City of Bowie

City Council Worksession

Monday, August 17, 2026
City Hall, Room 243 - 6 p.m.

AGENDA

I. Reserve Policy

  A. Reserve Policy Presentation

II. Economic Development Discussion

III. Adjourn

Note: The Ethics Commission has advised that under certain circumstances, members of the public may qualify as lobbyists when they testify before the City Council. If so, the Bowie Ethics Ordinance requires that certain information be filed with the Ethics Commission. Please review the information about lobbying that is provided with the City Clerk. If you have any questions about lobbying, please contact the Ethics Commission or the Assistant City Manager.

NEXT REGULAR MEETING OF THE BOWIE CITY COUNCIL - TUESDAY, SEPTEMBER 8, 2026 - BOWIE CITY HALL - 7 P.M.

City of Bowie, Maryland

Reserve Policy Assessment

August 2026

Table of Contents

Overview

Overview

- Similar to other AAA-rated governments, the City of Bowie, Maryland (the “City” or “Bowie”) has long-established formal financial policies to help guide its decision making and support the long-term fiscal health of the City.

- Since it has been many years since the last reserve policy update, the City requested Davenport & Company LLC (“Davenport”), as financial advisor to the City, to review its current reserve policies to determine if any updates are recommended.

- During this time, all three rating agencies [Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”), and S&P Global Ratings (”S&P”)] have updated their rating methodologies and have put a greater emphasis on financial policies, particularly related to a local government’s reserves.
  - **It is important for the City to have a good understanding of how its financial policies align with rating agency expectations and state and national peers to ensure the continued assignment of the City’s AAA-ratings from all three rating agencies.**

- As a result, the main objectives of this presentation are the following:
  - Highlight the importance of maintaining reserve policies;
  - Provide an overview of the City’s current reserve policies and historical performance against such policies;
  - Outline industry best practices for reserve policies and how the City compares to these benchmarks;
  - Examine the City’s reserve policies against a similarly-rated peer group; and
  - Provide recommendations for the City’s reserve policies going forward and next steps for adoption.

Importance of Financial Policies

Importance of Financial Policies

- The Government Finance Officers Association ("GFOA") notes that financial policies *"provide guidelines for financial decision making and set strategic intent for financial management and are central to a strategic, long-term approach to financial management."*

- Some benefits in adopting comprehensive financial policies include:
  - Institutionalizes good financial management practices;
  - Clarifies strategic intent for financial management;
  - Defines boundaries;
  - Supports high-grade bond ratings and lowers borrowing costs;
  - Promotes long-term strategic thinking;
  - Manages risks to financial condition; and
  - Complies with established public management best practices.

- GFOA recommends that local governments maintain a minimum reserve of at least 60 days of General Fund revenues or expenditures, although there are certain circumstances where a local government would need to maintain reserves above this threshold.

Source: GFOA Website

Rating Agency Views on Financial Policies

- All three national rating agencies have recently revised their criteria for rating general obligation bonds and have put a greater emphasis on financial policies, particularly as they relate to reserves.
  - Reserves are the most important credit metric that a rating analyst assesses during the rating process. Financial performance, including reserves, represents between 30% to 40% of the total rating.[1]

- It is important for local governments to have a good understanding of how their fiscal policies align with rating agency expectations to ensure assignment of the best credit rating.

- While rating agencies won't be prescriptive on policies, they can provide general feedback on how policies compare to other peers.
  - If a policy revision is being considered, reaching out and communicating with the rating agencies before adoption can be beneficial.

- If a policy is adopted, the rating agencies want to ensure that policy can be met and maintained.
  - If a local government falls outside its policy threshold, ratings agencies like to see an established plan (best if within written policy) for regaining compliance with current policy.
  - The City's current policy does not include a replenishment plan for either the City's General Fund or Enterprise Fund reserves.

[1] Financial Performance represents 30% of the rating for Moody's, 35% for Fitch, and 40% for S&P.

Reserve Policy Assessment: General Fund

Current Reserve Policy – General Fund

- The current policy for the City's Total Available General Fund balance is to maintain at least 25% of General Fund expenditures.
  - Positively, the 25% policy level is above GFOA's recommended reserve level (industry benchmark) of two months of operations, providing the City with additional financial flexibility that helps supports its AAA credit ratings.

