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Credit Presentation

City of Annapolis, Maryland



General Obligation Public Improvements Bonds, 2011 Series

February 2011

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City of Annapolis, Maryland – February 2011

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Main Street in Downtown Annapolis



Westin Hotel

1. Participants & Purpose of Meeting



City of Annapolis, Maryland – February 2011

Issuer

City of Annapolis, Maryland

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Purpose of Meeting



City of Annapolis, Maryland – February 2011

The purposes of this Rating Agency Meeting are to:

1. Introduce the City's recently elected and appointed management team;
2. Detail the City's recent financial challenges and successes to date in stabilizing the budget and rebuilding reserves;
3. Provide an overview of this growing and economically vibrant City, including key demographic data and development highlights;
4. Lay out the City's current long-term debt, and describe future tax-supported capital projects;
5. Present a detailed Plan of Finance; and
6. Request ratings for the City's proposed General Obligation Public Improvement and Refunding Bonds of 2011.



State House



Historic Downtown

2. Mayor Cohen's Remarks & Executive Summary



City of Annapolis, Maryland – February 2011

- For the better part of the past decade, Annapolis enjoyed strong tax base appreciation and new development, resulting in steady annual revenue increases without changes to tax policy and fee structure.
- This revenue picture allowed the City to be aggressive, both in making pay-as-you-go capital investments and in growing the operating budget.
- Fund Balance became a “crutch” that was used frequently in lieu of recurring revenue increases.
- The resulting structural imbalance, the effects of the deep recession, and a sharp deterioration of reserves in FY 2009 led to a significant cash flow crisis that greeted Mayor Joshua Cohen almost immediately upon his taking office in December 2009.
- Prompt mid-year action in FY 2010, combined with the adoption of an austere budget for FY 2011, has restored structural balance.
- Annapolis is now prioritizing replenishment of working capital reserves and addressing other balance sheet challenges as it develops the FY 2012 budget.
- Further expenditure reductions, targeted revenue increases, and strategic debt management will contribute to multi-year budgetary balance.

3. Recent Financial Events



- Last rating visits were in June 2009; ratings were affirmed at that time.
- As shown on the following two pages, the City’s finances have eroded since that meeting took place.
- Budgeted a \$1.8 million deficit for FY 2009, all for pay-as-you go capital. This was expected to bring the reserve balance down to \$7.3 million, between the reserve floor of 10% and the target of 15%.
- The actual deficit for FY 2009 was \$4.5 million, not \$1.8 million.
 - Settlement of Market House litigation of \$2.5 million affected results;
 - Cost overruns on capital projects, such as the Police Station also contributed; and
 - The net financial impact of adding a fourth shift to the Fire Department began to squeeze cash.

Recent Financial Events (continued)



City of Annapolis, Maryland – February 2011

- Unreserved General Fund Balance fell to \$4.4 million, or 8% of General Fund Revenues, below the City's policy floor of 10% (target of 15%).

- The City's practice of commingling bond proceeds with operating funds began in 2007 after a long standing practice of maintaining segregated bond funds. This practice continued until recently and led to the City's paying for both capital and operating expenditures from bond proceeds. Proceeds used for operations would be repaid to capital account when tax revenues were received.
 - This practice of commingling bond proceeds with operating funds in a pooled cash account is permissible under federal tax law.
 - A second independent auditing firm and new bond counsel were retained to review past practices and both confirmed that no laws were broken merely by commingling funds.
 - On the advice of bond counsel, the City has adopted a new, more conservative policy that again requires the segregation of bond funds in order to ensure proper expenditures, precluding the use of bond funds to pay for operations.

Historical Revenues and Expenses



City of Annapolis, Maryland – February 2011

GENERAL FUND

➤ Comparative Statement of Revenues, Expenditures and Changes in Fund Balance

See audited financial statements for detailed information.

Source: 2006-2010 Comprehensive Annual Financial Reports.

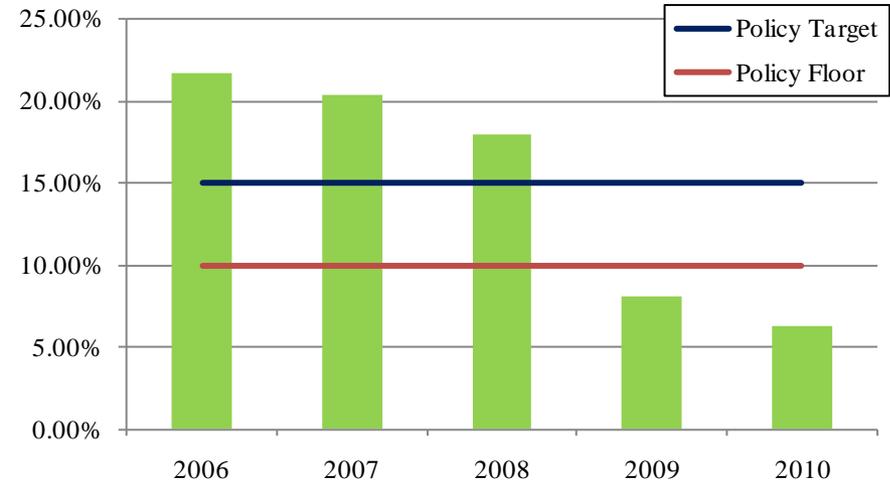
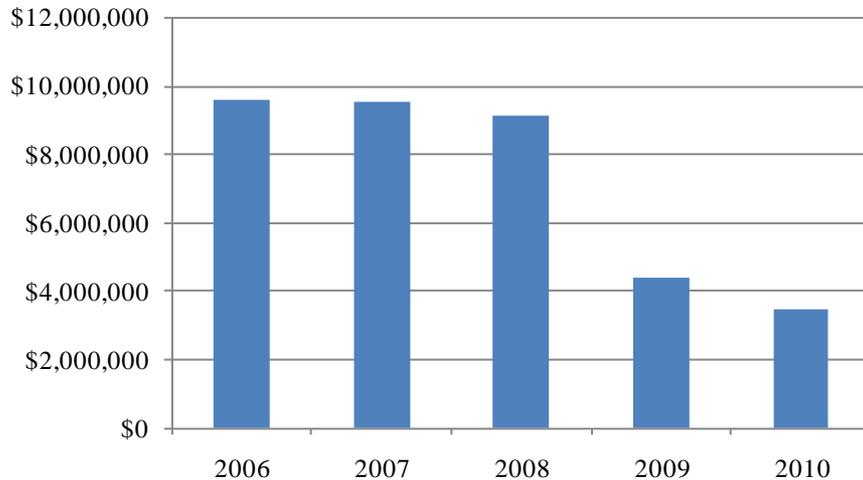
	2006	2007	2008	2009	2010
Revenues					
Taxes	\$23,245,058	\$25,537,992	\$29,230,562	\$33,258,155	\$34,681,916
Licenses and permits	3,111,501	2,439,944	2,442,382	2,107,922	2,772,254
Fines and forfeitures	1,472,700	1,266,856	1,225,606	1,229,028	897,914
Money and property	1,362,781	1,409,055	1,548,013	1,269,825	927,311
Intergovernmental	13,313,752	14,148,272	14,154,328	14,555,476	12,470,586
Current services	1,930,698	1,981,137	2,212,966	2,514,092	3,576,382
Total revenues	44,436,490	46,783,256	50,813,857	54,934,498	55,326,363
Expenditures					
General government	5,944,514	6,677,290	7,570,371	10,276,634	10,032,462
Public safety	28,336,451	28,248,150	31,172,702	33,723,835	35,960,535
Community services	2,781,799	3,041,586	3,311,135	3,518,025	3,685,663
Public works	3,050,781	3,225,274	3,509,319	5,007,541	4,630,337
Interfund charges (credits)	-	-	-	-	-
Debt service:					
Principal	1,733,449	2,259,738	2,218,594	4,014,768	4,390,146
Interest	1,104,761	1,055,341	1,805,649	2,014,351	1,613,968
Total expenditures	42,951,755	44,507,379	49,587,770	58,555,154	60,313,111
Excess (deficiency) of revenues over expenditures	1,484,735	2,275,877	1,226,087	(3,620,656)	(4,986,748)
Other financing sources (uses)					
Bond Premium	-	-	898,801	-	-
Transfers In	330,640	1,189,030	1,372,535	2,044,550	5,167,442
Transfers Out	(2,662,030)	(3,678,940)	(3,723,801)	(2,906,610)	(1,506,570)
Net change in fund balances	(846,655)	(214,033)	(226,378)	(4,482,716)	(1,325,876)
Fund balances at end of year	\$10,041,989	\$9,827,956	\$9,601,578	\$5,118,862	\$3,792,986



General Fund Balance Trends

City of Annapolis, Maryland – February 2011

- The City's total unreserved fund balance level has recently fallen below the City's policy floor.



Fiscal Year	General Fund Revenues	Total General Fund Unreserved Fund Balance	Unreserved Fund Balance as a % of Revenues	Policy Floor	Policy Target
2006	\$44,436,490	\$9,619,912	21.65%	10.00%	15.00%
2007	46,783,256	9,534,721	20.38%	10.00%	15.00%
2008	50,813,857	9,124,610	17.96%	10.00%	15.00%
2009	54,934,498	4,407,708	8.02%	10.00%	15.00%
2010	55,326,363	3,478,434	6.29%	10.00%	15.00%

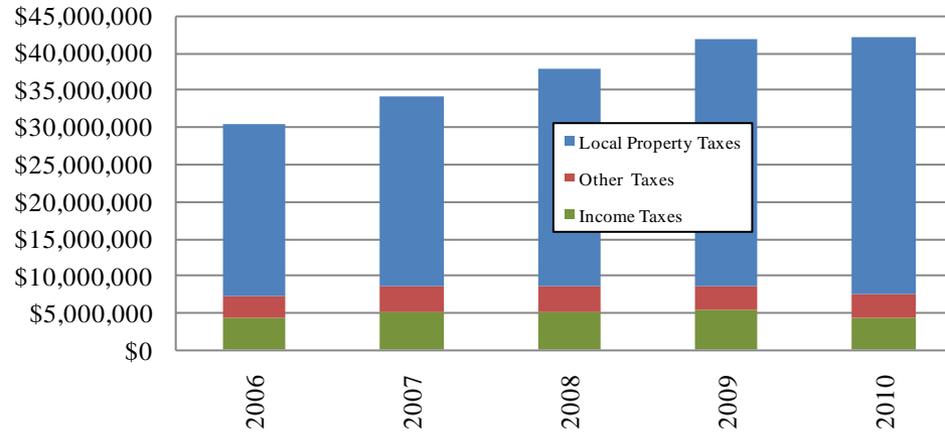
Source: 2006-2010 Comprehensive Annual Financial Reports

Tax Revenues by Source



City of Annapolis, Maryland – February 2011

Tax Revenues By Source



<u>Year</u>	<u>Local Property Taxes</u>	<u>Income Taxes</u>	<u>Other Taxes</u>	<u>Total</u>
2006	\$23,245,058	\$4,444,410	\$2,907,097	\$30,596,565
2007	25,537,992	5,264,846	3,321,939	34,124,777
2008	29,230,562	5,168,804	3,596,245	37,995,611
2009	33,258,155	5,422,807	3,277,768	41,958,730
2010	34,681,916	4,328,299	3,169,397	42,179,612

Source: 2006-2010 Comprehensive Annual Financial Report.

