

Reply to Common Council File No. 020222

From DOA-Budget and Management Division

May 21, 2002

Ref: 02002 (1)

Common Council File 020222 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, 2001.

PDAF earnings in 2001 were lower than in 2000. The PDAF unsegregated portfolio earned a 7.90 percent return in 2001 compared to the 9.25 percent return in 2000. This was due to lower returns on PDAF investments in the State of Wisconsin Local Government Investment Pool.

This was partially offset by an increase in the fair market value of discounted Treasury bonds or notes, commonly referred to as "Treasury Strips," held by the PDAF. (These are bonds or notes issued by the US Treasury and sold well below face value. No interest payments are made during the term of the bond or note. The face value is paid at maturity.) These investments must be reported at fair market value on the balance sheet according to Government Accounting Standards Board (GASB) Statement No. 31. It also requires that the adjustment from book value to fair market value be recognized on the annual operating statement. Declining interest rates during 2001 increased Treasury Strip valuation.

Unsegregated investment earnings excluding cash deposits had a return of 10.40 percent. This return compares favorably to the PDAF benchmark, the Shearson-Lehman Brothers Intermediate (Bond) Index of 7.98 percent for 2001.

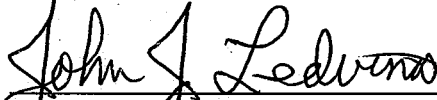
A total of \$10.3 million was made available to reduce 2002 property tax levy requirements for debt service compared to \$14.0 million in 2000 for 2001 requirements. Of this amount, \$3.3 million was paid for special assessment debt service requirements and \$7 million was in the form of payments in 2001 for the purchase and immediate cancellation of City of Milwaukee bonds. The payments for purchase and cancellation of City of Milwaukee bonds decreased from \$11.0 million in 2000.

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, 2000 totaled \$43.65 million. This was an increase of \$200,000, or 0.4% from the 2000 year-end balance of \$43.45 million.

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, 2001, the city's non-self supporting debt was \$421.7 million with a resulting policy minimum balance of \$63.3 million. The actual Unsegregated Fund Balance of \$43.65 was below the policy parameters at 10.35%.

In sum, the PDAF met its investment 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: PLACE ON FILE



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