

ANNUAL REPORT
PUBLIC DEBT AMORTIZATION FUND

City of Milwaukee
For The Year Ended December 31, 2000

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

PUBLIC DEBT COMMISSION

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

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

PUBLIC DEBT AMORTIZATION FUND

OVERVIEW OF 2000 OPERATIONS

PREFACE

The Public Debt Amortization Fund (PDAF) was created and is governed by virtue of Wisconsin State Statutes, Chapter 67.101. This statute requires that the Secretary of the Public Debt Commission shall keep a record of all proceedings related to the PDAF and that an Annual Report relating to transactions, investments, earnings and expenditures be made to the Common Council.

The intention of this Report is to meet that statutory requirement.

TOTAL FUND INVESTMENT PERFORMANCE

The PDAF, both its Segregated and Unsegregated portions experienced an earnings rebound for 2000 when compared to 1999's negative growth. The Governmental Accounting Standards Board (GASB) Statement No. 31, requires fair market valuation of investments as part of financial statement reporting. With the PDAF heavily invested in long-term United States Treasury Strip securities, susceptibility to interest rate environment swing causes significant market value movement. These market value movements, per GASB 31, are required to be incorporated within the PDAF earnings calculations. Declining interest rates during 2000 led to increased value, and thereby increased returns, for Treasury Strip investments.

The PDAF unsegregated portfolio returned a positive 9.25 percent for 2000. This compared to a negative 0.95 percent return in 1999. Unsegregated investment earnings (without cash) had a return of a plus 12.13 percent. The PDAF evaluates its performance against a "benchmark" of the Shearson Lehman Brothers Intermediate Index. This Index reports Treasury yields of an approximate four year duration. The Shearson Index for 2000 was a positive 10.18 percent.

OPERATIONS-UNSEGREGATED FUND BALANCE

The unsegregated portion of the PDAF produced earnings of \$3.87 million in 2000 compared with a loss of \$.1 million in 1999. As previously noted, the GASB 31 impact on unsegregated investment performance was both significant and material.

By Statute, the PDAF receives one-third of all earnings on City investments. City investments are generally short term, with resulting impact from GASB 31 less pronounced. However, interest rate fluctuations and balances available for investment also affect available returns. In 2000 contributions to the PDAF were \$5.5 million, a 37% increase from 1999. This major increase resulted both from a significant (plus 10.4%) increase in average balance available for investment as well as added contributions from delinquent tax related earnings and the positive impact of short-term interest rates. Some limited degree of GASB 31 positive impact also contributed to this significant increase in City contributions.

Payments in 2000 for the purchase and immediate cancellation of City of Milwaukee Bonds were made in the amount of \$11 million. In addition, during 2000, Fund payments for Special Assessment debt service of \$3.04 million were made from Segregated Fund Balance. Therefore, a total of \$14.04 million was made available to reduce the 2001 property tax levy for debt service, compared to \$14.4 million provided in 1999 to reduce the 2000 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, totaled \$43.45 million as of December 31, 2000, a decrease of \$1.6 million (3.6%) from the comparable 1999 year-end balance. The Public Debt Commission, on September 3, 1997, adopted a revised "Statement of Policy" with respect to the utilization of Fund Balance. The focus of utilization was now to be measured against the level of outstanding non-self supporting general obligation debt of the City. An unsegregated fund balance was to be maintained between a 15 percent minimum and a 20 percent maximum of such non-self supporting general obligation debt with a "target level" at the mid-point between these percentages. For 2000, the City's non-self supporting debt was \$395 million and the mid-point target level was \$69.19 million. The Unsegregated Fund Balance is currently below the Policy parameters at 11.0%.

An additional reserve fund measurement commonly utilized is the percentage of debt reserves to the governmental unit's outstanding general obligation indebtedness. At December 31, 2000, the PDAF Unsegregated Fund Balance stood at 7.2 percent of Milwaukee's outstanding general obligation debt, a decrease from the 8.1 percent of year-end 1999.