FY 2010 – Recognition of the Fiscal Crisis



City of Annapolis, Maryland – February 2011

- The final budget of the former Moyer administration was the FY 2010 document. It was structurally imbalanced as adopted and the recession only exacerbated the situation.

- Mayor Joshua Cohen took office in December 2009 and inherited this budget. He immediately recognized the need for decisive actions to control spending:
 - Stopped discretionary spending such as Sister Cities program and the Annapolis City Magazine – small in terms of savings (\$100,000) but important steps in setting the tone with Council;
 - Hiring freeze - \$600,000;
 - Contract freeze with mandatory review and justification prior to the continuation of existing contracts;
 - Overtime management - \$100,000 savings per month;
 - Layoffs beginning in March 2010 - \$1 million saved in FY 2010 and \$4 million in FY 2011 by not funding a total of 86 positions; and
 - Monthly budget performance and cash flow tracking instituted.

- Mayor Cohen also initiated top-to-bottom reviews of City services and spending, empowering one of his transition committees, known as an “Idea Team,” to develop long-term solutions to fiscal sustainability to be implemented in the FY 2011 budget process.

- Finally, the Mayor proposed and the City Council approved Resolution No. R-21-10 on June 14, 2010, formally requiring that 50% of any revenue increase from either income or property taxes be deposited to unreserved fund balance to help in restoring working capital (see Appendix C – Resolution on Replenishing Fund Balance).

FY 2010 – Additional Stabilizing Actions



City of Annapolis, Maryland – February 2011

- Hired Michael Mallinoff, a credentialed City Manager, to oversee a transformation of City government.
- Hired Bruce Miller as the new Finance Director, a veteran finance official with experience in managing challenging financial situations.
- Hired new Public Works Director with large city (San Diego) experience and a new Transit Director with experience running the State of Maryland's system.
- Hired new Chief of Fire Department, former Chief of Anne Arundel County.
- Hired new Director of Neighborhood and Environmental Programs (Permits and Inspections), former community liaison for the City of Rockville and Clean City Coordinator for the City of Newport.
- Along with City Council, created a financial Advisory Commission of professionals well versed in budgeting, law and finance to review a variety of financial matters and provide guidance and recommendations to the Mayor, City Council and Administration.

FY 2010 – Final Results



City of Annapolis, Maryland – February 2011

- Revenue shortfall of approximately (\$3.5) million, including transfers-in.
 - Intergovernmental aid of (\$1.6) million;
 - Interest income of (\$572,000)
 - Fines and forfeitures of (\$594,000)
 - Of note, property tax receipts increased by \$700,000, despite the recession.
- Expenditure savings of \$2.2 million from actions previously identified, but was not sufficient to offset the revenue shortfall.
- Resulting (\$1.3) million deficit.
- Unreserved fund balance decreased to \$3.5 million, or 6.2% of revenues.
- The fund balance reflects draws on an external credit line from Bank of America for short-term cash flow. In 2010, the Council amended its Charter increase the maximum authorization for a line of credit from \$3 million to \$10 million. The City obtained a line of credit in May of 2010 for the amount not to exceed \$3 million and increased it to \$10 million in June of 2010. The Council further amended its Charter to increase the authorization to an amount not to exceed \$16 million prior to December 31, 2010, and thereafter to \$5 million. In February 2011, the Council decided to set the limit at \$10 million. As of June 30, 2010, the balance was \$4 million. The purpose of the Line of Credit was to assist the City with operating cash.
- The line of credit was fully repaid in November 2010 after October receipt of real estate taxes.

Highlights of Adopted 2011 Budget



City of Annapolis, Maryland – February 2011

- Adopted All-Funds operating budget of \$75.2 million, a decrease of 13% from FY 2010.
 - Largest percentage reduction of any of Maryland's 157 municipalities.
- Reductions in personnel costs made up 51% of operating budget decrease.
- The budget holds the property tax rate constant at \$0.53 per \$100 of assessed value, but expect an increase of 1.6% in real property tax revenue from rising commercial real estate values.
- Adopted General Fund expenditures reduced by 14.9%, year-over-year.
- Adopted General Fund revenues lowered by 11.5%.
- Result is a planned \$2 million surplus built into the adopted General Fund budget to begin to restore fund balance reserves.

2011 Highlights (continued)



City of Annapolis, Maryland – February 2011

Key expenditure savings initiatives:

- Departmental consolidation – Central Services, Emergency Management
 - Merging Harbormasters office into Recreation and Parks, eliminating one department head and moving one department into another.

- Privatization
 - Economic Development, the only functional category of the FY 2011 to receive an increase in funding – highlights the City’s commitment to growing its tax base.

- Reduce size and scope of the Capital Program
 - \$40 million total reduction in CIP
 - Focus on water and sewer infrastructure

- Employee contract concessions totaling nearly \$2 million.

- Employees’ and retirees’ increased share of health premiums, and AFSCME’s agreement to forego a previously negotiated 3% wage increase, resulted in a savings of \$285,000 in the FY 2010 budget and \$757,000 in FY 2011.

- Line of Credit: \$10 million line renewed in February 2011.
 - Draws will be spent on operations, or used to partially repay the bond fund, within the federal tax rules; and
 - Provide for sufficient working capital until property taxes are received in October.

Status of FY 2011



City of Annapolis, Maryland – February 2011

	FY 2011 Appropriations	Year-to-Date through 1/31/11	FY 2011 Projected Forecast
Revenues			
Taxes	\$35,067,000	\$35,379,576	\$35,067,000
Licenses and permits	2,407,000	1,107,379	1,900,000
Intergovernmental	13,394,950	5,386,239	13,394,950
Current services	4,073,800	2,422,936	4,073,800
Fines and forfeitures	1,130,000	393,889	675,000
Money and property	829,980	647,575	829,980
Total revenues	56,902,730	45,337,594	55,940,730
Expenditures			
General government	10,550,900	4,942,229	10,550,900
Public safety	33,540,410	13,559,827	33,540,410
Community services	4,294,710	1,694,246	4,294,710
Public works	5,057,400	2,009,204	5,057,400
Interfund charges (credits)	(4,956,600)	5,483,563	(4,956,600)
Debt service:			
Principal	4,597,880	2,490,448	4,597,880
Interest	2,421,880	1,043,275	2,421,880
Total expenditures	55,506,580	31,222,792	55,506,580
Excess (deficiency) of revenues over expenditures	1,396,150	14,114,802	434,150
Other financing sources (uses)			
Bond premium	-	-	-
Transfers In	1,043,390	3,379,140	1,043,390
Transfers Out	-	-	-
Net Change in fund balances	2,439,540	17,493,942	1,477,540
Fund balances on June 30, 2010	3,792,986	3,792,986	3,792,986
Fund balances on June 30, 2011	\$6,232,526	\$21,286,928	\$5,270,526

* Debt Service amount does not include short term borrowing repayment of \$10,026,881.

Source: City of Annapolis Finance Department.



- The FY 2012 budget will be introduced on March 14.
- Planned revenue measures will include a new sidewalks fee, an increase to stormwater and transit fees, and utility fee changes based on an ongoing rate study.
 - Broad goal is to make all enterprise funds fully self-sustaining as a means to protect the General Fund;
 - City Council is aware of these initiatives and a majority of members have expressed support.
- Spending pressures include:
 - Salaries and Benefits – in negotiations with all unions now
 - Rebuilding reserves
 - Health insurance costs
 - Capital - Vehicle replacements and infrastructure maintenance
 - Increase to OPEB and Pension ARCs
- Utilities rate study has resulted in a proposed 30% increase to water rates and 49.5% increase to sewer rates.
- Focus on maintaining core services and continue to evaluate opportunities for efficiencies and savings.
- Draw on Line of Credit is expected to be less than previous years.

Governance and Internal Controls



City of Annapolis, Maryland – February 2011

- Based upon recommendations of independent auditing firm and bond counsel, take appropriate steps to segregate and restrict bond proceeds.
- Delegation of specific duties and cross training of Finance employees to reduce “key person” risk.
- Installation of new Munis financial reporting system to produce greater controls and enhanced managerial level reporting. Current system is approximately 20 years old.
- Improve cash management controls following a recent theft.
- Improve internal control environment.
- Enhanced reporting score and accuracy.
- Implement Financial Best Practices and Policies, including Debt and Cash Management.
- Improve Budget Practices, Strategic Planning and Pro-Forma Analysis.

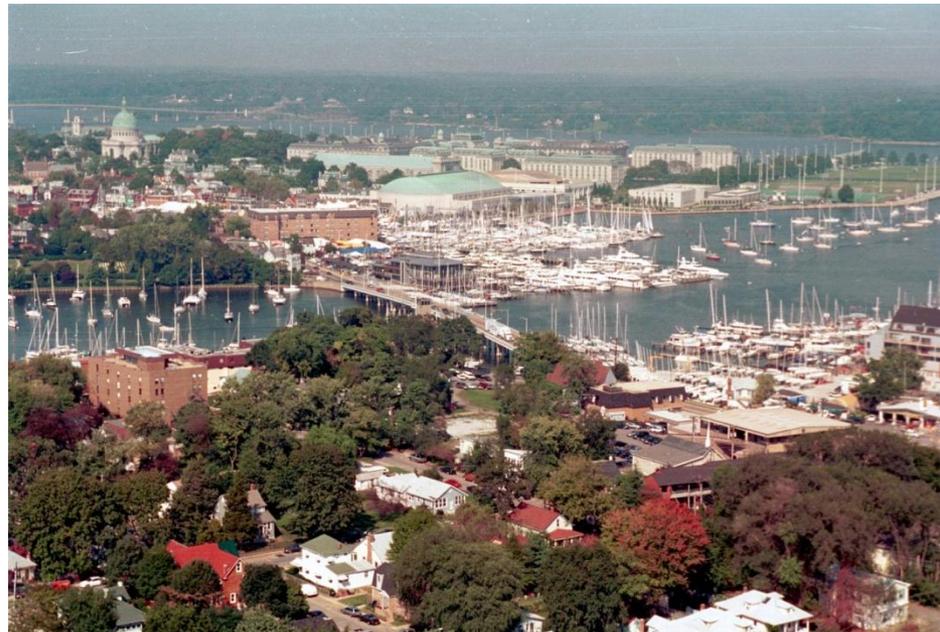
4. Economic/Demographic Overview



City of Annapolis, Maryland – February 2011

Summary of Credit Strengths

- Stable employment provided by significant government and higher education presence.
- Robust and growing tourism sector; room nights increased in calendar 2010.
- Diverse and growing commercial sector.
- Increased tax base through annexation.
- Relatively wealthy tax base.
- Redevelopment project activity.



