LEGISLATIVE, FINANCE, AND ADMINISTRATION COMMITTEE

A G E N D A

February 14, 2011 - 6:00 P.M. - Council Chambers - City Hall - City of Dover

Public comments are welcomed on any item and will be permitted at appropriate times. When possible, please notify the City Clerk (736-7008 or e-mail at CityClerk@dover.de.us) should you wish to be recognized.

AGENDA ADDITIONS/DELETIONS

1. Review and Recommendation - Filling Critical Positions

2. Proposed Amendment to Purchase Policy - Debarment

3. Debt Management Policy Review

4. Adjournment by 7:00 P.M.

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THE AGENDA ITEMS AS LISTED MAY NOT BE CONSIDERED IN SEQUENCE. THIS AGENDA IS SUBJECT TO CHANGE TO INCLUDE THE ADDITION OR THE DELETION OF ITEMS, INCLUDING EXECUTIVE SESSIONS.

ACTION FORM

PROCEEDING: Legislative, Finance and Administration Committee
DEPARTMENT OF ORIGIN: Central Services **DATE SUBMITTED**: 1/24/2011
PREPARED BY: Peter Gregg
SUBJECT: Proposed Amendment to Purchase Policy - Debarment
REFERENCE: N/A
RELATED PROJECT: N/A
REVIEWED BY: City Manager, Controller
EXHIBITS: 1) Exhibit 1 – Amended Section 11, City Purchasing Policy; 2) State of Delaware, Delaware Emergency Management Agency sub-grant monitoring visit report
EXPENDITURE REQUIRED: N/A **AMOUNT BUDGETED**: N/A **FUNDING SOURCE (Dept./Page in CIP & Budget)**: N/A
TIMETABLE: Upon approval by council.
RECOMMENDED ACTION: Recommend approval of change to City of Dover Purchasing Policy to allow debarment of vendors and contractors.

BACKGROUND AND ANALYSIS

The City of Dover received federal grants that have been passed through to the city from the Delaware Emergency Management Agency. On November 17, the agency conducted a sub-grant monitoring visit of the City of Dover. One of the discrepancies they noted was that we had no written procedures to cover vendor disbarment. Specifically vendors who are on a federal list of vendors who cannot participate in federal grant programs. Debarment is when a vendor would not be allowed to contract with the city, or sell items to the city, because they have violated policy standards. The proposed change will put into place procedures for the disbarment of vendors/contractors and require the use of the Federal Excluded Parties Listing to preclude the award of any contract utilizing federal funds to disbarred companies/individuals.

This change will renumber Section 11 to be Section 12 and insert the new Section 11.

SECTION 11 – DEBARMENT OF VENDORS FOR CONSIDERATION OF AWARDS

11.1 Any vendor who fails to perform a contract or complete a project within the time established within the contract or invitation to bid may be subject for suspension or debarment. Once a problem with a vendor/contractor is discovered, the Department responsible for the contract will document the problem and all attempts at resolution. The vendor/contractor will be held in breach of contract. The responsible Department must submit a recommendation of debarment to the City Manger and the Procurement Manager. If sufficient cause is determined, the City Manager (with advice from the City Solicitor, if necessary) and/or the Procurement Manager will provide reasonable notice to the Vendor and allow a reasonable time for that vendor to be heard. The City Manager shall have the authority to debar a vendor/contractor for cause from consideration for award of contracts. The debarment shall not be for a period of more than three years.

11.2 The causes for debarment include:

(a) Conviction of or civil judgment for:

a. Commission of a fraud or a criminal offense in connection with obtaining or attempting to obtain or performing a public or private contract or subcontract;

(b) Conviction under state or federal statutes of embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, or any other offense indicating a lack of business integrity or business honesty:

(c) Conviction under state or federal antitrust statutes arising out of the submission of bids or proposals;

(d) Violation of contract provisions, as set forth below, of a character which is regarded by the City Manger to be so serious as to justify debarment action:

(i) Deliberate failure without good cause to perform in accordance with the specifications or within the time limit provided in the contract; or

(ii) A recent record of failure to perform or of unsatisfactory performance in accordance with the terms of one (1) or more contracts; provided that failure to perform or unsatisfactory performance caused by acts beyond the control of the contractor shall not be considered to be a basis for debarment;

(e) Any other cause the City Manager determines to be as serious and compelling as to affect responsibility as a City contractor, including debarment by another governmental entity for any cause listed in this article; and

(f) For violation of the ethical standards set forth in Section 2 of this policy or Dover Code, Chapter 30.

