CITY COUNCIL WORK SESSION AGENDA

Davenport Presentation to Council on Financial Polices

COUNCIL MEETING WILL BE ONLINE ONLY

Due to the COVID-19 precautions, the Council Meeting will be held online and is planned to be cablecast on Verizon 21, Comcast 71 and 996 and streamed to www.greenbeltmd.gov/municipaltv.

Resident participation:
Join Zoom Meeting
https://us02web.zoom.us/j/83077375776?pwd=U0NGaXM2cTA0a3FuazBOZVdMd1d5UT09
OR
Join By phone: (301) 715-8592
Meeting ID: 830 7737 5776
Passcode: 009077

In advance, the hearing impaired is advised to use Video Relay Services (VRS) at 711 to submit your questions/comments or contact the City Clerk at (301) 474-8000 or email banderson@greenbeltmd.gov.

Wednesday, August 11, 2021
8:00 PM

Work Session Packet

Agenda

- *Introductions*
- *Council Discussion*
- *Questions and Answers*
- *Other Items*

Davenport Financial Policy Review

Suggested Action:

In March 2021, Davenport & Company LLC (“Davenport”) presented its Comprehensive Financial Review to City Council and staff, which showed that the City’s financial health was healthy supported by strong reserve levels.

In May 2021, Davenport presented the City with several financing strategies that could fund all or a portion of upcoming capital needs which would allow the City to take advantage of the current low interest rate environment. Council expressed some interest in learning more about possible funding opportunities. Davenport advised they would schedule more working groups to continue these discussions. In this effort, Davenport has prepared a schedule of working groups for the next six months. The first working group is to discuss the recommended reserve financial policies. This session is scheduled for Tuesday, July 13th at 8 pm.

The draft financial policies presentation is attached.

Greenbelt Financial Policy Presentation 8.5.21.pdf

Agenda Item No:

City Council Work Session Agenda Item Report

Meeting Date: August 11, 2021
Submitted by: Shaniya Lashley-Mullen
Submitting Department: Administration
Item Type: Work Session Item
Agenda Section: Work Session Packet

Subject:

Davenport Financial Policy Review

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Attachments:

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City of Greenbelt, Maryland

Financial Policies

THE CITY OF GREENBELT

August 11, 2021

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B Proposed Reserve Policy

C Proposed Debt Policies

D Next Steps

Overview

Overview

- In March 2021, Davenport & Company LLC ("Davenport"), as Financial Advisor to the City of Greenbelt (the "City"), presented its Comprehensive Financial Review to City Council and staff, which showed the City's healthy financial position supported by strong reserve levels.

- To help ensure the City's strong financial position continues, Davenport recommends the City consider adopting formal financial policies related to fund balance reserve and debt metrics.

- Effective financial policies, which ideally are adopted by a legislative body such as the City Council, help to guide decision making and are essential to a local government's long-term fiscal health.
  - Financial policies provide stability and continuity over the years as staff and elected officials turn over by establishing benchmarks against which a local government can measure performance.

- In addition, if the City decides to debt finance all or a portion of its upcoming capital needs, financial policies are a topic on which there has been increased focused by the credit rating agencies.
  - It is important for local governments to have a good understanding of how their financial policies align with rating agency expectations to promote assignment of the best credit rating.
  - If a policy is adopted, the rating agencies want to gain comfort that a policy can be met and maintained. If a local government falls outside its policy threshold, rating agencies like to see an established plan (best if within written policy) for regaining compliance with current policy.

- The remainder of this presentation will outline each of the proposed financial policies and provide next steps for moving forward.

Proposed Reserve Policy

Fund Balance/Reserve Policy

- The City's available reserves have increased 36.2% over the past five years to $7.8 million or 26.1% of operating revenues in fiscal year 2020.
  - Fund balance is the most important credit factor that a rating agency considers, so maintaining strong reserve levels will be viewed as a credit positive, if the City decides to pursue a credit rating.
- Given the City's strong financial position, Davenport would recommend the City adopt a formal financial policy for reserves.
  - Davenport would recommend setting the policy threshold at 17-20% of operating revenues, which the City is already in compliance with as of fiscal year 2020.
  - The City could specify that 15% of the reserve could only be utilized as a Rainy Day Reserve to offset major one-time events, while the remaining 2-5% could be used as a Budget Stabilization Reserve help to offset any unexpected fluctuations in revenues and expenditures in any given year.
  - In addition, if reserves were to fall below the lower threshold of 17% in the future, then the City's policy should require a plan to address how those reserves will be replenished within a three-year timeframe as recommended by GFOA.