Spa Creek and Annapolis Harbor

Economic/Demographic Overview



City of Annapolis, Maryland – February 2011

Notwithstanding the Financial Challenges, Annapolis Remains a Thriving Economic Hub of Activity

- The City was first settled in 1649 and was chartered in 1708.
- The City served as the capital of the United States when the Congress met there in 1783-84.
- The City acquired home rule in 1954 and serves both as the capital of the State and as the county seat for Anne Arundel County.
- The Naval Academy constitutes a Federal enclave within the City, but is not within the corporate limits of Annapolis. The City provides utility service to the Naval Academy.
- Annapolis is served by three major highways, U.S. Routes 50/301, Maryland Route 2 and Interstate 97, which connect with the Chesapeake Bay Bridge, immediately northeast of the City.
- The District of Columbia is 27 miles to the west and the City of Baltimore is 27 miles to the north. Transportation with both metropolitan areas has been substantially enhanced with the completion of Interstate 97 and the upgrade of U.S. Routes 50/301.



Park Place Condos

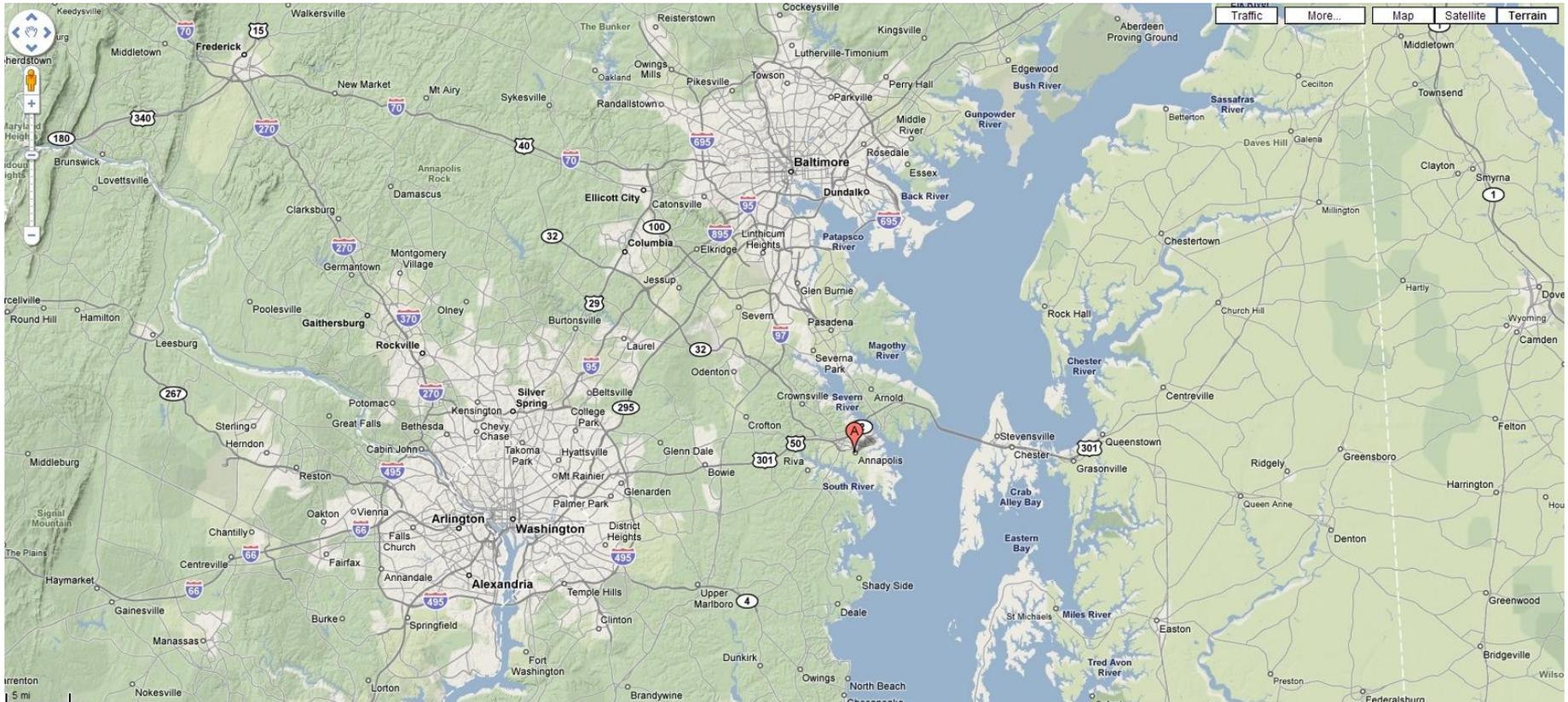


United States Naval Academy

Map of the Region



City of Annapolis, Maryland – February 2011



Source: Google Maps

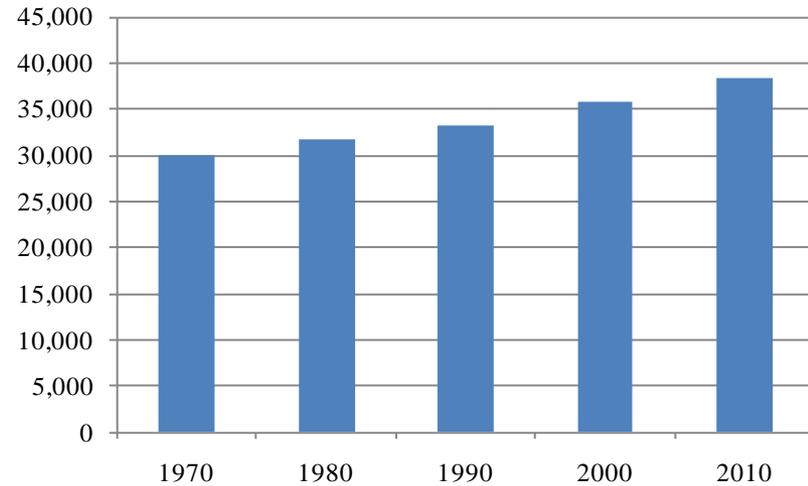


Annapolis' Population Continues to Show Steady Growth

<u>Year</u>	<u>Population</u>
1970	30,095
1980	31,740
1990	33,178
2000	35,838
2010	38,394

Source: U.S. Census Bureau

Population



City Dock



City Dock

Per Capita Income



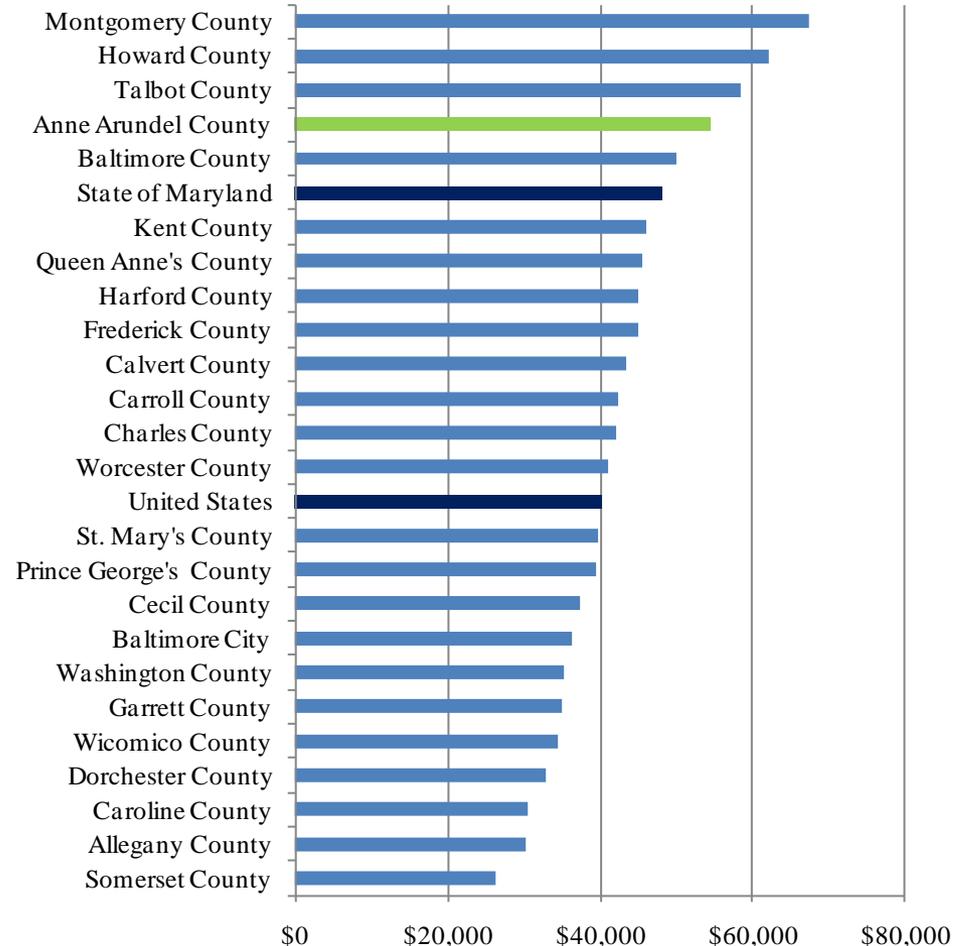
City of Annapolis, Maryland – February 2011

Anne Arundel County has one of the Highest Per Capita Incomes Among Maryland Counties

Locality	2008 Per Capita Income
Allegany County	\$30,337
Anne Arundel County	54,608
Baltimore City	36,340
Baltimore County	50,035
Calvert County	43,320
Caroline County	30,467
Carroll County	42,264
Cecil County	37,381
Charles County	42,103
Dorchester County	32,985
Frederick County	45,054
Garrett County	34,856
Harford County	45,091
Howard County	62,098
Kent County	46,116
Montgomery County	67,531
Prince George's County	39,447
Queen Anne's County	45,503
Somerset County	26,347
St. Mary's County	39,748
Talbot County	58,401
Washington County	35,130
Wicomico County	34,377
Worcester County	40,957

