CITY COUNCIL WORK SESSION AGENDA

Budget Work Session - Final Budget Review

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:
https://us02web.zoom.us/j/81729988664?pwd=RzJzQXEvTlhmaFE2UGhoVGVqdDd6QT09

OR

Join By phone: (301) 715-8592
Meeting ID: 817 2998 8664
Passcode: 500356

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.
Monday, May 17, 2021
7:30 PM

Work Session Packet

Budget Work Session - Final Budget Review
Suggested Action:

Reference:

Memorandum, N. Ard, 05/14/2021

Davenport Presentation 05/14/2021

Agenda

• Introductions

• Davenport Presentation

• Council Discussion

• Questions and Answers

• Other Items

Memorandum, N. Ard, 05/14/2021.pdf
Davenport Presentation 5.17.21.pdf

CITY OF GREENBELT

MEMORANDUM

DATE: May 13, 2021

TO: Greenbelt City Council

THRU: Nicole Ard, City Manager

FROM: Bertha A. Gaymon, City Treasurer

Re: FY2022 Potential Budget Adjustments

In preparation for your May 17, 2021 work session, listed below are the items which Council members have identified for further consideration in the review of the Proposed FY2022 Budget. As a reminder, the Proposed FY2022 Budget is balanced with proposed revenue at $31,310,000 and proposed expenses at $31,309,000—a $1000 positive variance. Since the $1,414,980 of expenses being considered are not currently in the budget, we will need to make a number of adjustments/tradeoffs in order to incorporate any new amount in the FY2022 budget.

Also, Davenport and Associates will be in attendance to follow-up on the proposed financial policies. These policies can be considered in June along with budget adoption. Davenport will also briefly discuss strategy for funding of capital projects, including a proposed timeline given the need to further flesh out capital projects, City, Federal, and other possible funding sources. This includes the potential additional work sessions or forums on capital projects and use of anticipated Federal Funding. The deadline to spend those funds by 2025 and adhere to still evolving Federal or State requirements lends to time for strategy and outreach as discussed by Council. A presentation from Davenport is attached.

Revenues

Item	Item Description	Fund	Estimated Amount
1.	Increase M-NCPPC Grant amount in FY2021 and FY2022	Recreation	**$10,000**

Expenditures

Item	Item Description	Department	Estimated Amount
1.	Adjusted Pension Estimate in Information Technology.	IT Department	**($42,600)**
2.	Restore the Assistant Director of Community Development Position (12 months). Salary & Benefits @ $151,014	Planning	**$151,000**
3.	Add two Code Enforcement Inspectors w/ required expenses (computer, etc.) Salary & Benefits @ $149,000 and Other Expenses @ $9,400	Planning	**$158,400**

4.	Add an intern to Assist the Economic Development Coordinator (for 12 weeks) (will consider MML program at no cost)	Economic Development	**$3,600**
5.	Combine and convert the PT Volunteer Coordinator and PT Mobility manager (neither restored in FY2022) into one FT Case Manager Position. Range of $74,335 - $77,707	Social Services	**$77,700**
6.	Add Miscellaneous Amount for Possible Additional Awards	Grants and Contributions	**$1,500**
7.	Add additional Concrete Work for sidewalk on Plateau Place from Ridge Road to 2 Court Plateau	Public Works	**$6,300**
8.	Add additional funds to conduct the Greenbelt Armory Assessment (RFP already conducted)	Economic Development	**$120,000**
9.	Add a second Greenbelt Connection driver Salary & Benefits $48,000	Public Works	**$48,000**
10.	Restore an architectural and engineering study of office space (RFQ already conducted)	Public Works	**$60,000**
11.	Expand the GAFC Restroom Tile Floor Pilot	Public Works	**$4500**
12.	Provide additional support for Tree Canopy Enhancement Program	Public Works	**$2000**
13.	Fund design and construction of a Speed Hump @ Julian Ct /Lasner Lane (near stop sign)	Public Works	**$6,600** **-**
14.	Fund design and construction of a Speed Hump by Park Upper Ridge and Lasner Lane	Public Works	**$6,500**
15.	Fund an expedited special Compensation Study for non-classified 3rd tier recreation employees.	Recreation	**$220,000**
16.	Fund an updated Buddy Attick Park Master Plan Process and Study	PRAB	**$30,000**
17.	Add a Software Program to Manage Animal Shelter CERT Volunteer Hours @ $100 per month	Police/CERT	**$1,200**
18.	Design and construct a restroom at the Animal Shelter	Police Animal Control	**$25,000**
19.	Add additional Staff to assist CARES with mental health issues, in addition to the prior mid-year budget inclusion of an additional crisis counselor and conversion of two part-time into one full-time counselor to supplement existing contract and City and County staff crisis counselors that work with police. Each counselor estimated @ $75,000. Assumes 2 new positions	Police	**$150,000**
20.	Double # of Police and double amount equates to $230.76 per pay x 26 pay periods x 20 officers = $120,000. There are 10 officers currently receiving this incentive.	Police	**$120,000**
21.	Add One Additional FT Animal Control Officer Salary & Benefits @ $65,280	Police/Animal Control	**$65,280**
23.	Increase Worker's Compensation based on latest information received by broker.-	Non-Dept. Budget	**$200,000**
		Total	**$1,414,980**