Fiscal Year	General Fund Committed	General Fund Assigned	General Fund Unassigned	Total Available Fund Balance	Operating Revenues	Available Fund Balance as % of Operating Revenues
2016	$2,059,102	$70,416	$3,623,650	$5,753,168	$25,884,351	22.23%
2017	2,142,243	131,721	4,090,471	6,364,435	27,543,522	23.11%
2018	2,302,816	0	4,873,785	7,176,601	27,443,386	26.15%
2019	387,277	0	5,881,104	6,268,381	27,332,820	22.93%
2020	394,929	150,374	7,290,786	7,836,089	30,038,767	26.09%

Source: 2016-2020 CAFRs

Peer Comparisons – Reserve Policies

Local Government	Moody's Rating	Policy
Annapolis	Aa2	Maintain unassigned General Fund balance of at least 15% of budgeted revenues for General, Parking, and Transportation Funds. For any reserves above 15% target, half will fund one-time capital needs while the other half will be a Budget Stabilization Fund until it reaches its 3% target. Once the Budget Stabilization fund is full, the remaining funds can be used for other one-time items.
Bowie	Aaa	Maintain General Fund reserves at 25% of budgetary expenditures.
Brunswick	Aa3	Formal policy of retaining unassigned fund balance of 5% of annual operating revenues, although the City informally targets at least 10% of annual operating revenues.
Cambridge	A1	-
College Park	Aa1	Maintain an amount equal to 25% of the ensuing year's General Fund expenditures.
Easton	Aa2	Maintain an unassigned General Fund balance equal to a minimum of two months (16.3%) and a maximum of four months (32.6%) of the following fiscal year's budgeted General Fund expenditures.
Frederick	Aa1	Maintain unreserved/undesignated General Fund balance to be maintained at a minimum of 12% of expenditures.
Hagerstown	Aa3	Maintain unassigned reserves of at least 17% of General Fund budget.
Hyattsville	Aa2	Maintain unassigned General Fun balance of at least 10%-15% of General Fund budget.
Myersville	A2	Formal policy of retaining unassigned fund balance of 30% of annual operating revenues.
Ocean City	Aa2	Maintain General Fund reserves of at least 15% of General Fund expenditures.
Rockville	Aaa	Maintain General Fund reserves of at least 20% of General Fund revenues.
Salisbury	Aa3	Maintain undesignated reserves of at least 10% of following year's General Fund budget.

Source: 2021 Budgets/Policy Documents.

Proposed Reserve Policy – Flow of Funds

Annual Operating Surplus

↓

Rainy Day Fund
(Target: 15%)

50% of remaining surplus → **Budget Stabilization Fund** (Target: 2-5%)

Remaining surplus after 5% target → **Funding for other One-Time Needs**

50% of remaining surplus → **Capital Reserve Fund** (Funding begins after 5% minimum target for BSF is met)

Proposed Reserve Policy Language

RAINY DAY FUND: The City will establish a Rainy Day Fund ("RDF") that will be maintained at a level not less than fifteen percent (15%) of General Fund expenditures. Reserves in the RDF should be considered restricted and only available for use to help offset significant revenue or expenditure fluctuations driven by extreme one-time events such as natural disasters, global pandemics, economic recessions, and/or federal mandates.

If the City Council, upon the recommendation of the City Manager and the City Treasurer, wishes to appropriate RDF reserves such that the amount would fall below its 15% threshold, such appropriation must be accompanied by a reserve replenishment plan the restores the fund balance to its policy level within the subsequent three years.

BUDGET STABILIZATION FUND: The City will establish a Budget Stabilization Fund ("BSF") that will be maintained at a level not less than two percent (2%) and a target of five percent (5%) of General Fund expenditures. Reserves in the BSF can help offset any revenue or expenditure fluctuation that may occur in any given fiscal year with a simple majority vote of City Council. Reserves in the BSF should be utilized before any draws can be made on the RDF.

At the close of each fiscal year, the BSF shall receive one-half (50%) of any operating surplus after the Rainy Day Fund is full. Balances in the BSF will be allowed to accumulate until they reach an amount equal to 5% of General Fund expenditures. If the BSF reaches the 5% target, the portion of any surplus normally allocated to the BSF falls to the unassigned General Fund balance, which may be appropriated by City Council for one-time expenditures.

