT SERVICE (9960) BUDGET

DEPT: GENERAL COUNTY DEBT SERVICE

UNIT NO. 9960
FUND: Debt Service - 0016

Category	2017 Actual*	2018 Actual*	2019 Budget	2020 Budget	2020/2019 Variance
Expenditures					
Personnel Costs	\$0	\$0	\$0	\$0	\$0
Operation Costs	\$0	\$0	\$0	\$0	\$0
Debt & Depreciation	\$112,213,109	\$145,185,198	\$87,951,026	\$87,926,338	(\$24,688)
Capital Outlay	\$0	\$0	\$0	\$0	\$0
Interdept. Charges	(\$39,902,472)	(\$39,789,962)	(\$39,655,866)	(\$40,552,243)	(\$896,377)
Total Expenditures	\$72,310,637	\$105,395,236	\$48,295,160	\$47,374,095	(\$921,065)
Revenues					
Direct Revenue	\$33,989,289	\$67,784,613	\$10,064,746	\$10,050,000	(\$14,746)
Intergov Revenue	\$1,840,944	\$1,863,156	\$549,783	\$159,821	(\$389,962)
Indirect Revenue	\$6,750,000	\$6,554,710	\$3,347,553	\$3,598,267	(\$250,714)
Total Revenues	\$42,580,233	\$76,202,479	\$13,962,082	\$13,808,088	(\$153,994)
Tax Levy**	\$29,730,404	\$29,192,757	\$34,333,078	\$33,566,007	(\$767,071)
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

* 2017 and 2018 actuals exclude balance sheet entries to record principal retired for proprietary fund departments. This adjustment is intended to allow 2017 and 2018 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 12/31/19	2020 Requirements	
					Principal	Interest
N	2.82	12/21/10	10/01/20	1,775,000	1,775,000	71,000
R	1.00	12/03/12	12/01/20	1,735,000	1,735,000	69,400
C	2.43	08/14/13	09/01/23	9,425,000	2,790,000	282,750
C	2.60	11/06/14	12/01/29	26,150,000	2,615,000	774,694
C	2.50	11/12/15	10/01/30	26,110,000	2,380,000	688,100
Q	2.34	11/12/15	10/01/25	2,900,000	490,000	70,960
R	1.25	11/12/15	10/01/21	4,685,000	2,350,000	140,550
C	2.36	11/10/16	09/01/31	21,855,000	1,825,000	528,100
N	1.36	11/10/16	09/01/20	1,865,000	1,865,000	37,300
R	1.53	11/10/16	12/01/22	7,820,000	2,695,000	232,600
Q	2.42	11/10/16	10/01/26	4,975,000	715,000	99,425
C	2.04	11/08/17	09/01/27	16,600,000	2,075,000	357,938
R	1.48	11/08/17	12/01/23	9,955,000	2,555,000	248,900
N	1.29	11/08/17	09/01/21	3,305,000	1,655,000	70,225
R	2.31	10/11/18	08/01/24	43,055,000	7,190,000	2,152,750
M	3.19	10/11/18	08/01/23	5,635,000	1,405,000	171,870
C	2.80	11/15/18	08/01/28	11,160,000	1,240,000	347,200
N	2.30	11/15/18	08/01/22	6,565,000	1,565,000	196,950
T	3.22	11/15/18	08/01/23	5,085,000	1,275,000	156,993
R	1.40	10/02/19	10/01/26	21,115,000	1,045,000	1,052,818
R	2.62	10/02/19	10/01/20	520,000	520,000	11,020
C	1.81	10/02/19	08/01/29	8,535,000	825,000	122,196
N	1.42	11/07/19	08/01/23	4,005,000	600,000	74,874
E	1.51	11/07/19	08/01/24	10,740,000	1,380,000	157,520
T	1.96	11/07/19	08/01/24	5,345,000	805,000	71,621
N	1.75	11/07/19	08/01/29	9,755,000	725,000	143,073
Non-Pension Obligation Debt Projected Outstanding				\$ 270,670,000	\$ 46,095,000	\$ 8,330,827
Balance as of December 31, 2019 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 12/31/19	2020 Requirements	
					Principal	Interest
<u>Pension Obligation Notes</u>						
Taxable GO Notes	6.84	12/01/09	12/01/33	\$ 111,060,597	\$ 5,457,492	\$ 7,525,786
Taxable GO Notes	3.28	03/15/13	12/31/30	108,125,000	5,330,000	3,601,459
Taxable GO Notes	2.76	06/27/13	12/01/23	42,610,000	10,145,000	1,370,774
Pension Obligation Note Balance as of December 31, 2019 and associated Debt Service				\$ 261,795,597	\$ 20,932,492	\$ 12,498,019

