LEGISLATIVE, FINANCE, AND ADMINISTRATION COMMITTEE

A G E N D A

February 12, 2007 - 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 Tmcdowell@dover.de.us) should you wish to be recognized.

AGENDA ADDITIONS/DELETIONS

1. Debt Management Policy *(Tabled by Committee on January 22, 2007)*

2. Report on Water/Wastewater Debt Service

3. Review of Financial Policies

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.

City of Dover
Finance Department
PO Box 475
Dover DE 19903-0475
Phone: (302-736-7018
FAX: (302) 736-7177
E-Mail: dmitchell @dover.de.us

MEMORANDUM

To: City Council

From: Donna Mitchell, Treasurer/Finance Director

Copy: Mayor, City Manager, & City Clerk

Date: February 1, 2007

Subject: Debt Management Policy

I am hereby providing the following answers to the questions on the Debt Management Policy during the Legislative, Finance, & Administrative Committee Meeting on January 22, 2007.

The debt per capita is City debt and not overlapping debt. The term "direct" debt is used as an indicator. However, I have added to the Glossary a definition of Direct Debt to provide further clarification.

The $700 amount was calculated based on the maximum allowable debt of 1% of assessed/market value in our Charter Section 50(c)(i). This was also provided to the Legislative, Finance, & Administrative Committee on March 13, 2006. See attached presentation)

I have spoken with both our Financial Advisor and the State of Delaware on the twenty year limitation on General Obligation Debt. This is the common practice and attempts to keep the interest cost down to the citizens. It is also an preferred practice of the rating agencies. To extend it longer beyond current practice may send the rating agencies adverse signals. The State of Delaware's Director of Bond Finance provided me with the following:

> "The State limits G.O. debt to 20 year maturities. When we issue debt on behalf of the school districts, we issue with 20 year maturities, but often when issuing debt for state facilities, we issue maturities as short as 10 years. The rating agencies look more favorably on a rapid amortization schedule, the shorter the average life improves the yield and there's also an argument against pushing the obligations so far out that they must become the burden of the next generation. Today's Bond Buyer listed a few dozen transactions and the only maturities beyond 20 years were revenue or refunding bonds, no G.O.'s. The State of Maryland issues G.O.'s at 15 years or less and if it helps, the DE Transportation Authority issues revenue bonds with 20 year maturities. Even the Solid Waste Authority's recent $97 million revenue bond issue, which will finance landfill expansion that will last for decades, was limited to 20 years."

In putting together this policy, I used source materials from the Government Finance Officer Association – Benchmarking and Measuring Debt Capacity, Financial Policies: Design and Implementation, Local Government Finance, as well as policy comparisons of other communities from the internet and provided by the GFOA on compact disk.

ACTION FORM

PROCEEDING: Legislative, Finance, & Administrative	**AGENDA ITEM NO.: 2/12/07 - 1**
DEPARTMENT OF ORIGIN: Finance	**DATE SUBMITTED**: 1/22/07
PREPARED BY: Donna Mitchell	
SUBJECT: Debt Management Policy	
REFERENCE: N/A	
RELATED PROJECT: N/A	
APPROVALS: Legislative, Finance, & Administrative Committee & City Council	
EXHIBITS: Draft Debt Management Policy	
EXPENDITURE REQUIRED: N/A **FUNDING SOURCE (Dept./Page in CIP & Budget)**:	**AMOUNT BUDGETED**:
TIMETABLE: N/A	
RECOMMENDED ACTION: Staff recommends approval of the Draft Debt Policy	

BACKGROUND AND ANALYSIS

The attached Debt Management Policy has been developed to provide City officials with a set of guidelines to follow for planning and execution of the Capital Investment Plan along with guidance for managing our current debt.

In summary, it provides debt management objectives, permitted types of debt, guidance for refinancing current debt, debt planning and oversight.

One of the key concepts is the development of a financial model in conjunction with the budget and CIP process to determine debt affordability prior to presenting the budget to City Council for approval. The model will include a five year forecast much like the Electric analysis we just completed. It will also provide Council with a better idea of the impact of new debt on future years as well. While this process adds another step to our budget process, we believe it is worth the effort to assist everyone in understanding current and future cost of service.

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The policy takes into consideration State law and Charter restrictions. Section V includes (parenthetically) the recommendations that were made to the Charter Review Committee. However, they will be removed from the policy until such time the Charter is changed.

City of Dover
Draft 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 Treasurer/Finance Director 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, 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 Treasurer/Finance Director 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 Council 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%) percent of the total assessed value of real property**. (Recommended changing this to 2% - Charter Review Committee)**

iv. The amounts borrowed greater than $1,000,000 issued (General Obligation) at any one time shall first be approved by a referendum vote of the qualified voters of the City of Dover**. (Recommended to Charter Review Committee to changing this to one quarter of a percent of assessed taxable value, or .25%)**

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.

ii. General Obligation direct debt of the City shall not exceed $700 per capita. **(Population Source: Delaware Population Consortium)**

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 Finance Director, 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 Finance Director 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 Director 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 Director of Finance, 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 Director 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 Finance Director 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 Director 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 Director shall provide the Council with the current covenant ratios for revenue bonds. The Director 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 FINANCE DIRECTOR

- 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 Director of Finance 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.

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 buyer's 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.

