



Office of the Comptroller

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

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

Michael J. Daun
Special Deputy Comptroller

Anita W. Paretti, C.P.A.
Special Deputy Comptroller

May 17, 2004

Ref: 2003 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, 2003.

Respectfully submitted

W. MARTIN MORICS
Comptroller and Secretary
Public Debt Commission

WMM:RL:mm

Attachment

REF:AR-LTR-2003

ANNUAL REPORT

PUBLIC DEBT AMORTIZATION FUND

City of Milwaukee

For The Year Ended December 31, 2003

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

PUBLIC DEBT COMMISSION

MARGARET J. HENNINGSEN, Chairperson

TIMOTHY J. ELVERMAN, Member

MICHELLE J. NATE, Member

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

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

PUBLIC DEBT AMORTIZATION FUND

OVERVIEW OF 2003 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 a 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

Continued economic weakness resulted in continued low level of interest rates in 2003, and in the low level of interest earnings for the PDAF. The expectation of recovery in 2004 led to in an increase in medium to long-term interest rates at the end of 2003, resulting in a decline in the value of longer-term investments.

The PDAF unsegregated portfolio returned an overall (interest earnings less loss in market value) +1.52% in 2003, compared to a +5.64% return in 2002. The unsegregated long-term investments (investments excluding cash) had a return of +2.11% in 2003 vs. +7.39% in 2002. In comparison, a "benchmark" of the Shearson Lehman Brothers Intermediate Index returned +2.21% in 2003, and +9.29% in 2002, which approximates a portfolio of U.S. Treasury obligations with a duration of four years. The primary reason the PDAF returns underperformed the benchmark is because the investments of the PDAF were shorter than the benchmark.

OPERATIONS-UNSEGREGATED FUND BALANCE

The unsegregated portion of the PDAF produced earnings of \$0.9 million compared to earnings of \$2.4 million in 2002. While interest earnings continued to remain low in 2003, the main factor contributing to the decline was market valuation losses this year vs. market valuation gains in the prior year. This was due to an increase in interest rates towards the end of 2003.

2003 contributions to the PDAF were \$2.7 million, down slightly from \$3.0 million in 2002. The decrease is primarily attributable to continued low interest rates.

Payments in 2002 for the purchase and immediate cancellation of City of Milwaukee Bonds were made in the amount of \$4 million from the Unsegregated Portion of the PDAF. In addition, \$3.3 million was used from the Segregated portion of the PDAF. In 2002, \$5 million and \$3.3 million were used from the Unsegregated 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 (Unsegregated portion), totaled \$44.2 million as of December 31, 2003, a decrease of \$0.4 million (-0.9%) from the comparable 2002 year-end balance. The Public Debt Commission, on September 3, 1997, adopted a revised "Statement of Policy" which targets an Unsegregated PDAF balance between 15 to 20% of non-self supporting General Obligation debt. For 2003, the unsegregated portion of the PDAF equaled 9.6% of the City's non-self supporting debt compared to 9.8% in 2002, well below the 15% minimum target. The primary reason for the decline is a slight decrease in fund balance, and a slight increase in debt outstanding.

Public Debt Amortization Fund

Balance Sheet

December 31, 2003

with Comparative Totals for December 31, 2002

| | <u>2003</u> | <u>2002</u> |
|---|----------------------|----------------------|
| <u>Assets</u> | | |
| Cash and Cash Equivalents | | |
| City - Pooled Cash | \$ 6,662,199 | \$ 25,700 |
| LGIP (Note C) | 5,663,438 | 11,243,917 |
| Total Cash and Cash Equivalents | \$ 12,325,637 | \$ 11,269,617 |
| Investments (Note C) | | |
| Book Value | 60,187,631 | 55,076,582 |
| Unrealized Gain (Loss) | 4,076,057 | 6,937,692 |
| Total Investments | 64,263,688 | 62,014,274 |
| Accrued Interest Receivable | 46,589 | 248,767 |
| TOTAL ASSETS | <u>\$ 76,635,914</u> | <u>\$ 73,532,658</u> |
| <u>Liabilities</u> | | |
| None | \$ - | \$ - |
| TOTAL LIABILITIES | <u>\$ -</u> | <u>\$ -</u> |
| <u>Fund Balance</u> | | |
| Segregated (Note D) | \$ 32,470,871 | \$ 28,925,286 |
| Unsegregated | 44,165,043 | 44,607,373 |
| TOTAL FUND BALANCE | <u>\$ 76,635,914</u> | <u>\$ 73,532,658</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 76,635,914</u> | <u>\$ 73,532,658</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