Source: Bureau of Economic Analysis, 2008

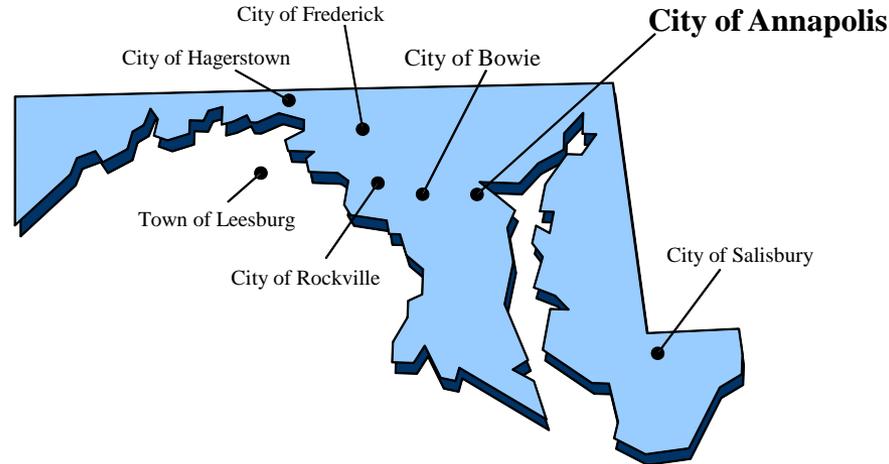
2008 Per Capita Income



Peer Comparisons – FY 2010



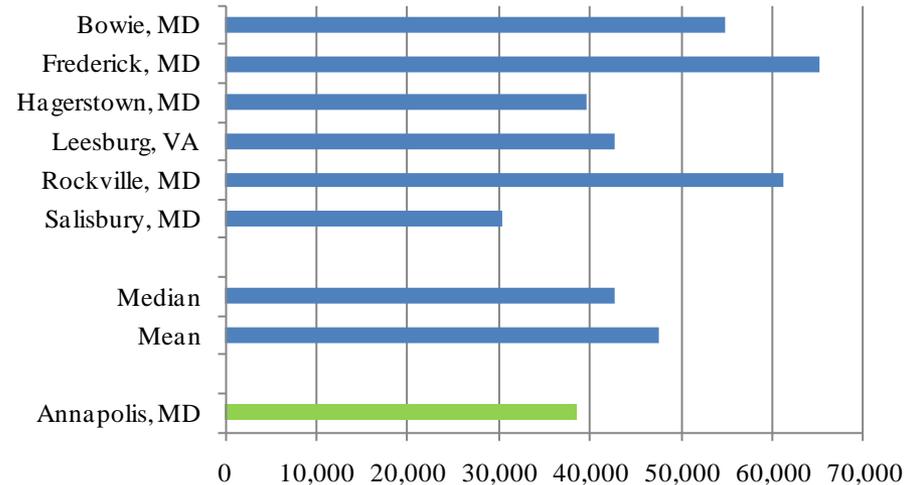
City of Annapolis, Maryland – February 2011



Locality	Moody's	S&P	Fitch	2010 Population
Bowie, MD	Aaa	AAA	AAA	54,727
Frederick, MD	Aa2	AA	AA+	65,239
Hagerstown, MD	Aa3	AA-	NR	39,662
Leesburg, VA	Aa1	AA+	AA+	42,616
Rockville, MD	Aaa	AAA	NR	61,209
Salisbury, MD	Aa2	NR	NR	30,343
Annapolis, MD	Aa1	AA	AAA	38,394

Source: Bloomberg Financial, U.S. Census Bureau

Population



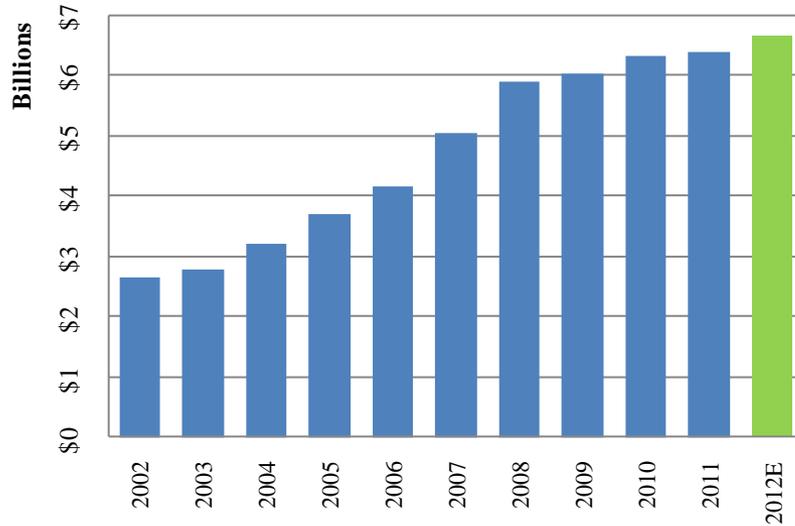
Financial data provided by Moody's Investors Service and respective Comprehensive Annual Financial Reports.

Assessed Valuation

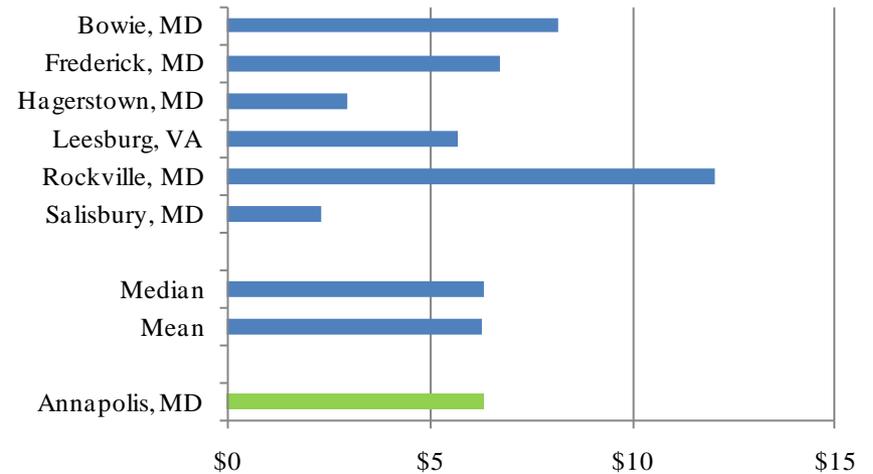


City of Annapolis, Maryland – February 2011

Historical Assessed Value



Peer Assessed Value



Note: 2010 data for all localities except Salisbury and Hagerstown, for which only 2009 data was available.

<u>FY</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>	<u>City Tax Rate</u>
2002	\$2,510,612,500	\$143,263,193	\$2,653,875,693	\$0.624
2003	2,635,596,635	151,122,513	2,786,719,148	0.624
2004	3,082,080,524	142,174,594	3,224,255,118	0.600
2005	3,566,024,862	143,047,160	3,709,072,022	0.580
2006	4,001,452,390	149,530,300	4,150,982,690	0.560
2007	4,895,040,025	148,227,760	5,043,267,785	0.530
2008	5,755,096,342	155,927,620	5,911,023,962	0.530
2009	5,877,500,225	163,439,530	6,040,939,755	0.530
2010	6,150,926,937	172,134,090	6,323,061,027	0.530
2011	6,383,795,264	172,134,090	6,555,929,354	0.530
2012E	6,650,253,921	172,134,090	6,822,388,011	0.530

Source: 2010 Comprehensive Annual Financial Report, City of Annapolis Finance Dept.

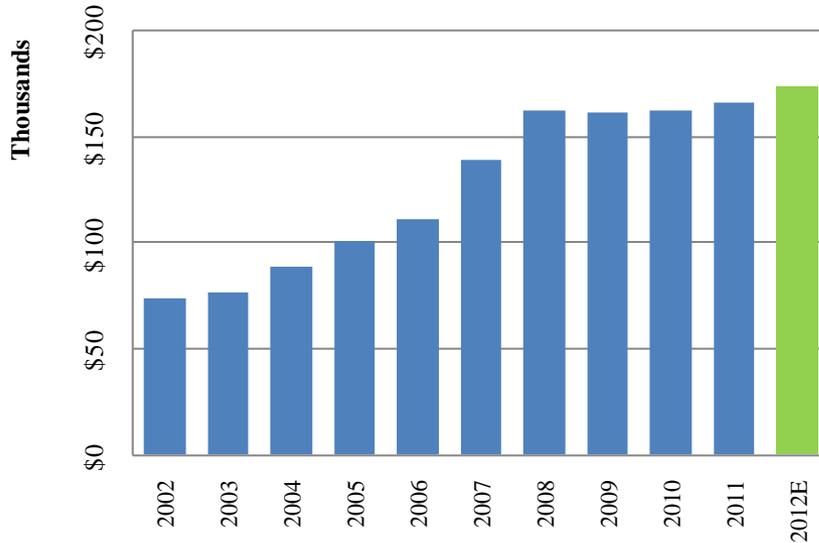
Note: Last reassessment was 1/1/09 for tax years 7/1/09-7/1/11. Next reassessment is 1/1/12 for tax years 7/1/12-7/1/14.

Assessed Value Per Capita

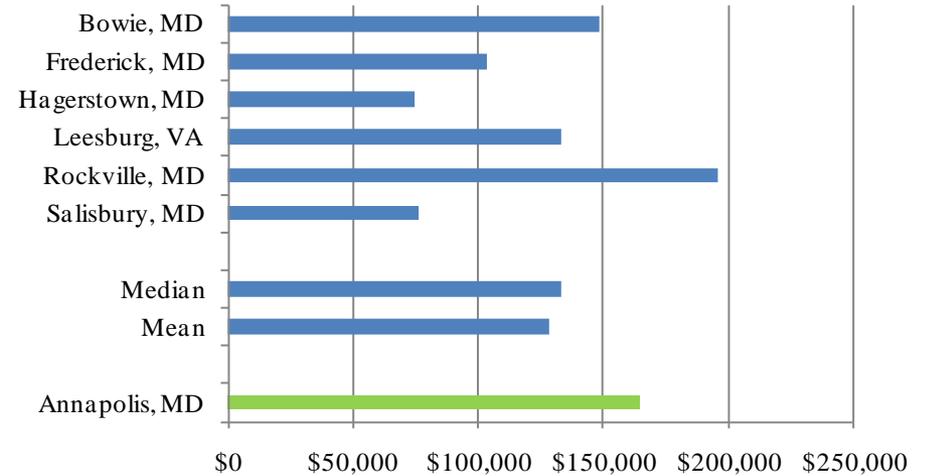


City of Annapolis, Maryland – February 2011

Historical Assessed Value Per Capita



Peer Assessed Value Per Capita



Note: 2010 data for all localities except Salisbury and Hagerstown, for which only 2009 data was available.