CAPITAL RESERVE FUND: The City recognizes that continued, periodic reinvestment and maintenance of capital infrastructure is critical to maintaining the quality of life for residents and businesses and minimizing the additional cost associated with deferred maintenance. Direct funding for the Capital Reserve Fund ("CRF") shall come from 50% of any annual operating surpluses in the City's General Fund, as long as the City's 15% policy for the RDF and 5% target for the BSF have been met.

Monies in the CRF shall be appropriated by the City Council for payment of debt service that was incurred for capital projects or to directly fund capital expenditures.

FREQUENCY OF RESERVE POLICY REVIEW: The City shall review the reserve to determine if it is still applicable or if any changes need to be implemented at least every two years after adoption.

Proposed Debt Policies

Debt to Full Value Policy

- Debt to Full Value is a measure of **Debt Capacity** and answers "Can I borrow this?"
  - The City does not currently maintain a Debt to Full Value policy, but Davenport would recommend one be established as it is a common policy adopted by similar local governments and seen as a strength by the credit rating agencies.
  - We would recommend the City adopt a policy of no more then 3% debt vs. full value, which the City has been well under over the past five years. This metric also allows for additional flexibility for the financing of current and future capital needs.
  - Based on Fiscal Year 2020 Full Value, a 3% policy limit would permit up to approximately $73 million of debt outstanding.
    - **NOTE: This is not a recommendation to borrow approximately $61 million. Rather, it is just a mathematical illustration.**

Fiscal Year	Total Full Value	Debt Outstanding	Debt to Full Value
2016	$1,904,407,000	$5,499,270	0.29%
2017	2,023,693,000	5,165,121	0.26%
2018	2,159,973,000	4,818,570	0.22%
2019	2,278,610,000	10,780,525	0.47%
2020	2,439,712,000	11,691,227	0.48%

PROPOSED POLICY LANGUAGE

DEBT AS A PERCENTAGE OF FULL VALUE: The City will maintain its tax-supported debt at a level not-to-exceed three percent (3%) of full value. This ratio is a measure of debt capacity and allows the City to determine if additional debt can be issued to fund current and/or future capital needs.

FREQUENCY OF POLICY REVIEW: The City shall review this policy to determine if it is still applicable or if any changes need to be implemented at least every two years after adoption.

Source: 2020 CAFR

Peer Comparisons – Debt to Full Value

Local Government	Moody's Rating	Policy
Annapolis	Aa2	Not to exceed 3% of assessed value (Target of 2% of assessed value)
Bowie	Aaa	Not to exceed 0.8% of full value.
Brunswick	Aa3	-
Cambridge	A1	-
College Park	Aa1	Not to exceed 10% of assessed value. (Can only issue 5% of assessed value without voter approval)
Easton	Aa2	Not to exceed 1.5% of assessed value.
Frederick	Aa1	Not to exceed 2.5% of assessed value.
Hagerstown	Aa3	-
Hyattsville	Aa2	Not to exceed 2% of assessed value.
Myersville	A2	-
Ocean City	Aa2	Not to exceed 3% of assessed value.
Rockville	Aaa	Not to exceed 1% of assessed value.
Salisbury	Aa3	Not to exceed 10% of assessed value.

Source: 2021 Budgets/Policy Documents.

Key Debt Ratio: Debt Service-to-Expenditures

- Debt Service to Expenditures measures **Debt Affordability**, and answers the question, Can I afford this?"

- The City does not currently maintain a policy on debt service to expenditures, but we would recommend that one be established as it is a common policy adopted by other similar governments and seen as a strength by the rating agencies.
  - The typical policy ceiling for debt service to expenditures is usually between 10% - 12%, which the City is well below.
  - This policy would permit debt service in the range of $3.2 to $3.8 million, which support approximately $32 to $38 million of additional debt.

Debt Service	Governmental Expenditures	Debt Service to Expenditures
$555,147	$27,648,616	2.0%
555,146	27,971,481	2.0%
555,148	28,024,281	2.0%
629,480	34,488,176	1.8%
1,002,080	32,106,589	3.1%

PROPOSED POLICY LANGUAGE

DEBT SERVICE AS A PERCENTAGE OF TOTAL GOVERNMENTAL EXPENDITURES: The City will maintain its annual tax-supported debt service (as recorded in the Debt Service Fund) at or below twelve percent (12%) of total governmental fund expenditures with a target of 10% or less. This ratio is a measure of debt affordability and allows the City to determine its ability to repay tax-supported debt without affecting other general government services.