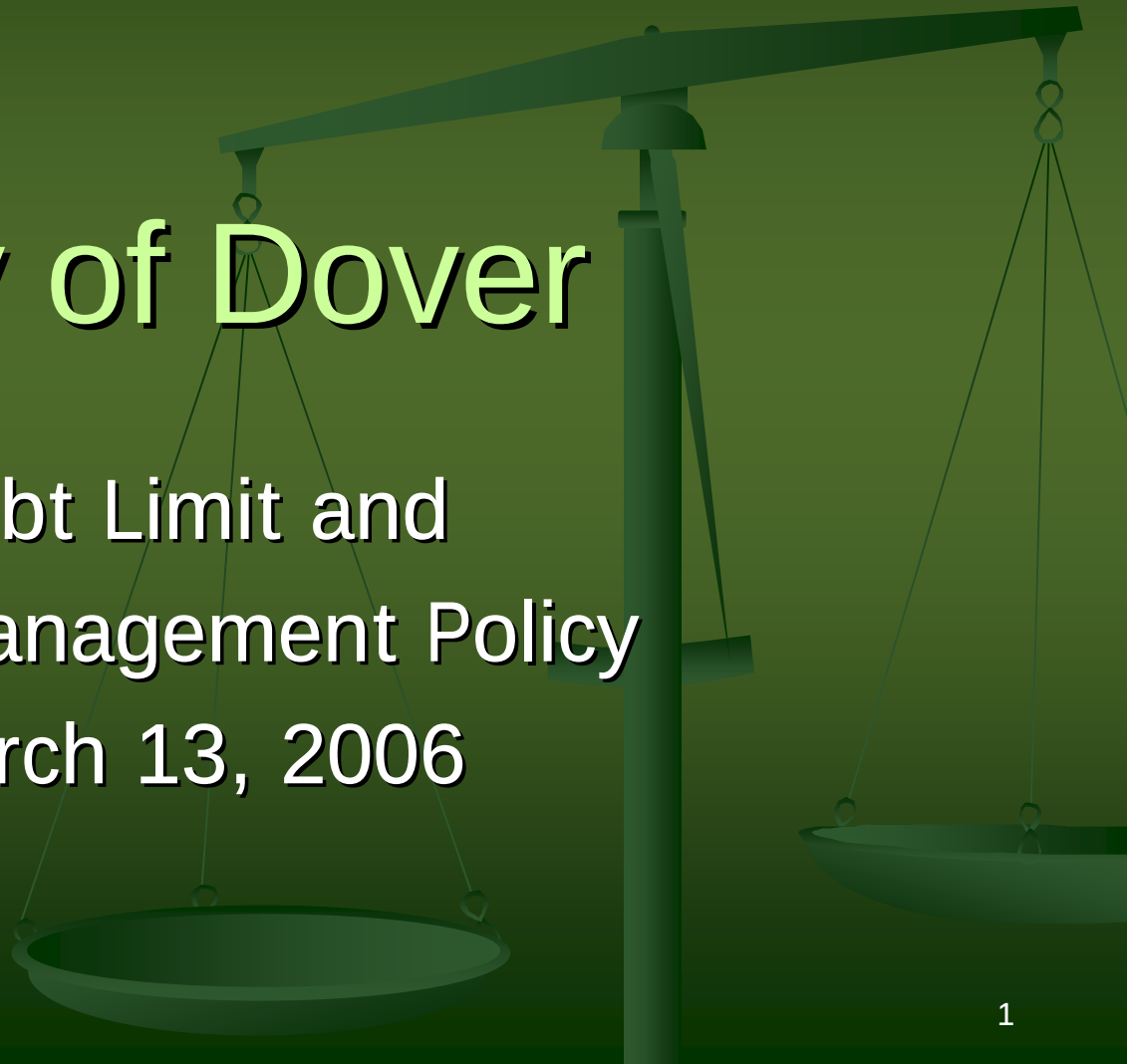
Variable Rate Debt – debt that pays interest based on a rate which is reset periodically

City of Dover

Debt Limit and

Debt Management Policy

March 13, 2006



1983

- Charter was changed in 1983, setting the $1,000,000 referendum limit
- How has inflation impacted $1,000,000 since 1983?
- InflationData.com
  - Long term average annual inflation rate from 1913 through 2005 is 3.4%
  - Cumulative inflation January 1983 – December 2005 = 101.23%
  - ($1,000,000 x 101.23%) + $1,000,000 = $2,012,300

Local Communities

Public Hearing & Resolution = All	Referendum	Bond Issuance Vote	Assessed Value Limit	Expenditure Limit
Dover	Yes > $1 million	Super Majority	25%	---
New Castle Cty	No	Super Majority	3%	15%(incl Airport)
Kent County	No	Super Majority	12%	---
Sussex County	No	Super Majority	12%	---
Wilmington	No	Majority	---	17.5%
Newark	Yes	Majority	10%	---
Smyrna	Yes if aggregate > 4.5% of value	Super Majority	12%	---
Milford	Yes	Majority	4.5%	---
Seaford	Yes	Majority	25%	---
Laurel	Yes > $5 million	Majority	50%	---
Lewes	Yes	Majority	25%	---
Rehoboth Beach	Yes > $6 million	Majority	25%	---

Other Local Debt Policies

- State of Delaware
  - Prohibited to issue new debt greater than 5% of budget
  - Annual debt repayments cannot exceed 25% of available cash balances
  - 10 year trend of debt to revenues & expenditures = 3.5%
- New Castle County
  - Debt Margin not to exceed 3% of assessed value
  - Debt shall not exceed $250 per capita
  - 60% debt principal to be retired in 10 years
  - Overlapping debt per capita shall not exceed $935

Referendum

- Policy decision
- How much input you would like from the public
- Provides a system of checks and balances in how much debt burden the community is willing to accept
- Debt Management Policy with conservative elements will serve to provide a system of checks and balances

Debt Management Policies

- Purpose to ensure fiscal prudence and continuity while maintaining long-term financial security. To codify the amount of debt service and overall debt allowed help ensure that outstanding and planned debt levels do not exceed an amount that can be supported by the existing and projected revenue base.
- Develop a policy that can be realistically adhered to rather than a more stringent policy that is likely to be overridden or violated.
- Reasons –
  - Debt policies transmit a message to investors and rating agencies that a community is committed to sound financial management
  - Debt policies can provide consistency and continuity to public policy development
  - Provides a set of guidelines to govern planning and execution of transactions and projects

Conditions for Debt Issuance

- Purpose & Uses – i.e. bond proceeds should be limited to financing the costs of planning, design, land acquisition, buildings, permanent structures, and attached fixtures or equipment.
- Types of Debt – general obligation bonds, revenue bonds, lease/purchase agreements, etc...
- Project life – economic value lasting more than a fixed number of years
- Refunding policies – when advantageous to reduce interest cost or remove a burdensome or restrictive covenant