DAVENPORT PUBLIC FINANCE 1863

City of Greenbelt, Maryland

Capital Needs and Financial Policies

THE CITY OF GREENBELT

May 17, 2021

Table of Contents

Overview

Overview

- 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.

- With this healthy financial position, the City has the opportunity to consider debt financing to fund all or a portion of upcoming capital needs and take advantage of the low interest rate environment.

  – This would allow the City to preserve its cash position to help offset any potential future budgetary pressures, such as those relating to COVID-19.

  – Rather than go through a bank as the City has done in the past, the City could issue debt in the public market through a competitive bond sale process, which typically produces the <u>lowest interest rate and cost of funds</u>.

  – A public debt issuance would require the City to obtain a credit rating, which would also benefit the City when pursuing future financings, including bank loans. Davenport believes that the City should be able to achieve at least a 'Aa3' rating from Moody's. Please see the appendix for more information on credit ratings.

- In addition, to help ensure the City's strong financial health continues, Davenport would recommend the City consider adopting formal financial policies related to reserve and debt metrics, which we have outlined later in this presentation.

  – Effective financial policies help to guide decision making and are essential to a local government's long-term fiscal health.

- The remainder of this presentation will provide additional information on both of the topics above and a timeline of suggested next steps.

Financial Policies

Financial Policy Overview

- Most local government decisions are ultimately driven by an entity's financial position.
- Effective financial policies, which are ideally adopted by a legislative body such as the Council, help guide decision making and are essential to a local government's long-term fiscal health.
  - Financial policies help to 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 is an area in which there has been increased focused by the rating agencies over the last few years.
  - It is important for local government's to have a good understanding of how their financial policies align with rating agency expectations to ensure assignment of the best credit rating.
  - If a policy is adopted, the rating agencies want to ensure 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.
- To help ensure the City's strong financial health continues, Davenport would recommend the City consider adopting the following financial policies, which are outlined in more detail on the following pages
  - The City will maintain available reserves equal to at least 17-20% of operating revenues. If reserves fall below this policy target, the City must develop a plan to replenish reserves within a three-year period;
  - The City's debt vs. full value should not exceed 3%;
  - The City's debt service vs. expenditures will be no greater than 10%; and
  - The City's total fixed costs will remain under 20% of expenditures.
- It is important to note that the currently proposed policies could be adjusted slightly based on the City's final plan of finance.

