

MEMORANDUM

TO: City Council

FROM: David J. Deutsch
City Manager

SUBJECT: R-59-09, Resolution Adopting a “Debt and Financial Management Policies”

DATE: September 10, 2009

On May 11, 2009, Chapter 693, Acts of 2009 was signed into law, requiring all local governments to adopt a “local debt policy” and file it with the State Treasurer. The enacted legislation requires that each local governing body adopt by resolution, motion, or ordinance, a debt policy that meets the needs of the local government and that is consistent with Articles 23A, 24, and 31 of the Maryland Annotated Code, the provisions of the Maryland Constitution, and local law. The new law will become effective on October 1, 2009.

The Government Finance Officers Association (GFOA) also recommends that all state and local governments adopt comprehensive written debt management policies. The following is an excerpt from the GFOA Recommended Practice for Debt Management Policies:

“Debt management policies are written guidelines and restrictions that affect the amount and type of debt issued by a state or local government, the issuance process, and the management of a debt portfolio. A debt management policy improves the quality of decisions, provides justification for the structure of debt issuances, identifies policy goals, and demonstrates a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy provides guidelines for a government to manage its debt program in line with those resources.”

The attached “Debt and Financial Management Policies” are a compilation of long-standing City financial practices and applicable policies from other local governments. Staff encourages Council’s adoption of Resolution R-55-09, Adopting Debt and Financial Management Policies for the City of Bowie.

DJD/rsp

Attachment

A RESOLUTION
OF THE COUNCIL OF THE CITY OF BOWIE, MARYLAND
ADOPTING DEBT AND FINANCIAL MANAGEMENT POLICIES

WHEREAS, the City Council is committed to high standards of financial management; and

WHEREAS, periodically updating financial policies is an important step toward assuring consistent and rational financial management; and

WHEREAS, debt management policies are an essential component of financial policies and are necessary to establish creditworthiness objectives, financial disclosure standards, policies on purposes, uses, and structure of debt, and debt administrative guidelines; and

WHEREAS, the Department of Finance has conducted a comprehensive review of the City's and other local government's financial practices, including their debt management practices; and

WHEREAS, the City Council wishes to adopt this Resolution for the purpose of evidencing its debt and financial management policies.

NOW, THEREFORE, BE IT HEREBY RESOLVED by the Council of the City of Bowie, Maryland, that the attached Debt and Financial Management Policies dated September 2009 (Exhibit A) are hereby established effective this date.

INTRODUCED AND PASSED by the Council of the City of Bowie, Maryland at a
Regular Meeting on September 21, 2009.

**THE CITY OF BOWIE,
MARYLAND**

By: _____
G. Frederick Robinson, Mayor

ATTEST:

Pamela A. Fleming
City Clerk

**City of Bowie, Maryland
Debt and Financial Management Policies
September 2009**

DEBT MANAGEMENT POLICY

PURPOSE

The purpose of this policy is to establish parameters and provide guidance governing the issuance, management and reporting of all debt obligations issued by the City of Bowie. This policy provides guidance regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt financing and methods of sale that may be used. Adherence to a debt policy helps to ensure that a government maintains a sound financial position and that credit quality is protected.

AUTHORITY FOR BORROWING

Sections 57 through 59 of the City Charter authorizes the borrowing of money for any public purpose and to evidence such borrowing by the issue and sale of its general obligation bonds or notes.

DEBT MANAGEMENT POLICIES

- The City will not use long-term borrowing to finance current operations or normal maintenance expenses.
- All debt issued will be repaid within a period not to exceed the expected useful lives of the improvements financed by the debt.
- The City will strive to maintain a high reliance on pay-as-you-go financing for its capital improvements to minimize debt levels. Whenever possible, the City will first attempt to fund capital projects with general revenues (pay-as-you-go) before considering the issuance of debt.
- General obligation bonds will be the typical mode of long term debt financing.

