

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

4 **..Body**

5 **CITY COUNCIL OF THE**  
6 **City of Annapolis**

7  
8 **Resolution 9-15 Amended**

9  
10 **Introduced by: Mayor Pantelides**

11  
12 **Referred to**  
13 **Finance**  
14 **Financial Advisory Commission**  
15 **Rules and City Government**

16  
17  
18 **A RESOLUTION** concerning

19  
20 **City Debt and Financial Administration Policies**

21  
22 **FOR** the purpose of formally amending and approving debt and financial administration  
23 policies for the City of Annapolis.

24  
25 **WHEREAS**, on July 9, 2007, the City Council adopted R-38-07 for the purpose of formally  
26 approving debt and financial administration policies for the City of Annapolis; and

27  
28 **WHEREAS**, the City Council hereby seeks to amend and approve said debt and financial  
29 administration policies as part of the FY2016 annual operating budget of the City  
30 of Annapolis.

31  
32 **NOW THEREFORE:**

33  
34 **BE IT RESOLVED BY THE ANNAPOLIS CITY COUNCIL** that the City’s Debt and  
35 Financial Administration Policies shall be amended as follows:  
36

**THERE SHALL BE A REVIEW OF THE CITY’S FINANCIAL POLICIES EVERY  
FOUR YEARS AT THE SEATING OF A NEW CITY COUNCIL.**

**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 longer than two years after the completion of a project. 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 of undesignated fund balance for the purpose of providing PAYGO funding for the Capital Improvement Program.
7. The City will not use 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. Use of General Fund equity shall be done accordance with the provisions of the Financial Administration Policies contained herein.
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, or as may be required by any Trust Indenture the City enters into in connection with Revenue Bonds, 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.

- 1           9. The City will strive to not issue new bonds more frequently than once every two fiscal  
2           years.  
3
- 4           10. As of the effective date of adoption of these policy guidelines, the City of Annapolis has  
5           no outstanding variable rate indebtedness, nor has it entered into any municipal  
6           derivatives contracts (ie; interest rate swap agreements). Prior to undertaking the  
7           issuance of variable rate debt or committing itself to any derivatives contracts, the City  
8           shall develop, in consultation with its Financial Advisor, appropriate policies and  
9           procedures to safeguard the financial interest of the City.  
10

## 11

### 12 **DEBT RATIO POLICIES:**

### 13

14 There are several key debt ratios that investors and financial analysts use when reviewing a city's  
15 credit-worthiness. As part of its policy, the City of Annapolis has established an act of target and  
16 ceiling numbers which reflect the type of ratios used by the national credit rating agencies. The  
17 ceiling/floor number is, as appropriate, the absolute minimum or maximum ratio that the City  
18 administration will permit. The target number is the ratio the City intends to achieve through a  
19 prudent program of debt management.  
20

21 A listing of the City's key debt ratios follows:  
22

#### 23           1. Debt as a Percentage of Assessed Value

#### 24

25           The City will maintain its tax-supported debt at a level not to exceed a ceiling of three  
26 percent of the assessed valuation of taxable property within the City, with a target ratio of  
27 two percent. This ratio indicates the relationship between the City's tax-supported debt  
28 and taxable value of property in the City. It is an important indicator of the City's ability  
29 to repay debt, because property taxes are the primary source of City revenues used to  
30 repay tax-supported debt. A smaller ratio is an indication that the City will be better able  
31 to withstand possible future economic downturns and continue to meet its debt  
32 obligations.  
33

#### 34           2. Debt Service as a Percentage of General Government Expenditures

#### 35

36           The City will maintain its annual tax-supported debt service costs at a ceiling of ten  
37 percent (10%) of the General Fund expenditures, with a target ratio of eight percent (8%).  
38 (Tax-supported debt service costs are the costs for debt to be paid out of general public  
39 revenues, as opposed to Water and Sewer or Other Enterprise Fund revenues.) This ratio  
40 is a measure of the City's ability to repay tax-supported debt without hampering other  
41 City general government services. A smaller ratio indicates a lesser burden on the City's  
42 operating budget.  
43

#### 44           3. Debt Payout Ratio

#### 45

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

5  
6 The City will review these debt ratio policies at least once every three fiscal years and  
7 either reaffirm them or adjust them to reflect evolving City priorities, developments in  
8 industry best practices, or changes to rating agency criteria.