PUBLIC DEBT AMORTIZATION FUND

BALANCE SHEET

DECEMBER 31, 2000

ASSETS

Cash and Cash Equivalents (LGIP)	\$ 5,844,462
Investments (Note C)	67,984,891
Accrued Interest Receivable	<u>178,141</u>
TOTAL ASSETS	<u>\$ 74,007,494</u>

LIABILITIES

NONE	<u>NONE</u>
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FUND BALANCE

Segregated (Note D)	\$ 30,558,030
Unsegregated - Available for Retirement of Future Maturities	<u>43,449,464</u>
TOTAL FUND BALANCE	<u>\$ 74,007,494</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 74,007,494</u>

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
FOR THE YEAR ENDED DECEMBER 31, 2000

<u>REVENUES</u>	<u>UNSEGREGATED</u>	<u>SEGREGATED</u>	<u>TOTAL</u>
City of Milwaukee Proprietary Contributions			
Interest on Special Assessments	\$ 346,859	\$ —	\$ 346,859
One-third Interest on City Tax Certificates	1,051,355	—	1,051,355
One-third Interest on General Investments	4,123,662	—	4,123,662
Total City of Milwaukee Proprietary Contributions	<u>\$ 5,521,876</u>	<u>\$ —</u>	<u>\$ 5,521,876</u>
Earnings on Fund Investments	\$ 3,873,597		
Gain (Loss) on Sale of Investments	<u>—</u>		
Total Earnings on Fund Investments	3,873,597	4,802,292	8,675,889
TOTAL REVENUES	<u>\$ 9,395,473</u>	<u>\$ 4,802,292</u>	<u>\$ 14,197,765</u>
 <u>EXPENDITURES</u>			
Payment of Special Assessment Related Debt Service from Segregated Assets	\$ —	\$ 3,038,340	\$ 3,038,340
Purchase and Immediate Cancellation of Series S Bonds	11,000,000	—	11,000,000
TOTAL EXPENDITURES	<u>\$ 11,000,000</u>	<u>\$ 3,038,340</u>	<u>\$ 14,038,340</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$(1,604,527)	\$ 1,763,952	\$ 159,425
 <u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfer From Special Assessment Fund (Note D)	\$ —	\$ —	\$ —
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	\$(1,604,527)	\$ 1,763,952	\$ 159,425
FUND BALANCE JANUARY 1	<u>45,053,991</u>	<u>28,794,078</u>	<u>73,848,069</u>
FUND BALANCE DECEMBER 31	<u>\$ 43,449,464</u>	<u>\$ 30,558,030</u>	<u>\$ 74,007,494</u>

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

PUBLIC DEBT AMORTIZATION FUND
STATEMENT OF CHANGES IN CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2000

CASH WAS PROVIDED BY:

Income from Investments (exclusive of GASB 31 non-cash impact)	\$ 2,152,886
City of Milwaukee Contributions	5,521,876
Net Adjustment - Accrual To Cash Basis	316,200
Decrease In Deferred Charges	1,888,250
Sale of Investments	<u>7,000,000</u>
	<u>\$ 16,879,212</u>

CASH WAS UTILIZED FOR:

Retirement of City of Milwaukee Existing Debt	\$ 3,038,340
Purchase & Immediate Cancellation of City Series S Bonds	11,000,000
Purchase of Investments	<u>4,787,338</u>
	<u>\$ 18,825,678</u>