Common Restrictions or Limitations

- Prohibited uses – projects as part of the operating budget and infrastructure that receive a majority of funding from fees and charges are generally not appropriate
- Size of issuance – policy limitations on the size of issuance
- Limitations on maturity – (a) maturity of debt cannot exceed expected life of asset and/or (b) debt repayments accelerated to pay over 50% in 7 – 10 years
- Statutory limitations

Common Statutory Limitations

- Legally authorized debt limits
- Tax or expenditure ceilings
- Referendum approval – usually associated with General Obligation Bonds
- Inclusion of pension/benefit liabilities in calculating authorized debt limits
- Overlapping debt restrictions
  - i.e. City/County/School tax aggregate limitations

Debt Service Limitations

- Affordability – what is our capacity for debt
- Rating agencies have established favored targets
- Benchmarking to compare to other local jurisdictions
- Sample capacity limitations
  - Debt service expenditures as a percent of revenues
  - Per capita limitations incorporates concept of ability to pay - wealthier communities can manage larger debt burdens; reveals total amount of debt per community resident; demographics
  - Expenditure limitations which put a cap on debt service as a percentage of total expenditures
  - Market or Assessed Value Limitations – limit the total amount outstanding to a percentage of market or assessed value of taxable property (usually wise to evaluate periodically due to changes in market conditions)

Other Policy Elements

- Establishment of debt service funds
- Credit enhancements – insurance or letters of credit
- Investment of bond proceeds – whom, where, and how; restrictions;
- Investment & financial advisors – procurement of services
- Sale of bond process – competitively or negotiated
- Bond rating goals, disclosure, and intergovernmental cooperation
- Rating agency relations

Fitch Ratings

- Main element – debt affordability
- Tied to capital improvement plan
- Targets that measure debt against financial and economic indicators
- Viewed in the context of overall risk profile, focusing on area wealth as evidence by income levels and property tax base
- Most common targets
  - Debt as a % of market value of property – Typical policies limit 2% - 5% of market value
  - Debt per capita – Typical $200 - $1,300 per capita
  - Debt service as a % of revenues/expenditures – Typical 8% - 12%
  - Principal amortization rates – 50% or more in 10 years

Fitch Ratings

- Favored key elements of policies across the nation
  - Fairfax County, VA – Annual debt issuance limit – less than 10% of general fund expenses & 3% of market value of property. Budget highlights compliance over a 10 year trend
  - Pasadena, CA – Comprehensive policy incorporating capital planning
  - Boston, MA – Conservative debt management targets and analysis of projected compliance, i.e. 7% of general fund expenditures
  - Tempe, AZ – A dedicated minimum level of pay-as-you-go financing (5% of CIP), as well as specific affordability goals that include all tax supported debt. i.e. debt per capita $700 - $800, debt to market value 1.1% - 1.25%
  - Sedgwick County, KS – Inclusion all direct, overlapping, and underlying debt in ratio calculations

Affordability

- Most important element
- Consideration of current revenues, risk of loss of any one revenue source, and community economics
- Which revenues carry less risk of loss and therefore available for debt service payments
- Taxes, licenses, fees, fines, & transfers from other funds

City of Dover
Current Outstanding Debt – 6/30/05

- Comprehensive Annual Financial Report
  - Notes to Financial Statements – page 68 through page 73
    - Bonded Indebtedness
      - General Obligation - $3,475,000 ($335,000 due 7/1/05)
      - Water/Wastewater Revenue - $8,429,336 ($1,376,271 due 7/1/05)
      - Electric Revenue - $22,535,000 ($1,855,000 due 7/1/05)

City of Dover
Current Measures – 6/30/05

- Comprehensive Annual Financial Report
  - Statistical Section – pages 135 – 141
  - General Obligation Bonds
    - Overlapping debt – City/County/Capital School District = $22,235,217
    - Debt service ratio to General Fund Expenditures – Last ten years – highest 5.12% in 1997, lowest 1.58% in 2005;
    - Debt per capita = $108.45 (Population 32,043 last Census)
    - Ratio of bonded debt to market (assessed) value = .20%
    - Debt margin – Debt limit less current outstanding bonded debt
      - Based on prior assessed values of $1,764,347,700
      - Limit 25% of assessed value
      - Current bonded debt $3,475,000
      - Debt margin = $437,611,925

General Fund

- Current receipts from taxes, licenses, frees and transfers - $25,049,921
- Not included are receipts that are specifically for operating expenses, one time receipts, grants, and beginning budget balance (i.e. police extra duty, homeland security grants, & sale of land)
- Operating Expenditures - $23,546,699
- Not included are debt service, reimbursed expenses, homeland security grant expenses, and budget balance
- Additional receipts over budget to cover debt service, OPEB, and transfers to other accounts (i.e. capital project reserve) - $1,503,222
- OPEB Presentation on 1/9/06 indicated the General Fund impact would be $1,539,864

General Fund

- Current debt service $400,000 - $500,000
- Drops to $328,000 in 2010
- Every $1 million issued in bonds approximates $110,000 in annual debt service
- Property tax increase to finance the additional debt service on $1 million would approximate $.0047; a $.01 increase approximates $233,715

Recommendation

- Debt Management Policy
  - Incorporate capital planning and affordability analysis to determine if current revenues can support additional debt or if rate/fee increases will be necessary or if there is a potential additional revenue source
  - Debt service financed through taxes and rates of those who benefit from the project
  - Conservative policy elements
    - General Obligation aggregate indebtedness - 1% of assessed/market value = $23,371,450 (already in Charter Section 50(c)(i))
    - G.O. Bonded Debt per capita = $700 - $800
    - Annual debt service - 7% of non-one time revenues, less reimbursements (would provide specific list) = $1,753,495
    - Sinking fund requirements – i.e. maximum debt service
    - If you would like to keep some type of referendum requirement – Additional debt service equates to a property tax rate increase greater than 10% (At current values = $.033 rate = $771,258 in receipts towards debt service payments of $770,000 or $7 million bonded indebtedness)

