..Title

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.

..Body

CITY COUNCIL OF THE

City of Annapolis

Resolution 9-15

Introduced by: Mayor Pantelides

Referred to
Finance
Financial Advisory Commission
Rules and City Government

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 July 9, 2007, the City Council adopted R-38-07 for the purpose of formally approving debt and financial administration policies for the City of Annapolis; and

WHEREAS, the City Council hereby seeks to amend and approve said debt and financial administration policies as part of the FY2016 annual operating budget of the City of Annapolis.

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 AND FINANCIAL ADMINISTRATION POLICIES

EFFECTIVE DATE: JULY 1, 2015

DEBT ISSUANCE POLICIES:

1. The City will not use long-term borrowing to finance current operations or normal 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 will not issue tax or revenue anticipation notes to fund governmental operations.

4. The City will not issue bond anticipation notes (BANs) for a period of longer than two years. If the City issues a BAN for a capital project, the BAN will be connected to a long-term bond or redeemed at its expiration, but will not be rolled over.

5. The City will strive to increase its reliance on current revenue to finance its capital improvements. The City is committed to funding a significant portion of capital improvements on a "pay-as-you-go" (PAYGO) basis. Therefore, the City will strive to increase each year the percentage of its capital improvements financed by current revenues.

6. The City will pursue a policy of designating excess General Fund balance over the target ratio amount of fifteen percent for the purpose of providing PAYGO funding for the Capital Improvement Program.

7. The City will not establish a trend of using General Fund equity to finance current operations. The City's General Fund equity balance has been built over the years to provide the City with sufficient working capital and enable it to finance unforeseen emergencies without borrowing. ~~To conserve the General Fund equity balance and to avoid reliance on this balance, the City will not finance operations from the General Fund equity balance for periods longer than two years. If the audited financial statements confirm that, in the General Fund, the total of revenues and other financing sources is less than expenditures and other financing uses, and if the mid-year review for the current year indicated that, in the General Fund, the total of revenues and other financing sources is projected to be less than expenditures and other financing uses by year end, then the City will adopt, for the next ensuing year, a balanced budget in which the revenues exceed the expenditures without any consideration of the General Fund equity balance~~. <u>Use of General Fund equity shall be done accordance with the provisions of the Financial Administration Policies contained herein.</u>

8. The City Code requires that the Water and Sewer Enterprise Funds debt service will be self-supporting. A formal rate study will be done every ten years<u>, or as may be required by any Trust Indenture the City enters into in connection with Revenue Bonds</u>, to ensure that the rates and fees will be sufficient to cover the debt service requirements as well as the operating costs. Additionally, rates and charges will be reviewed annually during the budget process to ensure ongoing compliance between formal rate studies.

9. The City will strive to not issue new bonds more frequently than once every two fiscal years.

10. 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 (ie; 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 which reflect the type of ratios used by the national credit rating agencies. The ceiling/floor number is, as appropriate, the absolute minimum or maximum ratio that the City administration will permit. The target number is the ratio the City intends to achieve through a prudent program of debt management.

A listing of the City's key debt ratios follows:

1. Debt as a Percentage of Assessed Value

   The City will maintain its ~~net bonded~~ tax-supported debt at a level not to exceed a ceiling of three percent of the assessed valuation of taxable property within the City, with a target ratio of two percent. 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 will maintain its annual ~~net bonded~~ tax-supported debt service costs at a ceiling of ~~ten~~ twelve (~~10~~12%) percent of the General Fund expenditures, with a target ratio of ~~eight~~ten (~~8~~ 10%) percent. (~~net bonded~~ Tax-supported debt service costs are the costs for debt to be paid out of general public revenues, as opposed to Water and Sewer or Other Enterprise Fund revenues.) This ratio is a measure of the City's ability to repay ~~net bonded~~ tax-supported debt without hampering other City general government services. A smaller ratio indicates a lesser burden on the City's operating budget.

3. Debt Payout Ratio

   The City will maintain a ten-year payout ratio (ie; rate of principal amortization) for its ~~net bonded~~ tax-supported debt of not less than ~~65~~ 55%. This ratio is a measure of how quickly the City retires its outstanding ~~net bonded~~ tax-supported indebtedness. A higher payout ratio preserves the City's capacity to borrow for future capital needs.

   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.

FINANCIAL ADMINISTRATION POLICIES

1. ~~Unreserved~~Unassigned General Fund Balance as a Percentage of ~~General Fund Revenue~~ Government-Wide Expenditures.

   The City will maintain an ~~Unreserved~~Unassigned General Fund balance at a level not less than a low of ten percent and a target of fifteen percent of Government-Wide Expenditures.

   If the City Council, upon the recommendation of the City's Mayor and Finance Director, wishes to appropriate Unassigned General 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 (majority plus one) of the City Council.

   If the City Council, upon recommendation of the City's Mayor and Finance Director, wishes to appropriate Unassigned General 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. The appropriation from reserves AND the reserve replenishment plan will both require an affirmative super-majority vote (majority plus one) of the City Council.

2. Budget Stabilization Fund

   The City shall 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

   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. Furthermore, the City recognizes that funding 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 that will be funded as follows:

1. 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.
2. 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.
3. 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:

1. Payment of debt service that was incurred to fund capital projects;
2. To directly fund capital expenditures; or
3. Other one-time, non-recurring expenditures.

~~3~~4 Quarterly Budget Monitoring and Reporting

The City Finance Director shall prepare a quarterly report and analysis regarding actual revenues and expenditures for the fiscal year, which shall include comparisons to the estimates contained in the adopted budget and to similar points in time for the prior fiscal year(s). 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 shall be provided to the full City Council at the next scheduled meeting.

~~3~~5. The City shall prepare and annually update a multi-year comprehensive financial plan, which is to be submitted and reviewed during the annual budget process. The plan will integrate the operating and capital budgets, such that, the incremental operating costs associated with new capital projects may be incorporated into the operating budget. The multi-year plan does not intend to supersede the annual budget adopted by the City Council. 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.

EXPLANATION

CAPITAL LETTERS indicate matter added to existing law.
~~Strikethrough~~ indicates matter stricken from existing law.
Underlining indicates amendments.