11.3 The City Manager is authorized to suspend a person from consideration for award of contracts pending his decision if there is probable cause to believe that the person has engaged in any activity which might lead to debarment. The suspension shall continue until the debarment decision has been made. The City Manager shall notify the person to be debarred in writing and set forth the basis for the action. A copy of the notification shall be sent to the Mayor and Council. The written notification shall be delivered to the person to be suspended either in person or by certified mail. The decision shall state the basis for the action taken.

11.4 Before the award of any contracts utilizing federal funds, the user must exclude any vendors listed on the Federal Government's Excluded Parties Listing located at www.epls.gov.

DEMA
DELAWARE EMERGENCY MANAGEMENT AGENCY
Partners for Protection and Response

Date: November 16, 2010

TO: Mr. Jeremy Johnson
City of Dover
860 Buttner Place
Dover DE 19904

Dear Mr Johnson:

The State of Delaware, Delaware Emergency Management Agency conducted a sub-grant monitoring visit of the City of Dover on November 17, 2010 pursuant to Federal OMB Circular A-133 to determine compliance with federal guidelines The attached form contains the overall findings and recommended corrective actions in blocks one (1) and two (2) as a result of that visit. Blocks three (3) and four (4) must be completed by the sub-grant recipient and returned to DEMA no later than January 14, 2011. If this information is already available, please forward it with your reply. Failure to provide this information by the date requested could result in non-reimbursement for future sub-grant expenditures Thank you.

Please contact Arnold Cookson at 303-659-2313 if you have any questions.

James E. Turner, III
Director, Delaware Emergency Management Agency

Attach 1: Sub-Grant Monitoring Visit Findings

DELAWARE EMERGENCY MANAGEMENT AGENCY
HOMELAND SECURITY GRANT PROGRAM
SUB-GRANT RECIPIENT MONITORING VISIT

Location:	**City of Dover**
Date:	**November 17, 2010**
Point of Contact:	**Jeremy Johnson**
Sub-Grant #	**FY06-043**

1. Overall Findings

There were no written procedures to cover Vendor Debarment.

2. Recommended Corrective Actions:

The City of Dover should establish written procedures that cover Vendor Debarment. The establishment of these written procedures will avoid the awarding of contracts to vendors who are listed on the Federal Government's Excluded Parties Listing and preclude these vendors from receiving federal funds

3. Corrective Action Taken:

4. Sub-recipient Signature:	**Title:**	**Date:**

CITY OF DOVER

DEBT MANAGEMENT POLICY

ISSUED BY: FINANCE DEPARTMENT
AUGUST 24, 2009
REVISED DRAFT-FEBRURARY 14, 2011

City of Dover
Debt Management Policy

I. Purpose of Policy

The City recognizes the foundation of any well-managed debt program is a comprehensive debt policy. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated. The debt policy should recognize a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that a government maintains a sound debt position and that credit quality is protected. Advantages of a debt policy are as follows:

- Enhances the quality of decisions by imposing order and discipline, and promoting consistency and continuity in decision making,
- Rationalizes the decision-making process,
- Identifies objectives for staff to implement,
- Demonstrates a commitment to long-term financial planning objectives, and is regarded positively by the rating agencies in reviewing credit quality.

The City understands that incurring long-term debt serves to obligate future taxpayers or ratepayers. Excess reliance on long-term debt can cause debt levels to reach or exceed the government's ability to pay. Therefore, conscientious use of long-term debt will provide assurance that future residents will be able to service the debt obligations left by former residents.

The Controller/Treasurer is responsible for implementation and oversight of the City's debt policy.

