Davenport & Company

Discussion Materials Prepared for:

City of Annapolis, Maryland

Saturday, January 11, 2014

DRAFT WORKING PAPERS AS OF 1/7/2014

Agenda Items

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Introduction & Presentation Objectives

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- Davenport & Company LLC ("Davenport") serves the City of Annapolis ("City") as Financial Advisor. The role of the Financial Advisor is to provide unbiased, independent advice in the areas of bond issuance, credit rating management, and strategic financial planning.
  - By rule, a municipal financial advisor has a fiduciary duty to put the City's interests ahead of its own interests.
- Davenport serves the majority of counties in Maryland as Financial Advisor, as well as several cities/towns in the Baltimore-Washington region, including Alexandria, Bowie, Fairfax, Falls Church, Frederick, Leesburg, and Vienna.
- Messrs. Ketterman and Mason have a combined 50+ years of experience in public finance, having served at various times as an issuer official, a senior credit rating executive, and a financial advisor.
- Today's presentation is intended to offer a data-driven, third party perspective on the City's recent financial challenges and path to fiscal recovery.

Credit Ratings

What are Credit Ratings?

- Shorthand symbol for credit risk.

- Provided by three major firms: Moody's Investors Service ("Moody's"), Standard & Poor's (S&P) and Fitch Ratings ("Fitch"), plus some very small niche firms.

- An opinion that measures **ability** and **willingness** to pay on time and in full.

- Most, if not all, cities in Maryland have one or more ratings and many use all three Rating Agencies.

The Importance of Credit Ratings to Annapolis

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- Drive the cost of capital – good ratings lower future debt service, placing less pressure on the budget.
- Enhance opportunities to capture refunding savings when market conditions permit.
- Provide market access and liquidity, even during turbulent economic times.
- Support economic development by being seen as a creditworthy partner.
- Provide independent feedback on City management and community direction.

Credit Spreads versus the 30 Year AAA MMD			
June 2003- September 2008			
Rating	Min	Max	Average
AA	0.04%	0.15%	0.10%
A	0.15%	0.60%	0.28%
BBB	0.30%	1.00%	0.56%
October 2008- Present			
Rating	Min	Max	Average
AA	0.08%	0.33%	0.20%
A	0.39%	1.26%	0.79%
BBB	0.79%	2.58%	1.66%

Source: Thomson Reuters Municipal Market Data ("MMD") curve.

The City's Historical Credit Ratings

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- The City holds a General Obligation credit rating with each of the three major Credit Rating Agencies.

- A history of the City's rating with these Agencies is shown below and on the following page:

Moody's			
Rating	Action	Outlook	Date
Aa3	Affirmed	Positive	May 2013
Aa3	Affirmed	Stable	June 2012
Aa3	Downgraded	Negative	March 2011
Aa1	Affirmed	--	December 2010
Aa1	Revised	--	May 2010
Aa2	Affirmed	--	June 2009
Aa2		--	January 1998
Aa		--	1986

Source: Moody's Rating Analysts.

The City's Historical Credit Ratings (continued)

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- The City's historical S&P and Fitch ratings are as follows:

Standard & Poor's			
Rating	Action	Outlook	Date
AA+	Upgraded	Stable	May 2013
AA	Upgraded	Stable	November 2001
AA-	Upgraded	Stable	April 1995
A+	Upgraded	Stable	August 1991
A+	Upgraded	--	January 1988
A	Upgraded	--	June 1986
A-	Upgraded	--	October 1984
BBB+	Downgraded	--	October 1982
A+		--	November 1974

Fitch			
Rating	Action	Outlook	Date
AA+	Affirmed	Negative	May 2013
AA+	Affirmed	Stable	June 2012
AA+	Downgraded	Stable	March 2011
AAA	Revised	Stable	April 2010
AA+	Affirmed	Stable	June 2009
AA+	Affirmed	Stable	August 2007
AA+	Affirmed	Stable	August 2005
AA+	Affirmed	Stable	June 2003
AA+	Initial	--	November 2002

Source: S&P and Fitch Rating Analysts.

The City's Current Credit Ratings

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- Affirmed most recently in May 2013, the City enjoys very strong General Obligation credit ratings, as shown in the table below:

	Moody's	S&P	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)
5th – 10th Tiers "Below Investment Grade"	Ba, BB, B, Caa, CCC, Ca, CC, C, D			

Credit Rating Factors

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- As shown on the previous page, the City has achieved very high credit ratings.
- Each of the three major Rating Agencies considers essentially four primary factors when evaluating a credit applicant.
- The four primary factors and subcategories are as follows:

  1. Economic Strength
     - Size and Growth Trend;
     - Type of Economy;
     - Socioeconomic and Demographic Profile; and,
     - Workforce Profile.

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Credit Rating Factors (continued)

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2. Financial Strength

    - Balance Sheet and Liquidity;
    - Operating Flexibility; and,
    - Budgetary Performance.

3. Management and Governance

    - Financial Planning and Budgeting;
    - Debt Management and Capital Planning;
    - Management of Economy and Tax Base; and,
    - Governing Structure.

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Credit Rating Factors (continued)

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4. Debt Profile

- Debt Burden;
- Debt Structure;
- Debt Management and Financial Flexibility; and,
- Other Long-Term Commitments and Liabilities.

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Rating Process

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- The rating process begins with a rating presentation conducted by the Mayor, certain Senior Staff and Davenport. The presentation is very detailed and the material is reviewed and rehearsed prior to the actual meetings.
- The meetings, which may be held in either New York or in the City, usually last approximately 1.5 hours, including a period of follow-up questions by the primary Rating Analysts.
- Upon the conclusion of the rating meetings, the Analysts will evaluate the materials presented in conjunction with Federal and in-house databases to arrive at a recommended rating level.
- The actual final rating will be determined by a committee of 4-6 Rating Analysts who will vote on a specific rating following a presentation and discussion by the primary Analysts.
- The Analysts will notify the City by phone of the rating results and upon acknowledgement will issue a written rating report.

