MEMORANDUM

TO: City Council

FROM: David J. Deutsch
City Manager

SUBJECT: ***Status Report*** DATE: April 7, 2016

1. AAA Bond Rating Retained
   Moody's Investors Service and Standard & Poor's (S&P), two of the three major bond rating services, have each reaffirmed the AAA bond rating for the City of Bowie. The attached reports provide a strong endorsement of Bowie's financial position.

   Retaining the AAA rating is important in helping to secure the most advantageous borrowing rates when bonds are issued for the new sports complex.

2. Stream Cleanup Results
   On Saturday, April 2, 31 volunteers came out to clean five streams in cold rain. They removed approximately 300 pounds of trash and 450 pounds of recycling in bags. Many bulk trash and metal items were also found, including 10 old tires (seven from behind Free State Shopping Center and three from Tanglewood Park), a broken shopping cart and bike, several buckets of unknown contents, and a tent. This was the 15th cleanup. Two additional cleanups with groups are planned for later this spring.

Attachments

MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
6 April 2016

RATING

General Obligation (or GO Related)[1]

Aaa	Stable

Contacts

Pamella Wong 212-553-7785
Associate Analyst
pamella.wong@moodys.com

Gregory W. Lipitz 212-553-7782
VP-Sr Credit Officer
gregory.lipitz@moodys.com

City of Bowie, MD

Annual Comment on Bowie

Issuer Profile

The City of Bowie is located in Prince George's County in central Maryland, approximately 20 miles southwest of Baltimore and 15 miles northeast of Washington DC. Prince George's County has a population of 904,430 and a population density of 1,874 people per square mile. The county's per capita personal income is $44,465 (1st quartile) and the October 2015 unemployment rate was 5.2% (3rd quartile).[2] Prince George's County has one of the largest technology and aerospace sectors in the state. Major employers include CSC, Safeway, Comcast, Greenhorne & O'Mara, MedAssurant, SGT, and Verizon. Significant federal facilities include Joint Base Andrews Naval Air Facility Washington, NASA Goddard Space Flight Center, the Food and Drug Administration, NOAA, and the Beltsville Agricultural Research Center.

Credit Overview

Bowie has an extremely strong credit position, and its Aaa rating is well above the US city median of Aa3. The rating reflects a robust financial position, and a manageable pension burden with a negligible debt liability. It also includes a large tax base with a wealthy socioeconomic profile.

Finances: The city has a very healthy financial position, which is in line with the assigned rating of Aaa. The fund balance as a percent of operating revenues (90.5%) is far superior to the US median. Bowie's cash balance as a percent of revenues (91.0%) is also far stronger than other Moody's-rated cities nationwide and increased from 2012 to 2015.

Debt and Pensions: The city has exceptionally low debt and pension liabilities, which are aligned with its Aaa rating. The net direct debt to full value (0.2%) is materially below the US median. In addition, the Moody's-adjusted net pension liability to operating revenues (0.56x) increased modestly between 2012 and 2015 but is favorably lower than the US median.

Economy and Tax Base: The city has a very strong economy and tax base. The median family income equates to a robust 185.2% of the US level. Moreover, the total full value ($6.4 billion) is materially above the US median and rose modestly from 2012 to 2015. Lastly, the full value per capita ($114,070) is stronger than other Moody's-rated cities nationwide.

Management and Governance: Positive operating margins are a component of strong financial management. Favorably, on average over the past few years, Bowie ran surpluses and concurrently, the tax base improved modestly.

Maryland cities have an institutional framework score [3] of "Aaa," or very strong. Cities rely on property tax revenues, which are stable and highly predictable. Cities have high revenue-raising flexibility and can increase property tax revenues annually, without limit. Expenditures, which are primarily for personnel and public safety, are highly predictable. Cities have a high ability to reduce expenditures, if necessary, given a weak collective bargaining presence and modest fixed cost burdens.

Sector Trends - Maryland Cities

Maryland cities generally benefit from conservative budgeting and strong management practices. Tax base declines and growth are smoothed due to a countywide, three-year assessment cycle, and as a result many Maryland cities continue to post tax base declines through 2015 or 2016. The state's top industries of government, education and health services, and professional and business services are growing, although at a moderate rate. As a result, we expect tax bases to grow over the longer term. Debt and pension liabilities tend to be manageable. Most cities fund a significant portion of OPEB beyond the pay-go requirement.

