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City Debt and Financial Administration Policies – For the purpose of formally amending and approving the debt and financial administration policies for the City of Annapolis.

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CITY COUNCIL OF THE

City of Annapolis

Resolution 31-18

Introduced by: Mayor Buckley

A RESOLUTION concerning

City Debt and Financial Administration Policies

FOR the purpose of formally amending and approving debt and financial administration policies for the City of Annapolis.

WHEREAS, on, April 27, 2015 the City Council adopted Resolution 9-15 for the purpose of formally approving debt and financial administration policies for the City of Annapolis; and

WHEREAS, Resolution 9-15 requires a review of the City's debt and financial administration policies every four years at the seating of a new City Council.

WHEREAS, the City Council hereby seeks to amend and approve said debt and financial administration policies.

NOW THEREFORE:

BE IT RESOLVED BY THE ANNAPOLIS CITY COUNCIL that the City's debt and financial administration policies shall be amended as follows:

DEBT ISSUANCE POLICIES:

1. The City shall not use long-term borrowing or bond anticipation notes to finance current operations or routine maintenance.

2. Capital projects financed through the issuance of bonds and capital lease purchases shall not be financed for longer than the expected useful life of the improvements.

3. The City shall not issue tax or revenue anticipation notes to fund governmental operations.

4. The City may issue bond anticipation notes (BANs) for capital improvements. All BANs shall be paid off within two years of issuance and may be refinanced with long-term debt.

5. To reduce reliance on long-term debt for recurring capital projects, the City shall strive to increase pay-as-you-go funding until recurring capital projects are fully funded with without debt. Examples of recurring capital projects are road resurfacing, sidewalk repairs, and capital facility improvements.

6. The City's accumulated General Fund balance is intended to provide the City with sufficient working capital and enable the City to finance unforeseen emergencies without borrowing. The City shall not use General Fund balance to finance recurring current operations. Use of General Fund balance must comply with the provisions of the Financial Administration Policies contained herein.

7. It is the City’s intent for the Water and Sewer Enterprise Funds to be self-supporting. To ensure that water and sewer rates and fees are sufficient to cover the funds’ operating expenses and debt service, the Finance Director shall ensure a formal rate study is conducted as required by any Trust Indenture the City enters into in connection with Revenue Bonds. Additionally, 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.

8. As of the effective date of adoption of these policy guidelines, the City of Annapolis has no outstanding variable rate indebtedness, nor has it entered into any municipal derivatives contracts (i.e. interest rate swap agreements). Prior to undertaking the issuance of variable rate debt or committing itself to any derivatives contracts, the City shall develop in consultation with its Financial Advisor appropriate policies and procedures to safeguard the financial interest of the City.

DEBT RATIO POLICIES:

There are several key debt ratios that investors and financial analysts use when reviewing a city's credit-worthiness. As part of its policy, the City of Annapolis has established an act of target and ceiling numbers that reflect the type of ratios used by the national credit rating agencies. The target number is the ratio the City intends to achieve through a prudent program of debt management. The ceiling and floor percentages are the absolute maximum and minimum ratios that the City administration shall permit.

The City’s key debt ratios are as follows:

1. Debt as a Percentage of Assessed Value

   The City shall maintain its tax-supported debt at a level not to exceed a ceiling of 3% of the assessed valuation of taxable property within the City, with a target ratio of 2%. This ratio indicates the relationship between the City's tax-supported debt and taxable value of property in the City. It is an important indicator of the City's ability to repay debt because property taxes are the primary source of City revenues used to repay tax-supported debt. A smaller ratio is an indication that the City will be better able to withstand possible future economic downturns and continue to meet its debt obligations.

2. Debt Service as a Percentage of General Government Expenditures

The City shall maintain its annual tax-supported debt service costs at a ceiling of 12% of the General Fund expenditures, with a target ratio of 10% of General Fund expenditures. The ratio of tax-supported debt to General Fund expenditures is a measure of the City's ability to repay its general obligation debt without hampering other government services. A smaller ratio indicates a lesser burden on the City's operating budget.

3. Debt Payout Ratio

The City shall maintain a ten-year payout ratio (i.e. rate of principal amortization) for its tax-supported debt of not less than 55%. This ratio is a measure of how quickly the City retires its outstanding tax-supported indebtedness. A higher payout ratio preserves the City’s capacity to borrow for future capital needs.