Fund Balance/Reserve Policy

- The City's available reserves have increased 36.2% over the last 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 3-5% 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 fall below the lower threshold of 17%, then the City 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

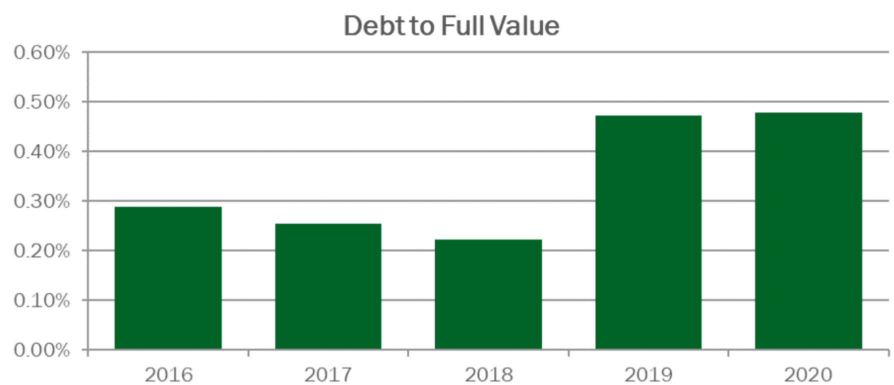
Peer Comparisons - Fund Balance/Reserve Policy

Local Government	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.

Debt vs. Full Value Policy

- Debt vs. Full Value is a measure of **Debt Capacity** and answers “Can I borrow this?”
  - The City does not currently maintain a Debt vs. 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 last give years. This metric also allows for additional flexibility for the financing of current and future capital needs.



Fiscal Year	Total Full Value	Debt Outstanding	Debt vs. 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%

Source: 2020 CAFR

Peer Comparisons – Debt vs. Full Value

Local Government	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 vs. Expenditures

- Debt Service vs. 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 10%, which the City is well below.

Fiscal Year	Debt Service	Operating Expenditures	Debt Service to Expenditures
2016	$555,147	$26,358,970	2.1%
2017	555,146	26,895,419	2.1%
2018	555,148	26,597,296	2.1%
2019	629,480	27,878,568	2.3%
2020	1,002,080	28,866,257	3.5%

Source: 2016-2020 CAFRs

Peer Comparisons – Debt Service vs. Revenues/Expenditures

Local Government	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.

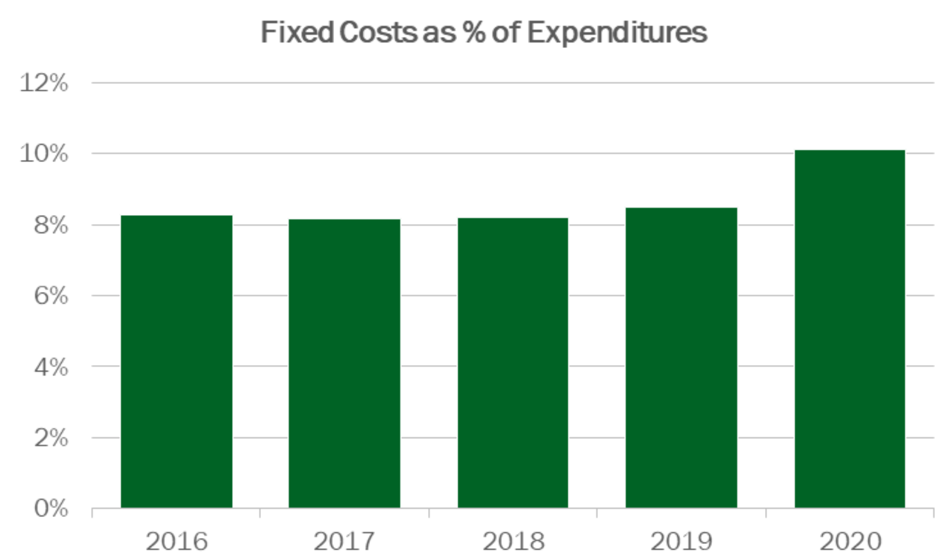
Source: 2021 Budgets/Policy Documents.