FY	Total		
	Taxable Property	Population	Per Capita
2002	\$2,653,875,693	36,100	\$73,515
2003	2,786,719,148	36,180	77,024
2004	3,224,255,118	36,210	89,043
2005	3,709,072,022	36,750	100,927
2006	4,150,982,690	37,300	111,286
2007	5,043,267,785	36,300	138,933
2008	5,911,023,962	36,400	162,391
2009	6,040,939,755	37,300	161,955
2010	6,323,061,027	38,900	162,547
2011	6,383,795,264	38,394	166,271
2012E	6,650,253,921	38,394	173,211

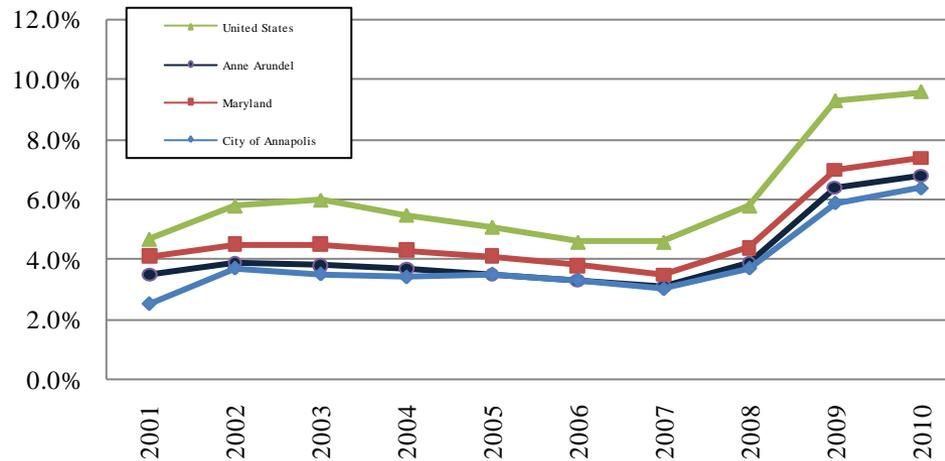
Source: 2010 Comprehensive Annual Financial Report, U.S. Census Bureau, City of Annapolis, Finance Department.

Unemployment Levels



Annapolis' Economy is Largely Recession-Proof

- The table below shows the average annual unemployment rates for the City, County, Maryland and the Nation.



<u>Year</u>	<u>City of Annapolis</u>	<u>Anne Arundel County</u>	<u>Maryland</u>	<u>United States</u>
2001	2.5%	3.5%	4.1%	4.7%
2002	3.7%	3.9%	4.5%	5.8%
2003	3.5%	3.8%	4.5%	6.0%
2004	3.4%	3.7%	4.3%	5.5%
2005	3.5%	3.5%	4.1%	5.1%
2006	3.3%	3.3%	3.8%	4.6%
2007	3.0%	3.1%	3.5%	4.6%
2008	3.7%	3.9%	4.4%	5.8%
2009	5.9%	6.4%	7.0%	9.3%
2010	6.4%	6.8%	7.4%	9.6%

Source: Bureau of Labor Statistics, MD Dept. of Labor, Licensing, and Regulation.

Note: Not seasonally adjusted.

Future Growth and Development



City of Annapolis, Maryland – February 2011

- Economic Development is one of the line items that the mayor has increased in the City's spending so as to continue the long term growth and viability of the City.

- New Development Projects:
 - **Koch Homes** – Planned development known as Village Greens of Annapolis with a total of 111 units for residential and commercial uses. Focus on live-work-play concept.

 - **Katherine Properties** – Continuing care retirement community of 150 independent living apartments, 16 townhomes, 24 duplex cottages, 30 apartments over retail, 45 assisted living suites, 30 skilled nursing beds, 100 non-CCRC townhomes. Also includes 150,000 square feet of non-CCRC retail, 2 restaurants, a 100 room hotel, office space and a concert/theater venue.

 - **Reserve at Quiet Waters** – 92 single family residences and 66 townhome units.

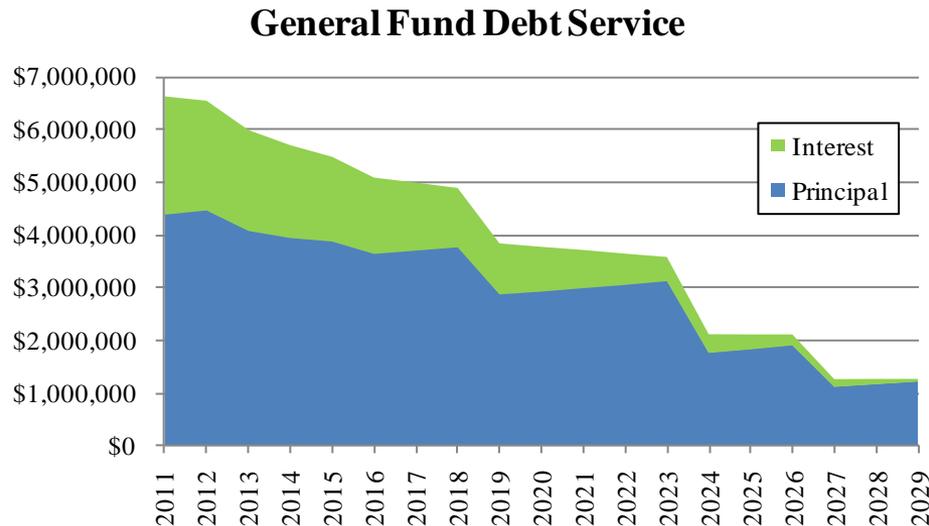
 - **Haynes Property Annexation** – 48 townhome development.

 - **Carraway Development** – 24 townhome development.

5. Debt Management and CIP



- As of June 30, 2010 the City had approximately \$85,400,000 in outstanding debt consisting of:
 - \$55,900,000 tax supported debt (General Fund), with a 10-year payout ratio of 72%.
 - \$29,500,000 self-supporting debt (Water/Sewer/Enterprise Fund).
- The final maturity for the existing debt is in FY2029.





Existing Debt Service Breakdown

City of Annapolis, Maryland – February 2011

FY	General		Water		Sewer		Enterprise		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2011	\$4,393,290	\$2,245,579	\$873,678	\$392,355	\$765,507	\$286,972	\$1,136,429	\$482,621	\$7,168,904	\$3,407,527	\$10,576,431
2012	4,472,751	2,083,149	888,527	362,472	781,137	262,098	1,156,402	436,328	7,298,817	3,144,047	10,442,864
2013	4,084,152	1,915,669	845,727	331,782	739,473	236,263	1,010,438	390,980	6,679,790	2,874,694	9,554,484
2014	3,949,420	1,762,875	858,290	302,171	725,510	212,502	1,024,552	349,326	6,557,772	2,626,874	9,184,646
2015	3,883,710	1,608,189	798,814	271,597	674,518	188,586	1,029,070	306,378	6,386,112	2,374,750	8,760,862
2016	3,648,638	1,448,447	642,091	241,339	428,657	165,182	1,020,614	261,731	5,740,000	2,116,699	7,856,699
2017	3,711,256	1,291,197	652,000	214,395	435,016	147,585	1,036,728	216,172	5,835,000	1,869,349	7,704,349
2018	3,773,602	1,126,596	662,190	185,869	441,674	128,854	1,052,534	168,918	5,930,000	1,610,237	7,540,237
2019	2,879,326	969,743	429,578	159,185	285,629	111,170	410,467	125,702	4,005,000	1,365,800	5,370,800
2020	2,933,200	849,820	437,801	141,965	291,481	99,976	417,518	108,013	4,080,000	1,199,774	5,279,774
2021	2,998,428	725,137	447,135	123,659	298,090	87,934	426,347	89,951	4,170,000	1,026,681	5,196,681
2022	3,059,642	593,942	456,314	104,198	304,625	75,078	434,419	71,089	4,255,000	844,307	5,099,307
2023	3,131,522	459,703	467,250	84,340	312,449	61,945	443,779	51,793	4,355,000	657,781	5,012,781
2024	1,768,488	356,068	270,060	68,944	196,650	51,408	224,802	37,444	2,460,000	513,864	2,973,864
2025	1,836,498	283,786	280,757	58,081	204,465	43,513	233,280	28,160	2,555,000	413,540	2,968,540
2026	1,911,848	208,665	292,410	46,787	212,962	35,303	242,780	18,516	2,660,000	309,271	2,969,271
2027	1,124,188	148,290	270,738	35,713	205,335	27,085	89,739	11,837	1,690,000	222,925	1,912,925
2028	1,174,078	101,917	282,753	24,545	214,447	18,615	93,722	8,136	1,765,000	153,213	1,918,213
2029	1,223,968	52,018	294,768	12,528	223,560	9,501	97,704	4,153	1,840,000	78,200	1,918,200
2030	-	-	-	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-	-	-	-
Total	\$55,958,005	\$18,230,790	\$10,150,881	\$3,161,925	\$7,741,185	\$2,249,570	\$11,581,324	\$3,167,248	\$85,431,395	\$26,809,533	\$112,240,928

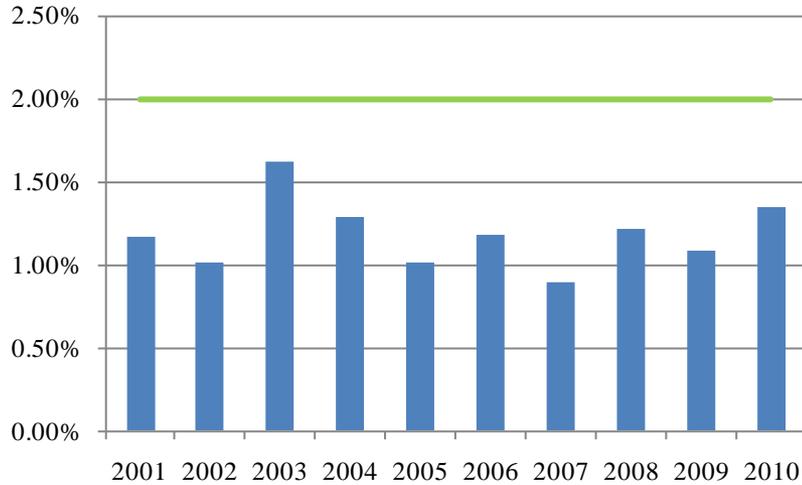
Note: Enterprise Fund is the City's Off Street Parking Fund.