December 31, 2003

with Comparative Totals for December 31, 2002

| | 2003 | | 2002 | |
|---|---------------------|-----------------------|-----------------------|---------------------|
| | UNSEGREGATED | SEGREGATED | UNSEGREGATED | TOTAL |
| REVENUES | | | | |
| City of Milwaukee Proprietary Contributions | | | | |
| Interest on Special Assessments | \$ 398,861 | \$ - | \$ 398,861 | \$ 398,861 |
| One-third Interest on City Tax Certificates | 1,354,639 | - | 1,354,639 | 1,267,010 |
| One-third Interest on General Investments | 820,215 | - | 820,215 | 1,268,443 |
| One-third change in market value of General Investments | 114,821 | - | 114,821 | 51,431 |
| Total City of Milwaukee Proprietary Contributions | \$ 2,688,535 | \$ - | \$ 2,688,535 | \$ 2,971,620 |
| Earnings on Fund Investments | 1,668,259 | | | 3,808,827 |
| Interest Adjustment for Cancelled Debt | 11,000 | | | |
| Realized Gain (Loss) on Sale of Investments | - | | | |
| Change in Fair Market Value of Investments | (794,444) | | | |
| Total Earnings on Fund Investments | 872,438 | 750,585 | 1,623,023 | 2,201,219 |
| TOTAL REVENUES | \$ 3,560,973 | \$ 750,585 | \$ 4,311,558 | \$ 8,981,665 |
| EXPENDITURES | | | | |
| Fund Administration Cost | 3,303 | - | 3,303 | \$ 2,952 |
| Planned Cancellation of Debt | - | 3,285,000 | 3,285,000 | 3,295,465 |
| Annual Cancellation of Debt | 4,000,000 | - | 4,000,000 | 5,000,000 |
| TOTAL EXPENDITURES | \$ 4,003,303 | \$ 3,285,000 | \$ 7,288,303 | \$ 8,298,417 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ (442,330) | \$ (2,534,415) | \$ (2,976,745) | \$ 683,249 |
| TRANSFERS | | | | |
| Transfer from General Fund | - | 6,080,000 | 6,080,000 | \$ 0 |
| NET CHANGE IN FUND BALANCE | \$ (442,330) | \$ 3,545,585 | \$ 3,103,255 | \$ 683,249 |
| FUND BALANCE JANUARY 1 | 44,607,373 | 28,925,286 | 73,532,658 | 72,849,410 |
| FUND BALANCE DECEMBER 31 | 44,165,043 | 32,470,871 | 76,635,914 | 73,532,658 |

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

Public Debt Amortization Fund

Statement of Changes in Cash

December 31, 2003

with Comparative Totals for December 31, 2002

| | <u>2003</u> | <u>2002</u> |
|---|-------------------|-------------------|
| <u>Cash Provided By</u> | | |
| Beginning Cash & Cash Equivalents | 11,269,617 | 7,163,141 |
| Net Change in Fund Balance | 3,103,255 | 683,249 |
| Maturing and Sale of Investments | 21,163,302 | 10,303,006 |
| Change in Deferred Charges | - | 478 |
| <u>Cash Was Used For</u> | | |
| Change in Accrued Interest | 202,179 | (81,903) |
| Less: Change in Market Value | 2,852,644 | (2,201,219) |
| Purchase of Investments | (23,473,022) | (1,415,000) |
| Accretion (Amortization) - Unsegregated | (1,134,709) | (1,417,917) |
| Accretion (Amortization) - Segregated | (1,657,630) | (1,764,219) |
| | | |
| Total Cash - Ending | <u>12,325,637</u> | <u>11,269,617</u> |

CITY OF MILWAUKEE

PUBLIC DEBT AMORTIZATION FUND

Notes to the Financial Statements

For the Year Ended December 31, 2003

- 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.