



Office of the Comptroller

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August 5, 2010

CITY OF MILWAUKEE
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RONALD D. LEONHARDT
CITY CLERK

Ref: 2009 Annual Report

To the Honorable
the Common Council
City of Milwaukee - Room 205
Milwaukee, WI 53202

Dear Council Members:

In accordance with the provisions of Chapter 67.101(7) of the Wisconsin State Statutes, I herewith submit the Annual Report of the Public Debt Amortization Fund for the year ended December 31, 2009.

Respectfully submitted

W. MARTIN MORICS
Comptroller and Secretary
Public Debt Commission

WMM:RL
Attachment

PD-7721w.doc

ANNUAL REPORT
PUBLIC DEBT AMORTIZATION FUND

City of Milwaukee
For The Year Ended December 31, 2009

Prepared By:
W. Martin Morics, C.P.A.
Comptroller and Secretary

PUBLIC DEBT COMMISSION

KENNETH C. KREI, Chairperson

MARGARET J. HENNINGSSEN, Member

JENNIFER A. MISWALD, Member

**W. MARTIN MORICS, Comptroller and Secretary
Ex Officio**

**WAYNE F. WHITTOW, Treasurer and Treasurer
Ex Officio**

PUBLIC DEBT AMORTIZATION FUND

OVERVIEW OF 2009 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 the sub-prime mortgage problems, short-term interest rates continued to stay near 0% in 2009. As the flight to quality reversed, U.S. Treasury medium to long-term interest rates rose while other interest rates dropped. As a result, there was a modest increase in the market value of investments.

The PDAF unrestricted portfolio returned an overall (interest earnings less loss in market value) +2.89% in 2009, compared to a +3.57% in 2008. The unrestricted long-term investments (investments excluding cash) had a return of +5.10% in 2009 vs. +4.52% in 2008. In comparison, a "benchmark" of the Lehman Brothers Intermediate Index returned -1.41% in 2009, and +11.35% in 2008, 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 \$0.6 million in 2009 compared to earnings of \$1.3 million in 2008. Interest rates were low during 2009, with the average interest rate for 2009 significantly lower than in 2008.

2009 contributions to the PDAF were \$3.8 million, down from \$5.1 million in 2008. The decrease is attributable to a decrease in interest rates.

The Commission authorized in 2009 payments for the payment of debt service on City of Milwaukee Bonds in the amount of \$5.4 million from the Unrestricted portion, and \$1.95 million from the Segregated portion of the PDAF. In 2008, \$6.5 million and \$2.6 million were used from the Unrestricted and Segregated portions of the PDAF to reduce the debt service levy. Due to the timing of the 2009 payment for 2010 debt service, the transfer is reflected as a "Due to other funds" on the balance sheet.

As a result of the above, the amount of Fund Balance available for future prepayment, or cancellation of City debt and other potential commitments (Unrestricted portion), totaled \$50.4 million as of December 31, 2009, a decrease of \$0.5 million (-0.1%) from the comparable 2008 year-end balance. The Public Debt Commission, on September 3, 1997, adopted a revised "Statement of Policy" which targets an Unrestricted PDAF balance between 15% to 20% of non-self supporting General Obligation debt. For 2009, the unrestricted portion of the PDAF equaled 10.6% of the City's non-self supporting debt compared to 10.8% in 2008, well below the 15% minimum target.

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).