Total Debt To Assessed Value

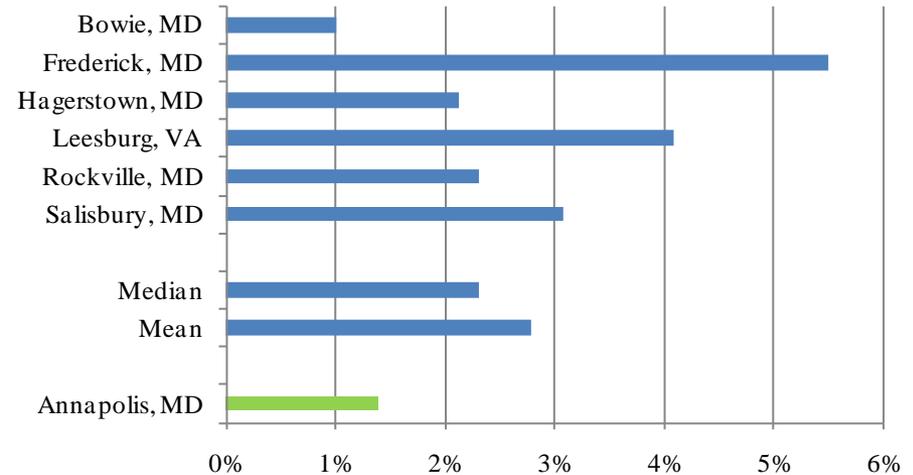


- The City’s Debt to Assessed Value ratio has consistently remained well-below the target policy of 2%.

Historical Debt to Assessed Value



Peer Debt to Assessed Value



Note: 2010 data for all localities except Salisbury and Hagerstown, for which only 2009 data was available.

	Total Bonded Debt	Assessed Value	Percentage	Policy
2001	\$29,547,413	\$2,540,849,132	1.16%	2.00%
2002	26,808,116	2,653,875,693	1.01%	2.00%
2003	45,046,122	2,786,719,148	1.62%	2.00%
2004	41,397,654	3,224,255,118	1.28%	2.00%
2005	37,595,196	3,709,072,022	1.01%	2.00%
2006	49,108,046	4,150,982,690	1.18%	2.00%
2007	44,838,310	5,043,267,785	0.89%	2.00%
2008	71,637,175	5,911,023,962	1.21%	2.00%
2009	65,358,273	6,040,939,755	1.08%	2.00%
2010	85,231,540	6,323,061,027	1.35%	2.00%

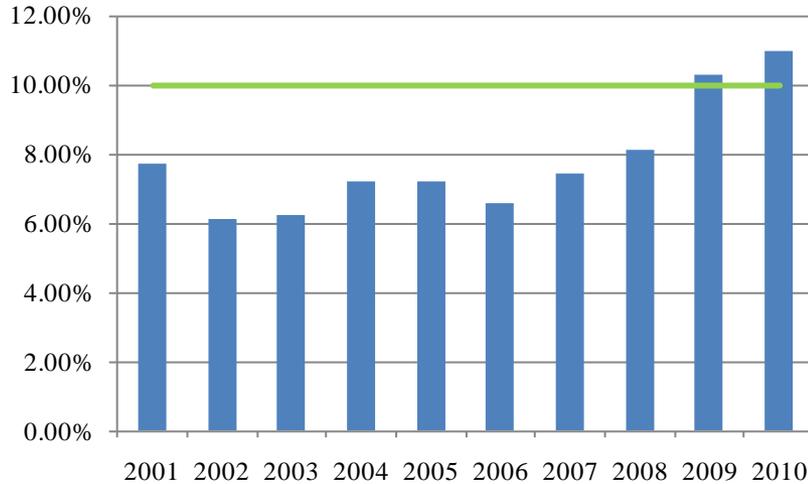
Debt Service to Expenditures



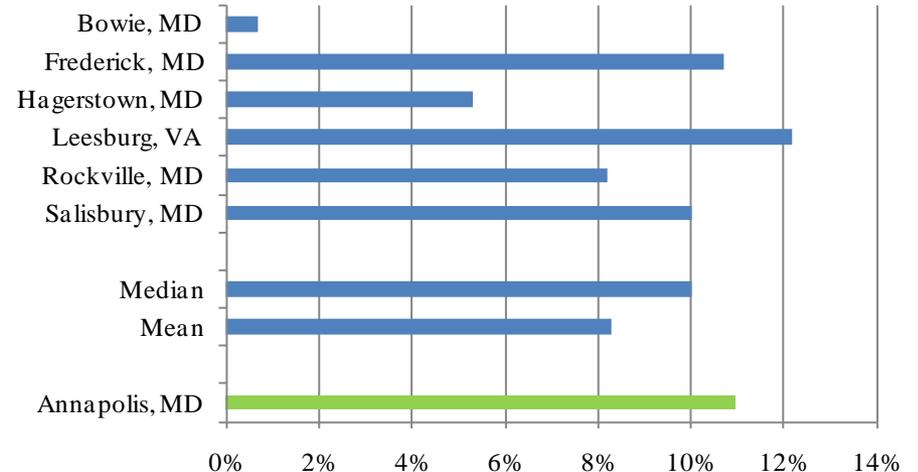
City of Annapolis, Maryland – February 2011

- Until recently, the City’s Debt Service to Expenditures ratio has remained below the target policy of 10%.

Historical Debt Service to Expenditures



Peer Debt Service to Expenditures



Note: 2010 data for all localities except Salisbury and Hagerstown, for which only 2009 data was available.

	Annual Debt Service for General Bonded Debt	General Fund Expenditures	Percentage	Policy
2001	\$2,324,107	\$30,210,788	7.69%	10.00%
2002	2,030,200	33,043,765	6.14%	10.00%
2003	2,258,349	36,339,285	6.21%	10.00%
2004	2,668,063	37,141,662	7.18%	10.00%
2005	2,786,989	38,745,129	7.19%	10.00%
2006	2,838,210	43,026,881	6.60%	10.00%
2007	3,315,079	44,507,379	7.45%	10.00%
2008	4,024,243	49,587,770	8.12%	10.00%
2009	6,029,119	58,555,154	10.30%	10.00%
2010	6,702,986	61,011,983	10.99%	10.00%

Capital Improvement Plan – General Fund



City of Annapolis, Maryland – February 2011

<u>Project Name</u>	<u>Prior</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>Total</u>
Landfill Gas Mitigation	\$757,930	\$2,310,010	\$0	\$0	\$0	\$0	\$0	\$3,067,940
Eastport Fire Station	6,509,180	(6,209,180)	6,209,180	0	0	0	0	6,509,180
City Trail Connectors	0	0	28,000	318,000	334,000	0	0	680,000
Truxtun Park Pool Replacement	0	0	50,000	50,000	7,675,000	0	0	7,775,000
Back Creek Nature Park Improvements	0	0	0	500,000	0	0	0	500,000
Truxtun Park Improvements	0	0	315,180	80,000	88,000	0	0	483,180
Kingsport Park	0	0	139,000	0	0	0	0	139,000
Fleet and Cornhill St. Reconstruction	657,870	0	0	0	0	8,750,000	0	9,407,870
Smithville and Russell St. Improvements	0	0	0	0	0	0	1,526,500	1,526,500
Greenfield Street Relocation	0	0	0	0	644,000	0	0	644,000
Outer West Street Gateway	0	0	0	0	1,760,000	4,508,000	3,332,000	9,600,000
Forest Drive Enhancements	0	0	0	0	0	3,147,000	0	3,147,000
Taylor Avenue Improvements	295,710	(22,200)	0	2,526,740	0	0	0	2,800,250
Green Street Reconstruction	0	0	0	0	200,000	1,973,000	0	2,173,000
Sixth Street Improvements	0	0	300,000	0	4,100,000	0	0	4,400,000
Maryland Avenue Improvements	480,000	(480,000)	189,200	790,800	5,000,000	0	0	5,980,000
Traffic Signals	0	0	0	89,090	1,185,250	0	0	1,274,340
Barbud Lane Reconstruction	0	0	154,820	0	500,000	0	0	654,820
Annual General Roadways & Sidewalks	0	800,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	10,800,000
Maintenance Facilities	271,460	0	4,609,420	0	0	0	0	4,880,880
City Hall Restoration	476,590	0	250,000	3,096,910	0	0	0	3,823,500
Annual Roof Replacement Program	360,500	270,000	250,000	275,000	300,000	0	0	1,455,500
Non-Profit Capital Funding	930,000	260,000	260,000	0	0	0	0	1,450,000
Building Upgrades	0	1,885,270	210,000	550,000	0	0	0	2,645,270
Vehicle Replacement Program	0	0	1,200,000	0	0	0	0	1,200,000
Energy Park	0	500,000	0	0	0	0	0	500,000
Total	\$10,739,240	(\$686,100)	\$16,164,800	\$10,276,540	\$23,786,250	\$20,378,000	\$6,858,500	\$87,517,230

Capital Improvement Plan – Enterprise Funds



City of Annapolis, Maryland – February 2011

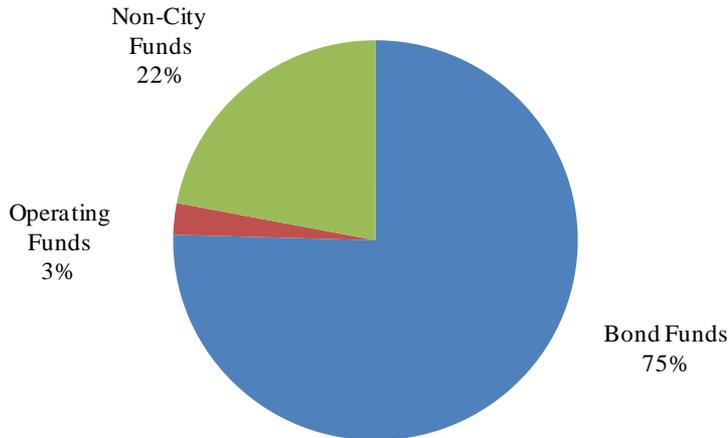
<u>Project Name</u>	<u>Prior</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>Total</u>
Annual Water Tank Rehabilitation	\$517,200	\$0	\$338,000	\$100,000	\$100,000	\$100,000	\$100,000	\$1,255,200
Pump Station Replacements	1,932,460	0	0	0	0	0	0	1,932,460
Bulkhead Evaluations	0	0	130,000	0	0	0	0	130,000
Multi-Model Traffic Mitigation	0	0	400,000	375,000	0	0	0	775,000
Water Plant Upgrades	2,715,760	0	507,468	6,210,718	6,210,718	6,210,718	6,210,718	28,066,100
Flood Control	100,000	0	0	0	0	0	0	100,000
Solid Waste Management Program	260,000	0	2,795,000	2,550,000	36,000	0	0	5,641,000
Harbormaster Building	271,760	0	132,880	995,180	0	0	0	1,399,820
Hillman Garage	703,580	0	100,000	200,000	765,190	765,190	20,022,790	22,556,750
Water Storage Tank	0	0	0	1,259,080	1,175,000	0	0	2,434,080
Annual Stormwater Management Retrofit	0	168,220	168,220	168,220	168,220	168,220	168,220	1,009,320
Annual Sewer Rehabilitation Upgrades	0	1,300,000	1,595,330	1,595,330	1,595,330	1,595,330	1,595,330	9,276,650
Annual Waste Water Pump and Pump Station Control Upgrades	0	0	397,400	397,400	363,400	0	0	1,158,200
Annual Water Distribution System Upgrades	0	0	754,600	594,600	464,600	534,600	434,600	2,783,000
City Dock Development	0	150,000	277,150	0	17,940,840	0	0	18,367,990
Dam Repair at Waterworks Park	0	936,100	0	0	0	0	0	936,100
Total	\$6,500,760	\$2,554,320	\$7,596,048	\$14,445,528	\$28,819,298	\$9,374,058	\$28,531,658	\$97,821,670