Exhibit 1

Key Indicators[4] [5]

Bowie, MD

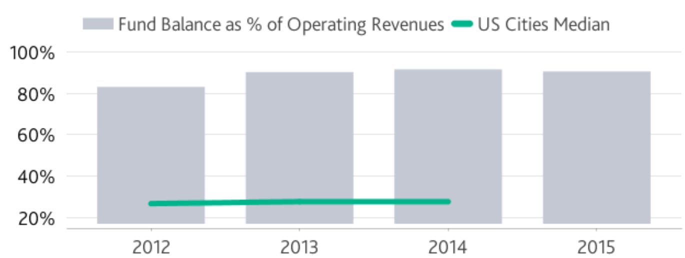
	2012	2013	2014	2015	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	$6,256M	$6,248M	$6,301M	$6,373M	$1,727M	Stable
Full Value Per Capita	$114,066	$113,688	$112,493	$114,070	$89,077	Stable
Median Family Income (% of US Median)	185.2%	185.2%	185.2%	185.2%	115.2%	Stable
Finances						
Fund Balance as % of Operating Revenues	83.1%	90.2%	91.5%	90.5%	27.7%	Improving
Cash Balance as % of Operating Revenues	83.1%	89.1%	90.4%	91.0%	30.1%	Improving
Debt / Pensions						
Net Direct Debt / Full Value	0.22%	0.21%	0.20%	0.18%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.33x	0.31x	0.29x	0.27x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.35%	0.38%	0.42%	0.38%	1.5%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.51x	0.56x	0.63x	0.56x	1.20x	Stable

Source: Moody's

Exhibit 2

Fund balance as a percent of operating revenues grew between 2012 and 2015

Fund Balance as a Percent of Operating Revenues

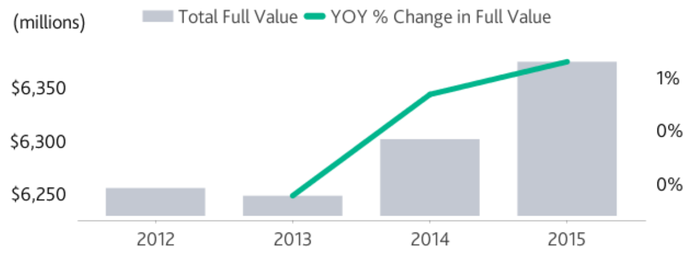


Source: Issuer financial statements; Moody's

Exhibit 3

Full value of the property tax base increased slightly from 2012 to 2015

Total Full Value

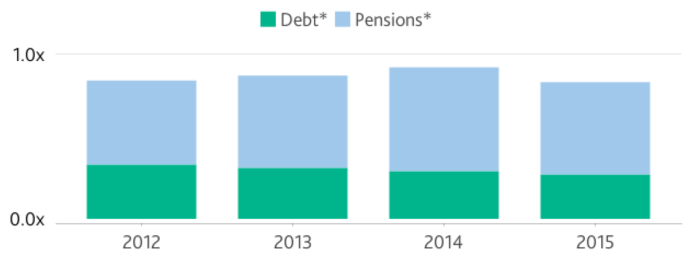


Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4

Moody's-adjusted net pension liability to operating revenues grew from 2012 to 2015

Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues



*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.

Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Endnotes

1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See Local Government GO Pledges Vary Across States. for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.

2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is $46,049 for 2014. The median unemployment rate for US counties is 4.7 % for October 2015.

3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See US Local Government General Obligation Debt (January 2014) for more details.

4 For definitions of the metrics in the Key Indicators Table, see US Local Government General Obligation Methodology and Scorecard User Guide (July 2014). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Metrics represented as N/A indicate the data were not available at the time of publication.

5 The medians come from our most recently published local government medians report, Updated 2013 US Local Government Medians Demonstrate Stability of Sector (August 2015). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2013. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

REPORT NUMBER 1016100

MOODY'S
INVESTORS SERVICE

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:
Bowie, Maryland; General Obligation

Primary Credit Analyst:
Danielle L Leonardis, New York (1) 212-438-2053; danielle.leonardis@standardandpoors.com

Secondary Contact:
Timothy W Little, New York (212) 438-7999; timothy.little@standardandpoors.com

Table Of Contents

Summary:
Bowie, Maryland; General Obligation

Credit Profile		
Bowie GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' long-term rating on the city of Bowie, Md.'s general obligation (GO) debt. The outlook is stable.

The bonds are secured by the city's full faith and GO credit pledge.

The rating reflects our view the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2014 of 84% of operating expenditures;
- Very strong liquidity, with total government available cash at 137.7% of total governmental fund expenditures and 44.8x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 3.1% of expenditures and net direct debt that is 26.3% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 71.1% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Very strong economy

We consider Bowie's economy very strong. The city, with an estimated population of 56,632, is located in Prince George's County in the Washington-Arlington-Alexandria MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 154% of the national level and per capita market value of $117,859. Overall, the city's market value grew by 4.3% over the past year to $6.7 billion in 2016. The county unemployment rate was 5.9% in 2014.