II. Debt Management Objectives

- Maintain cost-effective access to the capital markets through prudent practices;
- Maintain current credit rating and when possible enhance current credit rating in order to reduce interest costs;
- Assess risks and benefits associated with all options available to the City for any bond issue, including fixed and variable rate debt;
- Determine the amortization schedule that will best fit within the overall debt structure;
- Avoid financial decisions that can negatively impact credit ratings;
- Analyze the effects on pertinent debt and capital ratios:
- Issue debt to finance capital construction, improvements, or acquisitions so as to be integrated with the City's long-term Capital Investment Plan;

III. Legal Governing Principles

In the issuance and management of debt, the City shall comply with the City Charter and with all other legal requirements imposed by federal, state, and local rules and regulations, as applicable.

IV. Permitted Debt by Type

Under the provisions of the code, the Mayor and Council may issue debt to pay down the cost of acquiring, constructing, or improving capital assets or to meet its cash flow needs. The Council should not finance general operating costs from debt having maturities more than one year. General operating costs include, but may not be limited to, those items normally funded in the Council's annual operating budget and having a useful life of less than one year. However, the Council may deem it necessary to finance cash flow requirements pursuant to the Charter, Section 50(a).

A. Short-Term Debt

The Council may issue short-term debt when such instruments allow the Council to meet its cash-flow requirements or provide increased flexibility in its financing program. Short-term debt includes, but is not limited to, tax anticipation notes, *bank qualified* lines of credit and commercial paper, and interfund loans for short-term cash flow needs. Short-term debt may be variable rate debt.

B. Long-Term Debt

The Council may issue long-term debt when the duration of the debt issue is consistent with the economic or useful life to the improvement or asset the issue is financing. Long-term debt shall be fixed rate debt in order to better project cash flow requirements. Long-term debt may include, but is not limited to the following:

1. *General Obligation Bonds* – General Obligation (G.O.) bonds are secured by the general credit and full revenue powers of the City; that is, the full faith and credit of the City. It is not debt specific to a specific fund. All general obligation bonds must be approved by the Council and can be sold in competitive or negotiated sales. The City will finance its long-lived municipal improvements over the estimated life of the improvement, not to exceed twenty years. The principal payments shall be structured such that 60% is repaid within the first half of the estimated life of the improvement. General Obligation Bonds may require voter approval.

2. *Revenue Bonds* – This is debt payable from a specific pledged revenue source or special assessments, typically in the Electric Revenue and Water/Wastewater Funds. These bonds are subject to covenants which limit the total debt service for the fund to a percentage of the qualified expenditures of that fund. All revenue bonds must be approved by the Council. The City will finance its system and infrastructure improvements over a term not to exceed the lesser of 30 years or the life of the improvement. Revenue bonds can be sold in competitive or negotiated sales. Revenue Bond sales shall be structured to achieve level debt service payments to the extent possible taking into consideration the costs of such financings. The City Revenue bonds do not require voter approval.

3. *Capital Leases* - This is debt payable for the purchase of and secured by specific capital equipment. Ownership transfers upon final payment. Capital Leases shall not exceed the life years of the equipment being leased. All Capital Leases must be approved by the Council.

4. *Tax and Revenue Anticipation Notes (TRANs)* – The Controller/Treasurer may ascertain the need to fund internal working capital cash flow. Before issuing such notes, cash flow projections shall be prepared and reviewed by the Legislative, Finance, and Administrative Committee of the Council, which may report to the Council with a recommendation to approve a TRAN. TRANs may be sold in either a competitive or negotiated sale. All TRANs must be approved by the Council.

5. *State Revolving Loan Fund* - Delaware has revolving loan funds which are long-term debt issued at below market interest rates for municipalities to fund designated programs. As funds are repaid to the state by the various debtors, they are made available to other qualified applicants for the loan. All State Revolving Fund Loans must be approved by the Council.

C. Refunding Debt

The City shall review its outstanding debt annually for the purpose of determining if the financial marketplace will afford the City the opportunity to refund an issue and lessen its debt service costs. In order to consider the possible refunding of an issue a Net Present Value savings of three percent over the life of the respective issue, at a minimum, must be attainable. The NPV savings will include consideration of all fees and legal costs. The City may also refund or restructure bonds when existing bond covenants impinge on prudent and sound financial management.