Key Debt Ratio: Fixed Cost Burden

- Fixed Cost Burden is a new metric that measures **Financial Flexibility.** It expands on debt service vs. 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 20% of 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	Tax-Supported Debt Service	Pensions	OPEB	Total Fixed Costs	Opearting Expenditures	Fixed Costs as % of Expenditures
2016	$555,147	$1,574,302	$46,000	$2,175,449	$26,358,970	8.3%
2017	555,146	1,590,937	47,000	2,193,083	26,895,419	8.2%
2018	555,148	1,528,162	94,067	2,177,377	26,597,296	8.2%
2019	629,480	1,639,561	100,749	2,369,790	27,878,568	8.5%
2020	1,002,080	1,756,837	160,489	2,919,406	28,866,257	10.1%



Source: 2016-2020 CAFRs

Capital Needs and Future Borrowing Plans

Capital Needs and Future Borrowing Plans

- Based on the City's 2022 Capital Improvement Plan, the following projects are anticipated to be funded:

Year	2022	2023	2024	2025	2026	Total
Project Name						
Pedestrian/Bike Master Plan	$20,000	$20,000	$30,000	$30,000	$30,000	$130,000
Bus Shelters/Accessibility Study	20,000	20,000	30,000	30,000	30,000	130,000
Gateway Signage	0	120,000	0	0	0	120,000
Street Improvements	944,800	1,000,000	1,000,000	1,100,000	1,100,000	5,144,800
Miscellaneous Concrete	70,000	80,000	90,000	100,000	100,000	440,000
Greenbrook Trails	16,000	0	0	0	0	16,000
Dog Park	30,000	0	0	0	0	30,000
Aquatic & Fitness Center	30,600	0	0	0	0	30,600
Community Center	153,000	0	0	0	0	153,000
Greenbelt CARES Relocation	0	100,000	0	0	0	100,000
Playground Improvements	215,700	90,000	90,000	90,000	90,000	575,700
Buddy Attick Improvements	667,700	45,000	50,000	50,000	50,000	862,700
Gbelt. Lake Water Quality Improv.	0	150,000	150,000	150,000	150,000	600,000
Regrade Hanover Parkway Swales	0	50,000	0	0	0	50,000
Police Station	189,900	0	0	0	0	189,900
CARES CDBG Mental Health	47,700	0	0	0	0	47,700
Museum	25,000	50,000	0	0	0	75,000
Youth Center	310,900	300,000	200,000	0	0	810,900
Energy Efficiency Improvements	50,000	50,000	85,000	95,000	95,000	375,000
Greenbelt Station Trail	2,056,500	0	0	0	0	2,056,500
Outdoor Pool	30,000	300,000	0	0		330,000
Tennis Court Color Coats	75,200	0	0	0		75,200
Street Light Upgrades	0	49,700	50,000	0	0	99,700
Total Capital Expenditures	**$4,953,000**	**$2,424,700**	**$1,775,000**	**$1,645,000**	**$1,645,000**	**$12,442,700**

- Although the City has traditionally used pay-go for most capital projects, given the City's low debt burden, there is an opportunity to debt fund certain projects to maintain the City's fund balance and take advantage of low interest rates.
- Davenport also understands from City staff the proposed CIP might not be inclusive of all capital needs.
  - As such, Davenport would recommend the City assemble a comprehensive and prioritized capital project list to help identify those needs that are most important to the community and should be funded first.

Source: 2022 Proposed CIP

Debt Capacity: Debt vs Full Value

- Under a potential City's policy of 3% of debt vs full value, the City could issue approximately $63 million as early as fiscal year 2021 and $84 million over the next decade.
  - Please note that Davenport is not recommending this level of borrowing, this is simply an illustration.

FY	Debt Outstanding	Existing Debt to Full Value	Incremental Debt Issued	Cumulative Debt Issued	Resulting Debt to Full Value
2021	$12,091,781	0.4%	$62,565,000	$62,565,000	3%
2022	11,309,649	0.4%	2,275,000	64,840,000	3%
2023	10,503,737	0.3%	2,330,000	67,170,000	3%
2024	9,684,091	0.3%	2,370,000	69,540,000	3%
2025	8,850,371	0.3%	2,420,000	71,960,000	3%
2026	8,002,230	0.2%	2,465,000	74,425,000	3%
2027	7,139,311	0.2%	2,510,000	76,935,000	3%
2028	6,514,980	0.2%	2,305,000	79,240,000	3%
2029	5,929,391	0.2%	2,300,000	81,540,000	3%
2030	5,330,515	0.1%	2,350,000	83,890,000	3%

Note: Assumes 4% interest rate on new debt issuances and expenditures increasing 2% annually beginning in fiscal 2021..

