CITY COUNCIL WORK SESSION AGENDA

Work Session - Davenport Comprehensive Financial Review Report
Budget Work Session - Overview, General Fund, General Government, Miscellaneous & Other Funds

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/83736571284?pwd=cU1DajNkY0d0QW9KNnJ1aWVqUUc1QT09
OR
Join By phone: (301) 715-8592
Meeting ID: 837 3657 1284
Passcode: 058777

In advance, the hearing impaired is advised to use Video Relay Services (VRS) at 711 to submit your questions/comments or contact the City Clerk at (301) 474-8000 or email banderson@greenbeltmd.gov.
Wednesday, March 24, 2021
8:00 PM

Work Session Packet

Work Session - Davenport Comprehensive Financial Review Report

Budget Work Session - Overview, General Fund, General Government, Miscellaneous & Other Funds

Suggested Action:
AGENDA

INTRODUCTIONS

Davenport Comprehensive Financial Review Report Presentation

- The City of Greenbelt engaged Davenport & Company LLC to complete a comprehensive review of the City's financial status and debt profile. The main goals and objectives of Davenport's Financial Review and Roadmap were: 1) to provide the City with a perspective of its economic and demographic profile, as well as its financial and debt position with respect to historical City trends, current peers, and national medians for the General Fund; 2) to review the City's long-term capital needs, and potential methods for addressing them; 3) where appropriate, to suggest actions or strategies the City might employ to improve its credit rating profile were the City to consider issuing rated bonds; and 4) to provide initial observations and recommendations based on the foregoing, and where appropriate, discuss next steps. Davenport has joined tonight's meeting to present their findings and results.

Budget Work Session - Overview, General Fund, General Government, Miscellaneous & Other Funds

COUNCIL DISCUSSION

QUESTIONS AND ANSWERS

OTHER ITEMS

Greenbelt Financial Review Presentation 3.19.21.pdf

Agenda Item No:

City Council Work Session Agenda Item Report

Meeting Date: March 24, 2021
Submitted by: Shaniya Lashley-Mullen
Submitting Department: Finance
Item Type: Presentations
Agenda Section: Work Session Packet

Subject:

Work Session - Davenport Comprehensive Financial Review Report

Budget Work Session - Overview, General Fund, General Government, Miscellaneous & Other Funds

Suggested Action:

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INTRODUCTIONS

Davenport Comprehensive Financial Review Report Presentation

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Attachments:
Greenbelt Financial Review Presentation 3.19.21.pdf

DAVENPORT PUBLIC FINANCE 1863

City of Greenbelt, Maryland

Financial Review & Roadmap

March 19, 2021

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Goals and Objectives

Goals and Objectives

- The City of Greenbelt (the "City") has engaged Davenport & Company LLC ("Davenport") to complete a comprehensive review of the City's financial status and debt profile.

- The main goals and objectives of Davenport's Financial Review and Roadmap are:

  – Provide the City with a perspective of its economic and demographic profile, as well as its financial and debt position with respect to historical City trends, current peers, and national medians for the General Fund;

  – Review the City's long-term capital needs, and potential methods for addressing them;

  – Where appropriate, suggest actions or strategies the City might employ to improve its credit rating profile were the City to consider issuing rated bonds; and

  – Provide initial observations and recommendations based on the foregoing, and where appropriate, discuss next steps.

Economic and Demographic Overview

Peer Group Overview

- The City of Greenbelt will be compared to the following Peer Group to provide a frame of reference for the City's performance vs. similar cities and towns in Maryland.
- The Peer Group was chosen in part by its similarity to the City's population, tax base size, and wealth levels.

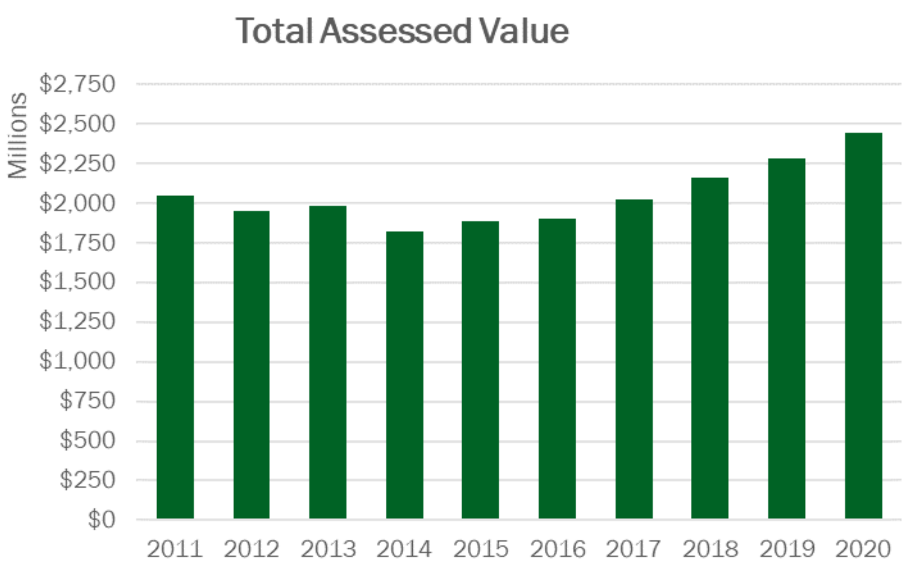
City/Town	County	Rating(s)
College Park, MD	Prince George's	Aa1 (Moody's)
Easton, MD	Talbot	Aa2 (Moody's), AA+ (Fitch)
Hagerstown, MD	Washington	Aa3 (Moody's), AA (S&P)
Hyattsville, MD	Prince George's	Aa2 (Moody's)
Salisbury, MD	Wicomico	Aa3 (Moody's) AA (S&P)

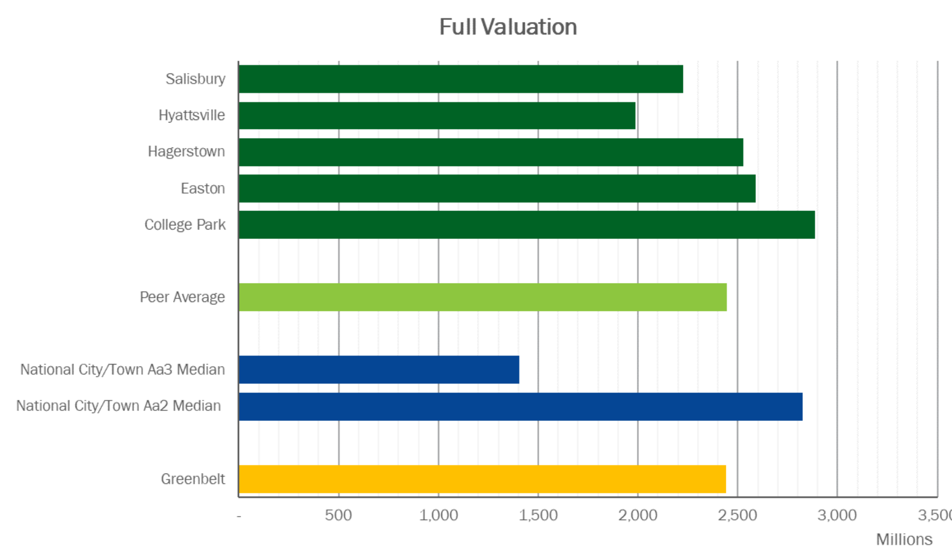
Source: MSRB's EMMA , Moody's MFRA, U.S. Census Bureau.

