

**ANNUAL REPORT**  
**PUBLIC DEBT AMORTIZATION FUND**

**City of Milwaukee**  
**For The Year Ended December 31, 2014**

**Prepared By:**  
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## **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 2014 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 a slow economic recovery, short-term interest rates continued to stay near 0% in 2014. Worried by slow economic growth and stock market volatility, investors sought safer assets resulting in the 5 and 10-year Treasury Rates decreasing from 1.71% and 2.98% to 1.66% and 2.18%, respectively, for the year. The decrease in rates resulted in an unrealized gain for the year.

The PDAF unrestricted portfolio returned an overall (interest earnings plus gain in market value) +3.59% in 2014 compared to +1.30% in 2013. In comparison, a "benchmark" of the SPDR Barclays Intermediate Term Treasury ETF returned 2.46% in 2014 (on NAV for ticker symbol ITE), and -1.46% in 2013, 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 \$2.3 million in 2014 (Total Earnings on Fund Investments plus Interest on City Debt) compared to \$0.7 million in 2013.

2014 contributions to the PDAF were \$3.4 million, a decrease from \$3.6 million in 2013.

In 2014, the Commission authorized the use of PDAF funds for the payment of debt service in the amount of \$5.5 million from the Unrestricted portion, and \$1.4 million from

the Segregated portion of the PDAF. In 2013, \$5.0 million and \$7.2 million were used from the Unrestricted and Segregated portions of the PDAF to reduce the debt service levy. 2014 was the final earmarked draw on the Segregated portion, so the remaining \$5 million balance was closed out to the Unrestricted portion.

As a result of the above, the amount of Unrestricted Fund Balance available for future prepayment or cancellation of City debt totaled \$61.9 million as of December 31, 2014, an increase of \$5.1 million (+8.9%) from the comparable 2013 year-end balance. Without the closeout from the Segregated portion, the increase would have been \$0.1 million.

The Public Debt Commission's September 3, 1997 Statement of Policy targets an Unrestricted PDAF balance between 15% to 20% of non-self supporting General Obligation debt. For 2014, the unrestricted portion of the PDAF equaled 13.7% of the City's non-self supporting debt compared to 12.9% in 2013.

#### **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 (except for debt repaid by Milwaukee Public Schools) owned by the PDAF is no longer 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 E at the end of the financial statements). In 2013, the remaining outstanding non-MPS paid City Debt was redeemed. As of 12/31/2014, the amount of non-MPS paid City Debt owned by the PDAF was \$0.

# Public Debt Amortization Fund

## Balance Sheet

December 31, 2014

with Comparative Totals for December 31, 2013

	2014			2013
	<u>Unrestricted</u>	<u>Segregated</u>	<u>Total</u>	<u>Total</u>
<u>Assets</u>				
Cash and Cash Equivalents				
City - Pooled Cash	\$ 13,523,857	\$ -	\$ 13,523,857	\$ 10,023,374
LGIP & other cash investments (Note C)	<u>3,003,015</u>	<u>-</u>	<u>3,003,015</u>	<u>4,061,146</u>
Total Cash and Cash Equivalents	16,526,871	-	\$ 16,526,871	\$ 14,084,520
Investments and Loans (Note C)				
Book Value	44,744,410	-	44,744,410	48,559,026
Unrealized Gain (Loss)	471,199	-	471,199	172,190
Investment in City Debt (Note E)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	\$ 45,215,609	\$ -	\$ 45,215,609	48,731,216
Due from other funds	-	-	-	-
Accrued Interest Receivable	<u>115,471</u>	<u>-</u>	<u>115,471</u>	<u>123,879</u>
 TOTAL ASSETS	 <u>\$ 61,857,951</u>	 <u>\$ -</u>	 <u>\$ 61,857,951</u>	 <u>\$ 62,939,615</u>
<u>Liabilities</u>				
Due to (from) other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 TOTAL LIABILITIES	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>
<u>Fund Balance</u>				
 TOTAL FUND BALANCE	 <u>\$ 61,857,951</u>	 <u>\$ -</u>	 <u>\$ 61,857,951</u>	 <u>\$ 62,939,615</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 61,857,951</u>	 <u>\$ -</u>	 <u>\$ 61,857,951</u>	 <u>\$ 62,939,615</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, 2014