Questions or Comments

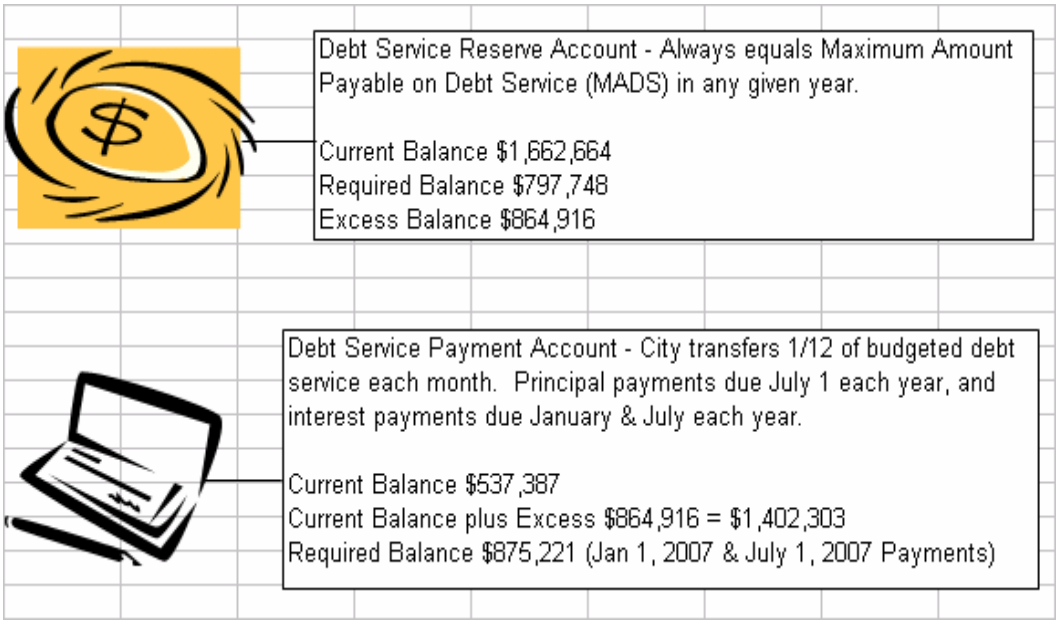


ACTION FORM

PROCEEDING: Legislative, Finance, & Administrative	**AGENDA ITEM NO.: 02/12/07 - 2**
DEPARTMENT OF ORIGIN: Finance	**DATE SUBMITTED**: 02/12/07
PREPARED BY: Donna Mitchell, Finance Director	
SUBJECT: Report on Water/Wastewater Debt Service	
REFERENCE: N/A	
RELATED PROJECT: N/A	
APPROVALS: Legislative, Finance, & Administrative Committee & City Council	
EXHIBITS: Attached Debt Service Schedule	
EXPENDITURE REQUIRED: N/A **FUNDING SOURCE (Dept./Page in CIP & Budget)**:	**AMOUNT BUDGETED**: N/A
TIMETABLE: N/A	
RECOMMENDED ACTION: N/A	

BACKGROUND AND ANALYSIS

The City is required to maintain two bond reserve accounts as follows:



Since we now have a reduction in our debt service obligation we are transferring $858,280 to the Bond Payment Account from the Reserve Account. This will result in discontinuing the monthly payment the remainder of this year and for several months of FY08. If we were to transfer the excess directly to the Water/Wastewater Fund we would be subject to arbitrage. If we transfer the excess to the payment account and use it for debt service within one year we are not subject to arbitrage (taxes on the interest due to the IRS). We will adjust the FY07 and FY08 budgets accordingly. Staff would also recommend any savings to be transferred to the Capital Asset Account or the I & E Fund when the budgets are adjusted to assist with Water Quality and I & I projects.

The City of Dover
Water and Wastewater Revenue Bonds
Maximum Annual Debt Service Requirement
As of 12/14 Each Year

12/14/2004	$	1,511,199
12/14/2005	$	1,553,713
12/14/2006	$	1,551,228
12/14/2007	$	790,148
12/14/2008	$	797,748
12/14/2009	$	797,708
12/14/2010	$	415,023
12/14/2011	$	416,323
12/14/2012	$	416,423
12/14/2013	$	415,573
12/14/2014	$	414,053
12/14/2015	$	226,513
12/14/2016	$	225,468
12/14/2017	$	224,068
12/14/2018	$	227,303
12/14/2019	$	224,865
12/14/2020	$	227,125
12/14/2021	$	228,765
12/14/2022	$	229,765
12/14/2023	$	225,105
Total Principal & Interest 12/14/07 - 12/14/23	$	6,501,976

ACTION FORM

PROCEEDING: Legislative, Finance, & Administrative	**AGENDA ITEM NO.: 2/12/07 - 3**
DEPARTMENT OF ORIGIN: Finance	**DATE SUBMITTED**: 2/12/07
PREPARED BY: Donna Mitchell, Treasurer/Finance Director	
SUBJECT: Financial Policy Amendments	
REFERENCE: N/A	
RELATED PROJECT: N/A	
APPROVALS: Legislative, Finance, & Administrative Committee & City Council	
EXHIBITS: Financial Policies	
EXPENDITURE REQUIRED: N/A **FUNDING SOURCE (Dept./Page in CIP & Budget)**:	**AMOUNT BUDGETED**: N/A
TIMETABLE: Effective upon Council approval	
RECOMMENDED ACTION: Staff recommends discussion and approval of the amendments to the City of Dover Financial Policies to be completed during the meeting of February 26, 2007.	

BACKGROUND AND ANALYSIS

In 2002, City Council adopted a broad set of Financial Policies in which to manage its financial and budgetary affairs. The last time the policies were reviewed and amended was May 10, 2004.

The blue narrative is the recommended changes and also the changes made in May 2004. The May 2004 amendments were passed under consent agenda. The final draft was not updated with the recommended changes brought back to Council for discussion. The Reserve accounts were included in the May 2004 amendments therefore you will see a significant amount of blue narrative. The red narrative is to provide clarification or additional information but will not be included in the final draft.