FINANCIAL ADMINISTRATION POLICIES

1. <u>Unassigned General Fund Balance as a Percentage of Revenues in the General Fund, Parking Fund, and Transportation Fund.</u>

The City shall maintain an unassigned General Fund balance equal to no less than 15% of the sum of budgeted revenues in the General Fund, Parking Fund, and Transportation Fund. This ratio shall be computed by comparing the unassigned fund balance per the City’s annual audited financial statements on June 30 of each fiscal year to the sum of the budgeted revenue in the General Fund, Parking Fund, and Transportation Fund for the ensuing fiscal year.

With the affirmative vote of six members, the City Council may, upon recommendation of the City’s Mayor and City Manager, appropriate unassigned General Fund Balance such that the amount would fall below 15% of the sum of the budgeted revenues in the General Fund, Parking Fund, and Transportation Fund.

If the City Council appropriates unassigned General Fund Balance such that the balance would fall below 15% of the sum of the budgeted revenues in the General Fund, Parking Fund, and Transportation Fund, the City Council shall concurrently adopt a reserve replenishment plan approved by the affirmative vote of six members of the City Council to restore the unassigned General Fund Balance to 15% of the sum of the budgeted revenue in the General Fund, Parking Fund, and Transportation Fund within the subsequent three fiscal years. 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

The City shall establish a Budget Stabilization Fund (BSF) within the assigned portion of its General Fund balance. At the close of each fiscal year, the BSF shall receive 50% of the unassigned General Fund balance that is in excess of 15% target. Balances in the BSF, measured as of June 30 of each fiscal year, may accumulate until the balance reaches an amount equal to 3% of the sum of the budgeted revenues in the General Fund, Parking Fund, and Transportation Fund for the ensuing fiscal year. If the BSF reaches the maximum 3% level, any unassigned General Fund Balance that would be assigned to the BSF if it were not at its maximum 3% level may be assigned for contingencies, appropriated for one-time expenditures, or appropriated for unfunded pension or other post-employment benefit liabilities. Balances in the BSF may be appropriated for any purpose of City government by simple majority vote.

3. Capital Reserve Fund

The City recognizes that continued, periodic reinvestment and maintenance of capital infrastructure is critical to maintaining the quality of life for residents and businesses and minimizing the additional cost associated with deferred maintenance. Further, the City recognizes that capital maintenance and capital improvements should have an annual, on-going funding mechanism in addition to the use of one-time monies and prudent use of long-term borrowing to fund capital expenditures.

As such, the City shall establish a Capital Reserve Fund funded as follows:

1. At the close of each fiscal year, the Capital Reserve Fund shall receive 50% of the unassigned General Fund balance in excess of 15% target.

2. The City may dedicate additional unassigned General Fund balance to the Capital Reserve Fund, provided the unassigned General Fund Balance does not fall below its 15% target and provided the Budget Stabilization Fund is fully funded at 3% of the sum of budgeted revenues in the General Fund, Parking Fund, and Transportation Fund.

3. Monies in the Capital Reserve Fund may only be appropriated as pay-as-you-go funding for capital improvements.

4. Quarterly Budget Monitoring and Reporting

Quarterly the City Finance Director shall prepare a report that compares actual revenues and expenditures for the fiscal year to the budget and to similar points in time for the prior fiscal year. The report shall include any recommendations for budget amendments that may be required. The quarterly report shall be reviewed promptly by the Finance Committee and provided to the full City Council at the next scheduled meeting.

4. Multi-year Comprehensive Financial Plan

Annually the City shall prepare a multi-year comprehensive financial plan that is provided to the City Council for its review during the annual budget process. The plan shall integrate the operating and capital budgets such that the incremental operating costs associated with new capital projects are incorporated into the operating budget. The purpose of the multi-year plan is to provide near-to-medium term perspective on how current year budget decisions might affect the City's financial health in future years. The multi-year plan is not intended to and shall not supersede the annual budget adopted by the City Council.

The City shall review these debt and financial administration policies no less frequently than once every four fiscal years at the seating of a new City Council and reaffirm or adjust the policies to reflect evolving City priorities, developments in industry best practices, or changes to rating agency criteria