INCREASE (DECREASE) IN CASH BALANCE **\$(1,946,466)**

CASH AND CASH EQUIVALENTS - JANUARY 1, 2000 **7,790,908**

CASH AND CASH EQUIVALENTS - DECEMBER 31, 2000 **\$ 5,844,462**

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

PUBLIC DEBT AMORTIZATION FUND
SUMMARY OF SECURITIES OWNED
AT DECEMBER 31, 2000

<u>YEAR OF MATURITY</u>	<u>INVESTMENT TYPE</u>	<u>TOTAL PAR VALUE</u>
2001	UNITED STATES TREASURY STRIPS	\$ 9,381,000
2001	CITY OF MILWAUKEE NOTES	1,024,945
2002	UNITED STATES TREASURY STRIPS	9,215,000
2002	CITY OF MILWAUKEE NOTES	1,088,007
2003	UNITED STATES TREASURY STRIPS	6,308,000
2003	UNITED STATES TREASURY NOTES	5,000,000
2003	CITY OF MILWAUKEE NOTES	1,154,953
2004	UNITED STATES TREASURY STRIPS	9,250,000
2004	CITY OF MILWAUKEE NOTES	736,339
2005	UNITED STATES TREASURY STRIPS	9,797,000
2005	CITY OF MILWAUKEE NOTES	783,094
2006	UNITED STATES TREASURY STRIPS	9,834,000
2007	UNITED STATES TREASURY STRIPS	3,205,000
2008	UNITED STATES TREASURY STRIPS	3,253,000
2009	UNITED STATES TREASURY STRIPS	3,240,000
2010	UNITED STATES TREASURY STRIPS	2,376,000
2011	UNITED STATES TREASURY STRIPS	1,918,000
2012	UNITED STATES TREASURY STRIPS	1,679,000
2013	UNITED STATES TREASURY STRIPS	1,689,000
2014	UNITED STATES TREASURY STRIPS	1,231,000
2015	UNITED STATES TREASURY STRIPS	1,004,000
2016	UNITED STATES TREASURY STRIPS	885,000
2017	UNITED STATES TREASURY STRIPS	680,000
2018	UNITED STATES TREASURY STRIPS	420,000
2019	UNITED STATES TREASURY STRIPS	<u>245,000</u>
TOTAL – US TREASURY NOTES, STRIPS AND CITY NOTES (AT PAR)		\$ 85,397,338
LESS: UNMORTIZED PREMIUMS AND (DISCOUNTS) (NET)		<u>(21,374,835)</u>
TOTAL INVESTMENTS (BOOK VALUE)		\$ 64,022,503
ADD: GASB 31 ADJUSTMENT TO MARKET VALUATION		<u>3,962,388</u>
TOTAL INVESTMENTS (MARKET VALUATION)		<u>\$ 67,984,891</u>

REF: PD-5632W.DOC

Ties to "Securities Owned 2000.xls"

CITY OF MILWAUKEE

PUBLIC DEBT AMORTIZATION FUND

Notes to the Financial Statements

For the Year Ended December 31, 2000

**A. Statutory
Background:**

Use of the Public Debt Amortization Fund for retirement of the public debt is governed by Section 67.101 of the Wisconsin Statutes. The Statutes provide that when total principal and accrued interest in the Public Debt Amortization Fund is substantially equal to the outstanding general obligation bonds and notes, the fund shall be applied to make annual interest and principal payments on that debt to maturity. Subsection (13) of the Statutes provides, in part, that: "The Public Debt Commission may, however, at any time, apply the fund, not to exceed in any one year, 40 percent of the balance in said fund on the preceding December 31 to acquire for cancellation general obligation bonds or notes prior to their maturity dates at prices not to exceed principal plus accrued interest to date of maturity, but the fund 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, allocated by Statute, and interest on the fund'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:

Beginning with the year ending December 31, 1997, Investments are reported at market value as required by Governmental Accounting Standards Board (GASB) Statement No. 31. Adjustments required to bring Investments from book to market value are reported as either increases or decreases to revenue in the operating statement as required by GASB 31.

