

ANNUAL REPORT
PUBLIC DEBT AMORTIZATION FUND

City of Milwaukee

For The Year Ended December 31, 2002

Prepared By:
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Comptroller and Secretary
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Public Debt Commission

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PUBLIC DEBT AMORTIZATION FUND

OVERVIEW OF 2002 OPERATIONS

PREFACE

The Public Debt Amortization Fund (PDAF) was created and 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 are believed to have been prepared in accordance with auditing standards generally accepted in the United States of America. Portions of these statements are used to prepare the Comprehensive Annual Financial Report of the City of Milwaukee, which is independently audited.

TOTAL FUND INVESTMENT PERFORMANCE

Continued economic weakness, with no visible risk of inflation, resulted in a continued decline in interest rates in 2002. Lower interest rates helped to increase the value of long-term investments, however it also decreased interest earnings on short-term investments.

The PDAF unsegregated portfolio returned an overall (interest earnings plus gain in market value) +5.64% in 2002, compared to a +7.90% return in 2001. The unsegregated long-term investments (investments excluding cash) had a return of +7.39% in 2002 vs. +10.40% in 2001. In comparison, a "benchmark" of the Shearson Lehman Brothers Intermediate Index returned +9.29% in 2002, and +7.98% in 2001. This Index reports Treasury yields of an approximate four year duration. The primary reasons the PDAF returns underperformed the benchmark are: 1) The investments of the PDAF are shorter than the benchmark; and 2) approximately 10% of the portfolio is invested in Municipal Bonds that are not marked-to-market.

OPERATIONS-UNSEGREGATED FUND BALANCE

The unsegregated portion of the PDAF produced earnings of \$2.4 million in 2002 compared to earnings of \$3.2 million in 2001. Lower interest rates were the primary reason for the earnings decline.

2002 contributions to the PDAF were \$3.0 million, down from \$4.0 million in 2001. Again, the decrease is primarily attributable to declining interest rates.

Payments in 2002 for the purchase and immediate cancellation of City of Milwaukee Bonds were made in the amount of \$5 million from the Unsegregated Portion of the PDAF. In addition, \$3.3 million was used from the Segregated portion of the PDAF. In 2001, \$7 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 \$44.6 million as of December 31, 2002, an increase of \$0.4 million (+0.9%) from the comparable 2001 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 2002, the unsegregated portion of the PDAF equaled 9.7% of the City's non-self supporting debt compared to 10.4% in 2001, well below the 15% minimum target. The primary reason for the decline is a net increase of approximately \$19 million of debt outstanding.

Public Debt Amortization Fund
Balance Sheet

December 31, 2002
with Comparative Totals for December 31, 2001

	<u>2002</u>	<u>2001</u>
<u>Assets</u>		
Cash and Cash Equivalents	\$ 25,700	\$ 107,101
City - Pooled Cash	11,243,917	7,056,041
LGIP (Note C)	\$ 11,269,617	\$ 7,163,141
Total Cash and Cash Equivalents	55,076,582	60,783,000
Investments (Note C)	6,937,692	4,736,404
Book Value	62,014,274	65,519,404
Unrealized Gain (Loss)	248,767	166,864
Total Investments	<u>\$ 73,532,658</u>	<u>\$ 72,849,410</u>
Accrued Interest Receivable		
TOTAL ASSETS	\$ -	\$ -
<u>Liabilities</u>		
None	\$ -	\$ -
TOTAL LIABILITIES	\$ -	\$ -
<u>Fund Balance</u>		
Segregated (Note D, E)	\$ 28,925,286	\$ 28,657,143
Unsegregated (Note E)	44,607,373	44,192,267
TOTAL FUND BALANCE	\$ 73,532,658	\$ 72,849,410
TOTAL LIABILITIES AND FUND BALANCE	\$ 73,532,658	\$ 72,849,410