Debt Affordability: Debt Service vs Expenditures

- Under a potential City's policy of 10% of debt service vs expenditures, the City could issue approximately $25 million as early as fiscal year 2021 and $37 million over the next decade.
- As with most local governments, this debt affordability metric tends to be more restrictive than debt vs. full value on the previous slide.
  - Once the City Council and staff assemble a final consolidated and prioritized list of capital projects, Davenport can use that list and provide different debt financing options for consideration that fit within this debt affordability threshold.

FY	Existing Debt Service	Existing Debt Service to Expenditures	Incremental Debt Issued	Cumulative Debt Issued	Resulting Debt Service to Expenditures
2021	$1,048,156	3.2%	$25,361,233	$25,361,233	10%
2022	1,042,263	3.1%	872,204	26,233,437	10%
2023	1,042,262	3.0%	807,977	27,041,413	10%
2024	1,042,263	3.0%	824,117	27,865,531	10%
2025	1,042,264	2.9%	840,590	28,706,121	10%
2026	1,042,263	2.8%	857,428	29,563,549	10%
2027	789,607	2.0%	4,308,243	33,871,792	10%
2028	737,728	1.8%	1,597,112	35,468,904	10%
2029	737,727	1.8%	909,902	36,378,806	10%
2030	737,728	1.8%	928,088	37,306,894	10%

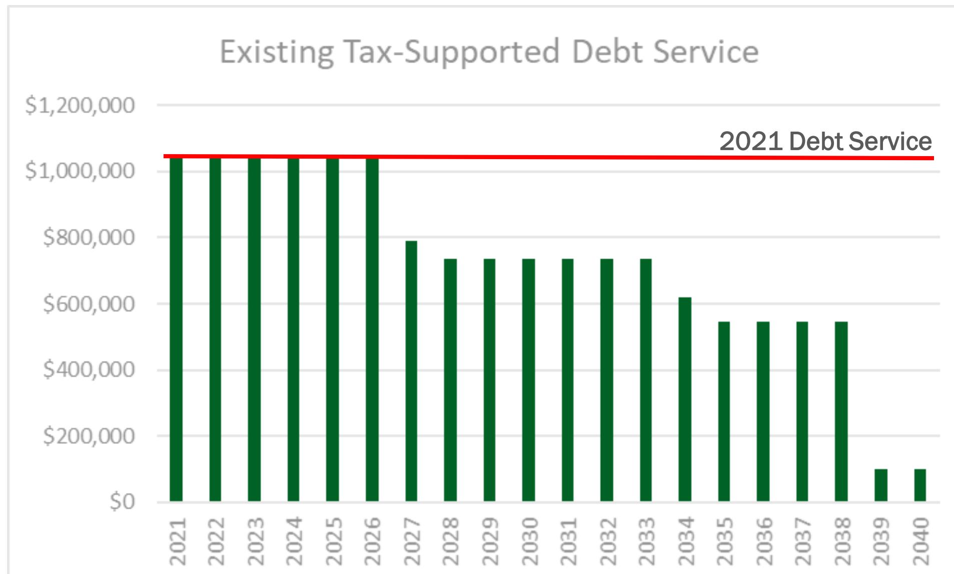
Note: Assumes 4% interest rate on new debt issuances and fiscal 2021 budgeted expenditures increasing 2% annually beginning in fiscal 2022.

Existing Tax-Supported Debt

- The City has a significant drop-down in debt service in fiscal year 2027 and again in fiscal year 2034, that could be utilized to help ensure that the budgetary impact from a new debt issuance would be minimal compared to the fiscal year 2021 debt service level.