Points that we believe need discussion during the meeting are:

- Transfers to the General Fund – fixed dollar amount or percentage.
- Water/Wastewater transfer is currently calculated in aggregate and not on individual service revenues. We would recommend separating the Water from the Wastewater Revenues in calculating the transfer independently. It is also recommended that the transfer not be calculated on the Kent County Sewer Fees as they are a pass through revenue offset by the payment to the County. (For budgetary purposes it's revenue & expense, for GAAP purposes it is a payable to Kent County)
- Water, Wastewater, Kent County Sewer Fee budget balances are calculated in aggregate. We would recommend separating them into their individual components and discontinue the aggregating process.
- In the Electric Fund, the Utility Tax is also a pass through item that we are recommending not be included in the transfer calculation. (For budgetary purposes it's revenue & expense, for GAAP purposes it is a payable to the State of Delaware)

- Transferring $120,623 from the Depreciation Reserve to the Insurance Stabilization (Deductible) Reserve to be presented with the FY08 Budget. This would bring the balance up to our deductible amount of $350,000.

- Establishing a Capital Project Fund for General Fund projects similar to the Improvement & Extension Funds we have for the Utilities. This would separate operating cost from Capital cost in the General Fund, therefore reduce the lows and highs attributed to projects. Any savings from projects would stay in the Capital Project Fund to help pay for future projects. An analysis of how this changes the General Fund budget is attached for discussion.
- The Library Reserve has been added with the inclusion of funding the reserve with the Pay In Lieu of Tax Receipts and any excess General Fund carry forward as approved by City Council on May 22, 2006. Is it Council's intention that these sources continue each and every year until the project is completed?
- The impact of any changes on the budget.

We implemented the Capital Asset Replacement Reserves in FY03 using the one-time revenues for both the General Fund and Water/Wastewater Fund. Since we have not been able to sustain a long-term commitment to the General Fund account, I would recommend we consider folding it into the budget balances of a newly created Capital Project Fund for the General Fund. A budgeted annual appropriation from the operating fund would be budgeted to cover the CIP plus an additional appropriation to bring the fund budget balance up to a desired minimum level based. Council will still be able to add specific purpose accounts for any one project.

The Water/Wastewater account has been designated to be used for Water Quality and Inflow/Infiltration Projects. The details are as follows:

	General Fund	Water/Wastewater Fund
FY03 Addition	$750,000	$80,000
FY04 Use	$(591,138)	$(80,000)
FY06 Addition	$150,000	$600,000
FY06 Use	-0-	$(321,000)
FY07 Transfer In - Contingency	-0-	$395,000
FY07 Use	$(324,824)	-0-
Current Balance	-0-	$703,221
(Column will not add down as interest is not included above)		

This policy has been developed over the years using several Governmental Finance Officer's publications as well as policies adopted by other communities. We review them from time to time to provide assurance they are meeting the needs of the City of Dover. A motion was also included in the Budget Hearings held in May 2006 by Mr. Ruane that the City of Dover financial policies be revisited and a new draft be presented to the Legislative, Finance, & Administrative Committee, seconded by Mr. Hogan and unanimously carried.

CITY OF DOVER
FINANCIAL POLICIES



Amended 05/10/04

CITY OF DOVER, DELAWARE
FINANCIAL POLICIES

The purpose of these policies is to present a standardized set of principles that the City follows in managing its financial and budgetary affairs. These are general statements of policies, which represent long-standing principles, traditions, and practices that will be used to guide the City in maintaining financial stability. ***It will be the responsibility of the Finance Department to ensure the financial objectives of these policies are maintained.***

Revenue Policy

1. The City will strive to maintain a broad and diversified revenue base that will equitably distribute the burden of supporting City services and will protect the City from short-term fluctuations in any one revenue source.

2. The City will actively support economic and industrial development recruitment and retention efforts to provide for a solid revenue base.

3. The City will maintain timely collection systems and implement necessary enforcement strategies to collect revenues from available sources.

4. The City will establish user fees and charges for services, when feasible, at levels related to the cost of providing the services. The City will review the fees and charges every three years to determine modifications needed to keep pace with the cost of providing the services.

5. The City will establish, when feasible, self-supporting enterprise funds and intergovernmental service funds in which a relationship between revenues and expenditures clearly exists.

6. The City will project current revenues on a conservative basis so the actual revenues will consistently meet or exceed budgeted revenues.

7. The City will maintain a budgetary control system and will prepare reports, which compare actual revenues to budgeted amounts.

8. The City will limit the designation of General Fund revenues for specified purposes to maximize flexibility in budgeting and revenue utilization.

9. The City will review annually and revise, where necessary, its cost allocation formulas, i.e. internal service funds, right-of-way fees.

10. ***Upon satisfying all rate covenants the City will provide operating transfers to the General Fund from the Water/Wastewater & Electric Utilities no greater than 8% of the utility operating revenues, excluding the carry forward budget balance. (Currently transferring 4.5% -$535,000 - Water/Wastewater & 6.4% - $5,700,000 - Electric) Need to discuss fixed dollar amount or percentage, which would keep budget requirement consistent for the Utilities and revenues consistent for General Fund. Water/Wastewater are not being calculated on water separated from Wastewater, but in aggregate. Also, keep in mind that***

when revenues are down, the transfers are kept to budget and not reduced. Recommend we add a statement that transfers will be adjusted to comply with bond covenants when necessary.

Expenditure Policy

1. Basic and essential services provided by the City will receive first priority for funding, i.e. Public Safety & Health, Utilities, Streets, & Sanitation. The City will establish performance measurements for all program areas, when feasible. These measures will reflect the demand, workload capability, and projected outcomes for the program to accomplish its objectives.

2. The City will adopt a balanced budget, by fund, for all funds maintained by the City, in which total anticipated revenues must equal or exceed the budgeted expenditures for each fund. However, if this cannot be attained, the City will utilize unallocated ***budget balances*** ~~fund reserves~~, which have been carried forward from prior years as approved by Mayor and Council.