V. Restrictions on Debt Issuance

A) Charter Restrictions – Section 50

i. Tax or revenue anticipation notes shall not exceed one (1) percent of the total taxable assessment for a general tax, and shall be paid back out of current revenue received thereafter, and shall require approval of three-fourths vote of all Council Members and approval of the Mayor. (Section 50(a))

ii. General Obligation aggregate indebtedness cannot exceed one (1) percent of taxable assessment for a general tax at the time such new bonds are issued. Requires three-fourths vote of Council and approval of the Mayor. (Section 50(c)(i))

iii. The aggregate of amounts borrowed together with all other bonded indebtedness for which the full faith and credit of the City has been pledged shall not at any time exceed a sum equal to ~~twenty-five (25%)~~ five percent of the total assessed value of real property**.** **(**Info only – currently $206 million)

iv. The amounts borrowed no greater than ¼ of one percent (.25%) of taxable assessed value of real property (General Obligation) at any one time shall first be approved by an affirmative vote of three-fourths of Council and the Mayor ~~a referendum vote of the qualified voters of the City of Dover~~. (Info only – currently $7.2 million) Any new bonds issued pursuant to this clause may not cause the total aggregate principal amount of bonds outstanding at any one time to exceed one percent of the total taxable assessment for a general tax at the time such new bonds are issued. (Info only – currently $29 million) **(Section 50(c)(i))**

On July 12, 2007, Senate Bill #146 of the 144th General Assembly was signed into law. This Act would decrease maximum bonded indebtedness from 25 percent to 5 percent and amend the $1million bond limit without a referendum to ¼ of one percent (.25%) of total assessed value of real property or $3 million, whichever is less.

On July 8, 2009, Senate Bill #165 of the 145th General Assembly was signed into law. This act removed the "or $3 million, whichever is less" requirement from the previous Charter change.

B.) Debt Service Limitations

i. Debt service payments (principal and interest) shall not exceed 8% of recurring General Fund revenues for all general obligation bonds. (Info only – Current < 2%)

ii. General Obligation direct debt of the City shall not exceed $700 per capita. (Population Source: Delaware Population Consortium) (Info only – Current $8.97 per capita)

iii. Revenue Bonds will adhere to all bond covenants and shall include Trustee held debt service reserve accounts.

iv. Tax Exempt Bonds will have arbitrage calculations performed every five- years as required by the Internal Revenue Code.

v. No City debt issued for the purpose of funding capital projects may be authorized by the City Council unless an appropriation has been included in the Operating Budget and the debt issue was presented in the Capital Investment Plan.

VI. Planning and Oversight of City Indebtedness

A. Overview

The City plans long- and short-term debt issuance to finance its capital program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions. The Capital Investment Plan projects the capital needs of the City for the next five years. The City shall prepare cash flow projections for the general, water/wastewater, and electric funds for five years along with the attendant debt and capital ratios as presented in Appendix A. The financial impact of these projections and ratios shall be considered by the Council before any new debt instrument is approved.

The financial projections will include developer contributions, assessments, or impact fees when planned construction projects (i.e. extensions) benefit a small sector of the service area or small group of customers. Projects to replace or upgrade the trunk systems that benefit all customers of the system will be financed through operating revenues.

B. Roles and Responsibilities

The City shall maintain a combination of in-house and contracted professionals to complete all debt issuance transactions. The primary responsibilities shall be handled by the Controller/Treasurer, City bond counsel, and a Financial Advisor. Other services may be provided as determined necessary by this three-person team.

1. City Council shall authorize bond issues and the selection of all relevant service providers is the responsibility of the City Council. A representative or appointee of the Council is to attend all competitive sales and appropriate bid openings. The Legislative, Finance and Administrative Committee is responsible to provide recommendations to the Council for the need for debt issuance, selection of service providers, and presentation of all pertinent information.

2. The Controller/Treasurer oversees and coordinates the timing, issuance process and marketing of the City's borrowing and capital funding activities required in support of the Capital Investment Plan. In this regard, the Controller shall have responsibility as delineated in Appendix B.

3. Financial Advisors shall be selected by means of an RFP from a selected pool of such advisors to mitigate time constraints and reduce overhead costs of the City in procuring such services. Once selected, the City shall require a new RFP for each new issue or refinancing every five years. The City may replace a financial advisor with notice at any time. The financial advisor shall provide transaction specific and ongoing services including, but not limited those as described in Appendix C.