## 11 **FINANCIAL ADMINISTRATION POLICIES**

### 13 1. Unassigned General Fund Balance as a Percentage of Government-Wide Expenditures.

14  
15 The City will maintain an Unassigned General Fund balance at a level not less than a low  
16 of ten percent and a target of fifteen percent of Government-Wide Expenditures.

17  
18 If the City Council, upon the recommendation of the City's Mayor and Finance Director,  
19 wishes to appropriate Unassigned General Fund Balance such that the amount would fall  
20 below its target of 15% of Government-Wide Expenditures, such appropriation will  
21 require an affirmative super-majority vote (majority plus one) of the City Council.

22  
23 If the City Council, upon recommendation of the City's Mayor and Finance Director,  
24 wishes to appropriate Unassigned General Fund Balance such that the amount would fall  
25 below its minimum threshold of 10% of Government-Wide Expenditures, such  
26 appropriation must be accompanied by a reserve replenishment plan that restores the  
27 Fund Balance Reserve to its minimum level within the subsequent three fiscal years. The  
28 appropriation from reserves AND the reserve replenishment plan will both require an  
29 affirmative super-majority vote (majority plus one) of the City Council.

### 31 2. Budget Stabilization Fund

32  
33 The City shall establish a Budget Stabilization Fund ("BSF") within the assigned portion  
34 of General Fund Balance. At the close of each audited fiscal year, the BSF shall receive  
35 one-half (50%) of any prior year operating surplus as calculated as part of the prior fiscal  
36 year audit. Balances in the BSF will be allowed to accumulate until they reach an  
37 amount equal to 3% of Government-Wide Expenditures. If the BSF reaches the  
38 maximum 3% level, the portion of any surplus normally allocated to the BSF will be  
39 allowed to fall to Unassigned Fund Balance, which may be appropriated by City Council  
40 for any one-time expenditure. Balances in the BSF are available for appropriation by the  
41 City Council for any purpose of City government by simple majority vote.

### 43 3. Capital Reserve Fund

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45 The City recognizes that continued, periodic reinvestment and maintenance of capital  
46 infrastructure is critical to maintaining the quality of life for residents and businesses and

1 minimizing the additional cost associated with deferred maintenance. Furthermore, the  
2 City recognizes that funding capital maintenance and capital improvements should have  
3 an annual, on-going funding mechanism in addition to the use of one-time monies and  
4 prudent use of long-term borrowing to fund capital expenditures.  
5

6 As such, the City shall establish a Capital Reserve Fund that will be funded as follows:  
7

- 8 1. The initial funding for the Capital Reserve Fund shall come from a one-time  
9 commitment of \$5 million that represents monies that currently exist in  
10 General Fund balance over and above the City's Unassigned Fund Balance  
11 Policy.
- 12 2. Direct funding for the Capital Reserve Fund shall come from 50% of any  
13 annual operating surpluses in the City's Governmental Funds, so long as the  
14 City's 15% Unassigned Fund Balance target is being met.
- 15 3. In addition, the City may determine that it wishes to dedicate future revenue  
16 sources (whether one-time or ongoing) to the Capital Reserve Fund, so long as  
17 the City's 15% Unassigned Fund Balance target is being met.  
18

19 The Capital Reserve Fund shall be accounted for separately from the City's Unassigned Fund  
20 Balance.  
21

22 Monies in the Capital Reserve Fund shall be appropriated by City Council only for:  
23

- 24 1. Payment of debt service that was incurred to fund capital projects;
- 25 2. To directly fund capital expenditures; or
- 26 3. Other one-time, non-recurring expenditures.  
27

#### 28 4 Quarterly Budget Monitoring and Reporting 29

30 The City Finance Director shall prepare a quarterly report and analysis regarding actual  
31 revenues and expenditures for the fiscal year, which shall include comparisons to the  
32 estimates contained in the adopted budget and to similar points in time for the prior fiscal  
33 year(s). The report shall include any recommendations for budget amendments that may  
34 be required. The quarterly report shall be reviewed promptly by the Finance Committee  
35 and shall be provided to the full City Council at the next scheduled meeting.  
36  
37

- 38 5. The City shall prepare and annually update a multi-year comprehensive financial plan,  
39 which is to be submitted and reviewed during the annual budget process. The plan will  
40 integrate the operating and capital budgets, such that, the incremental operating costs  
41 associated with new capital projects may be incorporated into the operating budget. The  
42 multi-year plan does not intend to supersede the annual budget adopted by the City  
43 Council. The purpose of the multi-year plan is to provide near-to-medium term  
44 perspective on how current year budget decisions might affect the City's financial health  
45 in future years.  
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