Recent Financial Problems & Recovery

Recent Financial Problems

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- The 2000s saw a tremendous increase the City's property tax base and a high water mark in the City's fund balance reserves. Operating budget growth was obtainable without the need for changes to tax and fee recovery policy.

- As did many of its peers and neighbors, Annapolis chose to strategically use these accumulated resources (those in excess of the then informal fund balance policy) on one-time capital expenditures and to balance the operating budget. In essence the City accelerated its pay-as-you-go capital funding in lieu of taking on additional debt.

- This strategy seemed to work as the City's unreserved general fund balance gradually dropped from nearly 60% of budget in 2000, down to about 20% of budget in fiscal year 2007, but still ahead of its policy target of 15%.

- The City continued to take the same approach to its operating and capital budgets in fiscal years 2008 and 2009, again without any changes to revenue policy. Unfortunately, because of the previous spend down of reserves, the City was left with a diminished margin for error.

Recent Financial Problems (continued)

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- The fall of 2008 witnessed the financial crisis and a deepening of the recession that began in late 2007. Revenue growth flattened overall, but expenditure levels were not commensurately pared back, leading to further reductions in reserves.
- The fiscal year 2009 budget was adopted with a use of fund balance of $1.8 million, ostensibly for one-time capital expenditures. The actual drop in fund balance for the year was $4.5 million, with recessionary revenue shortfalls and a litigation settlement contributing to the higher than expected deficit. The City fell below its minimum fund balance policy floor of 10% of budget, ending at 8.0%.
- By early 2010, the City's cash position was largely depleted and it was experiencing a cash flow crisis. The City had to resort to external liquidity (a credit line from Bank of America) to fund its operations. City staff arranged this bank loan, without consultation with Davenport. The City is fortunate that its liquidity crisis occurred in spring 2010, rather than fall of 2008, when the credit markets seized up on a world-wide basis.

Recent Financial Problems (continued)

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- Recognizing that there were structural problems with the fiscal year 2010 budget, the City's new Mayor, with the support of City Council, froze discretionary spending, instituted layoffs, and took other budget balancing actions. The expenditure reductions were not sufficient to overcome revenue shortfalls and the year ended with a $1.3 million deficit, with fund balance falling to 6.2% of budget.

- During this time, it also came to light that the City's former Finance Director was using bond proceeds to fund operations and subsequently reimbursing the capital projects fund from future tax revenue. The problem was that the City was not generating sufficient revenue to repay the internal loan. This led to a second Bank of America line of credit.
  - While this practice is not technically illegal, it is a clear violation of financial best practices, which call for segregating bond proceeds for their intended purposes.
  - Neither City Council nor Davenport was aware of the former Finance Director's actions until shortly before he resigned in late summer of 2010.

- In December 2010, Moody's Investors Service became the first credit rating agency to recognize the deterioration in the City's financial condition by placing the City's Aa1 general obligation rating on Negative Watch.

Financial Recovery

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- The fiscal year 2011 budget was the first developed by the Cohen Administration and it took several steps toward improving the City's finances:
  - Overall reduction in spending of nearly 14%;
  - Increased enterprise fund fees to reduce the drain on the General Fund; and,
  - Reduced estimated revenue by over 11% to more attainable levels.

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Financial Recovery (continued)

- The City Manager and new Finance Director knew, however, that the City was not going to be able to cut its way to prosperity. They therefore supported Davenport's recommendation to restructure a portion of the City's outstanding debt to simultaneously address the following:
  - City required capital improvements of nearly $97M through fiscal year 2016. Of that total, approximately $25M represented mandated capital water projects required to be funded in the near term.
  - Based on operating requirements of the utility and the previously incurred debt service costs, substantial utility rate increases would be required.
  - The City was dangerously reliant on external liquidity, which it might not have affordable access to if either market conditions deteriorated or the City's credit ratings were substantially downgraded.
- In spring of fiscal year 2011, the City sold the restructured financing of approximately $30M out of its outstanding indebtedness of $85.4M.

Financial Recovery: 2011 Restructuring

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- The major goals achieved in the Restructuring were:
  - Provided immediate cash flow savings to the General Fund to bolster reserves and mitigate need for cash flow borrowings;
  - Obtain adequate funding for CIP, particularly the mandated utility projects; and,
  - Minimize utility rate requirements in meeting existing and proposed debt service.

- The City’s goals were met and in the process “freed” nearly $18M in cash flow relief over 8 fiscal years compared to the then existing debt service.

Financial Recovery: 2011 to Present

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- Davenport advised the City to expect one or more downgrades in connection with the Restructuring. The nearly decade long decline in City reserves, coupled with the liquidity crisis, and the misuse of bond proceeds were more than enough to elicit a negative response from the rating agencies. Ultimately, Moody's lowered the rating two notches to Aa3 and kept it on Negative Outlook, while Fitch cut its rating to AA+ (Stable) from AAA. S&P did not change its rating in 2011.

- While the downgrades were not welcome news, all three rating agencies gave the City officials who visited them high marks for addressing the City's problems head on and in a very transparent manner.

- Additional spending restraint and modest revenue enhancements in fiscal years 2012 and 2013 further bolstered the City's fund balance to the point that it has been able to all but eliminate short-term external borrowing. The City can once again rely upon its own working capital reserves to operate. External borrowing reached a peak of $18 million in 2009.

- The City is once again fully compliant with its adopted financial policies for fund balance.

- As of May 2013, the City's rating with Moody's, the most punitive agency in 2011, has a positive outlook and S&P upgraded its rating to AA+.

Other Managerial and Financial Highlights

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- Restructured the operations of the Transit System to substantially reduce deficits.
- Based upon recommendations of independent auditing firm and bond counsel, took appropriate steps to segregate and restrict bond proceeds.
- Further delegation of specific duties and cross training of Finance employees to reduce “key person” risk.
- Installation of additional Munis models, such as: Fixed Assets, Human Resources and Budget. In process of implementing Utility Billing Model.
- Improved cash management controls with implementation of new banking services.
- Improved internal control environment with additional staff.