with Comparative Totals for December 31, 2013

	2014			2013
	Unrestricted	Segregated	Total	Total
<b>REVENUES</b>				
City of Milwaukee Proprietary Contributions				
Interest on Special Assessments	\$ 170,260	\$ -	\$ 170,260	\$ 220,539
One-third Interest on City Tax Certificates	2,864,395	-	2,864,395	3,069,474
One-third Interest on General Investments	393,937	-	393,937	355,541
One-third change in market value of General Investments	(62,247)	-	(62,247)	(6,075)
Total City of Milwaukee Proprietary Contributions	\$ 3,366,344	\$ -	\$ 3,366,344	\$ 3,639,479
Earnings on Fund Investments (excluding City Debt)	1,959,205	198,631	2,157,836	2,217,646
Realized Gain (Loss) on Sale of Investments	-	-	-	-
Change in Fair Market Value of Investments	299,009	-	299,009	(1,095,907)
Total Earnings on Fund Investments	\$ 2,258,213	\$ 198,631	\$ 2,456,844	\$ 1,121,739
<b>TOTAL REVENUES</b>	<b>\$ 5,624,557</b>	<b>\$ 198,631</b>	<b>\$ 5,823,188</b>	<b>\$ 4,761,218</b>
<b>EXPENDITURES</b>				
Fund Administration Cost	\$ 4,852	\$ -	\$ 4,852	-
Planned Cancellation of Debt	-	1,400,000	1,400,000	7,247,383
Annual Cancellation of Debt	5,500,000	-	5,500,000	5,000,000
<b>TOTAL EXPENDITURES</b>	<b>\$ 5,504,852</b>	<b>\$ 1,400,000</b>	<b>\$ 6,904,852</b>	<b>\$ 12,247,383</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 119,705</b>	<b>\$ (1,201,369)</b>	<b>\$ (1,081,664)</b>	<b>\$ (7,486,165)</b>
<b>TRANSFERS</b>				
Transfer from Debt Service Fund (Interest on City Debt, Note E)	\$ -	\$ -	\$ -	\$ 114,383
Transfers between accounts	4,947,646	(4,947,646)	-	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 5,067,351</b>	<b>\$ (6,149,015)</b>	<b>\$ (1,081,664)</b>	<b>\$ (7,371,782)</b>
<b>FUND BALANCE JANUARY 1</b>	<b>56,790,600</b>	<b>6,149,015</b>	<b>62,939,615</b>	<b>70,311,397</b>
<b>FUND BALANCE DECEMBER 31</b>	<b>61,857,951</b>	<b>-</b>	<b>61,857,951</b>	<b>62,939,615</b>

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

**Public Debt Amortization Fund**

**Statement of Changes in Cash**

**December 31, 2014**

with Comparative Totals for December 31, 2013

	<u>2014</u>	<u>2013</u>
<b><u>Cash Provided By</u></b>		
Beginning Cash & Cash Equivalents	\$14,084,520	\$13,589,517
Net Change in Fund Balance	(1,081,664)	(7,371,782)
Maturing and Sale of Investments	3,922,412	7,741,798
Change in Due to Other Funds	-	-
	-	-
<b><u>Cash Was Used For</u></b>		
Change in Accrued Interest	8,408	41,081
Less: Change in Market Value	(299,009)	1,095,907
Purchase of Investments	-	-
Accretion (Amortization) - Unsegregated	(107,796)	(656,160)
Accretion (Amortization) - Segregated	-	(355,841)
Total Cash - Ending	<u>\$16,526,871</u>	<u>\$14,084,520</u>

**CITY OF MILWAUKEE**

**PUBLIC DEBT AMORTIZATION FUND**

**Notes to the Financial Statements**

**For the Year Ended December 31, 2014**

- 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 includes the effect of amortization of 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 Segregated portion was closed in 2014, and the balance transferred to the Unrestricted portion.
- 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 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, this Financial Statement treats 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 2014, there was no City Debt other than reimbursed MPS debt.