Historic Trends: Full Valuation

Fiscal Year	Real Property	Personal Property	Total Assessed Value	Growth
2011	$1,939,963,000	$105,541,000	$2,045,504,000	N/A
2012	1,841,409,000	105,753,000	1,947,162,000	-4.81%
2013	1,873,603,000	110,682,000	1,984,285,000	1.91%
2014	1,719,867,000	103,023,000	1,822,890,000	-8.13%
2015	1,792,727,000	93,209,000	1,885,936,000	3.46%
2016	1,812,831,000	91,576,000	1,904,407,000	0.98%
2017	1,923,207,000	100,486,000	2,023,693,000	6.26%
2018	2,056,842,000	103,131,000	2,159,973,000	6.73%
2019	2,176,955,000	101,655,000	2,278,610,000	5.49%
2020	2,344,656,000	95,056,000	2,439,712,000	7.07%

- A local government's tax base is the source from which a government draws its revenues, the larger the tax base, the larger the potential pool of revenues.[1]
- The City's assessable base has grown approximately 19.2% over the past 10 years.
- The City's tax base compares favorably to the Aa3 median and peer average, and slightly below the Aa2 median.





Note: Full valuation is used instead of assessed valuation because assessments have been done at different times and do not allow accurate comparisons across municipalities.

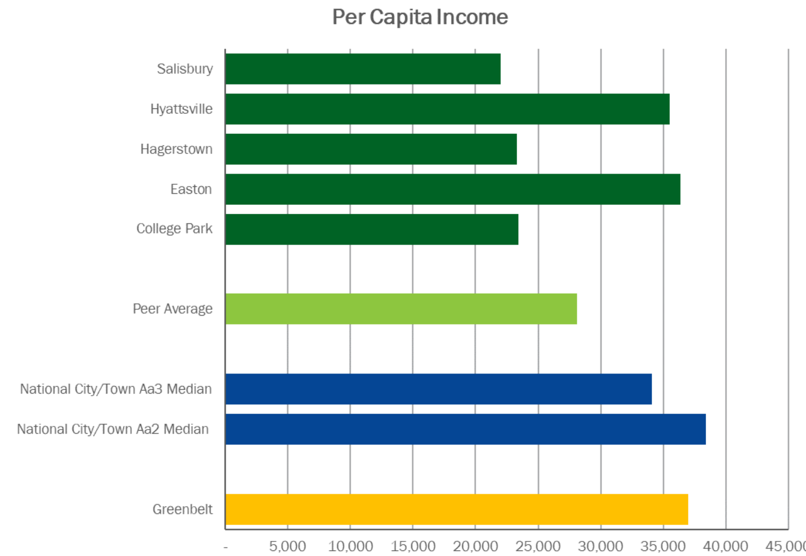
[1] Moody's General Obligation Methodology.

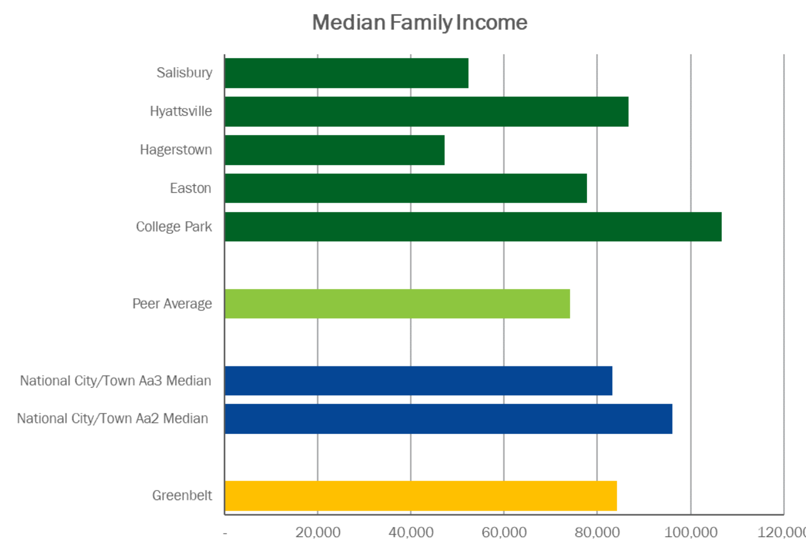
Source: 2020 CAFR, Moody's MFRA Database.

Historic Trends: Income

Fiscal Year	Per Capita Income	Median Family Income
2015	$31,963	$69,705
2016	33,310	76,114
2017	35,063	79,482
2018	36,059	83,516
2019	37,021	84,177

- Income levels measure the strength and resilience of a tax base. Higher wealth levels provide governments more flexibility to increase tax rates and meet financial needs.[1]
- While PCI and MFI are measures of wealth, PCI is more skewed by low income populations. MFI recognizes economies of scale.[1]
- Positively, the City's income levels have steadily increased since 2015.
- The City's income levels compare favorably to the Aa3 median and peer group average.





[1] Moody's General Obligation Methodology.

Source: U.S. Census Bureau; Moody's MFRA database.

General Fund

Historical General Fund Financials

	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Revenues					
Taxes and special assessments	$19,863,400	$21,763,524	$22,563,022	$24,127,268	$25,268,180
Licenses and permits	1,488,188	1,523,664	1,559,799	1,484,563	1,313,125
Intergovernmental	1,472,917	1,468,400	1,483,817	1,279,914	1,127,505
Interest	12,251	33,250	101,097	159,451	125,034
Charges for services	2,092,113	2,293,513	2,237,168	2,325,188	1,752,850
Fines and forfeitures	1,082,071	903,004	744,639	650,552	956,460
Contributions	116,558	103,064	102,589	192,135	143,697
Greenbelt West development fees	500,000	60,000	0	0	0
Miscellaneous	136,143	109,665	343,260	171,338	138,047
Total Revenues	$26,763,641	$28,258,084	$29,135,391	$30,390,409	$30,824,898
Expenditures					
General government	$2,712,778	$3,262,902	$2,986,050	$3,326,078	$3,778,869
Community development	1,026,002	1,113,275	824,914	940,682	809,160
Public safety	10,236,942	10,156,808	10,023,897	10,609,716	10,577,483
Public works	3,472,828	3,172,729	3,668,792	4,072,480	4,308,022
Social services	967,186	1,079,133	1,065,867	1,176,270	1,244,951
Parks and recreation	6,123,448	6,457,690	6,283,058	5,917,035	5,768,023
Miscellaneous	1,264,639	1,097,736	1,189,570	1,196,880	1,330,818
Debt service[1]	555,147	555,146	555,148	629,480	1,002,080
Total Expenditures	$26,358,970	$26,895,419	$26,597,296	$27,868,621	$28,819,406
Revenues over (under) Expenditures	$404,671	$1,362,665	$2,538,095	$2,521,788	$2,005,492
Other Financing Sources (Uses)					
Transfers in	$36,500	$35,000	$35,000	$46,600	$45,000
Transfers out[2]	(915,853)	(749,854)	(1,878,522)	(3,287,960)	(659,920)
Total Other Financing Sources	($879,353)	($714,854)	($1,843,522)	($3,241,360)	($614,920)
Net Change in Fund Balance	($474,682)	$647,811	$694,573	($719,572)	$1,390,572
Fund Balance Beginning	$6,389,158	$5,914,476	$6,562,287	$7,256,860	$6,537,288
Fund Balance End	$5,914,476	$6,562,287	$7,256,860	$6,537,288	$7,927,860

[1] Debt service represents the debt service paid by the Debt Service Fund.
[2] Transfer Out is less the amount transferred to the Debt Service Fund since this amount is shown as Debt Service.