Other Managerial and Financial Highlights (continued)

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- Enhanced reporting score and accuracy.
- Implemented Financial Best Practices and Policies, including Debt and Cash Management and Tax-Exempt Issuance Procedures.
- Improved Budget Practices, Strategic Planning and Pro-Forma Analysis.
- Implemented Financial Advisory Commission Work Plan.
- Established detailed multi-year CIP.

Past Refunding Opportunities

Past Refunding Opportunities

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- Davenport maintains a database of all outstanding client bond issues. Performing a regular refunding or refinancing analysis, we are able to recommend bond refundings to issuers as soon as market conditions permit.

- These bond refundings have realized significant debt service or budgetary savings for the issuers well into the future.

- The pages that follow provide more detail for recent successful bond refundings conducted by the City.

Series 2013 Refunding of Series 2005A and B

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- In 2013, the City refunded its portion of the Series 2005A and B Park Place Project Bonds by issuing both taxable and tax-exempt direct bank loans with SunTrust. In total, the refunding transaction represented $6.8 million in debt service savings, **$3.5 million** of which was related to the City's portion.

Debt Service Comparison: City Portion of 2013 Refunding			
Fiscal Year	Existing Debt Service	Refunding Debt Service	Debt Service Savings
2014	$325,449	$83,966	$241,483
2015	857,207	403,036	454,171
2016	876,030	584,437	291,592
2017	893,844	641,314	252,530
2018	913,542	701,240	212,302
2019	932,598	754,215	178,383
2020	951,530	810,240	141,291
2021	972,000	854,343	117,656
2022	992,067	871,970	120,097
2023	1,012,223	898,278	113,945
2024	1,033,508	918,168	115,341
2025	1,055,154	936,738	118,416
2026	1,076,418	963,828	112,590
2027	1,098,342	984,341	114,002
2028	1,120,739	1,008,275	112,464
2029	1,020,414	902,624	117,790
2030	952,530	833,932	118,597
2031	970,673	855,207	115,466
2032	988,686	870,064	118,622
2033	1,006,993	893,407	113,586
2034	1,025,985	910,138	115,846
2035	439,247	327,496	111,752
Total	**$20,515,178**	**$17,007,255**	**$3,507,922**

Note: Debt service savings figures above are for the City's portion of the Series 2013 Refunding only (taxable and tax-exempt direct bank loans). Existing debt service and refunding debt service shown net of debt service reserve funds in fiscal year 2035.

Series 2012 Refunding

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- In 2012, the City competitively sold a series of bonds for new money and refunding purposes. The refunding portion generated more than **$350,000** of debt service savings, structured to maximize the impact of the savings in fiscal year 2013 in order to provide budgetary relief for the upcoming year.

Debt Service Comparison: 2012 Refunding			
Fiscal Year	Existing Debt Service	Refunding Debt Service	Debt Service Savings
2013	$541,300	$287,592	$253,708
2014	529,700	475,950	53,750
2015	494,000	490,125	3,875
2016	494,000	489,075	4,925
2017	494,000	488,025	5,975
2018	1,243,700	1,236,500	7,200
2019	1,242,500	1,238,800	3,700
2020	1,235,200	1,229,900	5,300
2021	1,236,700	1,234,700	2,000
2022	2,915,931	2,908,800	7,131
2023	2,915,300	2,910,800	4,500
2024	1,063,538	1,061,100	2,438
2025	1,058,216	1,056,350	1,866
2026	1,056,347	1,055,600	747
Total	**$16,520,431**	**$16,163,317**	**$357,114**

Financial Policy Guidelines

Financial Policy Guidelines

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- The City's current Financial Policy guidelines are as follows:

  - **Debt as a Percentage of Assessed Value**

    The City will maintain its net bonded debt at a level not to exceed a ceiling of 3% of the assessed valuation of taxable property within the City, with a target ratio of 2%.

  - **Debt Service as a Percentage of General Government Expenditures**

    The City will maintain its annual net bonded debt service costs at a ceiling of 10% of the General Fund expenditures, with a target ratio of 8%.

  - **Debt Payout Ratio**

    The City will maintain a ten-year payout ratio (i.e. rate of principal amortization) for its net bonded debt of not less than 65%.

  - **Fund Balance**

    The City will maintain an unreserved General Fund balance at a level not less than 10% and a target of 15% of operating expenses of all funds.

Debt to Assessed Value

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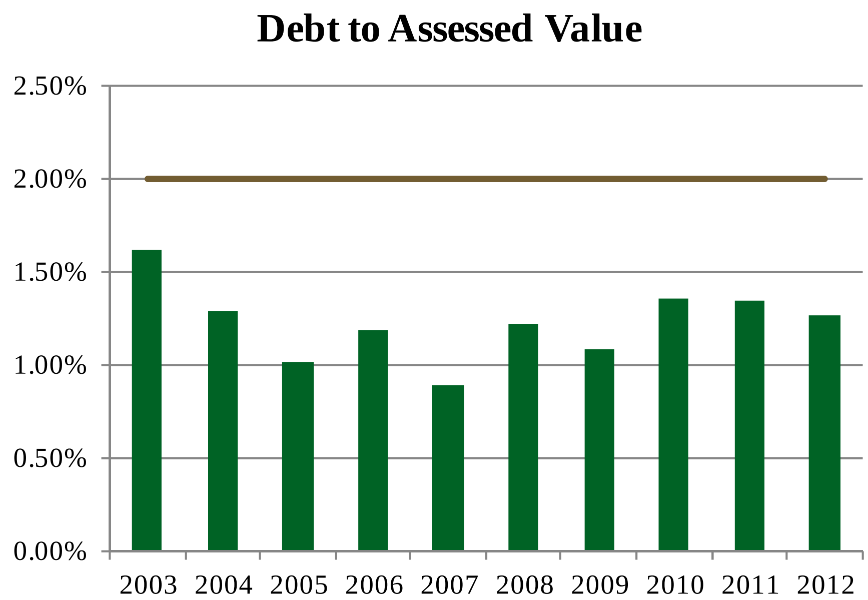
- The City's Debt to Assessed Value ratio has consistently remained well below the target policy level of 2%.