- However, as you can see from the chart below, the City's Available General Fund Reserves are expected to experience a significant decline in Fiscal Year ("FY") 2026 due to a budgeted use of reserves as part of the FY 2026 budget. This will bring the City's Total Available General Fund Reserves to its lowest level of 35.9% of General Fund expenditures, and closer to the 25% threshold.
  - Of greater concern is the expected decline in the City's Unassigned General Fund Balance to a low of 4.6% based on estimated FY 2026 results. The City's unassigned General Fund balance is a true measure of budgetary flexibility as these funds are not already committed or assigned for other purposes. Unassigned General Fund balance should typically not fall below 15%.
  - **This decline in the City's unassigned reserves is due to a history of structurally unbalanced budgets that have appropriated an average use of $9.2 million in the City's annual budgets over the last 10 years. This average increased between FY2023 and FY2025 to $14.6 million.**

Fiscal Year	General Fund Committed Reserves	General Fund Assigned Reserves	General Fund Unassigned Reserves	Total Available General Fund Reserves	General Fund Expenditures	General Fund Unassigned Reserves as % of General Fund Expenditures	Total Available General Fund Reserves as % of General Fund Expenditures	Total Available General Fund Reserves Policy Target
2016	$ 4,998,324	$ 5,902,940	$ 28,163,024	$ 39,064,288	$ 41,895,003	67.2%	93.2%	25.0%
2017	5,285,765	5,801,875	29,330,312	40,417,952	43,816,682	66.9%	92.2%	25.0%
2018	5,943,689	7,047,508	25,812,889	38,804,086	48,652,279	53.1%	79.8%	25.0%
2019	6,466,832	6,210,199	26,854,282	39,531,313	48,183,084	55.7%	82.0%	25.0%
2020	7,972,539	9,742,752	18,997,292	36,712,583	50,459,325	37.6%	72.8%	25.0%
2021	7,670,518	9,780,177	23,191,013	40,641,708	51,770,254	44.8%	78.5%	25.0%
2022	8,823,675	10,570,347	22,228,310	41,622,332	55,049,958	40.4%	75.6%	25.0%
2023	9,779,168	13,009,582	21,596,925	44,385,675	57,005,092	37.9%	77.9%	25.0%
2024	8,682,134	18,995,284	18,517,788	46,195,206	58,954,404	31.4%	78.4%	25.0%
2025	9,797,841	20,172,844	14,209,174	44,179,859	63,896,066	22.2%	69.1%	25.0%
2026 (Estimated)*	24,866,002		3,700,000	28,566,002	79,665,900	4.6%	35.9%	25.0%

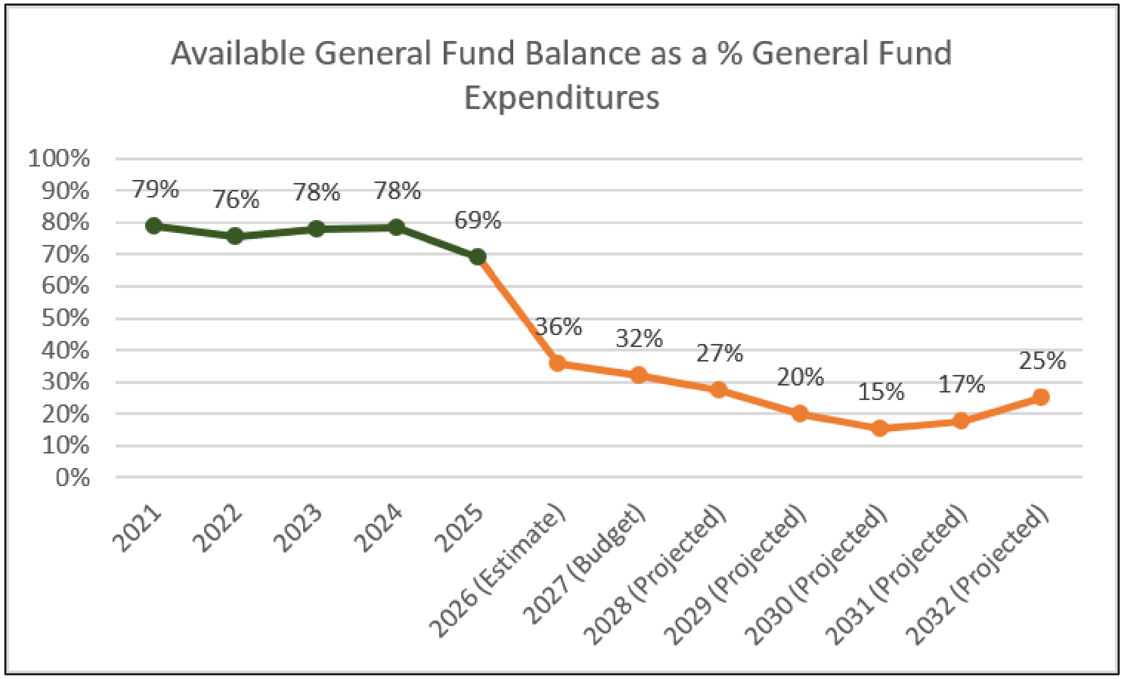
*Preliminary, subject to change based on audited results for Fiscal Year 2026. The Fiscal Year 2026 Total Available General Fund Reserves is from page 16 of the Fiscal Year 2027 budget minus $300,000 in nonspendable General Fund balance and $400,068 in restricted General Fund balance which were provided by City Staff. The breakout for committed, assigned, and unassigned General Fund reserves was also provided by City staff. The $3.7 million in Fiscal Year 2026 General Fund Unassigned Reserves includes the initial estimate of $1.7 million plus an additional $2 million in encumbrances. The Fiscal Year 2026 General Fund Expenditures represent Total General Fund Expenditures minus $8,135,500 in Tranfers to Other Funds from page 18 of the Fiscal Year 2027 budget.