"A government's fiscal position determines its cushion against the unexpected, its ability to meet existing financial obligations, and its flexibility to adjust to new ones."[3]

- A positive for the City is that revenues have been growing at a faster rate (15% over 5-years) than expenditures (9% over 5-years).
- As a result, the City's fund balance has increased by 34% since fiscal 2016.

[3] Moody's General Obligation Methodology.

Source: 2016-2020 CAFRs.

Historical General Fund Breakouts

Revenues	FY 2016	Percentage	FY 2020	Percentage
Taxes and special assessments	$19,863,400	74%	$25,268,180	82%
Licenses and permits	1,488,188	6%	1,313,125	4%
Intergovernmental	1,472,917	6%	1,127,505	4%
Interest	12,251	0%	125,034	0%
Charges for services	2,092,113	8%	1,752,850	6%
Fines and forfeitures	1,082,071	4%	956,460	3%
Contributions	116,558	0%	143,697	0%
Greenbelt West development fees	500,000	2%	0	0%
Miscellaneous	136,143	1%	138,047	0%
Total Revenues	$26,763,641		$30,824,898	

Expenditures	FY 2016	Percentage	FY 2020	Percentage
General government	$2,712,778	10%	$3,778,869	13%
Community development	1,026,002	4%	809,160	3%
Public safety	10,236,942	39%	10,577,483	37%
Public works	3,472,828	13%	4,308,022	15%
Social services	967,186	4%	1,244,951	4%
Parks and recreation	6,123,448	23%	5,768,023	20%
Miscellaneous	1,264,639	5%	1,330,818	5%
Debt service[1]	555,147	2%	1,002,080	3%
Total Expenditures	$26,358,970		$28,819,406	

[1] Debt service represents the debt service paid by the Debt Service Fund.

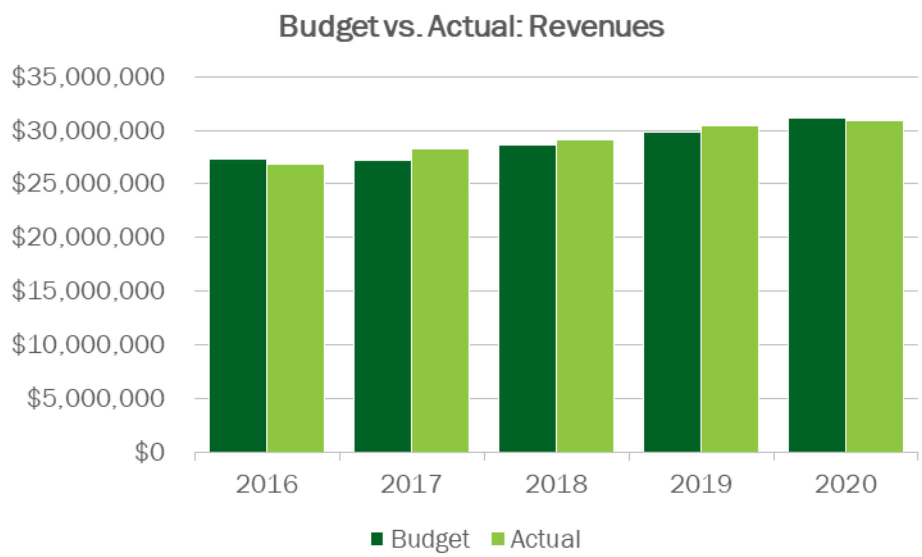
Tax Revenues	FY 2016	Percentage	FY 2020	Percentage
Property taxes	$15,557,975	78%	$20,563,791	81%
Payments in lieu of taxes	93,586	0%	94,688	0%
Income tax - local share	2,674,505	13%	3,090,759	12%
Admissions and amusements	172,587	1%	537,587	2%
Highway	389,715	2%	506,201	2%
Hotel/motel	975,032	5%	475,154	2%
Total Tax Revenues	$19,863,400		$25,268,180	

- Taxes are the City's largest revenue source at approximately 82% of total revenues and have increased by 27% since fiscal 2016.
  - Within this line item, property taxes, the most stable and reliable source of revenue, represents 81% of total taxes and has experienced growth of approximately 32% since fiscal 2016.
- Income Taxes represent approximately 12% of total taxes and have experienced growth of approximately 16% since fiscal 2016.
- As with most local governments, public safety is the City's largest expenditure, which has increased by a manageable 3% over five years.

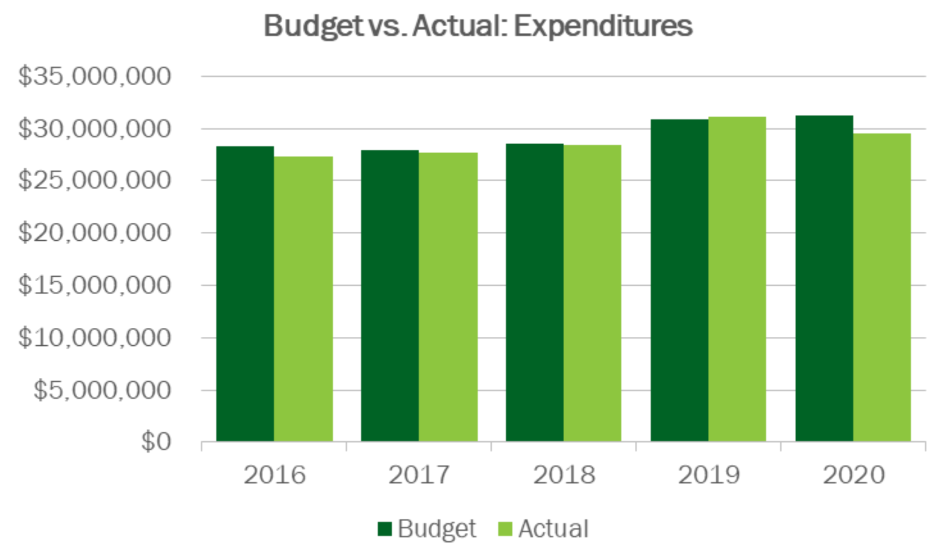
Source: 2016 and 2020 CAFRs.

Historical Performance vs. Budget

General Fund Revenues[1]				
	Budget	Actual	Variance ($)	Variance (%)
2016	$27,326,200	$26,800,141	($526,059)	-2%
2017	27,152,600	28,293,084	1,140,484	4%
2018	28,618,100	29,170,391	552,291	2%
2019	29,881,700	30,437,009	555,309	2%
2020	31,173,600	30,869,898	(303,702)	-1%



General Fund Expenditures[1]				
FY	Budget	Actual	Variance ($)	Variance (%)
2016	$28,277,900	$27,274,823	($1,003,077)	-4%
2017	27,911,900	27,645,273	(266,627)	-1%
2018	28,517,600	28,475,818	(41,782)	0%
2019	30,914,400	31,156,581	242,181	1%
2020	31,218,100	29,479,326	(1,738,774)	-6%



[1] Includes transfers.

The City's budget for both revenues and expenditures is generally close to actuals with revenues more often higher than budget and expenditures most often less than budget.