Fiscal Year	Total Bonded Debt	Assessed Value	Debt to Assessed Value	Policy
2003	$45,046,122	$2,786,719,148	1.62%	2.00%
2004	41,397,654	3,224,255,118	1.28%	2.00%
2005	37,595,196	3,709,072,022	1.01%	2.00%
2006	49,108,046	4,150,982,690	1.18%	2.00%
2007	44,838,310	5,043,267,785	0.89%	2.00%
2008	71,637,175	5,911,023,962	1.21%	2.00%
2009	65,358,273	6,040,939,755	1.08%	2.00%
2010	85,231,540	6,323,061,027	1.35%	2.00%
2011	86,590,528	6,437,267,368	1.35%	2.00%
2012	83,593,680	6,640,303,945	1.26%	2.00%



Source: Fiscal Year 2012 Comprehensive Annual Financial Report, City of Annapolis Finance Department.

Debt Service to Expenditures

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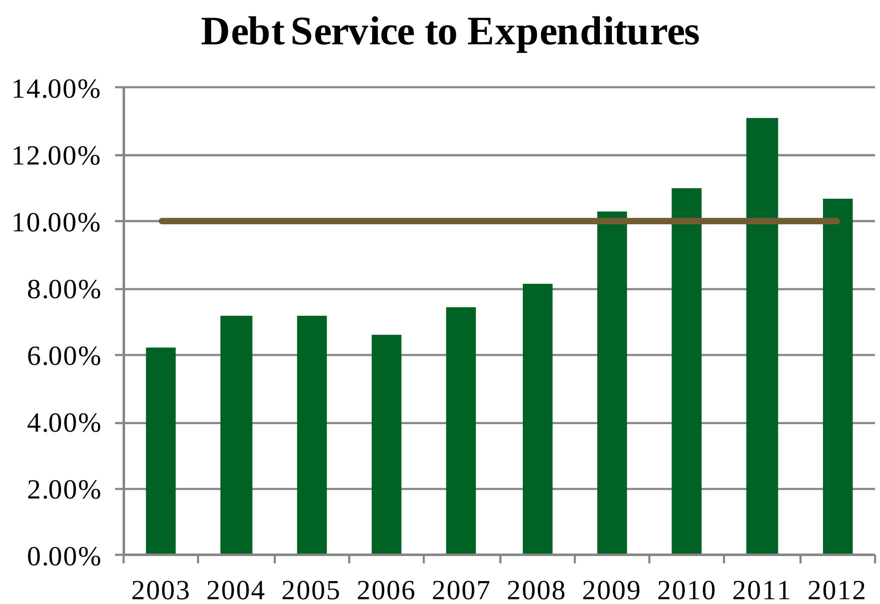
- The City's Debt Service to Expenditures level is returning to within its target level of 10%.

Fiscal Year	Debt Service for General Bonded Debt	General Fund Expenditures	Debt Service to Expenditures	Policy
2003	$2,258,349	$36,339,285	6.21%	10.00%
2004	2,668,063	37,141,662	7.18%	10.00%
2005	2,786,989	38,745,129	7.19%	10.00%
2006	2,838,210	43,026,881	6.60%	10.00%
2007	3,315,079	44,507,379	7.45%	10.00%
2008	4,024,243	49,587,770	8.12%	10.00%
2009	6,029,119	58,555,154	10.30%	10.00%
2010	6,702,986	61,011,983	10.99%	10.00%
2011	6,624,230	50,627,948	13.08%	10.00%
2012	5,669,944	53,173,675	10.66%	10.00%



Source: Fiscal Year 2012 Comprehensive Annual Financial Report, City of Annapolis Finance Department.

Debt Payout Ratio

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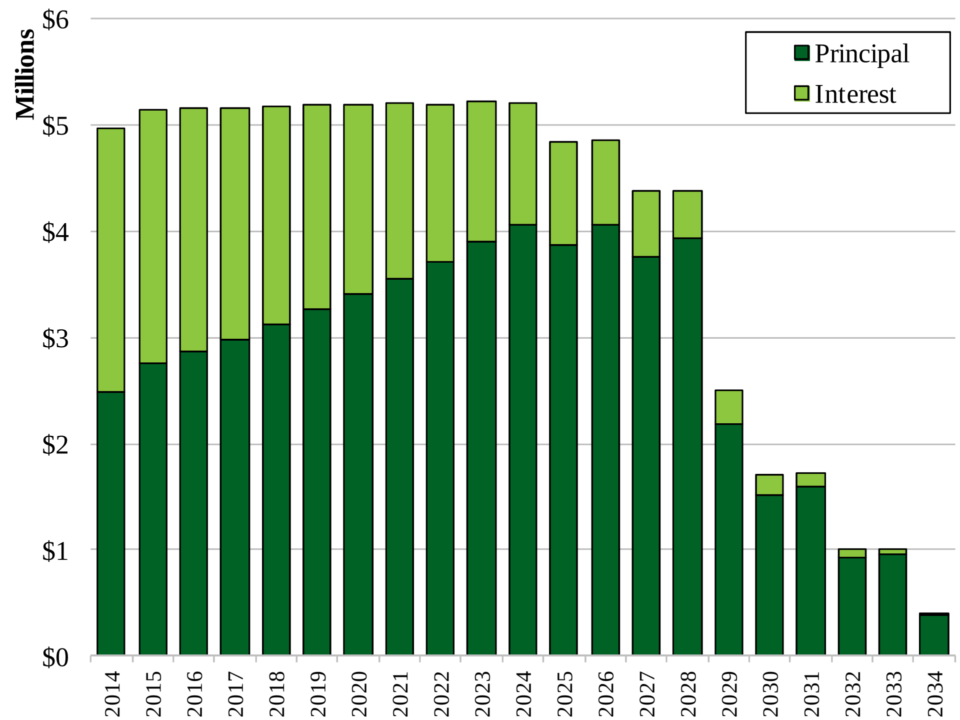
- The City's ten-year payout ratio, which is currently 61%, is slightly below its Financial Policy Guidelines level of 65%, but is above the "Best Practices" level of 50%.