- Based on the FY 2027 budget, the City is expecting Total Available General Fund Reserves as a percent of General Fund Expenditures to continue to decline through FY 2030 to a low of 15%, well below the City's reserve policy, before starting to increase again. **The City's Total Available General Fund Reserves are projected to remain below the City's 25% policy until FY 2032.**
  - **This projected decline in reserves could potentially have an impact on the City's credit ratings as you will see on the following slides.**

Source: FY 2016-2025 ACFRs and FY 2027 Budget.

General Fund Reserve Projections

- Based on the FY 2027 budget, the City is expecting Total Available General Fund Reserves as a percent of General Fund Expenditures to continue to decline through FY 2030 to a low of 15%, well below the City's reserve policy, before starting to increase again.



For the FY 2026 Estimate, FY 2027 Budget, and FY 2028 through FY 2032 projections, estimates from page 13 of the FY 2027 Budget were utilized. The Available General Fund Balance figures were adjusted downward to account for approximately $700,000 in Nonspendable and Restricted General Fund balances that are included in this reserve calculation. General Fund Expenditures were adjusted to remove "Transfers to Other Funds", utilizing the estimated and budgeted amounts for FY 2026 and FY 2027, and accounting for 3% annual growth for FY 2028 through FY 2032 based on City Staff input.

- The City's Total Available General Fund Reserves are projected to remain below the City's 25% policy between FY 2029 and FY 2031, before regaining compliance with the policy level in FY 2032.
  - **This projected decline in reserves below the City's policy level could potentially put negative pressure on the City's credit ratings.**

Source: FY 2021-2025 ACFRs and FY 2027 Budget.

Rating Agency Approach to Reserves: Fitch and S&P

- As previously mentioned, reserves are the most important rating metric that is assessed by all three rating agencies.
  - Fitch: Calculates the lowest Available Reserves (Committed, Assigned, and Unassigned General Fund Reserves) as a percentage of General Fund Expenditures and General Fund Transfers Out over the last five audited years. Currently, the City must maintain Available Reserves of at least 10% of General Fund Expenditures and Transfers Out for reserves to be considered "AAA". **The City is currently exceeding this threshold with a five-year low Available Reserve balance of 32.5% based on the FY 2026 estimate.**

Fiscal Year	General Fund Committed Reserves	General Fund Assigned Reserves	General Fund Unassigned Reserves	Total Available General Fund Reserves	General Fund Expenditures + Transfers Out	Total Available General Fund Reserves as % of General Fund Expenditures + Transfers Out
2022	$ 8,823,675	$ 10,570,347	$ 22,228,310	$ 41,622,332	$ 57,804,358	72.0%
2023	9,779,168	13,009,582	21,596,925	44,385,675	59,774,936	74.3%
2024	8,682,134	18,995,284	18,517,788	46,195,206	64,052,004	72.1%
2025	9,797,841	20,172,844	14,209,174	44,179,859	71,872,766	61.5%
2026 (Estimated)	24,866,002		3,700,000	28,566,002	87,801,400	32.5%

= AAA for Available General Fund Reserves

  - S&P: Calculates most recent Available Reserves (Committed, Assigned, and Unassigned General Fund Reserves) as a percentage of General Fund Revenues. Currently, the City must maintain Available Reserves over 15% of General Fund Revenues for reserves to be considered "AAA". **The City is currently exceeding this threshold with an estimated Available Reserve balance of 39.9% of General Fund Revenues based on the FY26 estimate.**