4. Bond Counsel shall include a written opinion affirming the City is authorized to issue the proposed debt and has met all legal requirements. The City may replace a bond counsel with notice at any time. The Bond Counsel shall prepare all documents and perform all advisory functions, including the services as described in Appendix D.

5. Letter of Credit Bank or Liquidity Facility Provider Bank. In the issuance of variable rate debt, the City shall procure a letter of credit or line of credit in support of such variable rate debt. The bank shall be evaluated based on its experience in providing liquidity facilities to municipal bond issuers, the credit ratings of the bank, and the competitiveness of its fees based on a market analysis of such fees.

6. Verification Agent. For refundings, the City shall procure the services of a verification agent. The verification agent confirms that sufficient proceeds are escrowed to ensure the timely repayment of principal and interest. The verification agent shall be selected based on ability to provide accurate and timely information and competitiveness of fees, based on a market analysis of such fees. The City may replace a verification agent with notice at any time.

7. Underwriters. For negotiated sales, underwriters are selected to structure the debt and sell debt to institutional and retail investors. They shall be selected based on demonstrated ability to perform these functions, be recommended by the Financial Advisor and/or Bond Counsel. The City may replace underwriters with notice at any time.

8. Trustees. For all bond issues, the City shall select a trustee to hold and invest the funds of the bond issue. The City may replace a trustee with notice at any time.

9. Auction Agents. For all relevant issues, the City shall select an auction agent to conduct the competitive bidding. The City may replace an auction agent with notice at any time.

10. Investment Agreement Counterparties. Repurchase Agreements or Forward Delivery Agreements shall be executed with counterparties rated at least AA (by at least on major rating agency) with downgrade provisions requiring assignment or collateral should the rating fall below A- or A3 by Standard and Poor's and Moody's, respectively. The City may replace Investment Agreement Counterparties with notice at any time.

VII. Transaction-Specific Policies

A. Presumption of Competitive Sale

Unless otherwise justified and deemed necessary to minimize the costs and risk of the City's debt issue, the issuance and sale of all long-term debt (with the exception of capital leases and State Revolving Loans) shall be achieved by competitive bid.

B. Competitive Bid Method

Any competitive sale of the City's debt shall require approval of the City Council. The City's debt issued on a competitive bid basis shall be sold to the bidder(s) proposing the lowest true interest cost to the City. Such bid may take the form of hand-delivered or electronically transmitted offers to purchase the bonds. The City may use the services of a financial advisor to administer the bid.

C. Negotiated Bid

When deemed appropriate to minimize costs and risks of the City's debt issue, the Legislative, Finance and Administrative Committee shall submit to the City a request to sell the debt issue on a negotiated basis. If debt is sold on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, prices, interest rates, underwriting or remarketing fees and commissions. All negotiated bids shall have a financial advisor who shall evaluate the terms offered by the underwriter(s) and comparisons with the terms and conditions in the marketplace for comparable issuers. The City shall require a post-sale analysis as described in the section Roles and Responsibilities, Financial Advisors, above. No debt issue shall be sold on a negotiated basis without an independent financial advisor.

D. Private Sale

The City shall only sell debt through private placement when necessary for a bridge loan to cover emergencies or project start-ups.

E. Refunding

The City may refinance outstanding long-term debt when the public policy benefits of replacing such debt outweigh the costs associated with new issuance as well as any increase in annual debt service. The Controller/Treasurer, with advice from the Financial Advisor and Bond Counsel, will recommend to the Legislative, Finance, and Administrative Committee when the opportunity to refinance will provide significant benefit based on net present value savings. The potential realization of a significant reduction in overall debt service costs shall be considered a public policy benefit in preparing the recommendation. This may be accomplished either by advance refunding to the first call or by defeasance to maturity.

F. Call Provisions
The City seeks to minimize the protection bondholders receive from optional redemption. This is consistent with the City's desire to obtain the lowest possible interest rate on its debt over time. The City will seek early calls at low premiums to allow it to refinance debt more easily when interest rates drop. The Controller/Treasurer and the City's Financial Advisor shall evaluate optional redemption provisions for each issue to assure the City does not pay unacceptable higher interest rates to obtain advantageous call dates.

G. Investment of Bond Proceeds
All investments of bond proceeds shall adhere to the City's Investment Policy approved by the City Council.