General Fund Debt Profile				
Fiscal Year	Principal	Interest	Total	Payout Ratio
Total	**$59,253,034**	**$24,291,684**	**$83,544,718**	
2014	$2,485,936	$2,473,285	$4,959,221	4.2%
2015	2,749,787	2,395,434	5,145,221	8.8%
2016	2,861,813	2,288,459	5,150,272	13.7%
2017	2,970,902	2,178,041	5,148,942	18.7%
2018	3,114,719	2,052,728	5,167,447	23.9%
2019	3,262,601	1,923,989	5,186,590	29.4%
2020	3,402,320	1,787,260	5,189,579	35.2%
2021	3,558,392	1,641,087	5,199,479	41.2%
2022	3,712,258	1,481,556	5,193,814	47.5%
2023	3,899,983	1,317,431	5,217,414	54.0%
2024	4,061,408	1,143,414	5,204,822	60.9%
2025	3,870,262	968,694	4,838,957	67.4%
2026	4,051,457	795,185	4,846,642	74.3%
2027	3,754,641	621,722	4,376,363	80.6%
2028	3,930,376	447,060	4,377,436	87.2%
2029	2,186,110	310,798	2,496,909	90.9%
2030	1,509,794	203,840	1,713,634	93.5%
2031	1,590,639	133,396	1,724,035	96.2%
2032	923,291	77,877	1,001,168	97.7%
2033	965,943	38,228	1,004,171	99.3%
2034	390,402	12,200	402,602	100.0%



Note: General Fund (i.e. Tax-Supported) debt shown above as of 6/30/2013. Includes General Fund portion of Series 2013 G.O. Bonds.

Resolution on Replenishing Fund Balance

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- In June 2010, the City adopted the following Resolution to restore Fund Balance levels to be in compliance with its Financial Policy guidelines. This compliance was achieved in fiscal year 2012, ahead of the schedule detailed in the Resolution.

CITY COUNCIL OF THE CITY OF ANNAPOLIS

RESOLUTION NO. R-21-10

Introduced by Mayor Cohen

LEGISLATIVE HISTORY			
First Reading:	Public Hearing:	Fiscal Impact Note:	180 Day Rule:
06/07/10	06/14/10	06/11/10	12/11/10
Referred to:	Referral Date:	Meeting Date:	Action Taken:
Finance Committee	06/07/10		
Rules & City Gov't	06/07/10		
		Travels with O-22-10	

A RESOLUTION concerning

Budgetary Reserve Funding Policy

FOR the purpose of approving a Budgetary Reserve Policy for the City of Annapolis.

WHEREAS, for Fiscal Year 2010, the City of Annapolis will not have maintained an unreserved general fund balance at the target of fifteen percent as established in the City Debt and Financial Administration Policy in Resolution R-38-07; and

WHEREAS, the City of Annapolis seeks to meet this target by Fiscal Year 2014 and to set forth the means by which to do so; and

WHEREAS, establishing a policy to provide for the consistent and gradual replenishment of reserve funds is in the City's best interests.

NOW THEREFORE BE IT RESOLVED BY THE ANNAPOLIS CITY COUNCIL that the City's Budgetary Reserve Policy shall be as follows:

BUDGETARY RESERVE POLICY

EFFECTIVE DATE: JULY 1, 2011

Effective July 1, 2011, the City shall maintain a fund balance at a level not less than ten percent and a target of fifteen percent of operating expenses for all funds. Included in this

balance, at least five percent shall be in cash or cash equivalents, readily available to pay current expenses.

Should the targeted fund balance of fifteen percent, including at least five percent in cash, not be reached, the City Council shall allocate fifty percent of any increases in income and property tax revenues above the prior fiscal year's base to fund the reserves.

Should the targeted fund balance of fifteen percent, including at least five percent in cash of cash equivalents, not be achieved by other means, in the Fiscal Year 2012 and Fiscal Year 2013 budget the City Council shall allocate fifty percent of any increases in income and property tax revenues above the prior fiscal year's base in order to fund the reserves.

Should the targeted fund balance of fifteen percent, including at least five percent in cash or cash equivalents, not be replenished by the conclusion of Fiscal year 2013, the Council shall appropriate all necessary funds to satisfy the target reserve of fifteen percent as part of the Fiscal Year 2014 budget.

ADOPTED this 14th day of June, 2010.

ATTEST:	**THE ANNAPOLIS CITY COUNCIL**
______________________	BY: ______________________
Regina C. Watkins-Eldridge, MMC	**JOSHUA J. COHEN, MAYOR**
City Clerk	