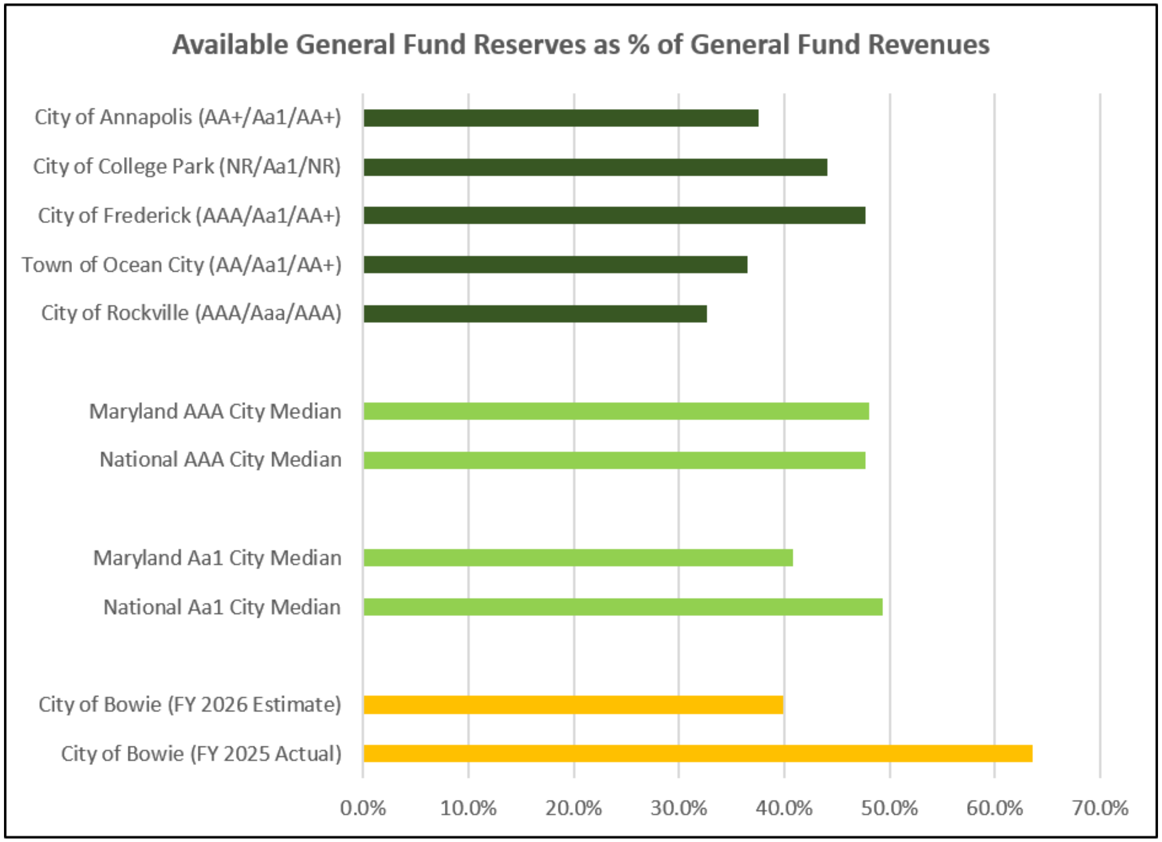
Fiscal Year	General Fund Committed Reserves	General Fund Assigned Reserves	General Fund Unassigned Reserves	Total Available General Fund Reserves	General Fund Revenues	Total Available General Fund Reserves as % of General Fund Revenues
2022	$ 8,823,675	$ 10,570,347	$ 22,228,310	$ 41,622,332	$ 57,906,563	71.9%
2023	9,779,168	13,009,582	21,596,925	44,385,675	61,048,958	72.7%
2024	8,682,134	18,995,284	18,517,788	46,195,206	65,210,705	70.8%
2025	9,797,841	20,172,844	14,209,174	44,179,859	69,456,034	63.6%
2026 (Estimated)	24,866,002		3,700,000	28,566,002	71,581,200	39.9%

= AAA for Available General Fund Reserves

Source: FY 2022-2025 ACFRs and FY 2027 Budget.

Peer Comparison – Fitch and S&P Reserve Approach

- Given that the approach that Fitch and S&P take to calculate reserves is similar, below is a peer comparison for AAA-rated cities utilizing S&P's calculation, in which Bowie is above all peers and medians as of FY 2025.
  - However, based on FY 2026 estimated Available General Fund Reserves, Bowie would fall below the AAA and AA+ State and National City Medians. **Since the City would be out of line with other AAA and AA+ City peers, this could put negative credit pressure on the City's AAA ratings.**



The peer ratings above are reflective of current ratings for Fitch Ratings/Moody's Investors Services/S&P Global Ratings. NR means Not Rated.

