

Enterprise Fund Dividend Transfer Policy

As part of its year end annual financial evaluation process, the City will consider whether it is appropriate and prudent to transfer a portion of the unused retained earnings from an Enterprise Fund to the CIP Fund assigned Fund Balance. Uses of the fund will include non-recurring capital expenditures for city neighborhoods, downtown redevelopment, economic development projects, park improvements and special one-time projects.

This transfer payment cannot be considered a normal cost of Enterprise Fund operations recoverable through the rate base. Rather, it is to be paid out of the annual retained earnings of the prior year just as a private investor owned utility would pay their shareholders a dividend from these sources.

The following controls will be utilized to ensure that the payment of dividends by an Enterprise Fund does not jeopardize the financial health of the Fund.

- On an annual basis after the prior fiscal year end audited financial statements are presented, an updated financial projection analysis of the Enterprise Funds will be done. The analysis will include all expected sources and uses of funds for the current year as well as funding approved through the current approved budget.
- Adequate funds within the Enterprise Funds must be provided for debt interest, principal repayments and any debt coverage requirements. A minimum working capital reserve level equal to two months of operating costs must be maintained at all times. Operating cost is defined as total operating expenses less depreciation and interest expense. Additionally, for those Enterprise Funds utilizing a 3R Reserve, 1% of the cost of replacement of the total asset must be maintained in a restricted cash account.
- Capital expenditures on average during the projection period must be at a level at least equal to the average depreciation expense during the projection period. (This control is intended to prevent underfunding replacement capital expenditures to allow for dividend transfers).
- Payment will be made after reviewing the prior year's audited financial statements, and preparation of an updated financial projection analysis for an Enterprise Fund.
- Mayor and Council shall act on staff recommendation and declare a dividend if appropriate and in compliance with this policy through an approval of a Motion.

These needs must be anticipated and adequately provided for in the Enterprise Funds.

Revision date December 17, 2013

REQUIRED MOTION**MAYOR AND CITY COUNCIL
HAGERSTOWN, MARYLAND**

DATE: December 17, 2013

TOPIC: **Approval of a Motion for acceptance of the Enterprise Fund Dividend Transfer Policy**

Charter Amendment	<input type="checkbox"/>
Code Amendment	<input type="checkbox"/>
Ordinance	<input type="checkbox"/>
Resolution	<input type="checkbox"/>
Other	<input checked="" type="checkbox"/>

MOTION: I hereby move for Mayor and City Council approval of a motion accepting the Enterprise Fund Dividend Transfer Policy. The revised Enterprise Fund Dividend Transfer Policy dated December 17, 2013 replaces the previously utilized Light Fund Dividend Transfer Policy, Community Betterment Dividend Policy, and the Water Division Dividend Transfer.

DATE OF INTRODUCTION: 12/17/13
DATE OF PASSAGE: 12/17/13
EFFECTIVE DATE: 12/17/13