Existing Tax-Supported Debt Service

	Principal	Interest	Total
2021	$782,133	$266,023	$1,048,156
2022	805,912	236,352	1,042,263
2023	819,646	222,616	1,042,262
2024	833,720	208,543	1,042,263
2025	848,141	194,122	1,042,264
2026	862,919	179,344	1,042,263
2027	624,331	165,276	789,607
2028	585,590	152,138	737,728
2029	598,876	138,851	737,727
2030	612,543	125,185	737,728
2031	626,600	111,127	737,728
2032	641,061	96,666	737,728
2033	655,938	81,789	737,728
2034	551,358	67,322	618,681
2035	492,091	53,778	545,869
2036	505,548	40,321	545,869
2037	519,436	26,433	545,869
2038	533,770	12,099	545,869
2039	95,893	3,987	99,880
2040	96,276	3,604	99,880
Total	$12,091,781	$2,385,578	$14,477,360



Debt Financing – Next Steps

- As mentioned, the City has the opportunity to move forward with a debt financing to fund upcoming capital needs and take advantage of low interest rates. In order to move forward with a debt financing, the following tasks must be accomplished:
  - The City to assemble a comprehensive and prioritized list of capital projects and provide the final list to Davenport;
  - Davenport will utilize the prioritized capital project list to provide City Council and staff with various funding options that fit within the proposed debt affordability metrics. Council can then decide which funding option/list of projects will be included in the upcoming debt financing;
  - All General Obligation debt issued by the City must be approved by voters, and given that the City has an election in November 2021, this provides an opportunity for the City to include a referendum on the ballot;
  - The City Council will have to pass a resolution within 60 days prior to the election that outlines the specific referendum question to be included on the ballot.
  - Davenport suggests that City Council could hold Town Halls on the referendum question to provide a setting in which the City Council and community (along with Davenport and Bond Counsel if desired), can have an open dialogue on the upcoming referendum.
  - Assuming the referendum is successful, the City could then pursue a bond rating, hold a bond sale, and have funding for the selected capital projects in hand by the end of calendar year 2021.
- Please see the following slide for a more detailed proposed timeline.

Proposed Timeline

DATE	TASK
Wednesday, June 9	Review list of capital projects in City Council work session
Remainder of June	City Council and staff work to prioritize capital projects
Thursday, July 1	City sends Davenport final capital project list
Monday, July 12	Presentation to City Council and staff on funding options based on final capital project list
Monday, July 26	Follow-up with City Council and staff to decide on funding option (if needed)
Monday, August 9	Presentation to City Council and staff on proposed financial policies
Monday, August 23	City Council adopts financial policies Introduction of Resolution
Monday, September 13	Adoption of Resolution
Tuesday, September 14	Submission of approved referendum question on ballot
Wednesday, September 29	City Council holds first Town Hall on Referendum
Wednesday, October 13	City Council holds second Town Hall on Referendum
Wednesday, October 27	City Council holds third Town Hall on Referendum
Tuesday, November 2	Election Day
Monday, November 8	Introduction of Bond Bill
Tuesday, November 9	Call with Rating Agency
Friday, November 19	Rating Due to City
Monday, November 22	Adoption of Bond Bill
Thursday, December 2	Bond Sale
Thursday, December 16	Closing

Appendix: Credit Ratings

Credit Ratings

- If the City is interested in issuing debt in the public market, the City will need to obtain a credit ratings from at least one of the three national credit rating agencies – Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”), and S&P Global (“S&P”).
- A credit rating measures a local government’s willingness and ability to pay its debt on time and in full.
  - The rating is a measure of risk that potential investors use to decide whether or not to purchase that government’s bonds. The higher the rating, the less risk that a default will occur.
- The chart to the right provides an overview of the rating scales (investment grade only) from all three national rating agencies, with Aaa/AAA being the highest possible rating.
- Local Governments in Maryland are typically highly rated due to strong economies and wealth levels relative to the nation, solid financial positions, manageable debt profiles, and proactive management teams.
  - City/Town ratings in Maryland range from A2 to Aaa.
  - Davenport believes the City could earn at least a Aa3 rating.