Source: Moody's MFRA; Fiscal Year 2025 ACFRs.

Rating Agency Approach to Reserves: Moody's

- Moody's approach to evaluating reserves deviates from the other two rating agencies, as Moody's considers reserves across all funds (Governmental and Business-Type Activities) as a percentage of revenue across those same funds (Governmental and Business-Type Activities), which they call an Available Fund Balance Ratio ("AFBR").

- Currently, the City must maintain an Available Fund Balance Ratio over 35% for reserves to be considered "Aaa". The City is currently exceeding this threshold with an Available Fund Balance Ratio of 98.4% in FY 2025, and an estimated 79.1% in FY 2026.
  - **In the City's last rating report from October 2025, Moody's noted that a decline in the AFBR approaching 60% could lead to a rating downgrade. With the projected decline in reserves in FY 2026, the City will need to monitor any additional draws going forward to help ensure the City's Aaa rating is maintained.**

Fiscal Year	Available Fund Balance of Governmental Funds ($000)	Net Current Assets of Business-Type Activities ($000)	Total Available Reserves ($000)	Total Revenues ($000)	Available Fund Balance Ratio
2022	$ 76,428	$ 7,320	$ 83,748	$ 66,931	125.1%
2023	78,950	6,157	85,107	71,444	119.1%
2024	82,125	7,595	89,720	76,524	117.2%
2025	74,105	5,787	79,892	81,212	98.4%
2026 Estimated*	58,491	5,787	64,278	81,212	79.1%