H. Communications with Credit Rating Agencies
The Controller/Treasurer is responsible for maintaining relationships with rating agencies that assign ratings to the City's various debt obligations. The credit objective of the City is to maintain the highest possible credit rating at all times. The Controller is to from time to time report to the City Council the status of such ratings and describe the underlying elements of the activities of the City which the rating agencies indicate affect said ratings. Each month the Controller shall provide the Council with the current covenant ratios for revenue bonds. The Controller shall request ratings prior to the sale of securities from at least one nationally recognized rating agency.

I. Credit Enhancements
Credit enhancements (letters of credit, bond insurance, etc.) may be used, but only when net debt service on the bonds is reduced by more than the costs of the enhancement.

J. Disclosure
The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. The City is committed to meeting secondary disclosure requirements on a timely and comprehensive basis.

The City will comply with the standards of the Government Finance Officers Association for financial reporting and budgeting presentation and the disclosure requirements of the Securities and Exchange Commission. The Finance Department shall be responsible for ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

APPENDIX A
CASH FLOW PROJECTIONS & PERTINENT DEBT AND CAPITAL RATIOS

City of Dover
Debt Management Policy
Sample Financial Model

Table 1
Projected Net Margins

	Year 0 2006	Year 1 2007	Year 2 2008	Year 3 2009	Year 4 2010	Year 5 2011
Operating Revenue - Rate Revenue	50,000,000	51,500,000	53,045,000	54,636,400	56,275,500	57,963,800
Operating Revenue - Other	500,000	510,000	520,000	530,000	540,000	550,000
Total Revenue	50,500,000	52,010,000	53,565,000	55,166,400	56,815,500	58,513,800
Direct Operating Expenses	(35,000,000)	(36,050,000)	(37,131,500)	(38,245,445)	(39,392,808)	(40,574,593)
Allocated Overheads	(5,000,000)	(5,150,000)	(5,304,500)	(5,463,635)	(5,627,544)	(5,796,370)
Total Operating Expenses	(40,000,000)	(41,200,000)	(42,436,000)	(43,709,080)	(45,020,352)	(46,370,963)
Operating Margin	10,500,000	10,810,000	11,129,000	11,457,320	11,795,148	12,142,837
Non-Oper. Rev. - Interest on Operating Funds	400,000	634,000	634,000	634,000	634,000	634,000
Operating Transfers - Out	(5,700,000)	(5,700,000)	(4,285,200)	(3,585,800)	(3,693,000)	(3,803,400)
Margins Available For Debt Service	5,200,000	5,744,000	7,477,800	8,505,520	8,736,148	8,973,437
Interest for Long-Term Debt	(914,000)	(859,048)	(1,599,500)	(1,726,400)	(1,617,400)	(1,498,300)
Cash From Operations	4,286,000	4,884,952	5,878,300	6,779,120	7,118,748	7,475,137
Non Cash Income/Loss on Investments	-	-	-	-	-	-
Gain/Loss on Sale of Assets	-	-	-	-	-	-
Debt Issue Cost Amort.-Outstanding Debt	(110,000)	(110,000)	(110,000)	(110,000)	(110,000)	(110,000)
Debt Issue Cost Amort.-New Debt		-	-	(25,000)	(25,000)	(25,000)
Depreciation Expense	(3,800,000)	(4,164,400)	(4,472,000)	(4,846,900)	(5,011,800)	(5,019,200)
Net Margins ($)	376,000	610,552	1,296,300	1,797,220	1,971,948	2,320,937
Debt Service Coverage						
Margins Avail. for Debt Service	5,200,000	5,744,000	7,477,800	8,505,520	8,736,148	8,973,437
Total Debt Service	2,768,614	2,589,048	3,379,500	4,171,300	4,157,500	4,160,100
Debt Service Coverage Ratio	1.88	2.22	2.21	2.04	2.10	2.16