EXHIBIT A

- The City will consider issuing debt to finance only those projects that have been included in the Capital Improvements Program.
- Neither Maryland State law nor the City Charter mandates a limit on municipal debt. The City will maintain its tax-supported net bonded debt at a level not to exceed 0.8 percent of the assessed valuation of taxable property within the City.
- The ratio of debt service expenditures as a percent of general fund revenues, exclusive of debt repaid by the Water and Sewer Fund, shall not exceed 10 percent.
- Debt service requirements of the Water and Sewer System shall be self-supporting. Rates and charges will be reviewed annually as part of the budget process to ensure that water and sewer revenues are sufficient to cover debt service requirements of the utility system.
- Bonds will be sold on a competitive basis unless it is in the best interest of the City to conduct a negotiated sale. Competitive sales will be the preferred method. Negotiated sales may occur when selling bonds for a defeasance of existing debt, for current or advanced refunding of debt, or for other appropriate reasons.
- The City will make its best effort to issue general obligation bonds with maturity terms of 20 years or less.
- Refunding bond issues designed to restructure outstanding debt are an acceptable use of bond proceeds.
- The Director of Finance shall invest the borrowed monies subject to the City's Investment Policy in a timely manner to ensure the availability of funds.
- Bond issues may include call features to maximize the City's ability to advance refund or retire the debt early.
- The City will maintain communication with the bond rating agencies about its financial condition and will follow a policy of full and open disclosure on every financial report and bond prospectus.
- The City shall comply with all requirements of bond ordinances, and Federal and State laws authorizing and governing the issuance and administration of debt obligations.

RELATED FINANCIAL MANAGEMENT POLICIES

- The City shall maintain the General Fund’s unreserved fund balance at a level no lower than 25 percent of expenditures. To the extent that the General Fund’s unreserved fund balance exceeds the 25 percent level, the City will draw upon the fund balance to provide pay-as-you-go financing for capital projects or for other one-time capital items.
- The City’s Water and Sewer Fund will strive to maintain a budget basis unrestricted fund balance at a level no lower than 25 percent of expenditures.
- The City will strive to adopt an annual General Fund budget in which recurring expenditures do not exceed recurring revenues.
- A six-year projection of revenues and expenditures for the General and Water and Sewer Fund will be prepared each fiscal year to provide long-range, strategic perspective to each annual budget process. The projections will include the operating costs and capital outlay requirements of the projects included in the City’s six-year Capital Improvements Program.
- The Water and Sewer Fund will maintain an adequate rate structure to cover the full cost of its operations including: maintenance, capital and debt service requirements.
- The City will pursue federal, state and private grants to finance improvements whenever possible.
- One-time nonrecurring revenues shall be used for financing capital projects. Examples of one-time revenues include, but are not limited to: proceeds from the sale of surplus property, capital grants and other infrequent, nonrecurring revenues. The use of one-time revenues for financing ongoing operating expenditures is strongly discouraged.

PROFESSIONAL ASSISTANCE

The City shall employ the services of a Financial Advisor and Bond Counsel to assist in its debt issuance and debt administration processes. Existing City procurement requirements will be used in the selection of a Financial Advisor and Bond Counsel.

Financial Advisor

An external independent Financial Advisor shall be retained to assist in the development of a capital financing plan and facilitate the issuance of debt. Significant experience with municipal debt and diverse financial structuring and pricing of municipal securities shall be required.

Bond Counsel

Bond Counsel is responsible for providing a written opinion affirming that the City is authorized to issue the proposed debt, that the City has met all legal requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. Extensive experience in public finance and tax issues shall be required.

REBATE REPORTING AND COMPLIANCE

The Director of Finance is responsible for maintaining a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding debt issues. Additionally, general financial reporting and certification requirements embodied in bond covenants are monitored to ensure that all covenants are complied with.

DEBT MANAGEMENT POLICY REVIEW

Since the guidelines contained in the Debt Management Policy require regular updating in order to maintain relevance and to respond to the changes inherent in the capital markets, the City plans on revisiting the policy as necessary.