

FITCH AFFIRMS BOWIE, MD'S GOS AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-19 March 2015: Fitch Ratings has affirmed the 'AAA' rating on the following city of Bowie, Maryland (the city) general obligation bonds (GOs):

-- \$12.7 million GO bonds, series 2009.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the city, payable from its unlimited taxing power.

KEY RATING DRIVERS

STRONG FINANCIAL PROFILE: City finances are strong, aided by conservative budgeting practices and featuring a trend of operating surpluses and ample reserves.

ABOVE-AVERAGE SOCIOECONOMIC FACTORS: City wealth and income levels are above average and unemployment is low relative to state and national levels. The city benefits from its proximity to Washington, D.C. and Baltimore.

MODERATE DEBT BURDEN: City debt levels including overlapping debt are moderate and should remain so even with additional expected debt issuance. Overall carrying costs, including debt service, pension, and other post-employment benefits (OPEB) are modest.

RATING SENSITIVITY

The rating is sensitive to shifts in fundamental credit characteristics, including the city's strong financial management practices. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

Bowie is located approximately 20 miles northeast of Washington, D.C. and 30 miles south of Baltimore. Bowie is the largest municipality in Prince George's County (GOs rated 'AAA' with a Stable Outlook by Fitch) with an estimated 2013 population of 56,759.

STRONG FINANCIAL PROFILE

City finances are solid, benefitting from conservative budgeting and sound financial policies that have resulted in a trend of general fund operating surpluses and strong reserve levels. Fiscal 2014 ended with a \$1.1 million surplus that increased the unrestricted fund balance to \$39.1 million, or 93.3% of spending. Reserves remain well above the city's prudent 25% reserve policy.

The mid-year adjusted fiscal 2015 budget assumes use of \$3.8 million in existing fund balance, driven by capital spending. Management, however, is currently forecasting a lower draw (about \$2 million) primarily attributable to lower expenditures, including lower capital costs, as certain projects

budgeted for fiscal 2015 are not expected to be completed within the year. The city has a history of actual results outperforming budgeted estimates.

The city's tax rate of \$0.40 per \$100 of assessed value remains below average relative to other incorporated municipalities in the county. The fiscal 2015 budget kept the tax rate constant for a fifth consecutive year. Budgetary flexibility is derived from the city's ability to adjust its tax rate and levy without restriction or limit. The city has implemented tax rate increases in the past when needed, most recently in fiscal years 2009 and 2011 to offset reductions in state highway user revenues and to provide funding for public safety. In addition, management has indicated that, if needed going forward, there are available areas for cost reduction, particularly capital-related expenditures.

ABOVE-AVERAGE SOCIOECONOMIC INDICATORS

The city benefits from its proximity to large labor markets in Washington, D.C. and Baltimore, which adds breadth to the somewhat limited local economy. Unemployment levels have historically been below average. The city's December 2014 unemployment rate of 4.3% remains below comparable state (5.3%) and national (5.4%) averages. In addition to the city, county, and county schools, the city's top employers include several large retailers (Wal-Mart, Giant Foods, Lowe's, and Macy's), and Inovalon (a medical informatics service provider). Additionally, Bowie residents benefit from employment opportunities at the National Security Agency, Fort Meade, and Bowie State University, which are all located within 10 miles of the city limits. City wealth and income indicators are strong. Per capita money income is at 117% of state and 151% of national levels. The poverty rate (3.2%) is well below state (9.8%) and national (15.4%) averages.

The city's tax base is primarily residential (about 86%). Properties subject to triennial assessment for fiscal 2012 experienced significant value deterioration, resulting in a 7.3% decline in the city's taxable assessed value (TAV) to \$5.9 billion. TAV returned to growth in fiscal 2013 (1.3%), with continued growth in fiscal 2014 (2%) and projected growth for fiscal 2015 (1.7%). The city is projecting similar growth in the near term. The tax base is diverse, with the top taxpayer (a science and technology center) making up 2.5% of TAV and the top 10 (real estate, retail, and utility) at 9.4% of TAV.

MODERATE DEBT BURDEN

The city's overall debt ratios including overlapping debt are moderate at 2.5% of market value and \$2,777 per capita in fiscal 2014. City direct debt is low and debt service as a percentage of governmental spending is modest at 3.1%. The city is planning on issuing \$15.2 million in bonds in fiscal 2018 to fund the construction of an ice arena/ sports facility. Even with this issuance, debt levels would remain moderate.

The city's pension liability is limited to its annual contribution to a defined contribution 401(k) plan for general employees and participation in the state-administered Law Enforcement Officers' Pension System (LEOPS) for police officers. Other post-employment benefits (OPEB) are limited and are funded on a pay-go basis. The June 30, 2014 unfunded OPEB liability was \$528,000, about .01% of market value. Total carrying costs including debt service, LEOPS pension, and OPEB costs are modest at 5.5% in fiscal 2014.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

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