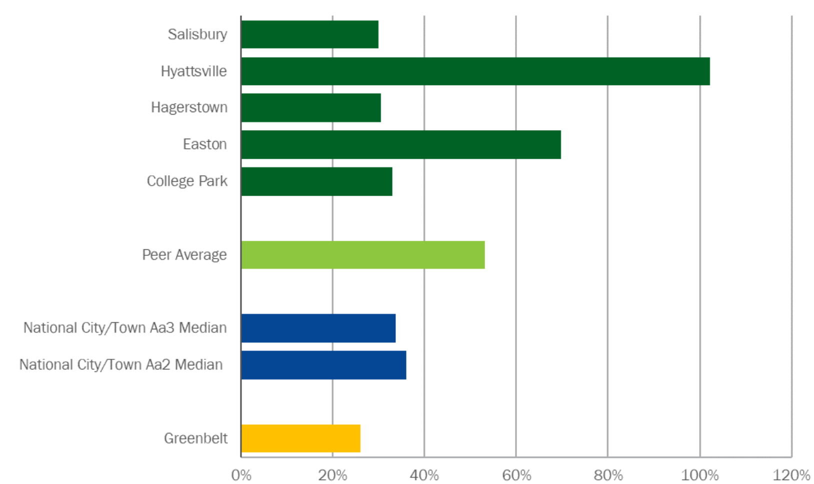
Source: 2016 - 2020 CAFRs.

Fund Balance/Reserves

- The City's available reserves have increased 36.2% over the last five years to $7.8 million or 26.1% of Operating Revenues.
  - While the City remains below the national medians and the peer average, the City's fund balance levels would still be considered strong.
  - 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.
- Since most local government budgetary decisions are influenced by financial position, establishing formal financial policies can help guide decision making and can be a key contributor to a local government's long-term fiscal health. As such, Davenport would recommend the City adopt a formal financial policy for reserves.
  - Davenport would recommend setting the policy threshold at 20% of Operating Revenues, which the City is already in compliance with as of fiscal year 2020.
  - We would also recommend that the City consider specifying that the reserve can only be utilized for one-time occurrences and would require a super-majority vote of Council before use.
  - In addition, if reserves fall below the 20% target, 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%

Available Fund Balance as a % of Operating Revenues



Source: 2016-2020 CAFRs, Moody's MFRA Database.

General Fund FY 21 & 22 Budget Comparison

	2021 Adopted Budget	2021 Estimated	2022 Proposed Budget	Inc (Dec) vs. 2021 Budget	Percentage Change
Revenues					
Real Property Taxes	$18,090,800	$19,355,500	$20,318,200	$2,227,400	12.3%
Personal Property Taxes	1,866,848	1,848,700	1,848,700	(18,148)	-1.0%
Other Taxes	4,080,950	3,688,600	3,978,000	(102,950)	-2.5%
Licenses and Permits	1,399,100	1,398,400	1,302,000	(97,100)	-6.9%
Revenue from Other Agencies	1,104,435	1,184,400	1,129,300	24,865	2.3%
Service Charges for Services	1,673,200	943,500	1,833,900	160,700	9.6%
Fines and Forfeitures	610,750	565,900	569,000	(41,750)	-6.8%
Interest and Dividends	150,000	10,000	50,000	(100,000)	-66.7%
Miscellaneous Revenues	280,200	239,300	248,900	(31,300)	-11.2%
Interfund Transfers	364,700	364,700	32,000	(332,700)	-91.2%
Total Revenues	29,620,983	29,599,000	31,310,000	1,689,017	5.7%
Expenditures					
General Government	$3,708,700	$4,037,700	$4,102,100	$393,400	10.6%
Planning and Community Development	887,300	932,300	1,011,900	124,600	14.0%
Public Safety	11,194,000	11,080,400	10,507,200	(686,800)	-6.1%
Public Works	3,780,900	3,743,700	3,918,900	138,000	3.6%
Greenbelt Cares	1,225,000	1,319,600	1,383,500	158,500	12.9%
Recreation and Parks	6,222,800	5,788,000	6,428,200	205,400	3.3%
Miscellaneous	316,700	388,100	435,000	118,300	37.4%
Non-Departmental	765,700	826,200	827,200	61,500	8.0%
Fund Transfers	1,041,700	2,343,700	2,695,000	1,653,300	158.7%
Total Expenditures	$29,142,800	$30,459,700	$31,309,000	$2,166,200	7.4%

- Revenues
  - A 5.7% increase in revenues is proposed for fiscal year 2022.
  - As of March, the City expects fiscal year 2021 actual revenues to be close to budget with the current estimate decreasing revenues by $21,983.
- Expenditures
  - A 7.4% increase in expenditures is proposed for fiscal year 2022.
  - The City estimates fiscal year 2021 expenditures to be higher than the budget with the current estimate increasing expenditures by $1,316,900.
  - This would result in a estimated decrease of $860,700 in fund balance at fiscal year 2021 year's end.

Source: 2022 Proposed Budget and City Finance Department.

Overview of Outstanding Debt

- The City had $11,564,760 in outstanding debt as of December 31, 2020.

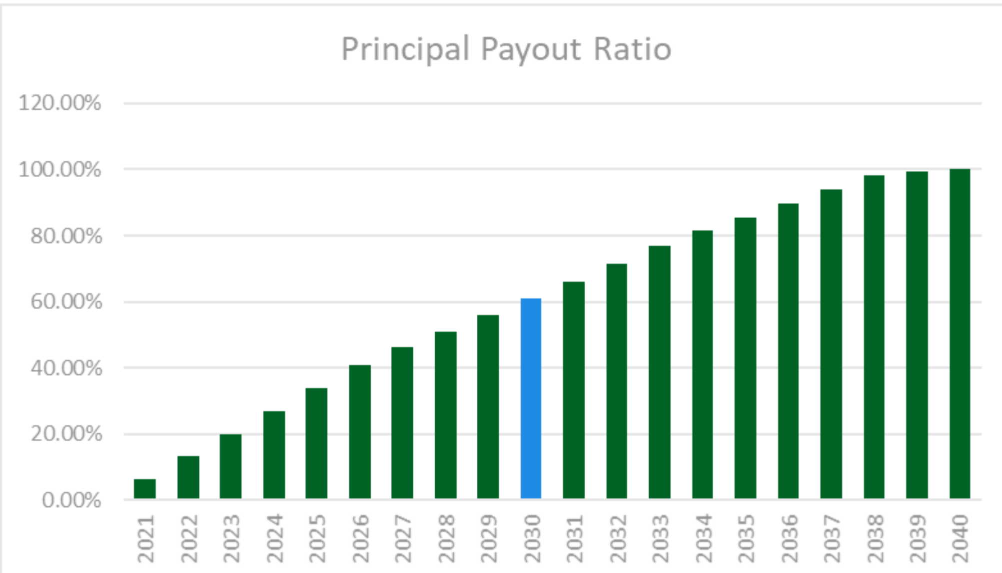
Debt Outstanding	Issue Amount	Amount Outstanding as of 12/31/2020
Refunding Bond of 2020A (Tax-Exempt)	$1,782,851	$1,540,294
Pension Refunding Bond of 2020B (Taxable)	2,314,483	2,180,457
Maryland State Revolving Loan Fund Program, Water Quality Bond 2020	1,854,360	1,854,360
Special Obligation Bond, Series 2019	6,367,158	5,971,649
All Debt Total	$12,318,852	$11,546,760
General Obligation Debt Total[1]	$5,951,694	$5,575,111

[1] Excludes Special Obligation Bond, Series 2019.

Source: 2020 CAFR, City provided information.

Principal Payout Ratio

- Below you will see the Principal Payout Ratio for the City's existing tax-supported debt.
  - The Principal Payout Ratio measures the rapidity of debt retirement. The more rapid the debt repayment, the more future financial flexibility the City has to utilize that money for additional capital projects/debt service as debt service declines.