Fund Balance

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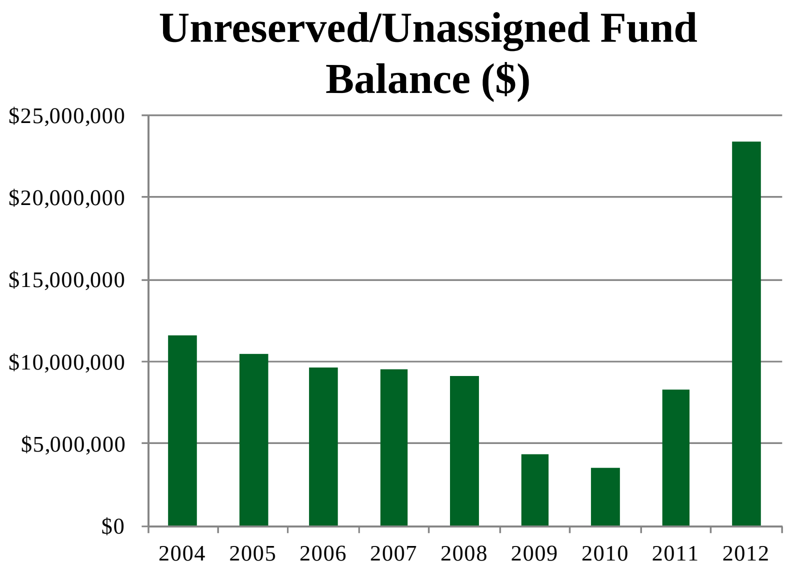
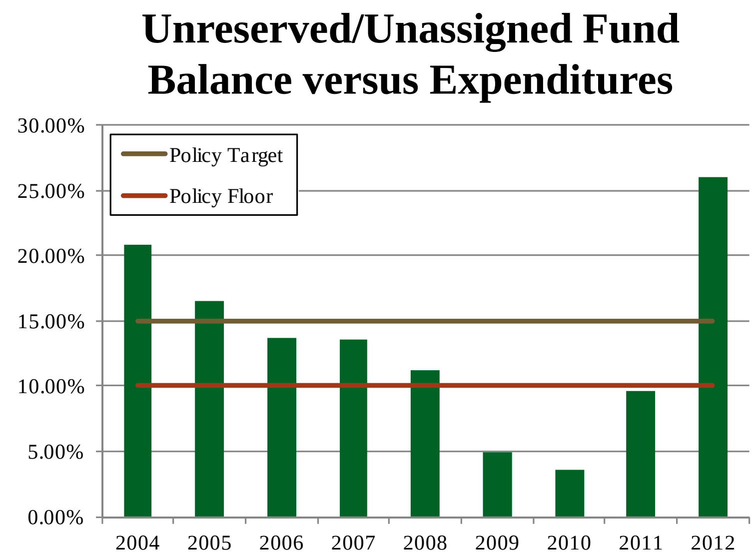
- The City returned to compliance with its Fund Balance policy during fiscal year 2012.





Fiscal Year	Total Expenditures	Unreserved/ Unassigned Fund Balance	Fund Balance versus Total Expenditures	Policy Floor	Policy Target
2004	$56,012,205	$11,649,131	20.80%	10.00%	15.00%
2005	63,814,997	10,515,594	16.48%	10.00%	15.00%
2006	70,581,705	9,619,912	13.63%	10.00%	15.00%
2007	70,305,180	9,534,721	13.56%	10.00%	15.00%
2008	81,521,893	9,124,610	11.19%	10.00%	15.00%
2009	89,024,457	4,407,708	4.95%	10.00%	15.00%
2010	97,060,845	3,478,434	3.58%	10.00%	15.00%
2011	85,527,393	8,279,541	9.68%	10.00%	15.00%
2012	90,057,973	23,387,107	25.97%	10.00%	15.00%

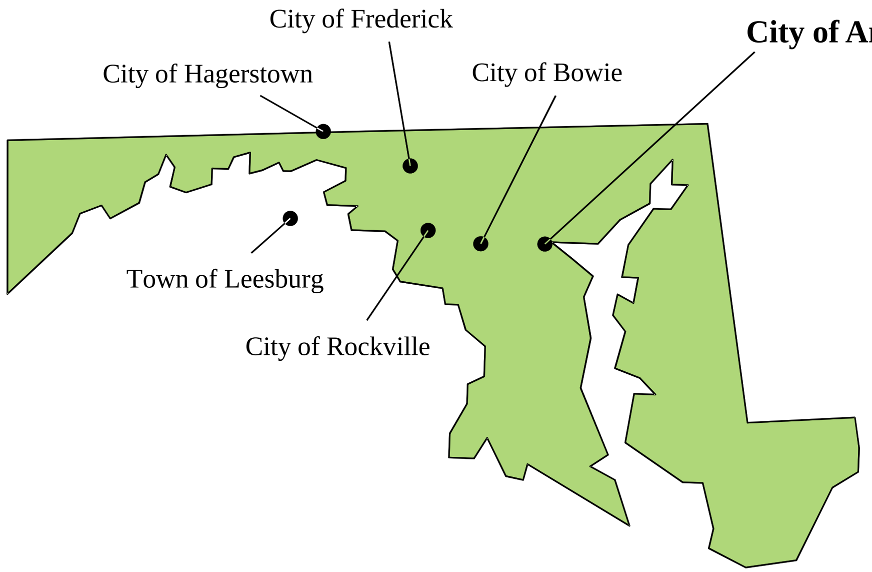
Note: For Fiscal Years 2011 and 2012, the Policy is calculated using Unassigned Fund Balance in accordance with GASB-54 standards.
Source: Fiscal Year 2012 Comprehensive Annual Financial Report, City of Annapolis Finance Department.

Peer Comparatives

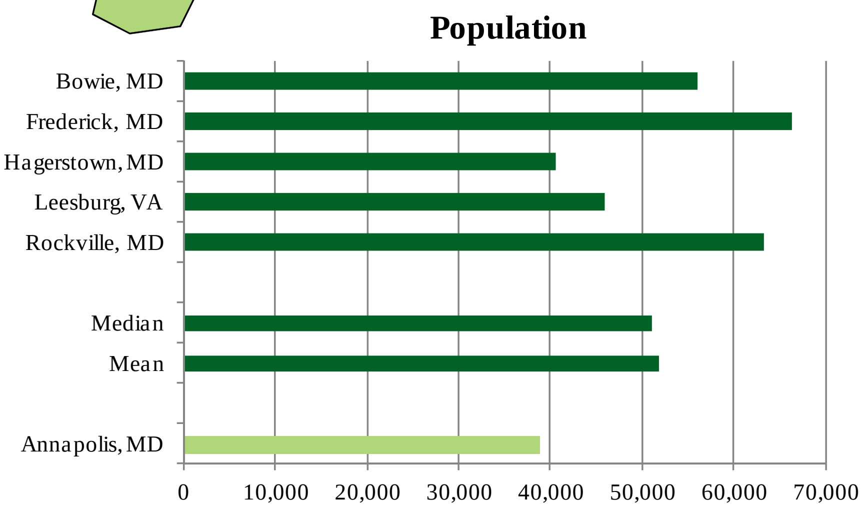
Peer Comparatives

DRAFT AS OF 1/7/2014

- The City of Annapolis compares favorably to other highly-rated cities/towns with similar populations in Maryland/Northern Virginia, as shown on the following pages.