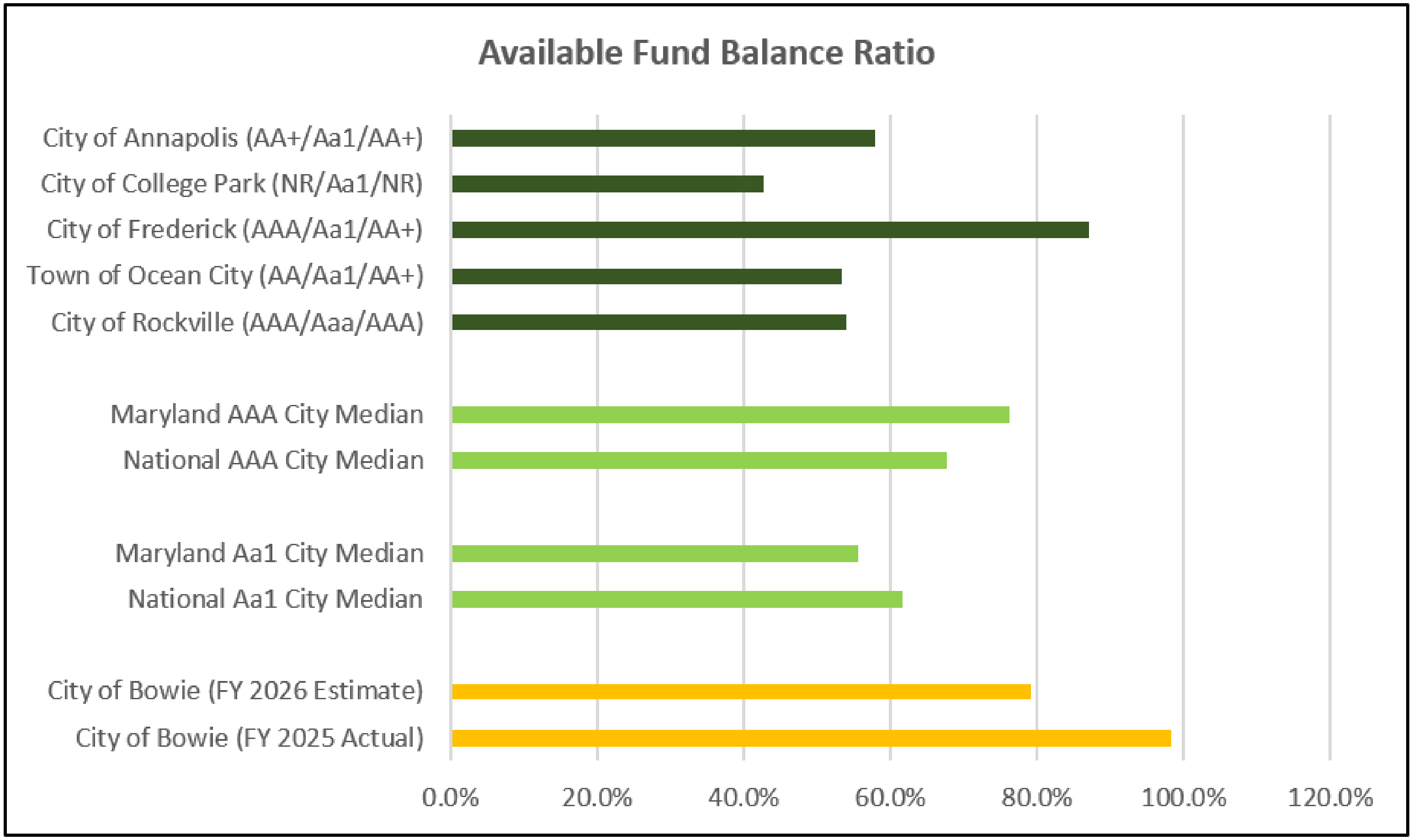
= Aaa for Available Fund Balance Ratio

The FY 2026 is estimated utilizing Moody's FY 2025 calculation and reducing the Available Fund Balance of Governmental Funds by a projected $15.6 million.

Source: Moody's MFRA, FY 2022-2025 ACFRs and FY 2027 Budget.

Peer Comparison – Moody's Reserve Approach

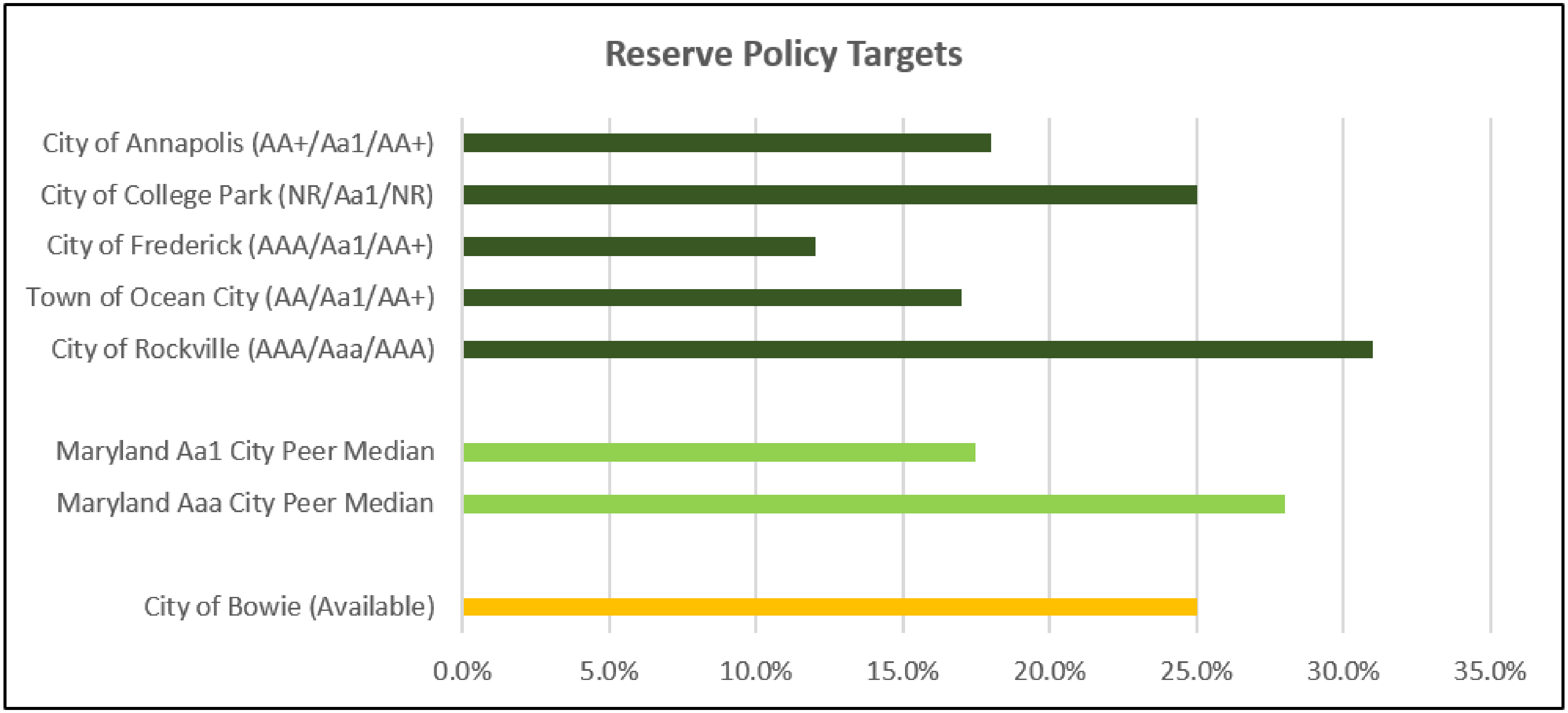
- Currently, the City remains above the state and national Aaa City medians for Available Balance across all Governmental and Business-Activities Funds. **Going forward, it will be important for the City to monitor this metric and how it continues to compare to like-rated peers to ensure the City's Aaa rating is maintained.**



Source: Moody's MFRA; Fiscal Year 2026 ACFRs.