Public Debt Amortization Fund

Balance Sheet

December 31, 2009

with Comparative Totals for December 31, 2008

	2009		2008
	Unrestricted	Segregated	Total
<u>Assets</u>			
Cash and Cash Equivalents			
City - Pooled Cash	\$ 9,374,167	\$ -	\$ 9,374,167
LGP (Note C)	24,376,303	10,478,562	34,854,865
Total Cash and Cash Equivalents	33,750,470	10,478,562	\$ 44,229,032
Investments and Loans (Note C)			
Book Value	13,827,663	9,894,112	23,721,775
Unrealized Gain (Loss)	-	237,177	237,177
Investment in City Debt (Note E)	10,145,000	-	10,145,000
Total Investments	\$ 23,972,663	\$ 10,131,289	\$ 34,103,952
Due from other funds	-	-	-
Market Value Adjustments to Treasurer's Report	-	-	-
Accrued Interest Receivable	50,970	1,834	52,804
TOTAL ASSETS	\$ 57,774,104	\$ 20,611,685	\$ 78,385,788
<u>Liabilities</u>			
Due to other funds	\$ 7,329,149	\$ 20,851	\$ 7,350,000
TOTAL LIABILITIES	\$ 7,329,149	\$ 20,851	\$ 7,350,000
<u>Fund Balance</u>			
TOTAL FUND BALANCE	\$ 50,444,955	\$ 20,590,834	\$ 71,035,788
TOTAL LIABILITIES AND FUND BALANCE	\$ 57,774,104	\$ 20,611,685	\$ 78,385,788

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, 2009

with Comparative Totals for December 31, 2008

	2009		2008	
	Unrestricted	SEGREGATED	TOTAL	TOTAL
REVENUES				
City of Milwaukee Proprietary Contributions				
Interest on Special Assessments	\$ 300,960	\$ -	\$ 300,960	\$ 306,903
One-third Interest on City Tax Certificates	2,908,295	-	2,908,295	2,720,118
One-third Interest on General Investments	599,747	-	599,747	2,050,151
One-third change in market value of General Investments	0	-	0	(434)
Total City of Milwaukee Proprietary Contributions	\$ 3,809,003	\$ -	\$ 3,809,003	\$ 5,076,738
Earnings on Fund Investments	648,293		1,421,864	2,393,793
Realized Gain (Loss) on Sale of Investments	-	773,572	-	-
Change in Fair Market Value of Investments	-	(330,439)	(330,439)	(22,789)
Total Earnings on Fund Investments	648,293	443,133	1,091,425	2,371,004
TOTAL REVENUES	\$ 4,457,295	\$ 443,133	\$ 4,900,428	\$ 7,447,742
EXPENDITURES				
Fund Administration Cost	\$ 3,996	\$ -	\$ 3,996	\$ 4,076
Retirement of City Debt (GAAP)	-	-	-	-
Adjustment to GAAP Reporting (Note E)	-	-	-	-
Planned Cancellation of Debt	-	1,950,000	1,950,000	2,575,000
Annual Cancellation of Debt	5,400,000	-	5,400,000	6,500,000
TOTAL EXPENDITURES	\$ 5,403,996	\$ 1,950,000	\$ 7,353,996	\$ 9,079,076
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (946,701)	\$ (1,506,867)	\$ (2,453,568)	\$ (1,631,334)
TRANSFERS				
Transfer from General Fund (Interest on City Debt)	\$ 474,977	\$ -	\$ 474,977	\$ 266,716
Transfers between accounts	-	-	-	-
NET CHANGE IN FUND BALANCE	\$ (471,724)	\$ (1,506,867)	\$ (1,978,591)	\$ (1,364,618)
FUND BALANCE JANUARY 1	50,916,679	22,097,701	73,014,380	74,378,998
FUND BALANCE DECEMBER 31	50,444,955	20,590,834	71,035,789	73,014,380

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

Public Debt Amortization Fund

Statement of Changes in Cash

December 31, 2009
with Comparative Totals for December 31, 2008

	2009	2008
<u>Cash Provided By</u>		
Beginning Cash & Cash Equivalents	33,849,109	42,543,068
Net Change in Fund Balance	(1,978,591)	(1,364,618)
Maturing and Sale of Investments	6,079,047	3,685,986
Change in Due to Other Funds	7,350,000	-
<u>Cash Was Used For</u>		
Change in Accrued Interest	(11,030)	80,040
Less: Change in Market Value	330,439	22,789
Purchase of Investments	(0)	(9,595,001)
Accretion (Amortization) - Unsegregated	(823,199)	(775,174)
Accretion (Amortization) - Segregated	(566,743)	(747,981)
Total Cash - Ending	44,229,032	33,849,109

CITY OF MILWAUKEE

PUBLIC DEBT AMORTIZATION FUND

Notes to the Financial Statements

For the Year Ended December 31, 2009

**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 is based upon amortized 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 is 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. As a result, Investments and Interest Earnings will vary from the GAAP financial statements as presented in the City's CAFR.