Existing Tax-Supported Debt Service				
	Principal	Interest	Total	Payout Ratio
2021	$782,133	$266,023	$1,048,156	6.47%
2022	805,912	236,352	1,042,263	13.13%
2023	819,646	222,616	1,042,262	19.91%
2024	833,720	208,543	1,042,263	26.81%
2025	848,141	194,122	1,042,264	33.82%
2026	862,919	179,344	1,042,263	40.96%
2027	624,331	165,276	789,607	46.12%
2028	585,590	152,138	737,728	50.96%
2029	598,876	138,851	737,727	55.92%
2030	612,543	125,185	737,728	60.98%
2031	626,600	111,127	737,728	66.16%
2032	641,061	96,666	737,728	71.47%
2033	655,938	81,789	737,728	76.89%
2034	551,358	67,322	618,681	81.45%
2035	492,091	53,778	545,869	85.52%
2036	505,548	40,321	545,869	89.70%
2037	519,436	26,433	545,869	94.00%
2038	533,770	12,099	545,869	98.41%
2039	95,893	3,987	99,880	99.20%
2040	96,276	3,604	99,880	100.00%
Total	$12,091,781	$2,385,578	$14,477,360	

Note: Existing debt service for fiscal 2021 includes two months of principal and interest for the 2011 Bond and 2013 Pension Bond that were refunded in August 2020.

Source: City Provided Information; Moody's MFRA Database.

Key Debt Ratios

- While there are several different ratios/metrics that can be tracked to evaluate a government's debt profile, four are generally regarded industry-wide as **Key Debt Ratios:**

1. **Debt Outstanding vs. Debt Limit:**
   - The City's charter states that the maximum amount of debt outstanding at any time is 4% of Assessed Value (including exempt real estate).
   - This is a Key Ratio because it measures **Debt Capacity ,** i.e., the amount of debt the government can <u>legally</u> bear, as it often is subject to state or local limitations imposed by legislation; it answers the ***"Can I Borrow This?"*** question.

2. **Debt vs. Full Value:**
   - The City does not currently have debt vs. full value.
   - Like Debt Outstanding vs. Debt Limit, this is a Key Ratio that answers the ***"Can I Borrow This?"*** question. However, it is more commonly used by rating agencies than Debt Outstanding vs. Debt Limit as a measure of capacity. It represents a more realistic/practical limit than legal debt margin.

Source: 2020 CAFR.

Key Debt Ratios (cont.)

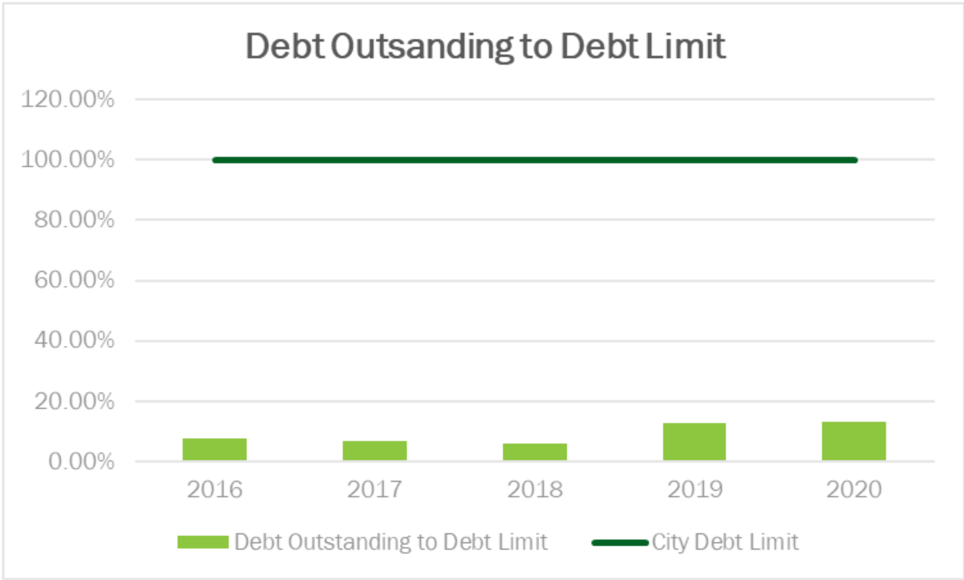
- While there are several different ratios/metrics that can be tracked to evaluate a government's debt profile, four are generally regarded industry-wide as **Key Debt Ratios:**

3. **Debt Service vs. Expenditures**
   - The City currently does not have a policy for this Key Debt Ratio.
   - This is a Key Ratio because it measures **Debt Affordability,** i.e., how much of the annual budget is being spent to pay for debt, and can show how much additional revenue needs to be raised to pay for new debt being considered. It answers the **"Can I Afford This?"** question.

4. **Fixed Cost Burden**
   - The City currently does not have a policy regarding this ratio.
   - Like Debt Service vs. Expenditures, this is a Key Ratio that answer the **"Can I Afford This?"** question. However, it provides a more comprehensive view of a government's fixed cost burden by including Pension and OPEB contributions, in addition to debt service.

Historical Debt Outstanding vs. Debt Limit

- As introduced previously, Debt Outstanding vs. Debt Limit is often referred to as a "Key Ratio" because it measures **Debt Capacity,** or the legal ability to issue debt – "Can I borrow this?"
  - As you can see the City's Debt Outstanding vs. Debt Limit is well below the City's debt limit.

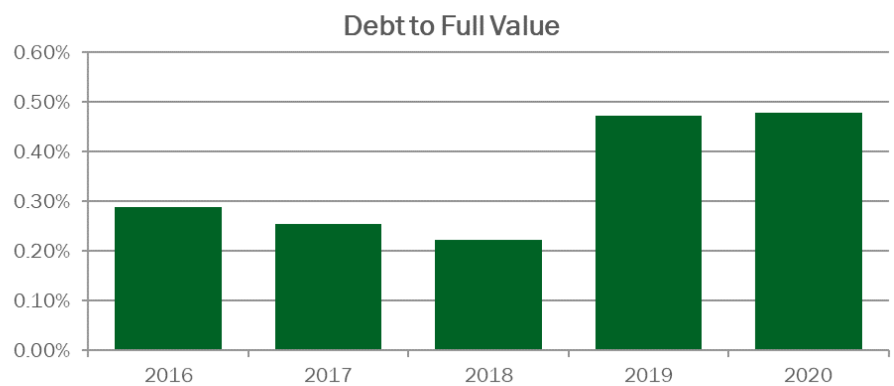


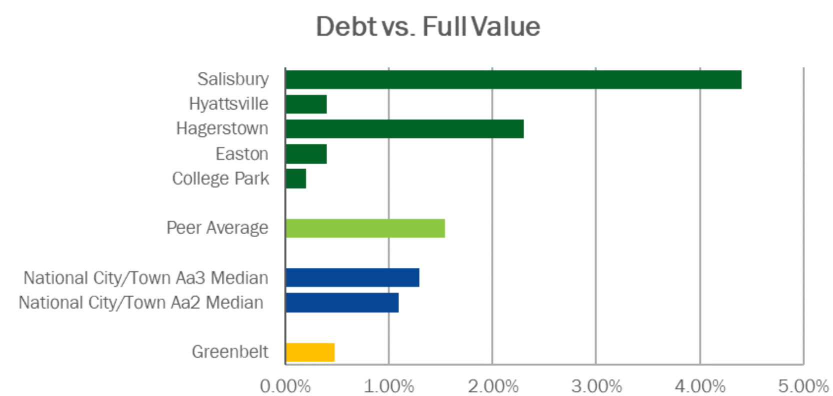
Fiscal Year	Debt Limit	Debt Outstanding	Debt Outstanding vs Debt Limit
2016	$70,594,200	$5,499,270	7.79%
2017	74,838,311	5,165,121	6.90%
2018	79,758,521	4,818,570	6.04%
2019	83,981,802	10,780,525	12.84%
2020	90,424,972	11,691,227	12.93%

Source: 2020 CAFR.

