Staff Report

Resolution 9-15

City Debt and Financial Administration Policies

This legislation is intended to formally amend and approve debt and financial administration policies originally adopted on July 9, 2007 by R-38-07, for the City of Annapolis as part of the FY2016 annual operating budget. The amendments proposed will revise the Debt Issuance Polices, Debt Ratio Policies, and Financial Administration Policies in an effort to reflect evolving City priorities, developments in industry best practices, or changes to rating agency criteria. The following amendments are proposed:

Debt Issuance Policies

7. Use of General Fund equity shall be done in accordance with the provisions of the Financial Administration Polices.
8. A formal rate study will be done as required by any Trust Indenture the City enters into in connection with Revenue Bonds.

Debt Ratio Policies

1. *Debt as a Percentage of Assessed Value* – change net-bonded debt to tax-supported debt, formally excluding Enterprise Funds from the calculation.
2. *Debt Service as a Percentage of General Government Expenditures* – increase the debt ceiling of 10% of General Fund expenditures to 12%, and the target ration of 8% to 10%.
3. *Debt Payout Ratio* – decrease the ten-year payout ratio for its tax-supported debt of not less than 65% to 55%.

Financial Administration Policies

1. *Unassigned General Fund Balance as a Percentage of Government-Wide Expenditures* - If the City Council wished to appropriate Unassigned Fund Balance such that the amount would fall below its target of 15% of Government-Wide expenditures, such appropriation will require an affirmative super-majority vote of the City Council; if the City Council wished to appropriate Unassigned Fund Balance such that the amount would fall below its minimum threshold of 10% of Government-Wide expenditures, such appropriation must be accompanied by a reserve replenishment plan that restores the Fund Balance Reserve to its minimum level within the subsequent three fiscal years, and both the appropriation and the plan will require an affirmative super-majority vote of the City Council.

2. *Budget Stabilization Fund* - establish a Budget Stabilization Fund ("BSF") within the assigned portion of General Fund Balance. At the close of each audited fiscal year, the BSF shall receive one-half (50%) of any prior year operating surplus as calculated as part of the prior fiscal year audit. Balances in the BSF will be allowed to accumulate until they reach an amount equal to 3% of Government-Wide Expenditures. If the BSF reaches the maximum 3% level, the portion of any surplus normally allocated to the BSF will be allowed to fall to Unassigned Fund Balance, which may be appropriated by City Council for any one-time expenditure. Balances in the BSF are available for appropriation by the City Council for any purpose of City government by simple majority vote.
3. *Capital Reserve Fund* - establish a Capital Reserve Fund that will be funded as follows: the initial funding for the Capital Reserve Fund shall come from a one-time commitment of $5 million that represents monies that currently exist in General Fund balance over and above the City's Unassigned Fund Balance Policy; direct funding for the Capital Reserve Fund shall come from 50% of any annual operating surpluses in the City's Governmental Funds, so long as the City's 15% Unassigned Fund Balance target is being met; in addition, the City may determine that it wishes to dedicate future revenue sources (whether one-time or ongoing) to the Capital Reserve Fund, so long as the City's 15% Unassigned Fund Balance target is being met. The Capital Reserve Fund shall be accounted for separately from the City's Unassigned Fund Balance. Monies in the Capital Reserve Fund shall be appropriated by City Council only for: payment of debt service that was incurred to fund capital projects; to directly fund capital expenditures; or other one-time, non-recurring expenditures.

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