

Reply to Common Council File No. 030090

From DOA-Budget and Management Division

April 23, 2003

Ref: 03017

Common Council File 030090 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, 2002.

PDAF earnings in 2002 were lower than in 2001. The PDAF unsegregated portfolio earned a 5.64 percent return in 2002 compared to the 7.90 percent return in 2001. This was largely due to ongoing economic weakness that resulted in continued lower interest rates.

Unsegregated investment earnings excluding cash deposits had a return of 7.39 percent. This return is less than the PDAF benchmark, the Shearson-Lehman Brothers Intermediate (Bond) Index of 9.29 percent for 2002. The Index reports yields on U. S. Treasury Bonds with approximately four years to maturity. The PDAF's investments have shorter average maturities. In addition, approximately 10% of the portfolio is invested in municipal bonds that are not marked to market


A total of \$8.3 million was made available to reduce 2003 property tax levy requirements for debt service compared to \$10.3 million in 2001 for 2002 requirements. Of this amount, \$3.3 million was paid for special assessment debt service requirements and \$5 million was in the form of payments in 2002 for the purchase and immediate cancellation of City of Milwaukee bonds. The payments for purchase and cancellation of City of Milwaukee bonds decreased from \$7.0 million in 2002.

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, 2002 totaled \$44.6 million. This was an increase of \$400,000, or 0.9% from the adjusted 2001 year-end balance of \$44.2 million. The 2001 year end balance was adjusted from \$43.65 million to account for Segregated expenses paid from Unrestricted Funds.

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, 2002, the city's non-self supporting debt was \$454.8 million with a resulting policy minimum balance of \$68.2 million. The actual Unsegregated Fund Balance of \$44.6 million was below the minimum 15% target at 9.7%.

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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JJL

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