Capital Improvement Plan – Sources of Funds

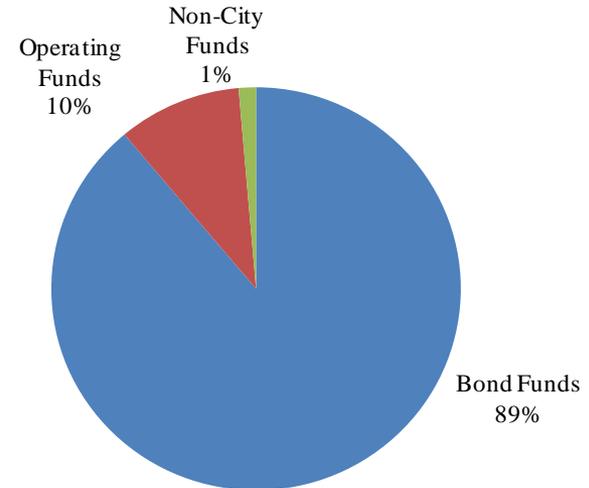


City of Annapolis, Maryland – February 2011

General Fund



Enterprise Funds



General Fund Sources of Funds

	<u>Prior</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>Total</u>
Bond Funds	10,205,730	(936,100)	14,182,620	9,328,540	14,126,160	13,550,500	5,192,500	65,649,950
Operating Funds	108,510	0	1,466,000	249,500	394,590	0	0	2,218,600
Non-City Funds	425,000	(250,000)	516,180	698,500	9,265,500	6,827,500	1,666,000	19,148,680

Enterprise Fund Sources of Funds

	<u>Prior</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>Total</u>
Bond Funds	1,356,142	936,100	6,395,618	13,493,168	28,290,018	8,880,778	28,038,378	87,390,202
Operating Funds	5,045,618	1,618,220	830,430	577,360	529,280	493,280	493,280	9,587,468
Non-City Funds	99,000	500,000	370,000	375,000	0	0	0	1,344,000

Sources of Funds

	<u>Prior</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>Total</u>
Bond Funds	11,561,872	0	20,578,238	22,821,708	42,416,178	22,431,278	33,230,878	153,040,152
Operating Funds	5,154,128	1,618,220	2,296,430	826,860	923,870	493,280	493,280	11,806,068
Non-City Funds	524,000	250,000	886,180	1,073,500	9,265,500	6,827,500	1,666,000	20,492,680

Note: The City is applying for and expects to receive significant subsidized loan and grant money from MDE to pay for the water treatment plant upgrade. This support is not assumed in the CIP shown here.

6. Series 2011 Plan of Finance



City of Annapolis, Maryland – February 2011

Plan of Restructuring

- The City can strategically target a restructuring in order to carve out near-term debt service for cash flow savings, while smoothing overall debt levels and allowing for the implementation of the FY 2011 Priority CIP (and following CIP issues) in a more systematic and affordable fashion.
 - The restructuring, as envisioned, would refinance approximately \$30 million of the \$85.4 million outstanding (or just over one-third of the City's debt profile).
 - General Fund is extended up to 5 years, W/S out to a 30 year final maturity, and Parking to 25 years.
 - General Fund cash flow savings to be used to replenish fund balance reserves.
 - Enterprise fund restructuring places these funds on a more traditional 25-30 year revenue bond structure in advance of anticipated capital needs.
 - From FY 2011 through FY 2018, the City can “free up” approximately **\$17.8 million** in cash flow relief compared to the existing debt payment schedule.

Series 2011 Plan of Finance (continued)



City of Annapolis, Maryland – February 2011

Plan of Restructuring – All Funds

FY	Refunded Debt Service			2011 Refunding Debt Service		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$2,430,000	\$373,019	\$2,803,019	\$0	\$0	\$0
2012	5,650,000	1,119,919	6,769,919	1,015,000	1,094,110	2,109,110
2013	5,215,000	904,894	6,119,894	515,000	1,265,244	1,780,244
2014	3,670,000	715,031	4,385,031	950,000	1,250,594	2,200,594
2015	3,375,000	561,709	3,936,709	970,000	1,231,394	2,201,394
2016	2,765,000	423,725	3,188,725	1,140,000	1,210,294	2,350,294
2017	2,770,000	296,050	3,066,050	1,160,000	1,184,394	2,344,394
2018	2,750,000	166,738	2,916,738	1,190,000	1,152,044	2,342,044
2019	400,000	60,188	460,188	990,000	1,119,344	2,109,344
2020	350,000	42,313	392,313	1,025,000	1,083,994	2,108,994
2021	300,000	27,313	327,313	1,065,000	1,042,194	2,107,194
2022	250,000	14,250	264,250	1,100,000	998,894	2,098,894
2023	175,000	4,156	179,156	1,150,000	948,144	2,098,144
2024	-	-	-	2,505,000	869,294	3,374,294
2025	-	-	-	2,385,000	770,003	3,155,003
2026	-	-	-	2,490,000	667,900	3,157,900
2027	-	-	-	3,025,000	539,363	3,564,363
2028	-	-	-	3,170,000	384,488	3,554,488
2029	-	-	-	740,000	287,663	1,027,663
2030	-	-	-	1,310,000	239,794	1,549,794
2031	-	-	-	1,380,000	175,000	1,555,000
2032	-	-	-	910,000	117,750	1,027,750
2033	-	-	-	955,000	71,125	1,026,125
2034	-	-	-	150,000	43,500	193,500
2035	-	-	-	155,000	35,875	190,875
2036	-	-	-	155,000	28,125	183,125
2037	-	-	-	160,000	20,250	180,250
2038	-	-	-	165,000	12,125	177,125
2039	-	-	-	80,000	6,000	86,000
2040	-	-	-	80,000	2,000	82,000
Total	\$30,100,000	\$4,709,304	\$34,809,304	\$32,085,000	\$17,850,895	\$49,935,895

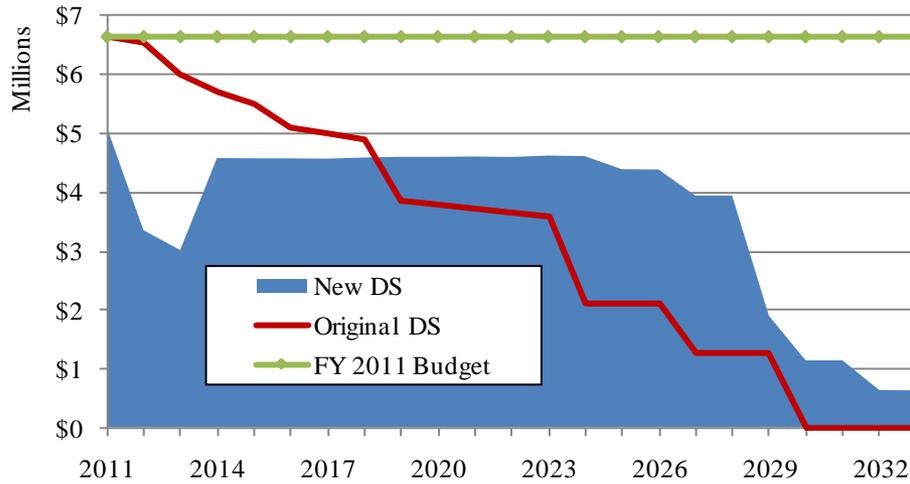
Series 2011 Plan of Finance (continued)



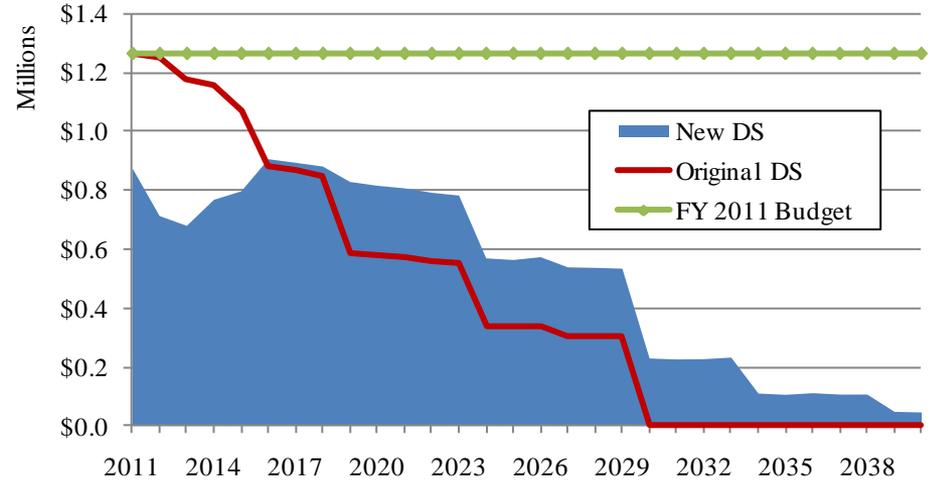
City of Annapolis, Maryland – February 2011