3. The City will maintain a budgetary control system to ensure adherence to the adopted budget and will prepare reports, which compare actual expenditures to budgeted amounts.

4. The City will refrain from budgeting non-recurring or one-time revenue for ongoing expenses. These revenues will be set aside for asset replacement or as otherwise directed by Mayor and Council.

5. The City will provide access to medical, dental, vision, life, AD & D, and short-term disability insurance for its employees. The cost for these benefits will be a shared responsibility between the City and its employees as outlined in the City Personnel Handbook or collective bargaining agreements.

6. The City will provide access to appropriate retirement plans for its employees. The City will make contributions for eligible employees at the ***actuarial determined*** percentage defined for each of the respective retirement plans.

7. ***The City will establish a Post-Employment Benefit Fund and provide available funding for early implementation of a new accounting standard promulgated by the Government Accounting Standards Board. When the standard officially takes effect, the City will make contributions for eligible employees and retirees at the actuarial determined rates or percentages.***

8. The City will provide access to medical and dental insurance for its retiree's and their families. The cost for these benefits will be a shared responsibility between the City and its retirees as outlined in the City Personnel Handbook or collective bargaining agreements.

Debt Policy

1. The City will maintain a ***debt management*** policy ***and*** ~~of~~ full disclosure on financial reports ~~and bond prospectus~~.

2. The City will maintain communications with bond rating agencies and continue to strive for improvements in the City's bond rating.

3. The City will adhere to its debt covenants.

4. The City will review its debt capacity every three years.

5. The City will pay for all capital projects and capital improvements on a pay-as-you-go basis using current revenues whenever possible. If a project or improvement can not be financed with current revenues, long-term debt will be recommended.

6. The City will refrain from issuing long-term debt for a period in excess of the expected useful life of the capital project.

7. The City will use special assessment revenue or other self-supporting bonds instead of general obligation bonds, when practical.

8. The City will seek refinancing of outstanding debt if it is determined that the City will benefit by reduced interest expense over the remaining life of the bonds.

Budget Balance/Reserve Policy – General Fund

1. The City will strive to maintain a minimum ~~reserve, in the~~ Budget Balance, of at least 8% ***and no greater than 12%*** of the current year operating revenues for the General Fund, excluding the carry forward balance. ***The purpose of the budget balance is to meet temporary fluctuations in cash flows and to provide a cushion for loss of revenues until operating changes can be implemented.*** If ***the*** existing ***Budget Balance*** ~~reserves~~ exceeds the required level, such funds may be used to provide for non-recurring expenditures **when** ***the purchases cannot be accommodated through current year savings***. The City may use monies in the ***Budget Balance*** ~~reserve~~ only in times of fiscal and economic hardship. ***(Currently 8% = $2,658,517)***

2. Once achieved, at no time should the City's budget balances fall below their specified percentages. If a shortfall occurs in the budget balance and immediately restoring the balances to the specified percentage would cause an extreme burden on the taxpayers, the budget balance may, with the Mayor's and City Council's approval, be restored to the specified percentage within one year, but in any case, no longer than three years.

3. The City will maintain a minimum reserve, in a contingency account, of at least ~~2%~~ ***~~4%~~*** **2%** of the current year operating revenues for the General Fund. The City may only use monies in the contingency accounts ***to cover emergencies of a non-recurring nature that are over and above the normal course of operations. Examples are uninsured losses, storms or hurricane damages. The Contingency Reserve will not be used to balance the operating budget. (2% = $664,629; 3% = $996,944; 4% = $1,329,258;) (Current balance = $639,589) If percentage is increased, recommend provide to increase to higher percentage through excess carry forward balance or excess revenues; no fee/rate increases. Need to decide which is easiest for budgeting process, fixed dollar amount or percentage. Fixed dollar amount, once achieved will not change or require budget adjustments. My opinion is its more important to work on the Capital Asset Replacement Account/Fund versus the Contingency Reserve.***

4. ***The total of the General Fund budget and contingency balances shall not exceed 17% (≈ 2 months) of Budgeted Operating Revenues.***

5. ***The City will create a Capital Asset Replacement account to cover replacement or procurement of assets of the general government. Optimally, the amount set aside for future asset replacements should equal the annual depreciation of the current assets. (For info only, not to be included in final draft - The current annual depreciation is $1,144,326 for infrastructure (streets, sidewalks, storm sewers) and buildings and $838,909 for vehicles and construction equipment. A total of $1,983,235) The City will appropriate non-recurring revenues to fund this account, or if the balance is less than the minimum,***

$200,000 per annum until such time the minimum balance is replenished. All vehicle and equipment purchases under $25,000 will be budgeted on a pay as you go basis. (Current balance = zero; Reduced to offset reduction in transfer from Electric)

6. ***The City will create a Library Reserve Account to fund future construction of a Regional Library (or City Library?). The City will fund this reserve utilizing excess carry forward balances and payment in lieu of taxes.***

Budget Balance/Reserve Policy – Water/Wastewater Fund

1. The City will strive to maintain a minimum ~~reserve, in the~~ Budget Balance, of at least ***10 % and no greater than 17% (two months)*** of the current year operating revenues for the Water/Wastewater Fund, excluding the carry forward balance. ***The purpose of the budget balance is to meet temporary fluctuations in cash flows and to provide a cushion for loss of revenues until operating changes can be implemented.*** If ***the*** existing ***Budget Balance*** ~~reserves~~ exceeds the required level, such funds may be used to provide for non-recurring expenditures ***when purchases cannot be accommodated through current year savings***. The City may use monies in the ***Budget Balance*** ~~reserve~~ only in times of fiscal and economic hardship. ***(The City should strive to maintain at least an 8% Water Fund $534,334, 8% Wastewater Fund $442,484, and 8% Kent County Sewer Adjustment $300,880 budget balance – needs discussion. Currently budgeted in aggregate at $1,497,275; Budget Water $1,976,441; Budget Wastewater $1,254,937; Budget Kent County Sewer Adjustment negative -$1,734,103)***

2. Once achieved, at no time should the City's budget balances fall below their specified percentages. If a shortfall occurs in the budget balance and immediately restoring the balances to the specified percentage would cause an extreme burden on the ratepayers, the budget balance may, with the Mayor's and City Council's approval, be restored to the specified percentage within one year, but in any case, no longer than three years.

