

ANNUAL REPORT
PUBLIC DEBT AMORTIZATION FUND

City of Milwaukee
For The Year Ended December 31, 2016

Prepared By:
Richard Li
Public Debt Specialist

PUBLIC DEBT COMMISSION

CRAIG KAMMHOLZ, Chairperson

BERNARD ALLEN, Member

PETER ARMBRUSTER, Member

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

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

PUBLIC DEBT AMORTIZATION FUND

OVERVIEW OF 2016 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 October 1, 2015, the PDC adopted a policy that targets a balance of the PDAF in the range of 5-15% of non-self-supporting General Obligation Debt when determining the amount of the PDAF to be used to purchase and cancel debt.

These financial 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

In December, 2015, the Federal Reserve Bank began raising short-term interest rates, and the market reacted accordingly in 2016. With confidence in an improving economy, interest rates rose slightly in 2016 with 5 and 10-year Treasury Rates increasing from 1.77% and 2.28% to 1.97% and 2.48%, respectively, for the year. The increase in rates resulted in an unrealized loss for the year.

The return (interest earnings plus change in market value) on the PDAF was +2.97% in 2016 compared to +2.86% in 2015. In comparison, the "benchmark" SPDR Barclays Intermediate Term Treasury ETF (which approximates a portfolio of U.S. Treasury obligations with a duration of four years) returned +0.95% in 2016 (on NAV for ticker symbol ITE), and +1.08% in 2015.

OPERATIONS-UNRESTRICTED FUND BALANCE

The PDAF produced earnings (Total Earnings on Fund Investments plus Interest on City Debt) of \$1.8 million in 2016 compared to \$1.8 million in 2015.

2016 contributions to the PDAF were \$3.1 million, similar to the \$3.4 million in 2015.

In 2016, the Commission authorized the use of PDAF funds for the payment of debt service in the amount of \$6.5 million. In 2015, \$7.0 million was used from the PDAF to reduce the debt service levy.

The Fund Balance, available for future prepayment or cancellation of City debt, totaled \$58.4 million as of December 31, 2016, a decrease of \$1.6 million (-2.7%) from the comparable 2015 year-end balance.

The Public Debt Commission's October 1, 2015 Statement of Policy targets an Unrestricted PDAF balance between 5% to 15% of non-self supporting General Obligation debt. For 2016, the unrestricted portion of the PDAF equaled 10.4% of the City's non-self supporting debt compared to 12.2% in 2015.

ACCOUNTING FOR CITY DEBT OWNED BY THE PDAF

For GAAP purposes, City Debt (except for debt repaid by Milwaukee Public Schools) owned by the PDAF is not considered outstanding debt of the City, nor an investment of the PDAF.

In order to provide the economic 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 non-MPS paid City Debt owned by the PDAF (see Note D at the end of the financial statements). As of 12/31/2016, and 12/31/2015 the amount of non-MPS paid City Debt owned by the PDAF was \$0, and \$0, respectively.

Public Debt Amortization Fund

Balance Sheet

December 31, 2016

with Comparative Totals for December 31, 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Cash and Cash Equivalents		
City - Pooled Cash	\$ 17,364,522.61	\$ 16,829,733.49
LGIP & other cash investments (Note C)	1,706,926.50	1,660,880.80
Total Cash and Cash Equivalents	<u>19,071,449.11</u>	<u>18,490,614.29</u>
Investments and Loans (Note C)		
Investments at Fair Market Value	39,203,265.31	41,398,773.99
Investment in City Debt (Note E)	-	-
Total Investments	<u>\$ 39,203,265.31</u>	<u>\$ 41,398,773.99</u>
Due from other funds	-	-
Accrued Interest Receivable	<u>103,592.54</u>	<u>104,479.77</u>
 TOTAL ASSETS	 <u>\$ 58,378,306.96</u>	 <u>\$ 59,993,868.05</u>
<u>Liabilities</u>		
Due to (from) other funds	<u>\$ -</u>	<u>\$ -</u>
 TOTAL LIABILITIES	 <u>\$ -</u>	 <u>\$ -</u>
<u>Fund Balance</u>		
 TOTAL FUND BALANCE	 <u>\$ 58,378,306.96</u>	 <u>\$ 59,993,868.05</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 58,378,306.96</u>	 <u>\$ 59,993,868.05</u>

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, 2016

with Comparative Totals for December 31, 2015

	2016	2015
<u>REVENUES</u>		
City of Milwaukee Proprietary Contributions		
Interest on Special Assessments	\$ 103,578.75	\$ 122,091.81
One-third Interest on City Tax Certificates	2,398,657.47	2,745,851.48
One-third Interest on General Investments	603,660.76	442,581.04
One-third change in market value of General Investments	(0.00)	62,247.39
Total City of Milwaukee Proprietary Contributions	\$ 3,105,896.98	\$ 3,372,771.72
Earnings on Fund Investments (excluding City Debt)	1,930,142.94	2,039,213.61
Change in Fair Market Value of Investments	(146,963.98)	(271,421.12)
Total Earnings on Fund Investments	\$ 1,783,178.96	\$ 1,767,792.49
TOTAL REVENUES	\$ 4,889,075.94	\$ 5,140,564.21
 <u>EXPENDITURES</u>		
Fund Administration Cost	\$ 4,637.03	\$ 4,647.34
Planned Cancellation of Debt	-	-
Annual Cancellation of Debt	6,500,000.00	7,000,000.00
TOTAL EXPENDITURES	\$ 6,504,637.03	\$ 7,004,647.34
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (1,615,561.09)	\$ (1,864,083.13)
 <u>TRANSFERS</u>		
Transfer from Debt Service Fund (Interest on City Debt, Note E)	\$ -	\$ -
 NET CHANGE IN FUND BALANCE	\$ (1,615,561.09)	\$ (1,864,083.13)
 FUND BALANCE JANUARY 1	59,993,868.05	61,857,951.18
FUND BALANCE DECEMBER 31	58,378,306.96	59,993,868.05

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

Public Debt Amortization Fund

Statement of Changes in Cash

December 31, 2016

with Comparative Totals for December 31, 2015

	<u>2016</u>	<u>2015</u>
<u>Cash Provided By</u>		
Beginning Cash & Cash Equivalents	\$18,490,614.29	\$16,526,871.26
Net Change in Fund Balance	(1,615,561.09)	(1,864,083.13)
Maturing and Sale of Investments	6,040,537.48	5,072,372.46
Change in Due to Other Funds	-	-
<u>Cash Was Used For</u>		
Change in Accrued Interest	887.23	10,991.11
Less: Change in Market Value	146,963.98	271,421.12
Purchase of Investments	(2,551,851.52)	-
Accretion/Amortization	(1,440,141.26)	(1,526,958.53)
Total Cash - Ending	<u>\$19,071,449.11</u>	<u>\$18,490,614.29</u>

CITY OF MILWAUKEE

PUBLIC DEBT AMORTIZATION FUND

Notes to the Financial Statements

For the Year Ended December 31, 2016

- 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 PDAF Fund are prepared on an 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 include the effect of amortization of book value. Realized and unrealized gains and losses are reflected in the year they occurred.
- D. **City Debt:** Investment in City Debt is considered a related party transaction, and excluded from consolidated financial statements prepared in accordance with Generally Accepted Accounting Principles (“GAAP”). 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 (“MPS”). 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, these Financial Statements treat 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. In 2016 and 2015 there was no City Debt other than reimbursed MPS debt.