



Office of the Comptroller

August 9, 2011

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

Ref: 2010 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, 2010.

Respectfully submitted

W. MARTIN MORICS
Comptroller and Secretary
Public Debt Commission

WMM:RL
Attachment

PD-7856w.doc

ANNUAL REPORT
PUBLIC DEBT AMORTIZATION FUND

City of Milwaukee
For The Year Ended December 31, 2010

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

PUBLIC DEBT COMMISSION

KENNETH C. KREI, Chairperson

MARGARET J. HENNINGSEN, Member

JENNIFER A. MISWALD, Member

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

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

PUBLIC DEBT AMORTIZATION FUND

OVERVIEW OF 2010 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 a slow economy, short-term interest rates continued to stay near 0% in 2010. As part of an effort to increase the overall yield on the PDAF, the investment policy was modified, and \$12.5 million of taxable municipal bonds were purchased during the year. Although interest rates were fairly stable in 2010, a year-end sell off in the municipal market resulted in modest unrealized losses for the year.

The PDAF unrestricted portfolio returned an overall (interest earnings less loss in market value) +1.87% in 2010 compared to a +2.89% in 2009. The unrestricted long-term investments (investments excluding cash) had a return of +3.17% in 2010 vs. +5.10% in 2009. In comparison, a "benchmark" of the Barclays Capital Intermediate Index returned 5.29% in 2010, and -1.41% in 2009, which approximates a portfolio of U.S. Treasury obligations with a duration of four years.

OPERATIONS-UNRESTRICTED FUND BALANCE

The unrestricted portion of the PDAF produced earnings of \$1.3 million in 2010 (Earnings on Fund Investments plus Interest on City Debt) compared to \$1.1 million in 2009. Interest rates were low during 2010, continuing the interest rates from 2009.

2010 contributions to the PDAF were \$3.9 million, in line with the \$3.8 million in 2009. An increase in interest on Delinquent Taxes offset a reduction on the interest on general city investments.

The Commission authorized in 2010 payments for the payment of debt service on City of Milwaukee Bonds in the amount of \$4.9 million from the Unrestricted portion, and \$1.7 million from the Segregated portion of the PDAF. In 2009, \$5.4 million and \$1.95 million were used from the Unrestricted and Segregated portions of the PDAF to reduce the debt service levy. Due to the timing of the 2009 payment for 2010 debt service, the transfer is reflected as a "Due to other funds" on the balance sheet. In 2010, \$4,721,886 was intended to be transferred from the Segregated portion to the Unrestricted portion. The investments were not transferred until 2011, so the impending transfer shows as "Due to (from) other funds" in 2010.

As a result of the above, the amount of Fund Balance available for future prepayment or cancellation of City debt totaled \$50.7 million as of December 31, 2010, an increase, excluding interfund transfers, of \$0.3 million (+0.6%) from the comparable 2009 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 2010, the unrestricted portion of the PDAF equaled 11.3% of the City's non-self supporting debt compared to 10.6% in 2009, an improvement, but well below the 15% minimum target. The increase is due to the transfer of \$4.7 million surplus from the Segregated portion to the Unrestricted portion. Without the transfer, the ratio would have declined to 10.4%.

ACCOUNTING FOR CITY DEBT OWNED BY THE PDAF

In 2007, the City's Independent Auditors changed the accounting treatment of City Debt owned by the PDAF. For GAAP purposes, the City Debt owned by the PDAF is no longer considered outstanding debt of the City, nor an investment of the PDAF.

In order to provide an accurate financial condition of the PDAF, the GAAP adjustment for City Debt was not made. As such, these financial statements will differ from the City's CAFR by the amount of City Debt owned by the PDAF (see Note E at the end of the financial statements).