Historical Debt vs. Full Value

- As introduced previously, Debt vs. Full Value is often referred to as a "Key Ratio" because it measures **Debt Capacity,** or the question of "Can I borrow this?"
  - The City's tax-supported Debt vs. Full Value is lower than national averages and the peer group, as the City has historically funded a majority of it capital needs with cash.
  - To our knowledge, 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.





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, Moody's MFRA Database.

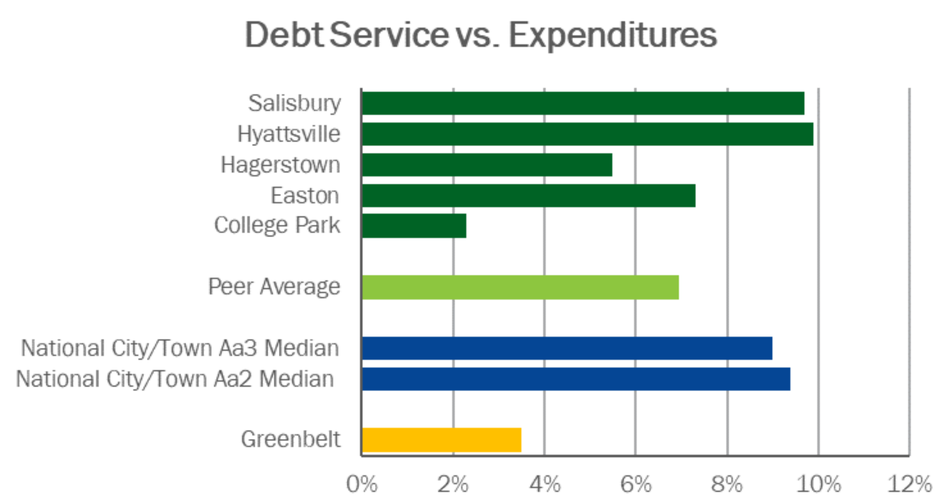
Key Debt Ratio: Debt Service vs. Expenditures

- As introduced previously, Debt Service vs. Expenditures is often referred to as a "Key Ratio" because it measures **Debt Affordability** – "Can I afford this?"

- While this metric increased in 2020, the City is still well below national medians and the peer average, providing the City with sufficient flexibility for future capital needs.

- 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%



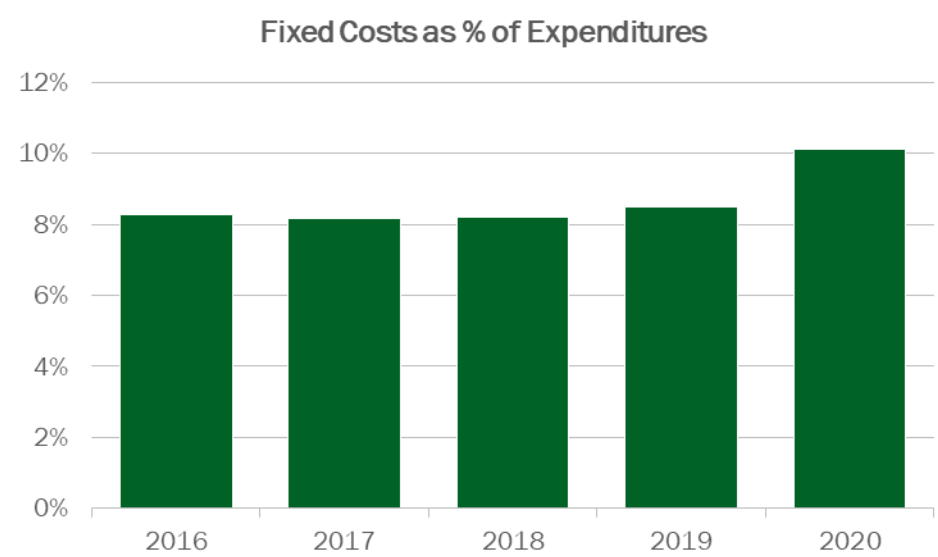
Source: 2016-2020 CAFRs, Moody's MFRA.

Key Debt Ratio: Fixed Cost Burden

- Fixed Cost Burden is emerging as a “Key Ratio” because it measures overall **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.

*Please note that the above Capital Improvement Plan does not include $500,000 in Fiscal Year 2022 to fund a new financial system. This will be funded out of the City's Special Project Fund.

Source: Proposed 2022 CIP.

Debt Capacity: Debt to Assessed Value

- Under a potential City's policy of 3% of debt-to-assessed value, the City could issue approximately $63 million as early as fiscal year 2021 and $84 million over the next decade.

FY	Debt Outstanding	Existing Debt to Assessed Value	Incremental Debt Issued	Cumulative Debt Issued	Resulting Debt to Assessed 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 to Expenditures

- Under a potential City's policy of 10% of debt service-to-expenditures, the City could issue approximately $25 million as early as fiscal year 2021 and $37 million over the next decade.

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.

Potential Debt Issuances

- With interest rates at historical lows, the City could consider debt financing all or a portion of the City's CIP.
  - This would allow the City to preserve its cash position, which would be helpful, particularly in light of potential budgetary pressures resulting from 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 lowest interest rate and cost of funds.

- For illustrative purposes, we show the resulting debt service and related debt ratios if the City were to annually finance all of its current CIP or, given the relatively small size of the City's CIP, instead of issuing annually, the City could consider issuing debt every two years to reduce issuance costs and the potential burden on City staff.

- For this analysis we are assuming 20-year level debt service, although different amortization lengths could be considered depending on the project financed.

Option 1: Annual Debt Financing

- Option 1 shows resulting debt service if the City were to annually finance the 5-year CIP.

		New Debt Service					
	Existing Debt Service	FY 2022 Series	FY 2023 Series	FY 2024 Series	FY 2025 Series	FY 2026 Series	Resulting Debt Service
2021	$1,048,156	$0	$0	$0	$0	$0	$1,048,156
2022	1,042,263	77,295	0	0	0	0	1,119,558
2023	1,042,262	346,363	39,371	0	0	0	1,427,995
2024	1,042,263	346,363	176,421	39,500	0	0	1,604,546
2025	1,042,264	346,363	176,421	145,324	36,900	0	1,747,271
2026	1,042,263	346,363	176,421	145,324	135,758	36,900	1,883,029
2027	789,607	346,363	176,421	145,324	135,758	135,758	1,729,231
2028	737,728	346,363	176,421	145,324	135,758	135,758	1,677,352
2029	737,727	346,363	176,421	145,324	135,758	135,758	1,677,352
2030	737,728	346,363	176,421	145,324	135,758	135,758	1,677,352
2031	737,728	346,363	176,421	145,324	135,758	135,758	1,677,352
2032	737,728	346,363	176,421	145,324	135,758	135,758	1,677,352
2033	737,728	346,363	176,421	145,324	135,758	135,758	1,677,352
2034	618,681	346,363	176,421	145,324	135,758	135,758	1,558,305
2035	545,869	346,363	176,421	145,324	135,758	135,758	1,485,493
2036	545,869	346,363	176,421	145,324	135,758	135,758	1,485,493
2037	545,869	346,363	176,421	145,324	135,758	135,758	1,485,493
2038	545,869	346,363	176,421	145,324	135,758	135,758	1,485,493
2039	99,880	346,363	176,421	145,324	135,758	135,758	1,039,504
2040	99,880	346,363	176,421	145,324	135,758	135,758	1,039,504
2041		346,363	176,421	145,324	135,758	135,758	939,624
2042		346,363	176,421	145,324	135,758	135,758	939,624
2043			176,421	145,324	135,758	135,758	593,262
2044				145,324	135,758	135,758	416,841
2045					135,758	135,758	271,517
2046						135,758	135,758
Total	$14,477,360	$7,004,546	$3,567,792	$2,945,979	$2,752,067	$2,752,067	$33,499,810