City of Dover
Debt Management Policy
Sample Financial Model

Table 2
Projected Cash Flows

	Year 0 2006	Year 1 2007	Year 2 2008	Year 3 2009	Year 4 2010	Year 5 2011
Beginning Cash Balance						
Cash Balance as of July 1	$7,068,372	$1,344,732	$5,667,765	$8,030,565	$6,423,085	$10,001,932
Sources of Cash						
Sale of Bonds	-	-	15,000,000	-	-	-
Cost of Bond Sales	-	-	500,000	-	-	-
Net Bond Proceeds	-	-	14,500,000	-	-	-
Transfers From Reserves and Grants	504,000	8,714,000	-	5,241,500	1,194,000	3,463,500
Sale of Investments	4,000,000	-	-	-	-	-
Cash from Operations	4,286,000	4,884,952	5,878,300	6,779,120	7,118,748	7,475,137
Non-Oper. Rev. - Interest on Reserve Funds	621,600	1,144,924	953,700	991,900	821,900	807,000
Other Sources of Cash	-	-	-	-	-	-
Total Sources of Cash	$9,411,600	$14,743,876	$21,332,000	$13,012,520	$9,134,648	$11,745,637
Transfers To Reserves	2,315,000	840,000	0	0	0	-
Plant Additions	3,802,958	6,705,919	16,235,500	11,183,200	2,193,800	9,143,800
Principal on Debt	1,855,000	1,730,000	1,780,000	2,444,900	2,540,100	2,661,800
Purchase of Investments	7,162,282	1,144,924	953,700	991,900	821,900	807,000
Total Cash Requirements	$15,135,240	10,420,843	$18,969,200	$14,620,000	$5,555,800	$12,612,600
Ending Cash Balance						
Increase (Decrease) in Cash	($5,723,640)	$4,323,033	$2,362,800	($1,607,480)	$3,578,848	($866,963)
Unaccounted for Variance						
Cash Balance as of June 30	$1,344,732	$5,667,765	$8,030,565	$6,423,085	$10,001,932	$9,134,969
Minimum General Reserves-5% of Revenue	2,525,000	2,600,500	2,678,250	2,758,320	2,840,775	2,925,690
Difference from Cash Reserve - Net Long/(Short)	($1,180,268)	$3,067,265	$5,352,315	$3,664,765	$7,161,157	$6,209,279
Cash Available for Plant Additions	116,000	2,314,952	4,098,300	4,334,220	4,578,648	4,813,337

APPENDIX B
LIST OF SERVICES TO BE PROVIDED BY CONTROLLER/TREASURER

- Maintain a database with all outstanding debt;
- Attend meetings of the City Council or its committees relating to financial issues affecting the financing;
- Use comparative bond pricing services or market indices as a benchmark in negotiated transactions;
- Provide the Legislative and Finance Committee an evaluation of the final bond pricing results;
- Attend competitive bid openings for issuance of debt to assist the City with verification of bids, ensuring compliance with financing terms and conditions and to recommend acceptance or rejection of bids;
- Develop cash flow projections and pertinent debt and capital ratios for the current and the next four fiscal years;
- Determine the available debt capacity;
- Recommend to the Legislative and Finance Committee the manner of sale of debt, including a recommendation to use either fixed rate debt or variable rate debt;
- Monitor opportunities to refund debt and recommend such refunding, as appropriate;
- Provide for the timely payment of principal and interest on all debt;
- Provide for and participate in the preparation of offering and disclosure documents;
- Assure all repositories are provided the legally required information under Securities and Exchange Commission Rule 15c2-12, regarding continuing disclosure;
- Provide for the timely distribution of pertinent information to the bond counsel, financial advisor, paying agent, auditor, underwriters and rating agency and other municipal market participants;
- Provide post sale analysis;
- Prepare and review bid procedures, including CUSIP subscription, escrow services;
- Recommend investment of proceeds and reserves;
- Assist in the review and analysis of state and federal legislation pertaining to the City's financing programs;
- Prepare and assist in the evaluations of RFPs for financial services as are considered appropriate by the City Council, including, but not limited to, the financial advisor, bond counsel, line of credit banks or liquidity facilities bank for variable rate bonds and trustees;
- Seek out and evaluate proposals on new products and other financing ideas from underwriters and other professionals in the field of finance;
- Maintain communications with credit rating agencies, as described in the section "Communications with Credit Rating Agencies";
- Provide other services as requested by the City Council.

