

ANNUAL REPORT
PUBLIC DEBT AMORTIZATION FUND

City of Milwaukee
For The Year Ended December 31, 2012

Prepared By:
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PUBLIC DEBT COMMISSION

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**MARTIN MATSON, Comptroller and Secretary
Ex Officio**

**SPENCER COGGS, Treasurer and Treasurer
Ex Officio**

PUBLIC DEBT AMORTIZATION FUND

OVERVIEW OF 2012 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 2012, and the 10-year Treasury Rate declined from 1.97% to 1.88% for the year. The decline in rates resulted in unrealized gains for the year.

The PDAF unrestricted portfolio returned an overall (interest earnings plus gain in market value) +3.61% in 2012 compared to +4.30% in 2011. In comparison, a "benchmark" of the Barclays Capital Intermediate Term Treasury ETF returned 1.61% in 2012 (on NAV for ticker symbol ITE), and 6.47% in 2011, 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 \$2.1 million in 2012 (Earnings on Fund Investments plus Interest on City Debt) compared to of \$2.7 million in 2011. Interest rates stayed low in 2012.

2012 contributions to the PDAF were \$3.8 million, an increase from \$3.4 million in 2011 primarily due to an increase in interest on City General Fund investments.

The Commission authorized in 2012 payments for the payment of debt service on City of Milwaukee Bonds in the amount of \$5.5 million from the Unrestricted portion, and \$1.5 million from the Segregated portion of the PDAF. In 2011, \$4.5 million and \$1.4 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 totaled \$57.4 million as of December 31, 2012, an increase of \$0.4 million (+0.6%) from the comparable 2011 year-end balance.

The Public Debt Commission's September 3, 1997 Statement of Policy targets an Unrestricted PDAF balance between 15% to 20% of non-self supporting General Obligation debt. For 2012, the unrestricted portion of the PDAF equaled 12.7% of the City's non-self supporting debt compared to 11.8% in 2011. The increase is primarily due to the conversion of Commercial Paper from General Obligation (2008 CP) to non-General Obligation Debt (2012 EMCP).

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). As of 12/31/2012, the amount of City Debt owned by the PDAF was \$2,340,000.

Public Debt Amortization Fund

Balance Sheet

December 31, 2012

with Comparative Totals for December 31, 2011

	2012			2011
	Unrestricted	Segregated	Total	Total
<u>Assets</u>				
Cash and Cash Equivalents				
City - Pooled Cash	\$ 12,474,297	\$ -	\$ 12,474,297	\$ 8,667,214
LGIP & other cash investments (Note C)	1,091,011	24,209	1,115,220	14,998,751
Total Cash and Cash Equivalents	13,565,308	24,209	\$ 13,589,517	\$ 23,665,966
Investments and Loans (Note C)				
Book Value	39,768,410	13,180,413	52,948,823	42,517,842
Unrealized Gain (Loss)	1,086,012	182,085	1,268,097	953,456
Investment in City Debt (Note E)	2,340,000	-	2,340,000	3,700,000
Total Investments	\$ 43,194,423	\$ 13,362,498	\$ 56,556,920	47,171,298
Due from other funds	-	-	-	-
Accrued Interest Receivable	164,956	4	164,960	126,654
 TOTAL ASSETS	\$ 56,924,687	\$ 13,386,711	\$ 70,311,397	\$ 70,963,918
<u>Liabilities</u>				
Due to (from) other funds	\$ (488,850)	\$ 488,850	\$ -	\$ -
 TOTAL LIABILITIES	\$ (488,850)	\$ 488,850	\$ -	\$ -
<u>Fund Balance</u>				
 TOTAL FUND BALANCE	\$ 57,413,536	\$ 12,897,861	\$ 70,311,397	\$ 70,963,918
 TOTAL LIABILITIES AND FUND BALANCE	\$ 56,924,687	\$ 13,386,711	\$ 70,311,397	\$ 70,963,918

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, 2012

with Comparative Totals for December 31, 2011

	2012			2011
	Unrestricted	Segregated	Total	Total
REVENUES				
City of Milwaukee Proprietary Contributions				
Interest on Special Assessments	\$ 307,233	\$ -	\$ 307,233	\$320,373
One-third Interest on City Tax Certificates	3,093,236	-	3,093,236	2,949,277
One-third Interest on General Investments	405,287	-	405,287	154,596
One-third change in market value of General Investments	6,075	-	6,075	3
Total City of Milwaukee Proprietary Contributions	<u>\$ 3,811,832</u>	<u>\$ -</u>	<u>\$ 3,811,832</u>	<u>\$ 3,424,248</u>
Earnings on Fund Investments (excluding City Debt)	1,572,912	533,632	2,106,543	1,997,458
Realized Gain (Loss) on Sale of Investments	-	-	-	-
Change in Fair Market Value of Investments	321,001	(6,360)	314,641	994,150
Total Earnings on Fund Investments	<u>\$ 1,893,912</u>	<u>\$ 527,272</u>	<u>\$ 2,421,185</u>	<u>\$ 2,991,608</u>
TOTAL REVENUES	<u>\$ 5,705,744</u>	<u>\$ 527,272</u>	<u>\$ 6,233,016</u>	<u>\$ 6,415,856</u>
EXPENDITURES				
Fund Administration Cost	\$ -	\$ -	\$ -	\$ -
Planned Cancellation of Debt	-	1,546,698	1,546,698	1,424,432
Annual Cancellation of Debt	5,500,000	-	5,500,000	4,500,000
TOTAL EXPENDITURES	<u>\$ 5,500,000</u>	<u>\$ 1,546,698</u>	<u>\$ 7,046,698</u>	<u>\$ 5,924,432</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 205,744	\$ (1,019,426)	\$ (813,682)	\$ 491,424
TRANSFERS				
Transfer from Debt Service Fund (Interest on City Debt, Note E)	\$ 161,161	\$ -	\$ 161,161	\$282,253
Transfers between accounts	-	-	-	-
NET CHANGE IN FUND BALANCE	\$ 366,905	\$ (1,019,426)	\$ (652,520)	\$ 773,676
FUND BALANCE JANUARY 1	57,046,631	13,917,287	70,963,918	70,190,241
FUND BALANCE DECEMBER 31	<u>57,413,536</u>	<u>12,897,861</u>	<u>70,311,397</u>	<u>70,963,918</u>

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

CITY OF MILWAUKEE

PUBLIC DEBT AMORTIZATION FUND

Notes to the Financial Statements

For the Year Ended December 31, 2012

- 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 includes the effect of amortization of 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 are 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.