	Moody's	Standard & Poor's	Fitch	
Top Tier "Highest Possible Rating"	Aaa	AAA	AAA	
2nd Tier "Very Strong"	Aa1	AA+	AA+	(Highest)
	Aa2	AA	AA	(Middle)
	Aa3	AA-	AA-	(Lowest)
3rd Tier "Strong"	A1	A+	A+	(Highest)
	A2	A	A	(Middle)
	A3	A-	A-	(Lowest)
4th Tier "Adequate Capacity to Repay"	Baa1	BBB+	BBB+	(Highest)
	Baa2	BBB	BBB	(Middle)
	Baa3	BBB-	BBB-	(Lowest)
	Non Investment Grade			

Credit Rating Process

- City contacts Rating Agencies regarding upcoming sale.
- Rating Agencies assign analysts to sale.

- City provides information to rating analysts (ie – Audit, POS, Refunding Analysis, Rating Presentation, etc.).
- Rating analysts review information prior to scheduled call/visit; Some analysts will send list of questions beforehand.

- Rating call or visit occurs potentially resulting in a list of follow-ups for the City.

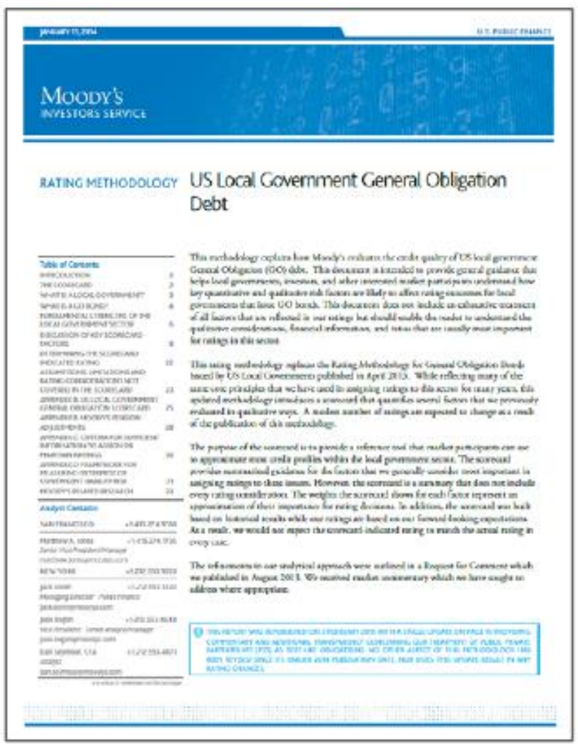
- Once all responses have been provided to the rating agencies, analysts schedule committee and prepare documents.
- Rating committees consist of a number of individuals with varying titles and backgrounds.

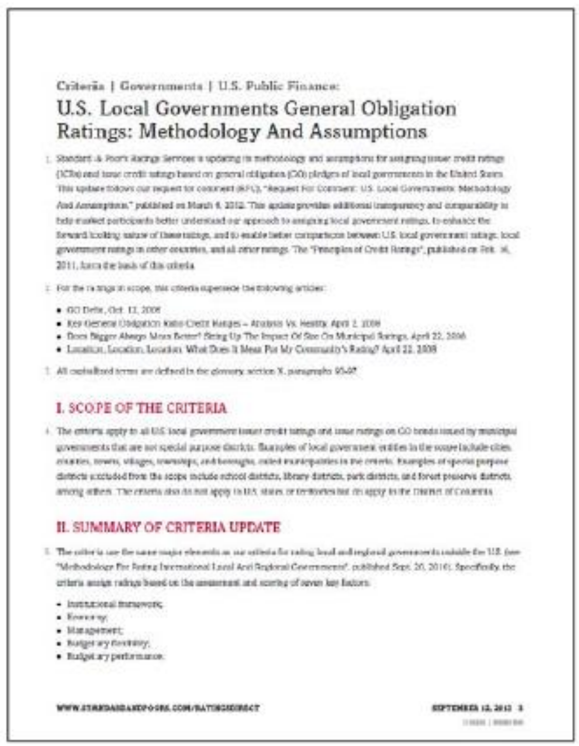
- Rating analysts present information provided by the City to committee. Discussion about the credit and how it compares to peers ensues.
- After presentation has concluded, committee votes on the rating.