Locality	Moody's	S&P	Fitch	Population
Bowie, MD	Aaa	AAA	AAA	56,129
Frederick, MD	Aa2	AA	AA+	66,382
Hagerstown, MD	Aa3	AA-	NR	40,638
Leesburg, VA	Aa1	AA+	AA+	45,936
Rockville, MD	Aaa	AAA	NR	63,244
Annapolis, MD	Aa3	AA+	AA+	38,620

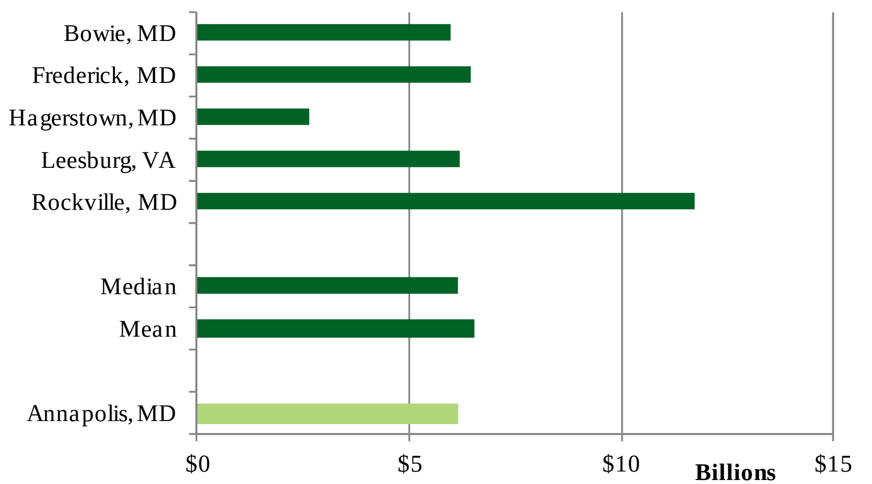


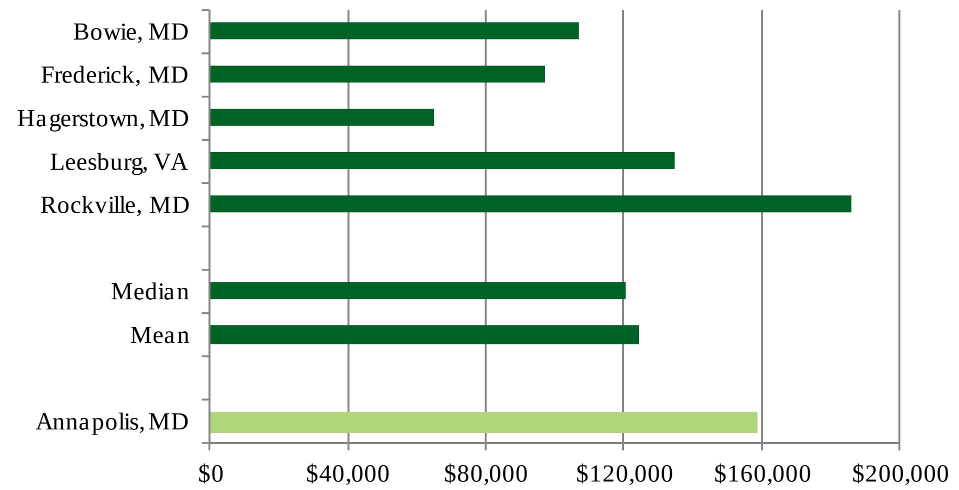
Source: Websites for Moody's/S&P/Fitch, respectively. Population Data is July 1, 2012 estimate per U.S. Census Bureau.
Note: All figures for the "Peer Comparatives" section from the Fiscal Year 2013 CAFR for each locality, except for City of Annapolis (figures from Fiscal Year 2012 CAFR, 2013 CAFR not available at the time of this presentation), unless otherwise noted.

Peer Comparatives: Assessed Value

DRAFT AS OF 1/7/2014

- The City's Taxable Assessed Value Per Capita is one of the highest of its Peer Group.





Locality	Total Taxable Assessed Value	Population	Assessed Value Per Capita
Bowie, MD	$5,985,918,000	56,129	$106,646
Frederick, MD	6,436,438,423	66,382	96,961
Hagerstown, MD	2,638,213,000	40,638	64,920
Leesburg, VA	6,196,965,138	45,936	134,904
Rockville, MD	11,746,203,658	63,244	185,728
Median	6,196,965,138	51,033	120,775
Mean	6,600,747,644	51,825	124,523
Annapolis, MD	$6,101,252,965	38,620	$157,982

Note: Total Assessed Value for City of Annapolis is estimate for Fiscal Year 2013 per City Finance Department.

Peer Comparatives: Debt to Assessed Value

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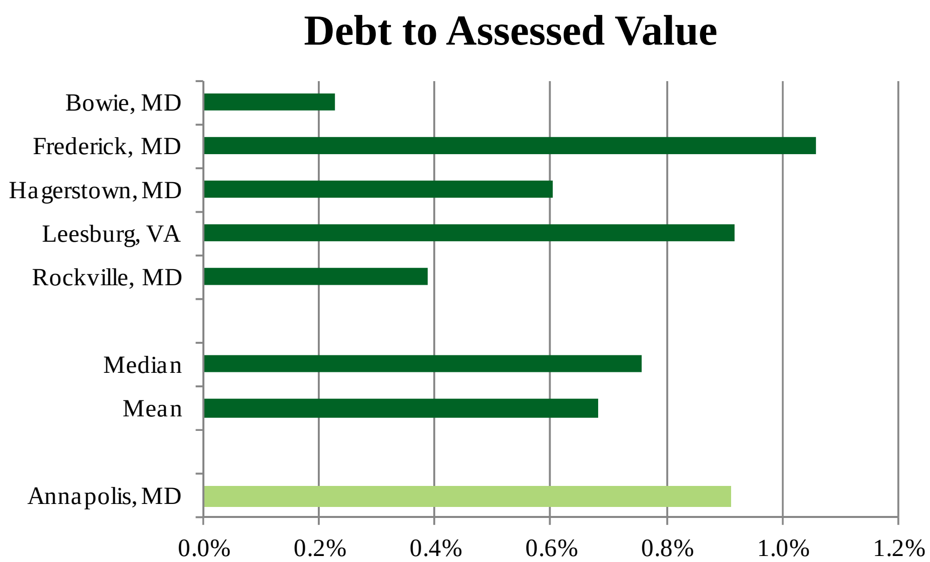
- The City's Debt to Assessed Value level is in line with its Peer Group.