Plan of Restructuring

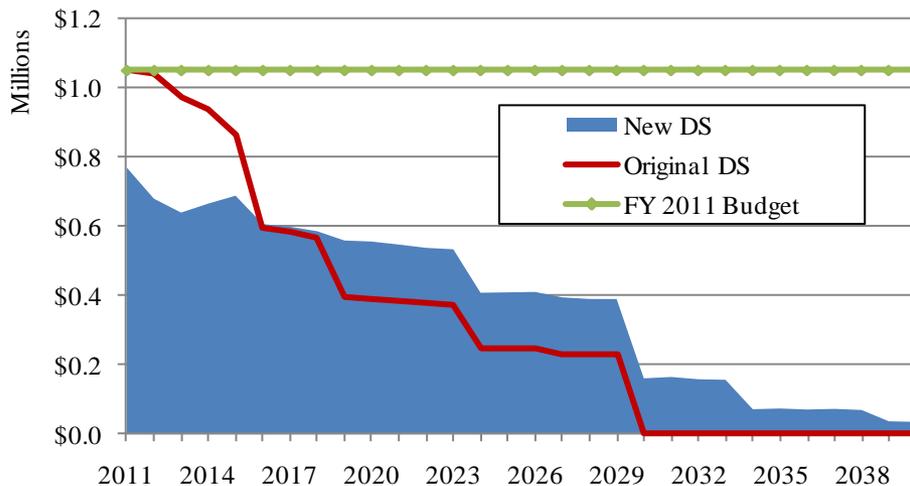
General Fund Restructuring



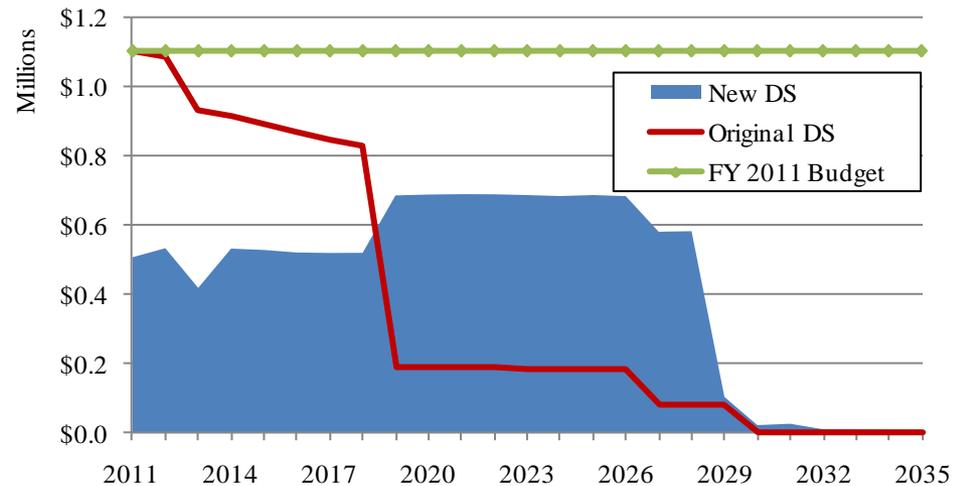
Water Restructuring



Sewer Restructuring



Parking Restructuring



Series 2011 Plan of Finance (continued)



City of Annapolis, Maryland – February 2011

New Money Projects

- The City is publicly issuing approximately \$6 million in Tax-Exempt General Obligation Public Improvement Bonds of 2011 to finance various public improvements to the City.

Plan of Finance Summary

<u>Project Name</u>	<u>Fund</u>	<u>Amount</u>
City Hall Renovation	General	\$372,209
Recreation Center	General	150,000
Roadways/Sidewalks	General	700,000
City Dock Development	General	100,000
Landfill Gas Mitigation	General	<u>1,910,010</u>
Total - General Fund		\$3,232,219
Annual Stormwater Mgmt Retrofit	Stormwater	50,000
Annual Water Tank Rehab	Water	35,000
Annual Water Distribution Upgrade	Water	102,000
Pump Station Improvements	Sewer	1,280,743
Annual Sewer Rehab and Improvements	Sewer	<u>1,300,000</u>
Total - Enterprise Funds		\$2,767,743
Total - All Funds		<u>\$5,999,962</u>

Series 2011 Plan of Finance (continued)



City of Annapolis, Maryland – February 2011

New Money Projects

FY	New Money Debt Service			General Fund Debt Service	Enterprise Funds Debt Service
	Principal	Interest	Total		
2011	\$0	\$0	\$0		
2012	205,000	209,914	414,914	239,536	175,378
2013	175,000	241,900	416,900	239,863	177,038
2014	175,000	238,400	413,400	237,463	175,938
2015	180,000	234,850	414,850	240,013	174,838
2016	180,000	231,250	411,250	237,513	173,738
2017	190,000	227,075	417,075	239,638	177,438
2018	195,000	221,775	416,775	240,988	175,788
2019	200,000	215,850	415,850	241,863	173,988
2020	210,000	208,650	418,650	241,863	176,788
2021	215,000	200,150	415,150	240,963	174,188
2022	225,000	191,350	416,350	239,863	176,488
2023	230,000	181,100	411,100	237,763	173,338
2024	245,000	170,450	415,450	240,363	175,088
2025	255,000	160,291	415,291	238,353	176,938
2026	265,000	149,400	414,400	240,813	173,588
2027	280,000	136,769	416,769	242,006	174,763
2028	290,000	122,519	412,519	237,131	175,387
2029	305,000	108,025	413,025	237,144	175,881
2030	325,000	93,266	418,266	241,953	176,313
2031	340,000	77,250	417,250	240,875	176,375
2032	110,000	66,000	176,000		176,000
2033	115,000	60,375	175,375		175,375
2034	120,000	54,500	174,500		174,500
2035	125,000	48,375	173,375		173,375
2036	135,000	41,875	176,875		176,875
2037	140,000	35,000	175,000		175,000
2038	145,000	27,875	172,875		172,875
2039	155,000	20,375	175,375		175,375
2040	160,000	12,500	172,500		172,500
2041	170,000	4,250	174,250		174,250
Total	\$6,060,000	\$3,991,358	\$10,051,358	\$4,795,961	\$5,255,397

Timetable



- | <u>Date</u> | <u>Action</u> |
|--|--------------------------------|
| ▪ February 24 th and 25 th | Rating agency visits/meetings. |
| ▪ Wednesday, March 2 nd | Ratings released. |
| ▪ Thursday, March 3 rd | Posting and mailing of POS. |
| ▪ Thursday, March 10 th | Bond Sale in Annapolis. |
| ▪ Wednesday, March 23 rd | Closing. |



Park Place Dining.

February 2011						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28					

March 2011						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

7. Concluding Remarks



City of Annapolis, Maryland – February 2011

- While the City has experienced some financial stress its reserves and financial strength have helped it navigate through this difficult period. In the process we believe that the City responded to the challenges and as a result is positioned better for the long term. The following steps have been taken in a timely manner:
 - Identified the financial challenges and insufficient internal controls.
 - Addressed the challenges head-on with full transparency and new professional management, focusing first on expenses to gain credibility.
 - Focus remains on scrutinizing expenses as well as enhancing revenues, with an emphasis on use-related taxes and avoiding property taxes if possible.
 - The City has invested in management and information systems to establish controls providing timely information now and going forward, hence avoiding accountability issues from repeating.
 - The City now has a forecast that is structurally balanced and building Fund Balances to desired level of 15%.
 - The City Council is in full support of these priorities.
- Looking ahead:
 - Notwithstanding the expense issues, Annapolis is relatively recession proof and has continued to grow, both in population as well as in assessed value during the recent economic crisis.



A. Financial Policy Guidelines

City of Annapolis, Maryland – February 2011

The City has several ratio policies that are currently in place:

Debt as a Percentage of Assessed Value:

- The City will maintain its net bonded debt at a level not to exceed a ceiling of 3 percent of the assessed valuation of taxable property within the City, with a target ratio of 2 percent.

Debt Service as a Percentage of General Government Expenditures:

- The City will maintain its annual net bonded debt service costs at a ceiling of 10 percent of the General Fund expenditures, with a target ratio of 8 percent.

Debt Payout Ratio:

- The City will maintain a ten-year payout ratio (i.e.; rate of principal amortization) for its net bonded debt of not less than 65 percent.

Fund Balance:

- The City will maintain an unreserved General Fund balance at a level not less than 10 percent and a target of 15 percent.



B. Other Post Employment Benefits

City of Annapolis, Maryland – February 2011

- The City provides a post-employment health insurance program through the General Fund in addition to other pension benefits.
- These post-employment benefits are subject to change at any time. All employees who retire from the City may participate in the program. In order to be eligible, the retiree must meet normal service retirement criteria, and immediately preceding retirement, been enrolled in a medical, vision or prescription drug insurance plan offered to active employees of the City.
- The City will pay 80% of the retirees health insurance premium based upon these criteria. Other retirees who do not meet the eligibility criteria are permitted to participate in the health insurance program by paying the full premium at the group rate.
- The City has funded these benefits on a pay-go basis since the inception date of July 1, 2002.
- Starting with FY 2009, the City is required to fund these benefits on an actuarial basis. The actuarial liability as of June 30, 2009 was \$43.6M compared to \$0 in assets.

C. Resolution on Replenishing Fund Balance



City of Annapolis, Maryland – February 2011

CITY COUNCIL OF THE CITY OF ANNAPOLIS

RESOLUTION NO. R-21-10

Introduced by Mayor Cohen

LEGISLATIVE HISTORY

First Reading:	Public Hearing:	Fiscal Impact Note:	180 Day Rule:
06/07/10	06/14/10	06/11/10	12/11/10
Referred to:	Referral Date:	Meeting Date:	Action Taken:
Finance Committee	06/07/10		
Rules & City Gov't	06/07/10		
Travels with O-22-10			

A RESOLUTION concerning

Budgetary Reserve Funding Policy

FOR the purpose of approving a Budgetary Reserve Policy for the City of Annapolis.

WHEREAS, for Fiscal Year 2010, the City of Annapolis will not have maintained an unreserved general fund balance at the target of fifteen percent as established in the City Debt and Financial Administration Policy in Resolution R-38-07; and

WHEREAS, the City of Annapolis seeks to meet this target by Fiscal Year 2014 and to set forth the means by which to do so; and

WHEREAS, establishing a policy to provide for the consistent and gradual replenishment of reserve funds is in the City's best interests.

NOW THEREFORE BE IT RESOLVED BY THE ANNAPOLIS CITY COUNCIL that the City's Budgetary Reserve Policy shall be as follows:

BUDGETARY RESERVE POLICY

EFFECTIVE DATE: JULY 1, 2011

Effective July 1, 2011, the City shall maintain a fund balance at a level not less than ten percent and a target of fifteen percent of operating expenses for all funds. Included in this

R-21-10
Page 2

1 balance, at least five percent shall be in cash or cash equivalents, readily available to pay
2 current expenses.

3
4 Should the targeted fund balance of fifteen percent, including at least five percent in cash,
5 not be reached, the City Council shall allocate fifty percent of any increases in income and
6 property tax revenues above the prior fiscal year's base to fund the reserves.

7
8 Should the targeted fund balance of fifteen percent, including at least five percent in cash of
9 cash equivalents, not be achieved by other means, in the Fiscal Year 2012 and Fiscal Year
10 2013 budget the City Council shall allocate fifty percent of any increases in income and
11 property tax revenues above the prior fiscal year's base in order to fund the reserves.

12
13 Should the targeted fund balance of fifteen percent, including at least five percent in cash
14 or cash equivalents, not be replenished by the conclusion of Fiscal year 2013, the Council
15 shall appropriate all necessary funds to satisfy the target reserve of fifteen percent as part
16 of the Fiscal Year 2014 budget.

17
18
19
20 **ADOPTED** this 14th day of June, 2010.

21
22
23 **ATTEST:**

24
25
26 Regina C. Watkins-Eldridge, MMC
27 City Clerk

THE ANNAPOLIS CITY COUNCIL

BY: JOSHUA J. COHEN, MAYOR