3. The City will maintain a minimum reserve, in a contingency account, of at least ~~2%~~ ***~~4%~~*** **2%** of the current year operating revenues for the Water/Wastewater Fund. The City may only use monies in the contingency accounts ***to cover emergencies of a non-recurring nature that are over and above the normal course of operations. Examples are uninsured losses, storms or hurricane damages. The Contingency Reserve will not be used to balance the operating budget. (In aggregate 2% = $297,301; 4% = $594,601; Current balance = $106,019 Water, $118,614 Wastewater, Total $224,633)***

4. ***The total of the combined Water/Wastewater Fund budget and contingency balances shall not exceed 25% (3 months) of Budgeted Operating Revenues.***

5. ***The City will create a Capital Asset Replacement account to cover replacement or procurement of assets of the utility. Optimally, the amount set aside for future asset replacements should equal the annual depreciation of the current assets. (For info only, not to be included in final draft - The current annual depreciation is $1,004,202 for infrastructure and $230,103 for vehicles and equipment. Total $1,234,305) The City will maintain a combined minimum balance of $1,000,000 for Capital Asset Replacements. The City will appropriate non-recurring revenues to fund this account, or if the balance is less than the minimum $200,000 per annum split evenly between water and wastewater until such time the minimum balance is achieved. All vehicle and equipment purchases under $25,000 will be budgeted on a pay as you go basis. (Current balance $703,221, additional budget transfer $300,000 not completed)***

6. ***The City established by ordinance on December 17, 1996 the Impact Fee Reserve to provide for future expansion of the City's wastewater system due to increased demand. The ordinance further provides for debt service payments attributed to wastewater expansion projects to be funded by the current year's collection of Impact Fees and the remainder to be deposited into the reserve account. The City shall maintain a minimum of 20% (approximately $1,500,000; current balance = $2,455,102) of wastewater revenues in the Impact Fee Reserve account. Amounts used to finance projects shall be replenished by the operating revenues of the Wastewater Fund over the succeeding ~~five~~ seven years of any project completion.***

7. ***The Water/Wastewater Improvement & Extension Fund (Capital Project) budget balance shall be no less than 20% of the current fiscal year's appropriation for water and wastewater projects and construction equipment purchases over $5,000 to allow for project variances ~~contingencies~~ and change orders. The City Manager shall make the necessary budget amendments ~~for contingencies~~ in accordance with the City of Dover Purchasing & Budget Amendment Policies.***

Budget Balance/Reserve Policy – Electric Revenue Fund

1. The City will strive to maintain a minimum ~~reserve, in the~~ Budget Balance, of at least ***8 ~~5~~% and no greater than 12% (45 days)*** of the current year operating revenues for the Electric Revenue Fund, excluding the carry forward balance. ***The purpose of the budget balance is to meet temporary fluctuations in cash flows and to provide a cushion for loss of revenues until operating changes can be implemented.*** If ***the*** existing ***Budget Balance*** ~~reserves~~ exceeds the required level, such funds may be used to provide for non-recurring expenditures ***when purchases cannot be accommodated through current year savings***. The City may use monies in the ***Budget Balance*** ~~reserve~~ only in times of fiscal and economic hardship. ***(8% = $7,065,092)***

2. Once achieved, at no time should the City's budget balances fall below their specified percentages. If a shortfall occurs in the budget balance and immediately restoring the balances to the specified percentage would cause an extreme burden on the taxpayers, the budget balance may, with the Mayor's and City Council's approval, be restored to the specified percentage within one year, but in any case, no longer than three years.

3 The City will maintain a minimum reserve, in a contingency account, of at least ~~1%~~ ***~~2%~~*** **1%** of the current year operating revenues for the Electric Revenue Fund. The City may only use monies in the contingency accounts ***to cover emergencies of a non-recurring nature that are over and above the normal course of operations. Examples are uninsured losses, storms or hurricane damages. The Contingency Reserve will not be used to balance the operating budget. (1% = $896,661; 2% = $1,766,272; Actual $829,113)***

4. ***The total of the combined Electric Revenue Fund budget and contingency balances shall not exceed 25% (3 months) of Budgeted Operating Revenues.***

5. ***The City has established by bond covenant an account to cover insurance deductibles on the electric transmission and distribution system or the generating plants. The City shall maintain a minimum balance of $350,000 to cover various deductibles. (Current Balance = $229,377; Recommend we transfer the $120,623 difference from the Depreciation Reserve to bring up to $350,000))***

6. ***The City has established in FY04 a rate stabilization reserve to provide for price fluctuations in the power markets. The funding source for this reserve shall consist of the following potential sources: (a) one-time non-recurring operating revenues, (b) all or some of positive carry forward balance variances, (c) annual appropriations if available. The balance shall be maintained at a minimum of 3% not exceed***

10% of the purchase power cost in any given year. (3% = $2,007,048; 10% = $6,690,160) (Current balance $870,357, planned transfer of $758,000 to operations)

7. *The Electric Improvement & Extension Fund (Capital Project) budget balance shall be no less than 20% of the current fiscal year's appropriation for electric system projects and construction equipment purchases over $25,000 to allow for project variances ~~contingencies~~ and change orders. All pickup truck and car purchases will be on a pay as you go basis. The City Manager shall make the necessary budget amendments ~~for contingencies~~ in accordance with the City of Dover Purchasing & Budget Amendment Policies.*

8. *The City has established an account to provide for capital financing of future capacity or system expansion. The City shall maintain a balance equivalent to the value of 10% growth in capacity (need to calculate) at any given time, or no less than $10,000,000. Amounts used to finance projects shall be replenished by the operating revenues of the Electric Revenue Fund over the succeeding ~~five~~ seven years of any project completion. (Current Balance = $8,769,270)*