Locality	Tax-Supported Debt	Total Taxable Assessed Value	Debt to Assessed Value
Bowie, MD	$13,502,021	$5,985,918,000	0.2%
Frederick, MD	68,051,645	6,436,438,423	1.1%
Hagerstown, MD	15,947,901	2,638,213,000	0.6%
Leesburg, VA	56,889,341	6,196,965,138	0.9%
Rockville, MD	45,381,206	11,746,203,658	0.4%
Median	45,381,206	6,149,109,052	0.8%
Mean	39,954,423	6,517,498,531	0.7%
Annapolis, MD	$55,413,563	$6,101,252,965	0.9%

Note: Total Assessed Value for City of Annapolis is estimate for Fiscal Year 2013 per City Finance Department.

Peer Comparatives: Debt Service to Expenditures

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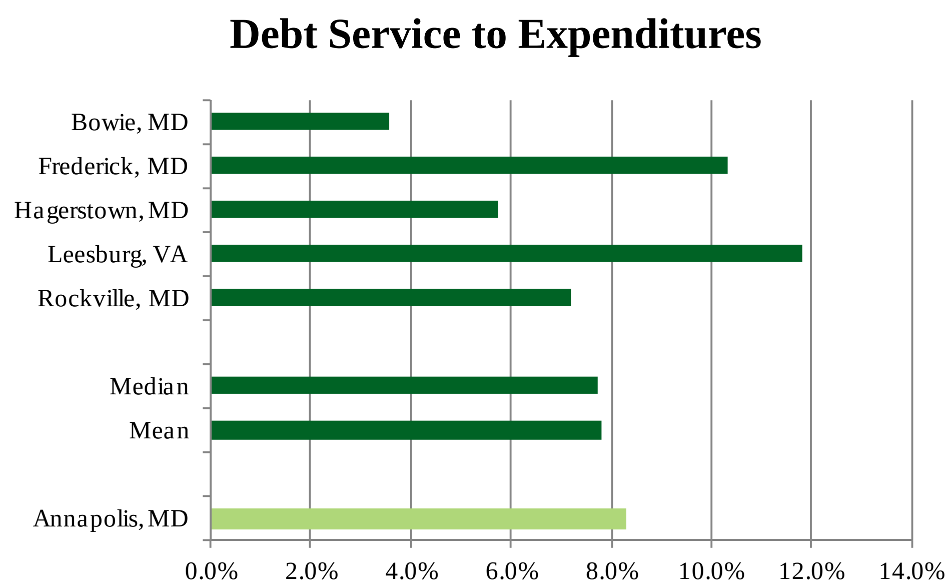
- The City's Debt Service to Expenditures level is similar to its Peer Group.



Locality	General Fund Debt Service	General Fund Expenditures	Debt Service to Expenditures
Bowie, MD	$1,301,031	$36,407,831	3.6%
Frederick, MD	6,996,252	67,791,989	10.3%
Hagerstown, MD	2,031,024	35,476,597	5.7%
Leesburg, VA	5,724,783	48,531,008	11.8%
Rockville, MD	4,700,000	65,345,802	7.2%
Median	4,700,000	50,202,734	7.7%
Mean	4,150,618	50,904,614	7.8%
Annapolis, MD	$4,281,835	$51,874,459	8.3%

Peer Comparatives: Fund Balance

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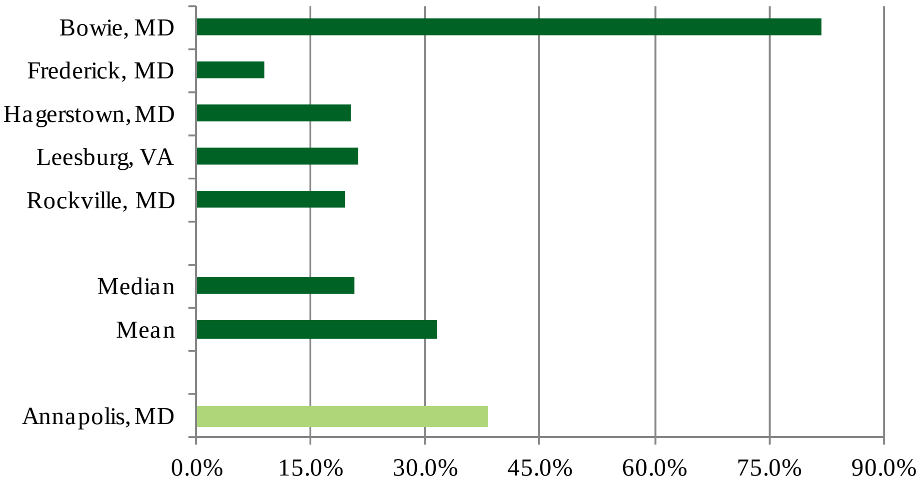
- The City has a strong Fund Balance level compared to its Peer Group.

Unassigned Fund Balance versus Revenues



Locality	Unassigned Fund Balance	General Fund Revenues	Fund Balance versus Revenues
Bowie, MD	$34,469,586	$42,102,366	81.9%
Frederick, MD	5,945,753	66,717,614	8.9%
Hagerstown, MD	7,668,912	37,972,189	20.2%
Leesburg, VA	10,041,113	47,095,711	21.3%
Rockville, MD	13,226,677	68,114,370	19.4%
Median	10,041,113	54,457,303	20.8%
Mean	14,270,408	53,970,191	31.6%
Annapolis, MD	$23,387,107	$61,818,895	37.8%

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