

Staff Report
Charter Amendment 1-15
Issuance of Revenue Bonds

The purpose of this Charter Amendment is to provide the City authority to issue revenue bonds under the Local Government Article of the Annotated Code of Maryland, Title 19, Subtitle 3. To date, the City has not accepted this provision of State Law and therefore, before it can issue revenue bonds it must adopt this provision. Furthermore, because this ordinance seeks a Charter amendment, the City must follow the appropriate steps before it becomes code.

The rationale for this ordinance follows: to provide the City greater financial flexibility, to improve the City's financial discipline, to provide additional intergenerational rate-payer equity; and potentially, increased bond holder security.

Payment of the revenue bonds shall be secured solely by a pledge of the corresponding revenues and other agreements from the associated enterprise funds, example; the Water and Waste Water funds. Financial flexibility, financial discipline and potentially bond holder security are all improved, because the revenues of the enterprise funds are pledged to pay the debt service. Therefore, other funds, such as the general fund, will not become encumbered to pay enterprise fund related expenditures and will by virtue have greater financial flexibility. Enterprise funds will need to be self sufficient, because revenues will have to be sufficient to cover the debt service thereby increasing financial discipline. Additionally, because revenues are secured to the bonds, bond holder security potentially will improve as compared to that of a general obligation bond holder. Another important aspect of revenues bonds is that of intergenerational equity- the users who enjoy the benefit of the improvements pay for the improvements. Because the assets behind revenue bonds have extremely long depreciable life-spans, the associated bond payments can be better matched to mirror this time frame, therefore matching the use and payments contrary to general obligation bonds which tend to front load the payments because of the shorter amortization periods whereby users at the latter end of the depreciation cycle do not pay their equitable share of the expense.

Adoption of this charter amendment only approves the ability to issue revenue bonds. Therefore, in order to issue future revenue bonds, the appropriate authority currently required to issue general obligation bonds will be the same.

Prepared by: Bruce T. Miller, Finance Director, Finance Department; 410-263-7952.