CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION
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BY E-MAIL AND HAND DELIVERY
Mayor and City Council of the City of Annapolis
160 Duke of Gloucester Street
Annapolis, Maryland 21401

Re: Ordinance No. O-17-13 (Issuance of Bonds)

Dear Mayor Cohen and Members of the City Council:

I am writing to you on behalf of the City of Annapolis Financial Advisory Commission ("Commission"). Thank you for referring to us for review and comment Ordinance No. O-17-13 (Issuance of Bonds). This Ordinance would authorize the issuance of the City's General Obligation Bonds, "Public Improvement Bonds, 2013 Series" in an amount up to $15,370,000, and "Public Improvements Refunding Bonds, 2013 Series" in an amount up to $5,100,000. The Commission received a briefing on the Ordinance from the City's Finance Director on March 21.

The Commission does not recommend the adoption or defeat of Ordinance O-17-13. Rather the Commission offers the following comments and proposed amendments:

1. Several of the General Fund projects approved as part of the FY 2013 Capital Budget and identified in the table on pages 3 and 4 of the Ordinance to be funded by this bond issue are projects that constitute deferred maintenance, rather than capital improvements, which should be paid for from operating funds rather than long-term debt. The Commission urges the City to keep up with maintenance needs on an ongoing basis and for the City Council to provide sufficient PAYGO funding in the City's annual operating budget for that purpose so that the City does not need to issue debt to pay for maintenance.

2. The first sentence of Section 5 of the Ordinance, on page 5 at lines 3-7, authorizes the Mayor to approve the rate of interest to be paid on the bonds at the time of sale of the bonds. The Ordinance contains no maximum rate of interest that the Mayor may approve. Because even small percentage increases in rates of interest payable on the bonds may substantially increase the debt burden to be paid by taxpayers, the Commission strongly urges that the Ordinance be amended to include a market-rate maximum rate of interest to which the Mayor may commit the City. The following amendment to Ordinance O-17-13 would be appropriate for this purpose:

"On page 5, line 7, immediately following "provided." insert "The rate or rates of interest to be fixed by executive order may not exceed ________%."

By making this amendment the City Council and taxpayers will be able to estimate the maximum financing and tax burden costs that could be incurred by the bond issuance.

3. The third sentence of Section 9, lines 7-9, on page 14 of the proposed Ordinance authorizes the Mayor to sell bonds at private sale without advertising, publication, notice of sale or solicitation of competitive bids. While there may be valid reasons for the City to engage in a private sale, the Commission strongly believes that the Mayor should not exercise this authority unilaterally. The Commission recommends that the Mayor be required to consult with the City Council's Finance Committee before engaging in a sale of bonds by a private sale. The following amendment to Ordinance O-17-13 would be appropriate for this purpose:

"On page 14, line 9, immediately following "bids" insert ", except that no bonds may be sold a private (negotiated) sale unless the Mayor first has consulted with the City Council's Finance Committee regarding the terms and conditions of the sale and the benefit to the City of proceeding by private (negotiated) sale rather than public sale".

4. The last sentence of Section 10, lines 16-23, on page 22 of the proposed Ordinance authorizes the City to use proceeds from the sale of the bonds for purposes other than those projects identified in the table on pages 3 and 4 of the Ordinance. While this may be standard bond ordinance text, the Commission is concerned that the City may borrow money, incur debt service obligations, and not need varying portions of the borrowed monies either at all or for extended periods of time for the purposes for which the bond was issued. The Commission strongly recommends that the City explore issuing bond anticipation notes or other short-term debt financing on an "as needed" basis to fund projects until such time as the projects may be financed for their useful lives by long-term debt. This will allow the City to borrow only as much as needed for projects, and in such increments as reasonably will be expended in a timely manner. This alternate type of funding could be expected to result in paying debt service on funds only as needed and to reasonably ensure that borrowed funds are used only for the purposes authorized by the City Council.

Last year Anne Arundel County recognized the wisdom of using Bond Anticipation Notes as a means of short term financing to initiate capital projects. The County's bond authorization ordinance, Bill No. 60-2012, stated that part of the purpose of that Bill was "[t]o provide an adequate flow of funds for capital projects, to limit amounts borrowed to the costs incurred for such projects, and to facilitate the most advantageous times for the sale of bonds, bond anticipation notes may be sold for such projects from time to time, repayable from the proceeds of the appropriate series of such bonds, when issued."

Thank you for the opportunity to comment on proposed Ordinance O-17-13.

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Sincerely,

Frederick C. Sussman, Chair

cc: Commission Members (By e-mail)
Michael Mallinoff, City Manager (By e-mail)
Bruce Miller, Finance Director (By e-mail)
Shirley S. Tripodi, Assistant Finance Director (By e-mail)
Hilary Raftovich, Boards and Commissions Coordinator (By e-Mail)
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