Public Debt Amortization Fund

Balance Sheet

December 31, 2010

with Comparative Totals for December 31, 2009

	2010		2009
	Unrestricted	Segregated	Total
Assets			
Cash and Cash Equivalents			
City - Pooled Cash	\$ 5,892,869	\$ -	\$ 5,892,869
LGIP & other cash investments (Note C)	10,271,845	9,437,934	19,709,779
Total Cash and Cash Equivalents	16,164,714	9,437,934	\$ 25,602,649
Investments and Loans (Note C)			
Book Value	27,485,395	9,864,088	37,349,483
Unrealized Gain (Loss)	(196,141)	155,447	(40,694)
Investment in City Debt (Note E)	7,075,000	-	7,075,000
Total Investments	\$ 34,364,253	\$ 10,019,535	\$ 44,383,788
Due from other funds	-	-	-
Market Value Adjustments to Treasurer's Report	-	-	-
Accrued Interest Receivable	202,310	1,494	203,804
TOTAL ASSETS	\$ 50,731,278	\$ 19,458,964	\$ 70,190,241
Liabilities			
Due to (from) other funds	\$ (4,721,886)	\$ 4,721,886	\$ -
TOTAL LIABILITIES	\$ (4,721,886)	\$ 4,721,886	\$ -
Fund Balance			
TOTAL FUND BALANCE	\$ 55,453,164	\$ 14,737,078	\$ 70,190,241
TOTAL LIABILITIES AND FUND BALANCE	\$ 50,731,278	\$ 19,458,964	\$ 70,190,241
			\$ 71,035,788
			\$ 78,385,788

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, 2010

with Comparative Totals for December 31, 2009

	2010		2009
	Unrestricted	SEGREGATED	TOTAL
REVENUES			
City of Milwaukee Proprietary Contributions			
Interest on Special Assessments	\$ 269,033	\$ -	\$ 269,033
One-third Interest on City Tax Certificates	3,348,893	-	3,348,893
One-third Interest on General Investments	250,876	-	250,876
One-third change in market value of General Investments	(2)	-	(2)
Total City of Milwaukee Proprietary Contributions	\$ 3,868,800	\$ -	\$ 3,868,800
Earnings on Fund Investments (excluding City Debt)		627,860	1,421,864
Realized Gain (Loss) on Sale of Investments		-	-
Change in Fair Market Value of Investments		(81,730)	(330,439)
Total Earnings on Fund Investments	930,820	546,130	1,476,950
TOTAL REVENUES	\$ 4,799,620	\$ 546,130	\$ 4,900,428
EXPENDITURES			
Fund Administration Cost	\$ -	\$ -	\$ 3,996
Planned Cancellation of Debt	-	1,678,000	1,950,000
Annual Cancellation of Debt	4,900,000	-	4,900,000
TOTAL EXPENDITURES	\$ 4,900,000	\$ 1,678,000	\$ 7,353,996
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (100,380)	\$ (1,131,870)	\$ (2,453,568)
TRANSFERS			
Transfer from Debt Service Fund (Interest on City Debt, Note E)	\$ 386,703	\$ -	\$ 474,977
Transfers between accounts	4,721,886	(4,721,886)	-
NET CHANGE IN FUND BALANCE	\$ 5,008,209	\$ (5,853,756)	\$ (1,978,591)
FUND BALANCE JANUARY 1	50,444,955	20,590,834	73,014,379
FUND BALANCE DECEMBER 31	<u>55,453,164</u>	<u>14,737,078</u>	<u>71,035,788</u>

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

Public Debt Amortization Fund

Statement of Changes in Cash

December 31, 2010

with Comparative Totals for December 31, 2009

	<u>2010</u>	<u>2009</u>
<u>Cash Provided By</u>		
Beginning Cash & Cash Equivalents	44,229,032	33,849,109
Net Change in Fund Balance	(845,547)	(1,978,591)
Maturing and Sale of Investments	4,120,749	6,079,047
Change in Due to Other Funds	(7,350,000)	7,350,000
<u>Cash Was Used For</u>		
Change in Accrued Interest	(151,000)	(11,030)
Less: Change in Market Value	277,871	330,439
Purchase of Investments	(13,269,956)	(0)
Accretion (Amortization) - Unsegregated	(875,372)	(823,199)
Accretion (Amortization) - Segregated	(533,128)	(566,743)
Total Cash - Ending	<u>25,602,649</u>	<u>44,229,032</u>

CITY OF MILWAUKEE

PUBLIC DEBT AMORTIZATION FUND

Notes to the Financial Statements

For the Year Ended December 31, 2010

- 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 in marketable securities are reported at market value. Investments in non-marketable securities (City debt) are reported at amortized book 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. **City Debt:** Investment in City Debt is considered a related party transaction, and excluded from consolidated GAAP financial statements. The net result is that Investments and Fund Balance is reduced by the amount of City Debt for GAAP reporting purposes. One exception is City Debt that is fully reimbursed by Milwaukee Public Schools. That debt is shown as a Loan Receivable, rather than an Investment, and thus has no effect on Fund Balance.

In order to more properly reflect the economics of the transaction, this Financial Statement treats City Debt as an investment. In order to be consistent with the GAAP presentation, interest on City Debt is reflected as a Transfer from the Debt Service Fund..