



Office of the Comptroller

W. Martin Morics, C.P.A.
Comptroller

Michael J. Daun
Deputy Comptroller

John M. Egan, C.P.A.
Special Deputy Comptroller

Craig D. Kammholz
Special Deputy Comptroller

September 1, 2006

Ref: 2005 Annual Report

To the Honorable
the Common Council
City of Milwaukee - Room 205
Milwaukee, WI 53202

Dear Council Members:

In accordance with the provisions of Chapter 67.101(7) of the Wisconsin State Statutes, I herewith submit the Annual Report of the Public Debt Amortization Fund for the year ended December 31, 2005.

Respectfully submitted

W. MARTIN MORICS
Comptroller and Secretary
Public Debt Commission

WMM:RL

Attachment

REF:AR-LTR-2005

ANNUAL REPORT

PUBLIC DEBT AMORTIZATION FUND

City of Milwaukee

For The Year Ended December 31, 2005

**Prepared By:
W. Martin Morics, C.P.A.
Comptroller and Secretary**

PUBLIC DEBT COMMISSION

MICHELLE J. NATE, Chairperson

MARGARET J. HENNINGSEN, Member

KENNETH C. KREI, Member

**W. MARTIN MORICS, Comptroller and Secretary
Ex Officio**

**WAYNE F. WHITTOW, Treasurer and Treasurer
Ex Officio**

PUBLIC DEBT AMORTIZATION FUND

OVERVIEW OF 2005 OPERATIONS

PREFACE

The Public Debt Amortization Fund (PDAF) is governed by Wisconsin State Statutes, Chapter 67.101. The principal sources of revenues are 1/3 of earnings on City investments, and earnings on PDAF investments.

Subject to certain limitations, the Public Debt Commission (PDC) may apply a portion of the balance of the PDAF to the purchase and cancellation of General Obligation Debt of the City. On September 3, 1997, the PDC adopted a policy that targets a balance of the PDAF in the range of 15-20% of non-self supporting General Obligation Debt shall be taken into account when determining the amount of the PDAF to be used to purchase and cancel debt.

These statements have not been independently audited, but were prepared from information used to prepare the City's Comprehensive Annual Financial Report, which is independently audited.

TOTAL FUND INVESTMENT PERFORMANCE

With the economy continuing to grow, short-term interest rates continued to rise in 2005 to a more neutral stance. Medium to long-term interest rates also increased, but not as much as short-term rates, as the market believed that the Federal Reserve Bank would continue to fight inflation. As a result, there was a modest decline in the market value of investments.

The PDAF unrestricted portfolio returned an overall (interest earnings less loss in market value) +2.61% in 2005, compared to a +2.66% return in 2004. The unrestricted long-term investments (investments excluding cash) had a return of +6.00% in 2005 vs. +4.03% in 2004. In comparison, a "benchmark" of the Shearson Lehman Brothers Intermediate Index returned +1.59% in 2005, and +2.85% in 2004, which approximates a portfolio of U.S. Treasury obligations with a duration of four years. The primary reason the PDAF returns overperformed the benchmark is the investment in the General Obligation Pension Funding Bonds, Series 2003 M10. The investment extended the duration (maturity) of the portfolio, and are not marked to market.

OPERATIONS-UNRESTRICTED FUND BALANCE

The unrestricted portion of the PDAF produced earnings of \$1.7 million in 2005 compared to earnings of \$1.2 million in 2004. Slightly higher and more stable short-term interest rates during 2005 were the primary reasons for the increased earnings during 2005.

2005 contributions to the PDAF were \$4.8 million, up from \$3.4 million in 2004. The increase is attributable to rising interest rates and increased interest charges on higher tax delinquencies.

Payments in 2005 for the purchase and immediate cancellation of City of Milwaukee Bonds were made in the amount of \$5 million from the Unrestricted Portion of the PDAF. In addition, \$3.6 million was used from the Segregated portion of the PDAF. In 2004, \$4 million and \$3.3 million were used from the Unrestricted and Segregated portions of the PDAF to reduce the debt service levy.

As a result of the above, the amount of Fund Balance available for future prepayment, or cancellation of City debt and other potential commitments (Unrestricted portion), totaled \$46.5 million as of December 31, 2005, an increase of \$1.5 million (+3.3%) from the comparable 2004 year-end balance. The Public Debt Commission, on September 3, 1997, adopted a revised "Statement of Policy" which targets an Unrestricted PDAF balance between 15 to 20% of non-self supporting General Obligation debt. For 2005, the unrestricted portion of the PDAF equaled 10.8% of the City's non-self supporting debt compared to 10.2% in 2004, well below the 15% minimum target. In 2005, \$37 million of Sewer Debt was reclassified to self-supporting, resulting in a slight net decrease in outstanding non-self supporting debt. Without the reclassification, the percentage would have decreased to 9.92%.