Total 2020 Debt Service **\$ 87,856,338**

Type of Issue Explanation

- C- Corporate Purpose Bonds
- N-General Obligation Notes
- M- Marcus Center Taxable Refunding
- T – Taxable Notes
- R -Refunding Bonds or Notes
- Q-Qualified Energy Conservation Bonds
- E- Enterprise Software Project

DEBT SERVICE EXPENSES (8021 and 8022)

The 2020 Budget includes an increase of \$880,878 in principal payments associated with general obligation debt from \$66,146,614 to \$67,027,492. The Budget also includes a decrease of \$915,566 of interest expenses from \$21,744,412 to \$20,828,846. The net change to overall debt service principal and interest expenses is a decrease of \$34,688 from \$87,891,026 to \$87,856,338.

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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 2020, the amount of levy for these expenses increases by \$10,000 to \$70,000.

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 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 2020 debt service costs for the pension obligation notes issued in 2009 and 2013 is \$33,430,512.

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 2020 contribution from the Reserve for County Bonds is \$3,598,267. The \$3,598,267 includes \$470,214 of bid premiums from the 2019 general obligation bond and note issuances, which will be used to pay 2020 interest expenses. The \$470,214 is made up from bid premium from the following issuances: \$122,196 is from the Series 2019C General Obligation Promissory Notes, \$74,874 is from the Series 2019D General Obligation Short Term Bonds, \$145,430 is from the Series 2019F General Obligation Promissory Notes, and \$127,714 is from the Series 2019G General Obligation Transit Promissory Notes.

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County Fleet Debt Service Abatement

The 2020 principal costs for the debt issued for vehicles and equipment in 2010-2019 is \$4,217,764. 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.

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, 2018 and September 30, 2019. The sequestration rate during this period is 6.2%.

In October 2018, the Series 2009C BABs, the Series 2009E BABs, and the Series 2010A BABs/RZBs were refunded by the Series 2018A General Obligation Refunding Bonds and the Series 2018B Taxable General Obligation Refunding Bonds.

In March 2019, County Board and County Executive passed File 19-246 that authorized and provided parameters for the issuance of a not-to-exceed amount of \$29,500,000 of General Obligation Refunding Bonds to refund the balance of the outstanding: 2010C Build America 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.

The Office of the Comptroller has prepared estimated debt service schedules for the issuance of a not-to-exceed amount of \$29,500,000 in refunding bonds. The total estimated debt service costs would be \$29,775,382, including \$5,655,382 in interest costs. The combined estimated net present value savings is \$251,062 and includes the loss of the future Build America Bond subsidies.

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.

For 2020, \$159,821 is anticipated to be received from the IRS as reimbursement of 2020 interest expenses relating to the remaining Qualified Energy Conservation Bonds. This estimate reflects the refunding of the 2010C BABs. The estimate also includes a reduction of 6.2% as a result of the continuing impact of Sequestration for the remaining outstanding Build America Bonds and Qualified Energy Conservation Bonds.

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The 2020 reimbursement amount of \$159,821 is \$389,962 less than the 2019 budgeted reimbursement amount of \$549,783.

Jail Assessment Surcharge (1315)

Jail Assessment Surcharge revenue of \$1,050,000 is projected to be used to pay 2020 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 five-year average 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.

The 2020 payment is budgeted at \$9,000,000 and is the final full year payment that will be received.

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>Suplus (Deficit)</u>
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	\$9,526,000	\$1,026,000
2019*	\$9,000,000	\$9,000,000	\$0
2020	\$9,000,000		

**2019 Actual is estimated as Froedtert is currently auditing its year-end financials. Froedtert staff anticipated final figures to be released in early October, 2019.*

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 debt has been retired and the final repayment amounts were paid in 2019. There is no repayment budgeted for 2020.

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INTEREST ALLOCATION* (9880)

Org. No.	Capitalized and Operating Interest Expense for Proprietary Fund Departments	2020 Amount
1160	DAS-Information Management Services Division	\$ 553,516
5300	Fleet Management Division (Vehicle Initiative-Principal)	4,217,764
5300	Fleet Management Division (Vehicle Interest)	572,001
5500	DAS - Utility	22,276
5605	Milwaukee County Transit/Paratransit Services	1,396,013
5725	DAS - Facilities Management Division	360,161
1200-1850*	Capital Projects	0
	Sub-Total	\$ 7,121,731
1950	Taxable Pension Obligation Notes	\$ 33,430,512
	Total Estimated 2020 Debt Service Abatement	\$ 40,552,243

* The interest allocation amounts on general obligation bonds and notes for capital projects will be calculated at the end of 2020. 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.