Note: Assumed interest rate for fiscal 2022 and 2023 debt issuance of 3.0% and for fiscal 2024-2026 debt issuance of 4.0% for 20-year amortization. Assumed $200,000 cost of issuance for each series. Preliminary estimate, subject to change.

Option 2: Debt Financing Every Two Years

- Option 2 shows resulting debt service if the City were to finance the 5-year CIP with a bond issue every other year, beginning in fiscal 2022 (funding the 2022 and 2023 CIP), followed by an issue in 2024 (funding the 2024 and 2025 CIP) and an issue in 2026 funding the 2026 CIP.

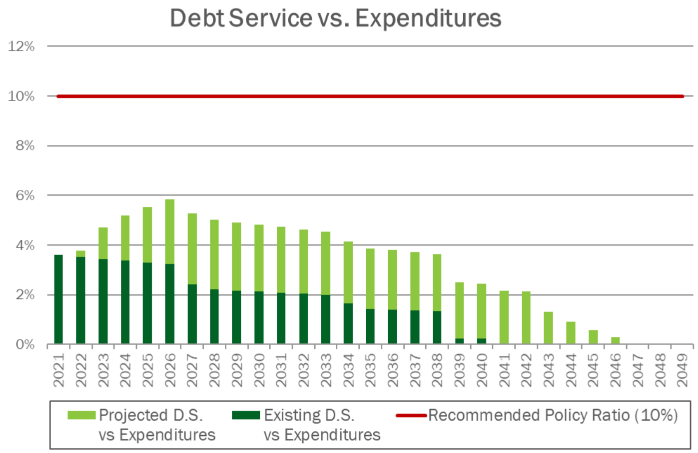
		New Debt Service			
	Existing Debt Service	FY 2022 Series	FY 2024 Series	FY 2026 Series	Resulting Debt Service
2021	$1,048,156	$0	$0	$0	$1,048,156
2022	1,042,263	113,666	0	0	1,155,929
2023	1,042,262	509,340	0	0	1,551,603
2024	1,042,263	509,340	72,400	0	1,624,003
2025	1,042,264	509,340	266,366	0	1,817,970
2026	1,042,263	509,340	266,366	36,900	1,854,869
2027	789,607	509,340	266,366	135,758	1,701,072
2028	737,728	509,340	266,366	135,758	1,649,192
2029	737,727	509,340	266,366	135,758	1,649,192
2030	737,728	509,340	266,366	135,758	1,649,193
2031	737,728	509,340	266,366	135,758	1,649,192
2032	737,728	509,340	266,366	135,758	1,649,192
2033	737,728	509,340	266,366	135,758	1,649,192
2034	618,681	509,340	266,366	135,758	1,530,146
2035	545,869	509,340	266,366	135,758	1,457,333
2036	545,869	509,340	266,366	135,758	1,457,333
2037	545,869	509,340	266,366	135,758	1,457,333
2038	545,869	509,340	266,366	135,758	1,457,333
2039	99,880	509,340	266,366	135,758	1,011,345
2040	99,880	509,340	266,366	135,758	1,011,345
2041		509,340	266,366	135,758	911,465
2042		509,340	266,366	135,758	911,465
2043			266,366	135,758	402,124
2044			266,366	135,758	402,124
2045				135,758	135,758
2046				135,758	135,758
Total	$14,477,360	$10,300,475	$5,399,719	$2,752,067	$32,929,620

Note: Assumed interest rate for fiscal 2022 debt issuance of 3.0% and for fiscal 2024 and 2026 debt issuance of 4.0% for 20-year amortization. Assumed $200,000 cost of issuance for each series. Preliminary estimate, subject to change.

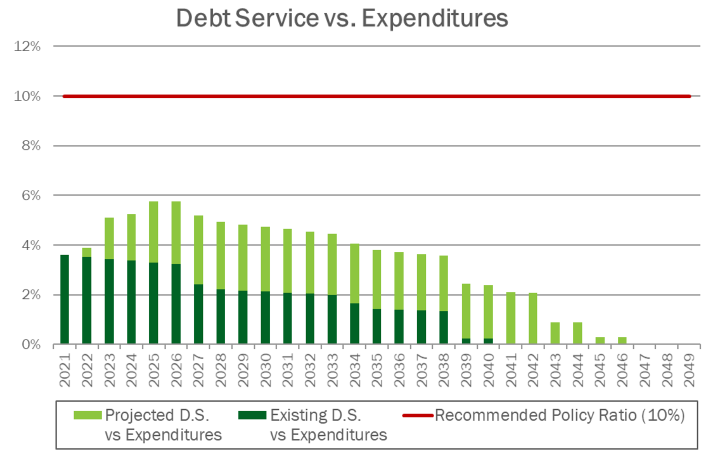
Impact of New Debt on Debt Ratios

- Under both options, the City would remain under the recommended 10% debt service to expenditures policy.

Option 1

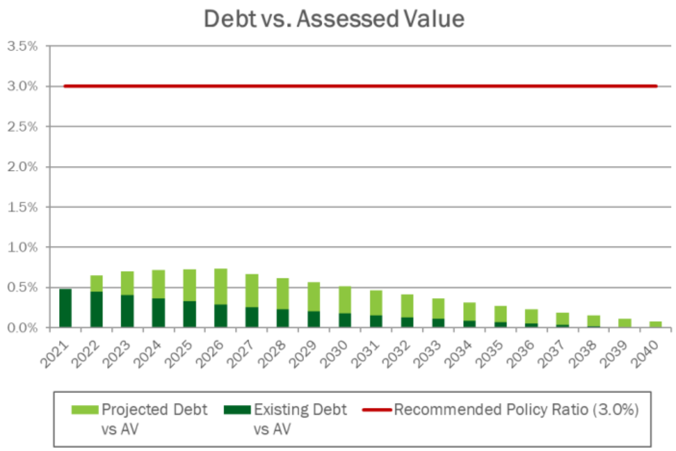


Option 2

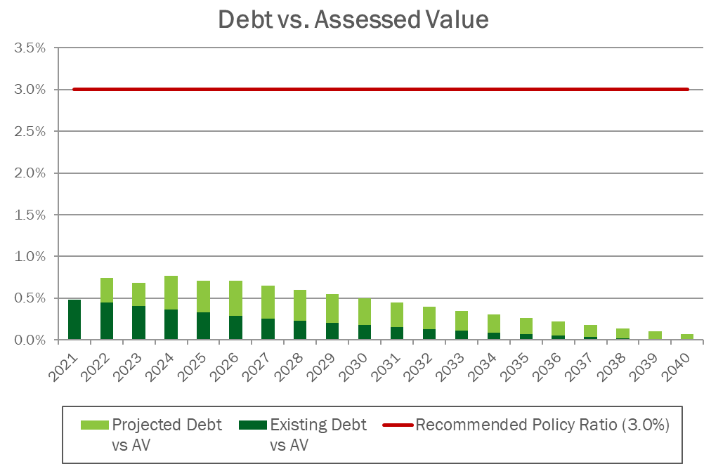


- Under both options, the City would remain under the recommended 3% debt vs. full value policy.

