

Reply to Common Council File No. 040105

From DOA-Budget and Policy Division

June 4, 2004

Ref: 04017

Common Council File 040105 is a communication from the Comptroller's Office transmitting the Annual Report of the Public Debt Amortization Fund (PDAF) for the year ended December 31, 2003.

PDAF earnings in 2003 were lower than in 2002. The PDAF unsegregated portfolio earned a 1.52 percent return in 2003 compared to the 5.64 percent return in 2002. The reduction in interest earnings was due to the low interest rate environment in 2003 resulting from lackluster economic growth.

Unsegregated investment earnings excluding cash deposits had a return of 2.11 percent. This return is less than the PDAF benchmark, the Shearson-Lehman Brothers Intermediate (Bond) Index of 2.21 percent for 2003. The Index reports yields on U. S. Treasury Bonds with approximately four years to maturity. The PDAF's investments have shorter average maturities.

A total of \$7.3 million was made available to reduce 2004 property tax levy requirements for debt service compared to \$8.3 million in 2002 for 2003 requirements. Of this amount, \$3.3 million was paid for special assessment debt service requirements and \$4 million was in the form of payments in 2003 for the purchase and immediate cancellation of City of Milwaukee bonds. The payments for purchase and cancellation of City of Milwaukee bonds decreased from \$5.0 million in 2003.

As a result of the investment returns and a lower use of funds for debt service requirements, the unsegregated fund balance available for future prepayment and cancellation of city debt as of December 31, 2003 totaled \$44.2 million. This was a decrease of \$400,000, or 0.9%, from the 2002 year-end balance of \$44.6 million.

On September 3, 1997, the Public Debt Commission adopted a revised "Statement of Policy" for the utilization of Fund Balance. The policy objective was to maintain the unsegregated fund balance in a range from 15% to 20% of non-self supporting general obligation debt with a "target level" at the mid-point between these percentages. At December 31, 2003, the city's non-self supporting debt was \$460.4 million with a resulting policy minimum balance of \$69.1 million. The actual Unsegregated Fund Balance of \$44.2 million was below the minimum 15% target at 9.6%.

In sum, PDAF investment performance lagged its benchmark in a soft year for investment returns. It provided a significant portion of debt service requirements through modest use of funds and maintained a stable year-end balance.

**RECOMMENDATION: RECEIVE AND PLACE ON FILE**

  
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