

Reply to Common Council File No. 010252

From DOA-Budget and Management Division

July 5, 2001

Ref: 01002(06)

Common Council File 010252 is a communication from the Comptroller's Office transmitting the Annual Report of the Public Debt Amortization Fund for the year ended December 31, 2000.

The PDAF experienced strong earnings in 2000, compared to 1999's loss. The application of the Government Accounting Standards Board (GASB) Statement No. 31 had a significant impact on fund performance. This standard requires reporting of investments at fair market value and also requires the difference between book and fair market values are recognized within the operating statement. Declining interest rates during 2000 led to an increase in value, and therefore increased returns, for US Treasury strip investments held by the PDAF.

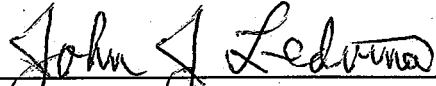
The unsegregated portion of the PDAF earned \$3.87 million (9.25 percent) in 2000 compared to a \$127,000 loss (negative 0.95 percent) in 1999. The 2000 contributions from earnings on city investments (by statute, the PDAF receives one-third of all earnings on city investments) were \$5.5 million, a 37% increase from 1999. This increase resulted from a 10.4% increase in the average investable balances of general city investments during 2000, added contributions from delinquent tax related earnings, and the positive impact of short-term interest rates.

A total of \$14.04 million was made available to reduce the 2001 property tax levy requirements for debt service compared to \$14.4 million in 1999 for 2000 requirements. Of this amount, \$11 million was in the form of payments in 2000 for the purchase and immediate cancellation of City of Milwaukee Bonds and \$3.04 million was paid for special assessment debt service requirements.

The unsegregated fund balance available for future prepayment and cancellation of city debt totaled \$43.45 million as of December 31, 2000, a decrease of \$1.6 million or 3.6% from the 1999 year-end balance. The Public Debt Commission, on September 3, 1997, adopted a revised "Statement of Policy" with respect to the utilization of Fund Balance. The focus of utilization was now to be measured against the level of outstanding non-self supporting general obligation debt of the city. An unsegregated fund balance was to be maintained between a 15% minimum and a 20% maximum of such non-self supporting general obligation debt with a "target level" at the mid-point between these percentages

For 2000, the city's non-self supporting debt was \$395 million and the mid-point target level was \$69.19 million. The Unsegregated Fund Balance is currently below the policy parameters at 11.0%.

**RECOMMENDATION: PLACE ON FILE**

  
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John J. Ledvina  
Capital Planning and Finance Specialist

JJL:jjl

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