Bowie is an affluent residential community encompassing approximately 18 square miles in Prince George's County. The city is located between Washington, D.C. and Baltimore. and benefits from access to the deep and diverse Washington metropolitan area economy and employment base. Residents can also commute to nearby Annapolis and Montgomery County for employment. In our view, economic development and redevelopment continue at a good pace, and management indicates there are ample residential and nonresidential projects in the pipeline. These projects reflect Bowie's continued desirability in our view.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The city has several conservative and well-embedded policies and procedures. It maintains a six-year rolling capital improvement plan that prioritizes projects and identifies all project costs and expected funding sources. When preparing the operating budget, the city uses historical trend analysis for revenues and expenditures; it performs amendments when necessary through a formal process. Furthermore, the city uses multiyear forecasting for revenues and expenditures for the general and utility funds to provide a long-range strategic vision; the city also uses this in its utility rate-setting process. The city's investment policy mirrors the state's, and it distributes investment reports quarterly. Bowie's reserve requirement is to maintain general fund reserves at 25% of budgetary expenditures, a level it has been in compliance with for well over a decade. Finally, debt issuance is limited to 0.8% of assessed value (AV), and amortization is not to exceed the project's useful life.

Strong budgetary performance

Bowie's budgetary performance is strong in our opinion. The city had operating surpluses of 2.7% of expenditures in the general fund and of 2.9% across all governmental funds in fiscal 2014.

The city has exhibited a trend of positive general fund year-end results and closed audited fiscal 2014 with its twelfth consecutive operating surplus. Based on fiscal 2015 unaudited actuals, management estimates another small surplus in fiscal 2015. The city also estimates positive results for the total governmental funds. The fiscal 2016 budget includes a $4.8 million fund balance appropriation for its general fund; however, the city has generally ended up adding to reserves despite appropriating fund balance each year. We expect that given its record, both the general fund and total governmental funds results will remain healthy. Property taxes (59% of general fund revenues) and intergovernmental revenues (29%) are the city's primary revenue sources for fiscal 2016.

Very strong budgetary flexibility

Bowie's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2014 of 84% of operating expenditures, or $35.2 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal year, which we view as a positive credit factor. Over the past three years, the total available fund balance has remained at a consistent level, totaling 87% of expenditures in 2013 and 82% in 2012.

The city's historical procedure is to appropriate reserves each year. However, due to historically conservative budgeting practices, we expect the fund balance to remain above 75% of expenditures in fiscal 2015 and 2016; well above the city's 25% reserve policy. The fiscal 2016 budget maintains its property tax rate, for the sixth consecutive year, at 40 cents per $100 of AV.

Very strong liquidity

In our opinion, Bowie's liquidity is very strong, with total government available cash at 137.7% of total governmental fund expenditures and 44.8x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

We consider the city's external access to liquidity to be strong as it last issued GO debt in 2009. Management has confirmed the city has no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Additionally, the city maintains most of its liquidity in the Maryland Local Government Investment Pool.

Very strong debt and contingent liability profile

In our view, Bowie's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.1% of total governmental fund expenditures, and net direct debt is 26.3% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, and approximately 71.1% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Management reports that the city has no plans to issue debt in the near term, but may consider refunding its series 2009 GO bonds. The city has no variable-rate debt or swaps or alternative debt financing.

Bowie's pension contributions totaled 2.5% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

The city participates in the state pension plan and has historically made the required annual pension contributions. Contributions for other postemployment benefits (OPEB) are made on a pay-as-you-go basis annually. As of July 1, 2013, the OPEB unfunded actuarial accrued liability was $528,000 (1.4% of general fund expenditures) with a funded ratio of 0%.

Very strong institutional framework

The institutional framework score for Maryland municipalities is very strong.

Bowie's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions", the city has a predominately locally derived revenue source, with about half of governmental activity revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

Outlook

The stable outlook reflects Standard & Poor's opinion of Bowie's very strong economic profile, including very strong wealth and income and its participation in the Washington-Arlington-Alexandria MSA. In addition, we believe Bowie's strong management team, including strong policies and practices, will likely help maintain what we consider the city's very strong budgetary flexibility and liquidity, as well as at least adequate budgetary performance. We also believe the lack of any plans for significant additional debt further supports the rating. Therefore, we do not expect to change the rating within the outlook's two-year period.

Downside scenario

Although unlikely, in our opinion, if the city were to experience unexpected and significant drawdowns of reserves, reducing budgetary flexibility to much lower levels, the rating could be pressured.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.