

ADOPTED 2007 BUDGET

DEPT: EARNINGS ON INVESTMENTS

UNIT NO. 1992*
FUND: General - 0001

OPERATING AUTHORITY & PURPOSE

Pursuant to Sections 66.0603(2) and 219.05 of the Wisconsin Statutes, a county has the authority to invest any of its funds not immediately needed in time deposits of a bank, credit union, trust company

or savings and loan association, or in bonds or securities issued or guaranteed as to principal and interest of the U.S. Government, Federal agency and instrumentality securities, highly rated corporate securities or repurchase agreements.

BUDGET SUMMARY			
	2005 <u>Actual</u>	2006 <u>Budget</u>	2007 <u>Budget</u>
Earnings on Investment	\$ 3,161,478	\$ 4,420,000	\$ 6,400,000

Statistical Reporting Data	2005 Actual	2006 Budget	2007 Budget
Earnings on all Funds (net of Mark-to-Market)	\$5,447,110	\$6,090,000	\$9,561,600
Earnings on Trust Fund Reserves and other Deferred Interest Liabilities	(\$1,801,232)	(\$1,520,000)	(\$1,000,000)
Earnings on Bonds Allocated to Capital Fund and Debt Service Fund	(\$484,400)	(\$150,000)	(\$2,161,600)
General Fund Earnings	\$3,161,478	\$4,420,000	\$6,400,000

Based on projected earnings, the average daily investment balance for 2007 totals \$267 million. Therefore, the average balance projected for investments is adjusted up from \$202 million to \$267 million. The interest rate for the 2007 Budget is projected at 4.2 percent, 1.2 percent higher than the 3% rate budgeted for 2006. A 4.2% rate of return will result in \$6,400,000 of net investment earnings available to the General Fund.

Mark-to-Market

The General Accounting Standards Board in Statement 31 (GASB 31) requires governmental entities to report investments that have maturities greater than one year at fair market value. Therefore, the County will report a loss when the book value is greater than the fair market value. This amount is recorded in the investment earnings budget. When the book value is less than the fair market value, the County books the gain to a reserve to offset future losses. The County has experienced losses that have exhausted the reserve and resulted in the recording of losses in the investment earnings budget. The losses have been captured in the Earnings on all Funds (net of Mark-to-Market) line in the table above.

Earnings on Trust Funds, Reserves and Other Deferred Interest Liabilities

Budgeted restricted earnings total \$1,000,000 for 2007. The budgeted amount includes earnings on the following funds: Airport (non-bonds), Zoo, Office for Persons with Disabilities, Federated Library System, Art Museum, Charles Allis Art Museum, Friends of Boerner, Law Enforcement Block Grant, Wolcott Memorial, HUD-Rent Assistance and Milwaukee County Historical Society. Previous amounts included bond proceeds for Airport Revenue Bonds. The earnings for the Airport Revenue Bonds have been included in the amount for the Earnings on Bonds Allocated to Capital Fund and Debt Service Fund.

Earnings on Bonds Allocated to Capital Fund and Debt Service Fund

The 2007 budget includes \$2,161,600 in earnings on unspent bond proceeds for all departments. The earnings are recorded in the capital projects fund. In the past only construction fund earnings on unspent bond proceeds for proprietary fund departments were recorded directly in the capital projects fund. These investment earnings are used to offset capitalized interest expense for projects that are under construction. Investment earnings on bonds that have lapsed to the sinking fund are recorded in the debt service fund.

*This org unit was previously 1900-1850. All history and data detail has been moved to org. unit 1992.

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Earnings on trust funds, reserves and other deferred interest liabilities were estimated at 10.5% of the portfolio. This percentage is lower for 2007 due to the removal of the Airport Revenue Bond earnings from the Earnings in Trust Funds Reserves and Other Deferred Interest Liabilities to earnings on Bonds Allocated to Capital Fund and Debt Service Fund.

Investment Advisory Services

In 2006, the Treasurer's Office entered into a service contract with Dana Investment Advisors, Inc., Marshall & Ilsley Trust Company, and JP Morgan Chase. In prior years, a budget line was included in the Earnings on Investment Budget to decrease investment earnings for the cost of the contract. To be consistent with accounting rules, for 2007, an expense line for \$245,000 is included in the non-departmental account 1989 for Investment Advisory Services.

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