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, 2002

with Comparative Totals for December 31, 2001

	2002		2001	
	UNSEGREGATED	SEGREGATED	TOTAL	TOTAL
REVENUES				
City of Milwaukee Proprietary Contributions				
Interest on Special Assessments	\$ 384,736	\$ -	\$ 384,736	\$ 331,822
One-third Interest on City Tax Certificates	1,267,010	-	1,267,010	1,358,408
One-third Interest on General Investments	1,268,443	-	1,268,443	2,352,166
One-third change in market value of General Investments	51,431	-	51,431	-
Total City of Milwaukee Proprietary Contributions	\$ 2,971,620	\$ -	\$ 2,971,620	\$ 4,042,396
Earnings on Fund Investments	2,026,446	1,782,381		
Gain (Loss) on Sale of Investments	419,992	1,781,227		
Total Earnings on Fund Investments	2,446,438	3,563,608	6,010,045	5,105,535
TOTAL REVENUES	\$ 5,418,058	\$ 3,563,608	\$ 8,981,665	\$ 9,147,931
EXPENDITURES				
Fund Administration Cost	\$ 2,952	\$ -	\$ 2,952	\$ 1,920
Planned Cancellation of Debt	-	3,295,465	3,295,465	3,304,095
Annual Cancellation of Debt	5,000,000	-	5,000,000	7,000,000
TOTAL EXPENDITURES	\$ 5,002,952	\$ 3,295,465	\$ 8,298,417	\$ 10,306,015
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 415,106	\$ 268,142	\$ 683,249	\$ (1,158,084)
FUND BALANCE JANUARY 1 (Note E)	44,192,267	28,657,143	72,849,410	74,007,494
FUND BALANCE DECEMBER 31	44,607,373	28,925,286	73,532,658	72,849,410

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

Public Debt Amortization Fund

Statement of Changes in Cash

December 31, 2002

with Comparative Totals for December 31, 2001

	<u>2002</u>	<u>2001</u>
<u>Cash Provided By</u>		
Beginning Cash & Cash Equivalents	7,163,141	5,844,462
Excess of Revenues over (under) expenditures	683,249	(1,158,084)
Maturing and Sale of Investments	10,303,006	7,028,945
Change in Deferred Charges	478	1,684,060
<u>Cash Was Used For</u>		
Change in Accrued Interest	(81,903)	11,277
Less: Change in Market Value	(2,201,219)	(701,607)
Purchase of Investments	(1,415,000)	(3,615,000)
Accretion (Amortization) - Unsegregated	(1,417,917)	(1,930,911)
Accretion (Amortization) - Segregated	(1,764,219)	Incl Above
Total Cash - Ending	<u>11,269,617</u>	<u>7,163,141</u>

CITY OF MILWAUKEE

PUBLIC DEBT AMORTIZATION FUND

Notes to the Financial Statements

For the Year Ended December 31, 2002

- A. **Statutory Background:** Use of the Public Debt Amortization Fund ("PDAF") for retirement of the public debt is governed by Section 67.101 of the 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 acquire for cancellation general obligation bonds or notes of the City, 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, 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:** Investments are reported at market value as required by Governmental Accounting Standards Board (GASB) Statement No. 31. Interest earnings is based upon amortized book value. Any remaining 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. **Fund Balance:** The allocation of the PDAF between Segregated and non-segregated (the "Unsegregated") portion as at 12/31/2001 has been restated. See the scheduled titled Adjustment to December 31, 2001 Fund Balance.

Public Debt Amortization Fund

Adjustment to December 31, 2001 Fund Balance

	<u>Unsegregated</u>	<u>Segregated</u>	<u>Total</u>
12/31/01 Balance from Treasurer's Report	42,890,486.29	29,684,958.68	72,575,444.97
12/31/01 Pooled Cash	107,100.69	-	107,100.69
12/31/01 Accrued Interest	163,317.61	3,546.50	166,864.11
Total 12/31/01 Cash and Investments	<u>43,160,904.59</u>	<u>29,688,505.18</u>	<u>72,849,409.77</u>
2001 Segregated Expenses paid from Unrestricted Funds	1,028,045.00	(1,028,045.00)	-
Additional adjustment for Interest Earnings	3,008.16	(3,008.16)	-
Other Adjustments	308.77	(308.77)	-
Adjusted 12/31/01 Fund Balance	<u>44,192,266.52</u>	<u>28,657,143.25</u>	<u>72,849,409.77</u>
12/31/01 Balance from prior year's Annual Report	43,651,591.00	29,197,818.77	72,849,409.77
Unreconciled Difference	540,675.52	(540,675.52)	-

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