Public Debt Amortization Fund

Balance Sheet

December 31, 2005

with Comparative Totals for December 31, 2004

	2005		2004
	Unrestricted	Segregated	Total
<u>Assets</u>			
Cash and Cash Equivalents			
City - Pooled Cash	\$ 489,022	\$ -	\$ 324,428
LGIP (Note C)	24,817,502	2,694,580	19,003,698
Total Cash and Cash Equivalents	25,306,523	2,694,580	\$ 19,328,126
Investments (Note C)			
Book Value	20,376,218	24,119,897	53,073,133
Unrealized Gain (Loss)	113,182	958,176	2,381,079
Total Investments	20,489,401	25,078,073	55,454,212
Due from other funds	625,000	-	625,000
Market Value Adjustments to Treasurer's Report	(1,092)	19,345	18,253
Accrued Interest Receivable	93,481	9,117	102,598
TOTAL ASSETS	\$ 46,513,313	\$ 27,801,114	\$ 74,314,427
<u>Liabilities</u>			
Due to other funds	\$ -	\$ 625,000	\$ -
TOTAL LIABILITIES	\$ -	\$ 625,000	\$ -
<u>Fund Balance</u>			
TOTAL FUND BALANCE	\$ 46,513,313	\$ 27,176,114	\$ 73,689,427
TOTAL LIABILITIES AND FUND BALANCE	\$ 46,513,313	\$ 27,801,114	\$ 74,314,427

The notes to the financial statements are an integral part of this statement.

Public Debt Amortization Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

December 31, 2005

with Comparative Totals for December 31, 2004

	2005		2004 TOTAL
	Unrestricted	SEGREGATED TOTAL	
REVENUES			
City of Milwaukee Proprietary Contributions			
Interest on Special Assessments	\$ 382,624	\$ -	\$ 382,624
One-third interest on City Tax Certificates	2,056,938	-	2,056,938
One-third interest on General Investments	2,417,035	-	2,417,035
One-third change in market value of General Investments	(105,517)	-	(105,517)
Total City of Milwaukee Proprietary Contributions	\$ 4,751,080	\$ -	\$ 4,751,080
Earnings on Fund Investments	2,201,638	1,705,983	3,907,620
Realized Gain (Loss) on Sale of Investments	-	(770,412)	-
Change in Fair Market Value of Investments	(478,025)		(1,248,437)
Total Earnings on Fund Investments	1,723,613	935,570	2,659,183
TOTAL REVENUES	\$ 6,474,693	\$ 935,570	\$ 7,410,263
EXPENDITURES			
Fund Administration Cost	\$ 3,796	\$ -	\$ 3,796
Discount on Cancellation of Debt	-	-	(107,025)
Planned Cancellation of Debt	-	3,551,000	3,551,000
Annual Cancellation of Debt	5,000,000	-	5,000,000
TOTAL EXPENDITURES	\$ 5,003,796	\$ 3,551,000	\$ 8,554,796
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 1,470,896	\$ (2,615,430)	\$ (1,144,533)
TRANSFERS			
Transfer from General Fund	\$ -	\$ -	\$ -
Transfers between accounts	-	-	-
NET CHANGE IN FUND BALANCE	\$ 1,470,896	\$ (2,615,430)	\$ (1,144,533)
FUND BALANCE JANUARY 1	45,042,417	29,791,544	74,833,960
FUND BALANCE DECEMBER 31	46,513,313	27,176,114	73,689,427

The notes to the financial statements are an integral part of this statement.

Public Debt Amortization Fund

Statement of Changes in Cash

December 31, 2005

with Comparative Totals for December 31, 2004

	<u>2005</u>	<u>2004</u>
<u>Cash Provided By</u>		
Beginning Cash & Cash Equivalents	19,328,126	12,325,637
Net Change in Fund Balance	(1,144,533)	(1,801,953)
Maturing and Sale of Investments	11,379,654	10,047,155
Change in Deferred Charges	-	-
<u>Cash Was Used For</u>		
Change in Accrued Interest	(50,976)	(5,033)
Less: Change in Market Value	1,248,437	1,698,294
Purchase of Investments	-	-
Accretion (Amortization) - Unsegregated	(1,083,801)	(1,385,748)
Accretion (Amortization) - Segregated	(1,675,804)	(1,550,225)
 Total Cash - Ending	 <u>28,001,103</u>	 <u>19,328,126</u>

CITY OF MILWAUKEE

PUBLIC DEBT AMORTIZATION FUND

Notes to the Financial Statements

For the Year Ended December 31, 2005

- A. Statutory Background: The Public Debt Amortization Fund ("PDAF") is governed by Section 67.101 of Wisconsin Statutes. The Commissioners of the Public Debt ("PDC") may apply, in any one year, up to 40 percent of the balance of the PDAF to the cancellation of general obligation bonds or notes of the City, but the PDAF shall not be decreased below \$2,000,000 as a result of such purchases and cancellations. Principal sources of revenue are one-third of all interest on general city investments, and interest on the PDAF's own investments.
- B. Basis of Accounting: The financial statements of the Public Debt Amortization Fund are prepared on the accrual basis. Revenues are recorded when earned and expenses are recorded as incurred, without regard to the receipt or payment of cash or its equivalent.
- C. Investments: Investments are reported at market value. Interest earnings is based upon amortized book value. Realized and unrealized gains and losses are reflected in the year they occurred.
- D. Segregated Fund Balance: The PDC has earmarked, in advance, a portion of the PDAF for future purchase and cancellation of City debt (the "Segregated" portion). The PDC intends not to consider the Segregated portion for purposes of determining the annual amount provided for prepayment of debt.
- E. Market Value Adjustment: There was an update to market value in the Treasurer's Report which is not reflected in the City's audited financial statements. This shows as a \$18,253 Market Value Adjustment to reconcile the Treasurer's Report to the audited financial statements.
- F. Posting Error: A detailed review of the Treasurer's Report revealed that \$625,000 of the \$3.6 million draw from the Segregated portion of the PDAF was charged against the Unrestricted portion. The entry was corrected in 2006. In order to reconcile the Treasurer's Report to this Annual Report, a \$625,000 Due to / Due From between the Unrestricted and Segregated portions of the PDAF is shown.