APPENDIX C
LIST OF SERVICES PROVIDED BY FINANCIAL ADVISOR

- Recommend specific covenants, financing structure, indentures and terms, including call provisions;
- Prepare and/or review preliminary and final official documents and all contracts and resolutions relating to the issuance of debt;
- Prepare and review advertisements of sales;
- Assist in preparation of information for rating agencies, investors and other municipal market participants;
- Assist the City with any other financing matters, including setting up electronic bids, investing proceeds, handling escrow issues and administering the City's program;
- Attend meetings of the City as requested;
- Attend competitive sales' bid openings to assist in the verification of bids and assure compliance with the terms of terms and conditions, and recommend to the Controller/Treasurer acceptance or rejection of the bids;
- Advise the City regarding negotiated sales during the sales process so as to assure the coupon rates reflect current market rates;
- Provide assistance in the preparation of RFPs for services related to the issuance of debt;
- Provide post sales analysis, including an issue summary and Final Report;
- Provide continuing service, including monitoring the outstanding obligations and the opportunities to refund, evaluating proposals on new products, and assisting in reviewing state and federal legislation.

APPENDIX D
LIST OF SERVICES PROVIDED BY BOND COUNSEL

- Render legal opinions regarding the validity and binding effect of the bonds, the source of payment and security for the bonds and the excludability of interest on the bonds from gross income for federal income tax purposes;
- Prepare and review the documents necessary to authorize, issue, sell and deliver the bonds and to coordinate the authorization and execution of these documents including the Resolution;
- Review all legal issues related to the structure of the bonds;
- Prepare and review those sections of the offering documents to be disseminated in connection with the sale of the bonds;
- Assist, as needed, the City in presenting information regarding legal issues pertinent to the bond rating agencies, investors, and other municipal market participants;
- Participate in meetings relating to legal issues;
- Prepare and/or contracts, as necessary, including bond purchase contracts, liquidity facility agreements, remarketing agreements, investment and trust agreements and other documents as is deemed appropriate by the City;
- Prepare the official transcripts of the proceedings related to the sale of bonds
- Assist in other legal matters relating to the issuance of the bonds;
- Provide ongoing services including tax advice, regulatory efforts and rulings that pertain to the City, planning for continuing disclosure and RFPs for financial services relating to the issuance of bonds.

GLOSSARY

Amortization – accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income, or the reduction of debt by regular payments of interest and principal sufficient to pay off the debt by maturity.

Arbitrage – profiting from differences in price when the same security, currency, or commodity is traded on two or more markets. An element of tax exempt debt. The City maintains bond reserves to provide assurance to bond holders of its ability to make its annual debt service payments. In doing so, the rate earned on the reserve accounts may at times exceed the rate being paid on the bonds. In these instances, the City will be subject to tax payments on the earnings that exceed the interest cost as determined by a licensed arbitrage calculator.

Bank Qualified Debt – commercial loans done on a tax-exempt basis or tax-exempt bonds sold to a bank instead of to other bondholders.

Direct Debt – direct debt is a comprehensive measure of a municipality's long-term obligations directly supported and backed by general revenues and taxes.

Fixed Rate Debt – debt that pays interest based on a fixed coupon rate until maturity.

Letter of Credit – instrument or document issued by a bank guaranteeing the payment of a customer's drafts up to a stated amount for a specified period. It substitutes the bank's credit for the buyers and eliminates the seller's risk.

Long-term Debt – Debt with maturities of greater than one year from date of issuance.

Revenue Anticipation Notes – short-term debt issue of a municipal entity that is to be repaid out of anticipated revenues such as sales taxes. When the taxes are collected, the RAN is paid off. Interest from the note is usually tax-free to RAN holders.

Short-term Debt – Debt with maturities less than one year from the date of issuance.

Tax Anticipation Notes – short-term obligation of a state or municipal government to finance current expenditures pending receipt of expected tax payments. TAN debt evens out cash flow and is retired once corporate and individual tax revenues are received

Trust Company – an organization usually combined with a commercial bank, which is engaged as trustee, fiduciary, or agent in the administration of trust funds, estates, custodial arrangements, stock transfer and registration, and other related services. Trust companies are regulated by State law.

Underwriter – an investment banker, who, singly or a member of an underwriting group or syndicate, agrees to purchase a new issue of securities from an issuer and distribute to investors, making a profit on the underwriting spread.

Variable Rate Debt – debt that pays interest based on a rate which is reset periodically