Adopted Maryland Peer Policies

- While the City's available reserve policy target is above the Maryland Aa1 City Median policy target of 17.5%, it is below the Aaa City Median of 28.0%.



Source: Fiscal Year 2025 Budgets; Financial Policy Documents.

General Fund Reserve Policy Observations

- Positively, the City's Available General Fund Reserves have remained above the established reserve policy target over the last 10 years.
  - **However, with the projected draw on reserves in FY 2026 and the anticipation that this trend will continue through FY 2030, the City is expected to fall below its target starting in FY 2029 and remain below policy through FY 2031.**

- While the City's reserve metrics continue to rank as "AAA" under each of the respective rating agency methodologies, with the projected declines in reserves beginning in FY 2026, the City's reserve metrics will begin to fall out of line with like-rated peers.
  - This decline in reserves has the potential to result in negative pressure on the City's AAA credit ratings.

- While the City's reserve policy target of 25% is above Aa1-rated peers, it is below the Aaa peer median of 28.0%.

- The City's current reserve policy also lacks a requirement to replenish reserves within two to three years (as recommended by GFOA) if reserves fall below the City's 25% threshold.

- The City should also include a requirement to review its reserve policy at least every three years during the annual budget process to ensure the City's policies continue to remain in line with industry best practices and like-rated peers.

- **For these reasons, Davenport would recommend updating the General Fund Reserve Policy at this time. Specific recommendations are included on the following slide.**

General Fund Reserve Policy Recommendations

- **Available General Fund Balance :**
  - **Davenport would recommend that the City increase its Available General Fund Balance Reserve (committed, assigned, and unassigned General Fund balance) from the current 25% of General Fund expenditure target to 30% of General Fund expenditures to be more in-line with the AAA policy median.** This additional financial cushion will help to strengthen the City's fiscal position and help support the County's AAA ratings.
    - Based on the estimated General Fund Expenditures net of transfers for FY 2027, the City would need to maintain an Available General Fund Balance of approximately $27.5 million to meet the proposed 30% policy target. **The City currently has the funds to meet this proposed policy target based on the estimated FY 2026 Available General Fund Balance of $28.6 million.**
  - City Council with a majority vote may, upon the recommendation of the Mayor and the City Manager, appropriate funds from the Available General Fund Balance such that the amount would fall below 30% of General Fund expenditures. However, City Council would also need to concurrently adopt a reserve replenishment plan to restore the Available General Fund Balance to its 30% target within three fiscal years.

- **Rainy Day Reserve:**
  - **As part of the 30% Available General Fund Balance Reserve, Davenport would recommend the City initially establish a 5% Rainy Day Reserve as part of the City's unassigned General Fund Balance.**
  - The Rainy Day Reserve would be available to offset significant revenue or expenditure fluctuations driven by extreme one-time emergencies such as natural disasters, global pandemics, economic recessions, and/or federal mandates.
  - Based on the estimated General Fund Expenditures net of transfers for FY 2027, the City would need to maintain an Available General Fund Balance of approximately $4.6 million to meet the proposed 5% Rainy Day Reserve policy target. **The City would need approximately $900,000 to meet this proposed policy target based on the estimated FY 2026 Unassigned General Fund Balance of $3.7 million.**
    - **Funding Plan: Davenport would propose the City establish a funding plan to meet the 5% Rainy Day Reserve policy level within three years (by the end of FY 2029), which would require a $300,000 annual contribution during each year between FY 2027 and FY 2029.**
    - Davenport would recommend that any additional operating surplus funds that are available over the $300,000 annual contribution be directed to meeting this reserve goal early.
  - City Council with a majority vote may, upon the recommendation of the Mayor and the City Manager, appropriate funds from the Rainy Day Reserve such that the amount would fall below 5% of General Fund expenditures. However, City Council would also need to concurrently adopt a reserve replenishment plan to restore the Rainy Day Reserve to its 5% target within three fiscal years.
    - The Rainy Day Reserve would only be utilized after all other Available General Fund Balance has been spent.