FREQUENCY OF POLICY REVIEW: The City shall review this policy to determine if it is still applicable or if any changes need to be implemented at least every two years after adoption.

Source: 2016-2020 CAFRs

Peer Comparisons – Debt Service-to-Revenues/Expenditures

Local Government	Moody's Rating	Policy
Annapolis	Aa2	Not to exceed 12% of expenditures (target of 10%).
Bowie	Aaa	Not to exceed 10% of General Fund revenues net of Water & Sewer debt.
Brunswick	Aa3	-
Cambridge	A1	-
College Park	Aa1	-
Easton	Aa2	Not to exceed 10% of total annual General Fund expenditures.
Frederick	Aa1	Not to exceed 13% of the General Fund budget.
Hagerstown	Aa3	-
Hyattsville	Aa2	Not to exceed 17% of General Fund expenditures (target of 15%).
Myersville	A2	-
Ocean City	Aa2	Not to exceed 10% of General Fund expenditures (target of 8%).
Rockville	Aaa	Not to exceed 15% of General Fund expenditures.
Salisbury	Aa3	Not to exceed 10% of operating expenditures.

Source: 2021 Budgets/Policy Documents.

Key Debt Ratio: Fixed Cost Burden

- Fixed Cost Burden is a new metric that measures **Financial Flexibility.** It expands on debt service to expenditures to include the City's pension and OPEB obligations.
  - The higher the a local government's fixed costs, the less financial flexibility that government will have for other operating needs.

- The City does not currently maintain a policy on total fixed costs. We would recommend implementing one as this is a topic that the rating agencies are currently focused upon.
  - We would recommend implementing the proposed policy for fixed costs not exceed 25% of governmental expenditures. This is typically the threshold that rating agencies measure against.
  - **If adopted, the City would be one of the first to formalize a policy on this important metric.**

Fiscal Year	Debt Service	Pensions	OPEB	Total Fixed Costs	Governmental Expenditures	Fixed Costs as a % of Expenditures
2016	$555,147	$1,574,302	$46,000	$2,175,449	$27,648,616	7.9%
2017	555,146	1,590,937	47,000	$2,193,083	27,971,481	7.8%
2018	555,148	1,528,162	94,067	$2,177,377	28,024,281	7.8%
2019	629,480	1,639,561	100,749	$2,369,790	34,488,176	6.9%
2020	1,002,080	1,756,837	160,489	$2,919,406	32,106,589	9.1%

PROPOSED POLICY LANGUAGE

FIXED COSTS AS A PERCENTAGE OF TOTAL GOVERNMENTAL EXPENDITURES: The City will calculate a fixed cost burden that will measure the City's overall financial flexibility. The City's fixed cost burden will be calculated as a total of annual tax-supported debt service from the Debt Service Fund, annual pension contributions and annual contributions for Other Post-Employment Benefits ("OPEB") as a percentage of total governmental fund expenditures. The City's fixed cost burden shall not exceed 25% of total governmental fund expenditures.

FREQUENCY OF POLICY REVIEW: The City shall review this policy to determine if it is still applicable or if any changes need to be implemented at least every two years after adoption.

Source: 2016-2020 CAFRs

Next Steps

Next Steps

FINANCIAL POLICIES:

- **August 12 – August 17:** Follow-up with Council on any outstanding questions and revise proposed policies based on any City Council/Staff suggestions.

- **August 18:** City Council to adopt final version of financial policies.

CAPITAL PROJECTS LIST:

At the same time that Davenport will be helping to finalize the City's financial policies that will be adopted on August 18th, we will also be participating in the City's meetings related to developing a comprehensive capital projects list. The proposed schedule for this process is outlined below:

- **September 1**: City Council work session to assemble Capital Project List.

- **September 29:** Second City Council work session to assemble Capital Project List.

- **October 2021**: City Council retreat to prioritize Capital Projects List.

- **October 2021**: City to send Davenport final Capital Projects List.

- **November 2021**: Davenport presentation on potential funding options based on final Capital Projects List.

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