

PROPOSED CHANGES TO THE CITY'S DEBT AND FINANCIAL ADMINISTRATION POLICIES

Debt Issuance Policies: (Numbers refer to numbering in Resolution 9-15)

1. No substantive change.
2. No substantive change.
3. No substantive change.
4. Davenport recommends modifying the maximum time a BAN can be outstanding from two years to three years because the existing, outstanding BAN has a three-year term, despite the two-year limitation adopted in Resolution 9-15.
5. Current policy say the City will "strive to increase each year the percentage of is capital improvements financed with current revenues." Proposed policy says the City will "strive to increase pay-go for recurring capital projects until those projects are fully funded without debt." Once recurring capital projects are routinely funded with pay-go, not debt, it is not necessary to continue to increase the percentage of capital improvements that are funded with pay-go. The decision about whether to fund nonrecurring capital projects with pay-go, not debt, can be made by the City Council during its budget deliberations.
6. Removed the language from Resolution 9-15, #6 that says, "The City will pursue a policy of designating excess General Fund balance over the target ratio amount of fifteen percent of undesignated fund balance for the purpose of providing PAYGO funding for the Capital Improvement Program."

The term "undesignated fund balance" has no meaning under the fund balance categories established by the Governmental Accounting Standards Board (GASB) in 2010. Further, the conditions under which the City Council may appropriate General Fund balance and the permitted uses are addressed in the Financial Administration Policies presented later in the document.

7. No substantive change.
8. Removed the language that says "The City Code requires that the Water and Sewer Enterprise Funds debt service shall be self-supporting." There are no such provisions in the City Code. Modified the language to read "It is the City's intent for the Water and Sewer Enterprise Funds to be self-supporting."

Removes the requirement that a formal rate study be done every ten years. A rate study every ten years is not often enough to serve as an effective tool to ensure the utility rates are sufficient to cover expenses.

Our current practice is to conduct a rate study annually. This proposed revisions to the debt issuance policies says, "Annually, water and sewer rates and fees shall be reviewed annually during the budget process to evaluate whether the funds' revenues are sufficient to cover operating expenses and debt service."

9. Removes #9: "The City shall strive to not issue new bonds more frequently than once every two years." This provision could hamper the City's ability to be flexible in changing financial markets. Any bond issuances have to be approved by the City Council.
10. No substantive change.

Debt Ratio Policies:

1. At Davenport's suggestion, deleted the last paragraph that says, "The City will review these debt ratio policies at least once every three fiscal years and either reaffirm them or adjust them to reflect evolving City priorities, developments in industry best practices, or changes to rating agency criteria."

Added a paragraph at the end of the resolution that says, "The City shall review these Debt and Financial Administration policies at least every four years at the seating of a new City Council." (Existing language at the top of page 2, Resolution 9-15.)

Financial Administration Policies:

1. Unassigned General Fund Balance

- Current policy measures Unassigned General Fund Balance as a percentage of Government-Wide Expenditures with a minimum of 10% and a target of 15%.
- Current policy provides that the City Council may, with an affirmative "super majority vote (majority plus one), appropriate unassigned General Fund balance so that it falls below the minimum 10% threshold, but that such appropriation must be accompanied by a reserve replenishment plan adopted by a super majority to restore the fund balance to the minimum level within three years.
- Proposed policy states that the City shall maintain an unassigned General Fund balance equal to 15% of the sum of budgeted revenues in the General Fund, Parking Fund, and Transportation Fund.
 - Davenport believes revenue is a more appropriate measurement than expenditures.
 - Including the Parking and Transportation Funds in the calculation recognizes that these funds owe significant amounts to the General Fund and that the Transportation Fund requires significant subsidies each year. There is no need to accumulate General Fund balance to cover expenditures in the Water, Sewer, and Refuse funds as these funds are self-supporting.

- Proposed policy states that the ratio shall be computed by comparing the unassigned fund balance at the end of each year per the audited financial statements to the ensuing fiscal year's budgeted revenue for the General Fund, Parking Fund, and Transportation Fund.
- Proposed policy simplifies the language, removing "super-majority vote (majority plus one)" to simply say, "six."
- Proposed policy provides that the City Council may with the affirmative vote of 6 members appropriate unassigned General Fund Balance such that it falls below 15%, but must concurrently adopt a reserve replenishment plan to restore the unassigned fund balance to 15% of General Fund, Parking Fund, and Transportation Fund revenues within three years.
- In response to Alderman Arnett's concerns expressed at the Finance Committee hearings, the proposed policy provides that the reserve replenishment plan may include planned revenue increases and expenditure reductions intended to restore the unassigned General Fund balance to its required minimum level.

2. Budget Stabilization Fund (BSF)

- Proposed policy changes the target from 3% of government-wide expenditures to 3% of budgeted revenue in the General Fund, Parking Fund, and Transportation Fund.
- Both current and proposed policy provide that 50% of unassigned General Fund balance in excess of the 15% target shall be transferred to BSF until it reaches its 3% maximum.
- Current policy states that once Budget Stabilization Fund reaches its maximum level, "the portion of the surplus normally allocated to the BSF will be allowed to fall to unassigned General Fund balance, which may be appropriated for any one time expenditure."
- Proposed policy provides that once the BSF hits its 3% maximum, any unassigned General Fund balance that would be assigned to the BSF if it were not at the maximum may be assigned for contingencies, appropriated for one-time expenditures, or appropriated for unfunded pension or OPEB liabilities.

3. Capital Reserve Fund (CRF)

- Removes language no longer necessary about the initial funding of the CRF.
- Both current and proposed policy provide that 50% of unassigned General Fund balance in excess of the 15% target shall be transferred to Capital Reserve Fund.
- Current policy provides that the City may determine it wishes to dedicate future one-time or recurring revenue to the CRF as long as the 15% unassigned General Fund balance target is met.
- Proposed policy says the City may dedicate additional unassigned General Fund balance or revenue to the Capital Reserve Fund provided the unassigned General Fund balance does not fall below its 15% target and provided the BSF is fully funded.
- Current policy says money in the CRF may be used for debt service, to directly fund capital expenditures, or for one-time, nonrecurring expenditures.
- Proposed policy says CRF may be used only to pay-go fund capital improvements. It is not appropriate to use a nonrecurring revenue to pay recurring debt service. Further,

there may be one-time, nonrecurring expenditures that are not capital in nature, which is not the intended purpose of the funds.

4. **Quarterly Budget Monitoring and Reporting:** No substantive changes.
5. **Multi-year Comprehensive plan:** No substantive changes.