Option 1



Option 2



Note: Expenditures assumed to be budget for fiscal 2021 and increasing 2% annually beginning in fiscal 2022 and assessed value assumed to increase 2% annually beginning in fiscal 2021.

Financing Options for Development Projects

- Aside from the general capital needs of the City that are included in the Capital Improvement Plan, the City has also engaged in development projects, such as Greenbelt Station, whereby the City partnered with a private developer to complete a project that was ultimately beneficial to the City's tax base.
  - Developers often approach local governments as a way to access tax-exempt financing that can be issued at lower interest rates to fund the public infrastructure necessary for the overall success of a development project.
- For future development projects the City might be considering, the typical tax-exempt financing mechanisms that are available for the public infrastructure component include:
  - **Tax Increment Financing ("TIF"):** Under this method, the City establishes a tax increment district that would encompass the location of the proposed project. As development of that project progresses, the assessed value within that established district is likely to grow as well. The TIF financing would be secured by the incremental property tax revenues that would be generated when comparing the original assessed value (or base value) at the time the district was established and the current assessed value.
    - Debt service is typically ascending to match the progression of the project construction. If the project is successful and goes according to plan, then any excess TIF revenues after debt service is paid would flow to the City.
    - If the project does not progress as expected, revenues can fall short of debt service and the bonds would be in default. While there is typically no recourse (i.e. the City is not obligated to make up the shortfall) to the City in terms of debt service, the City loses the benefit of the completed project and any anticipated TIF revenues.

Financing Options for Development Projects

– **Special Tax Financing:** Under this method, the City establishes a special tax district that would encompass the location of the proposed project. Every year for which debt is outstanding, the administrator of the District would calculate and establish a special tax rate that would be paid by all property owners within the district. The special tax rate is calculated to ensure that special taxes will be sufficient to cover debt service on the outstanding bonds in any given year.

- If there is a property owner(s) that doesn't pay the special tax, then revenues might not be sufficient to cover debt service. Again, there is typically no recourse to the City in terms of debt service.

– **TIF with Special Tax Back-up Pledge:** Under this method, the City establishes TIF and special tax districts that would encompass the location of the proposed project. Each year, the outstanding bonds would be paid first from TIF revenues. If TIF revenues were insufficient to cover debt service, then the special tax would be implemented to ensure debt service was paid in full.

- It is Davenport's view that this is the **most conservative of the three options** for potential development projects, as you have two separate securities supporting debt service on any bonds that are issued, lessening the likelihood of default.

- In addition, this is the same structure that was used for Greenbelt Station, which has been a successful development project and the bonds were able to secure a competitive interest rate because of the added security of the special tax.

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.

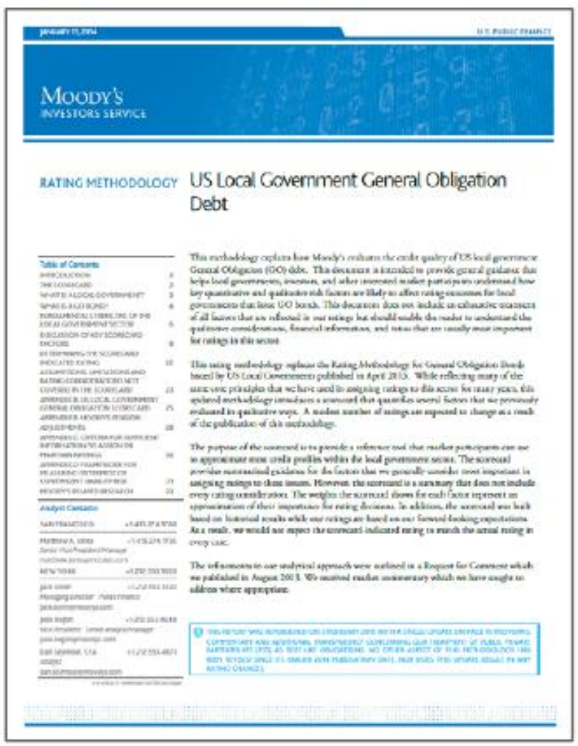
- After presentation has concluded, committee votes on the rating.

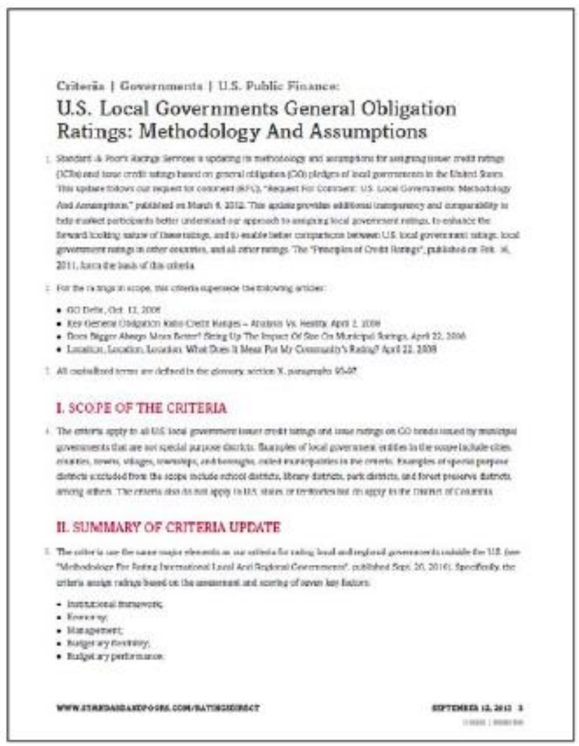
- Rating analyst contacts City with rating and releases draft report for review.

- 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	

Opportunities & Next Steps

Opportunities

- Overall, the financial health of the City's General Fund is strong as reserves have continued to grow and are likely to increase again in fiscal year 2021.

- With this healthy financial position, the City has the opportunity to move forward with debt financings to fund upcoming capital needs and take advantage of low interest rates.

  – 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 that the City has used in the past.

  – Davenport believes the City would be able to achieve at least a Aa3 rating from Moody's.

- To help ensure the City's strong financial health continues, Davenport would also recommend the City consider adopting the following financial policies:

  – The City will maintain available reserves equal to at least 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 to expenditures will be no greater than 10%; and

  – The City's total fixed costs will remain under 20% of operating expenditures.

Next Steps

- March 2021: Follow-up on any questions that the Council might have or would like to explore in more detail as a result of this presentation.

- April 2021: Draft financial policies that would help support the ongoing fiscal health of the City to be adopted by Council.

- May – August 2021: Assist City in preparing for their upcoming debt issuances in 2021. Tasks include the following:
  - May 2021: Preparation of an Official Statement that will be distributed to investors for the upcoming bond sale;
  - May – June 2021: Assistance in preparing for credit rating meeting, including drafting a credit presentation;
  - July 2021: Provide support to City during the competitive bond sale.
  - August 2021: Help coordinate closing documents for the bond sale.

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