9. *The City has established an account to provide for replacement or procurement of utility system assets, otherwise known as Depreciation Reserve. The City will maintain a minimum balance of $10,000,000 (equivalent to the cost of the 230kv tie station). The primary purpose of this account is to provide partial or all financing of major capital projects and minimize debt service payments. Optimally, the City will provide an amount equal to the annual depreciation currently at $3.8 million for its capital improvement plan through a combination of cash from operations and reserves. The account is also intended to cover unforeseen capital replacements due to equipment breakdowns, uninsured losses, storms or hurricane damages. Amounts used to finance projects shall be replenished by the operating revenues of the Electric Revenue Fund over the succeeding ~~five~~ seven years of any project completion. (Current Balance = $12,603,399)*

10. *The total of the combined Electric Revenue Fund & Electric Improvement and Extension Fund budget and reserve balances shall be benchmarked at 50% (historical average prior to 230kv tie station, favored by rating agencies) of Budgeted Operating Revenues. Operating Fund Budget Balance and Reserves shall be adjusted to appropriate levels through adjustments in the operating budget. Improvement & Extension Fund Budget Balance and Reserves shall be adjusted in accordance with the Capital Improvement Plan.*

Investment and Cash Management Policy

1. The City will deposit all receipts on a timely basis *in interest bearing accounts*.

2. The City will strive to maximize the return on its investment portfolio without jeopardizing principal amounts.

3. The City will limit its investments to the types of securities provided for by Delaware statutes.

4. The City will diversify its investments by maturity date to protect against market fluctuations.

5. The City will purchase securities from qualified institutions based on competitive bids in an effort to obtain the highest available rates.

6. ***The City will maintain an Investment Policy based on prudent investment practices and will monitor all investment managers' compliance with policy objectives***.

Capital Improvement Policy

1. The City will prepare and update, as needed a five-year Capital Improvements Program (CIP) which will provide for the orderly maintenance, replacement, and expansion of capital assets.

2. The CIP will identify long-range capital projects and capital improvements of all types, which will be coordinated with the annual operating budget to maintain full utilization of available revenue sources.

3. When preparing the CIP, the City will seek to identify all viable capital projects and capital improvements required during the subsequent five-year period. These projects and improvements will be prioritized by year and by funding source.

4. Every attempt will be made to match projects and improvements with available funding sources. Future operating costs and savings associated with a project or an improvement will also be given consideration in the establishment of priorities.

5. The City will seek Federal, State, and other funding to assist in financing capital projects and capital improvements.

6. The City will incorporate the reasonable findings and recommendations of other cities' Boards, Commissions, Committees, and Citizen Task Forces, as they relate to capital projects and improvements.

7. The City will seek input from the public by holding public hearings in relation to the establishment of projects and project priorities.

Financial Reporting Policies

1. The City's accounting system will maintain records in accordance with accounting standards and principles outlined by the Governmental Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB), and the State of Delaware.

2. The City will employ an independent accounting firm to perform an annual audit of the City's finances and make the annual audit available to all required and interested parties.

3. The City will produce monthly and quarterly financial statements reporting the current periods' activity for all funds maintained by the City.

4. The City will prepare an annual budget document that provides a basic understanding of the City's planned financial operations for the coming fiscal year. Copies of the proposed and final budget will be made available to all interested parties and opportunities will be provided for citizen input prior to final decisions on the budget.

5. The City will place continued emphasis on review and maintenance of an accounting system which provides strong internal budgetary and accounting controls designed to provide reasonable assurance, but not absolute, assurance regarding:
   (a) the safeguarding of assets against loss from unauthorized use or disposition and

(b) the reliability of financial records for preparing financial statements and reports, and the maintaining accountability for assets.

6. The City will seek annual renewal of the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award.

Adoption:

1. Approval by City Council: January 28, 2002
2. Amended by City Council: November 25, 2002
3. Amended by City Council: May 10, 2004

CITY OF DOVER
GENERAL FUND
Operating & Capital Improvement Plan Expenses
FY 2006 Actual vs. FY 2007 Budget

	FY 2006 ACTUAL AMTS	REVISED FY 2007 BUDGET AMTS
OPERATING EXPENSES:		
Tax Assessor	$ 195,383	$ 273,777
Fire	590,779	643,787
Library	953,761	1,077,627
Recreation	494,754	542,779
Planning Commission	201,563	337,139
Public Inspections	942,763	1,260,635
Police	10,964,315	11,655,217
Streets	529,815	833,198
Sanitation	2,042,661	2,166,932
Allocated Expenditures:		
Human Resources	$ 306,782	$ 384,475
Administrative Services	951,557	1,006,712
City Manager	553,515	642,239
Information Technology	715,455	897,050
Finance	645,164	676,833
Public Works-Administration	318,900	308,485
Facilities Management	794,379	890,410
Public Works-Engineering	289,208	312,126
Central Services	668,414	742,742
Vehicle Maintenance	656,172	676,695
City Clerk	333,612	285,230
Mayor	112,081	114,661
Council	112,990	119,218
Grounds Maintenance	1,013,357	1,105,110
Total Operating Expenditures	$ 24,387,380	$ 26,953,077

	FY 2006 ACTUAL AMOUNTS	REVISED FY 2007 BUDGET AMOUNTS
CAPITAL IMPROVEMENT EXPENSES		
Fire	$ 358,006	$ 506,000
Library	-	3,000
Recreation	210,487	1,254,467
Public Inspections	14,622	84,432
Police	241,182	389,576
Streets	552,054	535,930
Sanitation	215,160	111,441
Allocated Expenditures:		
City Manager	10,455	-
Information Technology	143,665	62,000
Finance	4,638	-
Facilities Management	29,881	510,900
Central Services	9,696	25,573
Vehicle Maintenance	16,436	-
City Clerk	-	6,100
Grounds Maintenance	41,410	22,252
Total Capital Improvement Expenditures	$ 1,847,692	$ 3,511,671