- Rating analyst contacts City with rating and releases draft report for review.
- Analyst incorporates comments and release final rating and report.

Approach to Credit Ratings

- Over the last few years, all three rating agencies have updated their rating methodologies.
- Moody's and S&P have focused on being more transparent in their ratings and established rating scorecards that are used to help determine a rating.
- Fitch's new criteria does not include a scorecard, but its primary focus is on budgetary flexibility.
- For this analysis, Davenport will focus on Moody's credit rating approach, as their scorecard is primarily quantitative. In addition, Moody's is the only rating agency that Davenport is aware of, that maintains a database of their primary credit metrics.





Moody's General Obligation Bond Methodology

- Moody's "US Local Government General Obligation Debt" methodology was last updated in September 2019 and focuses on the local government General Obligation security backed by either and unlimited or limited ad valorem taxing authority. The methodology and accompanying scorecard, outline four broad rating factors and their respective weights:
  - Economy/Tax Base (30%);
  - Finances (30%);
  - Management (20%); and
  - Debt (20%).

- These broad rating factors are then broken down into sub-factors, which hold their own respective weights.

Broad Rating Factors	Factor Weighting	Rating Subfactors	Subfactor Weighting
Economy/Tax Base	30%	Tax Base Size (Full Value)	10%
		Full Value Per Capita	10%
		Wealth (Median Family Income)	10%
Finances	30%	Fund Balance (% of Revenues)	10%
		Fund Balance Trend (5-Year Change)	5%
		Cash Balance (% of Revenues)	10%
		Cash Balance Trend (5-Year Change)	5%
Management	20%	Institutional Framework	10%
		Operating History	10%
Debt/Pensions	20%	Debt to Full Value	5%
		Debt to Revenue	5%
		Moody's Adjusted Net Pension Liability (3-Year Average) to Full Value	5%
		Moody's Adjusted Net Pension Liability (3-Year Average) to Revenue	5%

Moody's Estimated Scorecard – City of Greenbelt

- As you can see on the right, the Moody's estimated scorecard rating for the City is a Aa2.
  - There are additional notching factors (both positive and negative) that can move the initial scorecard rating based on qualitative input from the rating committee.
- While the rating scorecard is considered in rating assignments, it does not have to match the final assigned rating.
  - Peer medians as shown earlier in this presentation are also considered in the rating assignment.
- Based on Davenport's experience and assessment of the City's credit, we believe the City should be able to obtain at least a Aa3 rating, if not a Aa2.

Moody's Estimated Scorecard - Greenbelt, MD					
	Input	Score	Weight	Weighted Score	Rating Category
Economy / Tax Base (30%)					
Tax Base Size: Full Value	2,439,712	2.39	10%	0.24	Aa
Full Value Per Capita	105,051	2.02	10%	0.20	Aa
Wealth (Median Family Income)	108.9%	2.18	10%	0.22	Aa
Finances (30%)					
Fund Balance as % of Revenues	26.1%	1.75	10%	0.18	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	5.0%	2.99	5%	0.15	A
Cash Balance as % of Revenues	28.7%	1.24	10%	0.12	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	10.6%	2.45	5%	0.12	Aa
Management (20%)					
Institutional Framework	Aaa	1.00	10%	0.10	Aaa
Operating History	1.0	2.74	10%	0.27	A
Debt / Pensions (20%)					
Net Direct Debt / Full Value	0.5%	1.13	5%	0.06	Aaa
Net Direct Debt / Operating Revenues	0.4	1.67	5%	0.08	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value	2.0%	2.41	5%	0.12	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues	1.7	2.79	5%	0.14	A
Total (Scorecard Indicated Rating)				**2.00**	**Aa2**
Net Score Reduction Required to Reach Aa1				(0.50)	
Net Score Increase Required to Reach Aa3				0.17	

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