- **Reserve Policy Review:**
  - Include provision that the City's General Fund reserve policy will be reviewed at least every three years as part of the budget process to ensure that the current policies are still in line with industry best practices and like-rated peers.

Future Considerations - General Fund Reserve Policy

- **Rainy Day Reserve:**
  - Once the Council reaches the initial 5% policy threshold for the Rainy Day Reserve, the City could increase the target threshold to 10% (out of the total 30% Available General Fund Balance Policy), and then to 15% to be more in line with other peer Rainy Day Reserve policies. The City could outline another multi-year plan to meet the increased reserve requirements.
    - Based on the estimated General Fund Expenditures net of transfers for FY 2027, the City would need to maintain a Rainy Day Reserve of approximately $9.2 million to meet the proposed 10% policy target. **This would require an additional estimated contribution of $4.6 million based on estimated FY 2027 General Fund expenditures after the initial 5% policy target is achieved.**
    - Based on the estimated General Fund Expenditures net of transfers for FY 2027, the City would need to maintain a Rainy Day Reserve of approximately $13.8 million to meet the proposed 15% policy target. **This would require an additional estimated contribution of $4.6 million based on estimated FY 2027 General Fund expenditures after the 10% policy target is achieved.**

- **Budget Stabilization Reserve:**
  - Once the Council reaches the 15% policy threshold for the Rainy Day Reserve, the City could consider establishing a Budget Stabilization Reserve equal to 3% of General Fund expenditures (out of the 30% Available General Fund Balance Policy).
    - Based on the estimated General Fund Expenditures net of transfers for FY 2027, the City would need to maintain a Budget Stabilization Reserve of approximately $2.8 million to meet the proposed 3% policy target.
  - The Budget Stabilization Reserve would be considered a first line of defense for any unexpected revenue or expenditure fluctuations and would be utilized prior to the Rainy Day Reserve.

- **Capital Reserve:**
  - Continued reinvestment and maintenance of capital infrastructure is critical to maintaining the quality of life for residents and businesses and minimizing the additional cost associated with deferred maintenance. Capital maintenance and capital improvements should have an annual, ongoing funding mechanism in addition to the use of one-time monies and prudent use of long-term borrowing to fund capital expenditures.
  - As such, the City could consider establishing a Capital Reserve once the Rainy Day Reserve and Budget Stabilization Reserve are funded.

Reserve Policy Assessment: Water & Sewer Fund

Utility Funds Reserve Policy and Recommendation

- The current reserve policy for the City's Water & Sewer Fund is to maintain unrestricted net assets greater than 25% of total operating expenses to provide reserves for operations and future capital improvements, which the City has more than surpassed over the last six fiscal years.
  - The City's 25% policy benchmark is in line with other policy benchmarks that we have seen for other utility systems.

Fiscal Year	Unrestricted Net Assets	Operating Expenses	Unrestricted Net Assets as % of Operating Expenses	Policy Target
2016	$ 3,010,346	$ 5,403,330	55.7%	25.0%
2017	3,119,237	5,909,406	52.8%	25.0%
2018	3,549,841	6,050,332	58.7%	25.0%
2019	4,832,818	6,140,435	78.7%	25.0%
2020	5,820,519	6,459,914	90.1%	25.0%
2021	4,569,180	6,640,810	68.8%	25.0%
2022	6,867,256	6,952,548	98.8%	25.0%
2023	8,479,395	6,347,677	133.6%	25.0%
2024	7,545,290	6,927,862	108.9%	25.0%
2025	6,412,093	7,772,863	82.5%	25.0%

- Over the last two fiscal years, the City's unrestricted net assets have declined by approximately $2.1 million. While still well above the City's policy benchmark, the City will need to monitor compliance with this benchmark if this decline in unrestricted net assets is expected to continue.

- **While Davenport would not recommend a change to the City's current policy target, similarly to the General Fund reserve policy, Davenport would recommend the following additions:**
  - If unrestricted net assets were to fall below the 25% benchmark, City Council would adopt a replenishment plan to restore unrestricted net asset to 25% of Operating Expenses within three years.
  - The City will review the Water & Sewer Fund reserve policy at least every three years as part of the budget process to ensure that the current policies are still in line with industry best practices and like-rated peers.

Source: FY 2016 – 2025 ACFRs.

Next Steps

Next Steps

- Davenport will be available to answer any questions about this presentation or the proposed Fiscal Policies.
- Work with the City to draft updated reserve policy based on feedback from City Council after the Fiscal Year 2026 Audit is finalized.
- City Council to adopt updated reserve policy.

Municipal Advisor Disclosure

The enclosed information relates to an existing or potential municipal advisor engagement.

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