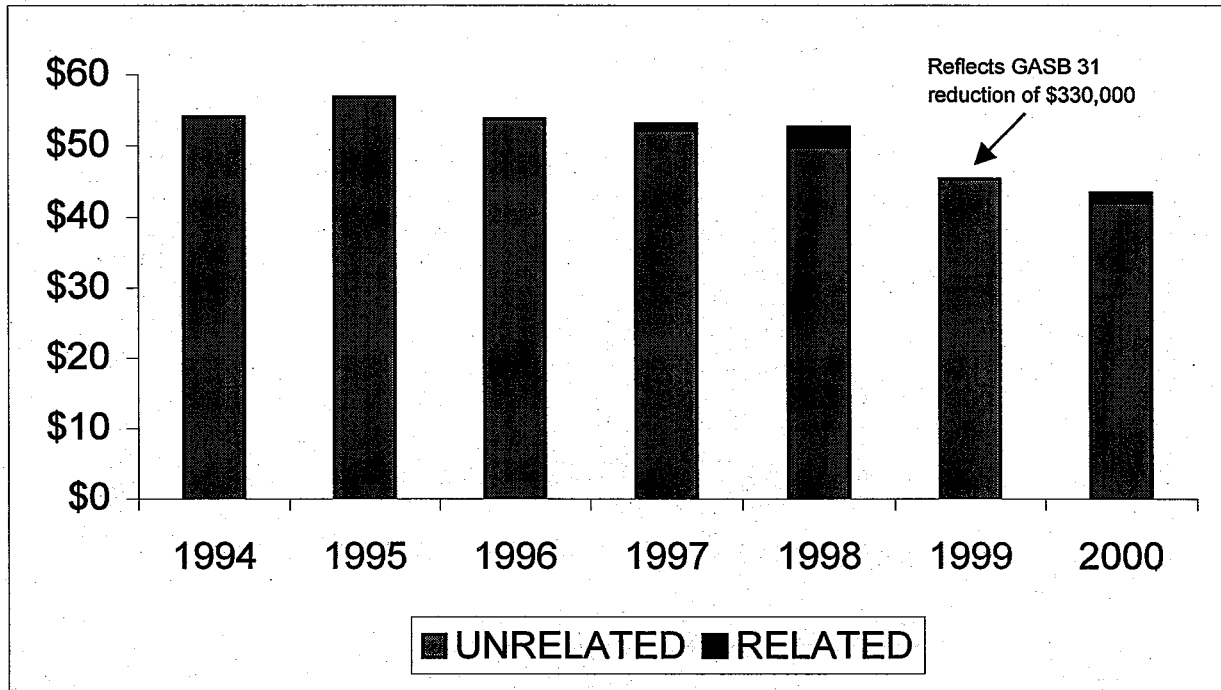
**D. Segregated Fund
Balance:**

The Milwaukee Common Council has adopted various resolutions over the past ten years authorizing the operating transfer of amounts from the Special Assessment Fund to the Public Debt Amortization Fund. The adopted resolutions state: "That it is the intent of the Common Council that the funds transferred to the Public Debt Amortization Fund not be considered by the Commissioners of the Public Debt as part of the Amortization Fund's 'Unrestricted Fund Balance' for purposes of determining the annual amount provided for prepayment of debt."

These operating transfers (net of annual debt service payments), equate to the "Segregated" Fund Balance total of \$30,558,030.

**PUBLIC DEBT AMORTIZATION FUND
GASB 31* IMPACT ON UNSEGREGATED FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 1994 - 2000**

(IN MILLIONS OF DOLLARS)



	1994	1995	1996	1997	1998	1999	2000
UNRELATED TO GASB 31	\$54.087	\$56.890	\$53.797	\$52.280	\$49.884	\$45.384	\$42.121
RELATED TO GASB 31	0	0	0	0.826	2.782	-0.33	1.328
TOTAL	\$54.087	\$56.890	\$53.797	\$53.106	\$52.666	\$45.054	\$43.449

* GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 31 RELATES TO THE REPORTING OF INVESTMENTS AT MARKET VALUATION. STATEMENT NO. 31 WAS INITIALLY IMPLEMENTED WITH THE PUBLIC DEBT AMORTIZATION FUND ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1997.

KNOWN AS "GASB31-2000" ON GLK EXCELL FILE