Davenport & Company

# Financial Briefing

## City of Petersburg, Virginia

March 15, 2016

# Table of Contents

# Background

- In 2011, Davenport was selected by the City of Petersburg (the "City") through a formal, competitive procurement process to provide the City with a formal, written "Financial Review" at the request of the then new City Administration.
  - Davenport was neither the day-to-day Financial Advisor to the City, nor were we directly involved with the City Administration prior to 2011.

- Davenport delivered our Financial Review dated July 9, 2012 to City Staff and provided a summary briefing to City Council on August 3, 2012
  - Our report contained several key observations with respect to declining performance in the General, Mass Transit, Golf and Utility Funds.
  - We recommended to pro-actively establish communication with the National Credit Rating agencies to provide complete disclosure of the City's financial position.
  - In addition, we provided key recommendations for "turning around" the City's financial condition.

- In 2014, Davenport was selected to serve in the capacity of Financial Advisor to the City through via a formal, competitive procurement process.  As Financial Advisor, Davenport assisted the City in establishing:
  - Pro-active Rating Agency communication with Standard & Poor's in order to provide fully transparent information about the City's historic and most recent financial condition.
    - In 2014, the City notified S&P of its actual Fund Balance (i.e. liquidity) position, which was overstated in S&P's prior 2011 analysis.
    - As a result of S&P's review, the City's bond rating was downgraded from "A+" to "BBB".
  - Debt Policy Guidelines (adopted in 2014) that provided for thresholds for the management of Debt; and
  - Fund Balance Policy Guidelines and a funding approach for rebuilding the City's Unassigned Fund Balance;

# Background (cont.)

- In March, 2016:
  - At the request of the City, Davenport as Financial Advisor, has been asked to provide the enclosed Financial Briefing.
  - Per the City's request, we have provided this Financial Briefing document with the goal of providing City Council with:
    - A briefing on the City's financial condition and trends for the FY 2013 – FY 2015 time frame, which is subsequent to our 2012 Financial Review;
    - Perspective and comments on the City's current credit rating from Standard & Poor's; and
    - Observations with respect to the City's existing debt burden in context of the City's Financial Policy Guidelines.

# Major City Funds – Key Observations

- The City's operations consists of four major funds that have recurring operational budgetary needs as follows:

| Major City Fund | Description |
|---|---|
| 1. General Fund | Governmental Fund that derives revenues from taxes, Commonwealth and Federal sources. |
| 2. Mass Transit Fund | Business Type Fund that derives revenues from charges for services, grants AND annual City support. |
| 3. Golf Fund | Business Type Fund that derives revenues from charges for services AND annual City support. |
| 4. Public Utility Fund | Business Type Fund that derives revenues from charges for services and other non-general fund revenues. |

  – On a truly structural basis, the Mass Transit and Golf Funds should be viewed collectively with the General Fund because these two funds (Mass Transit and Golf) rely on annual recurring support from the General Fund.

  – The Public Utility Fund is viewed as "Self Supporting" because its expenses and debt service are tied to ongoing revenues that are derived primarily from user rates and charges. Such ongoing revenues should be sufficient to cover expenses (and debt service) on an annual basis. Therefore, we are excluding annual Utility Fund financial performance from our analysis of the General, Mass Transit and Golf Funds and overall Structural Balance/Imbalance.

# Structural Balance/Imbalance

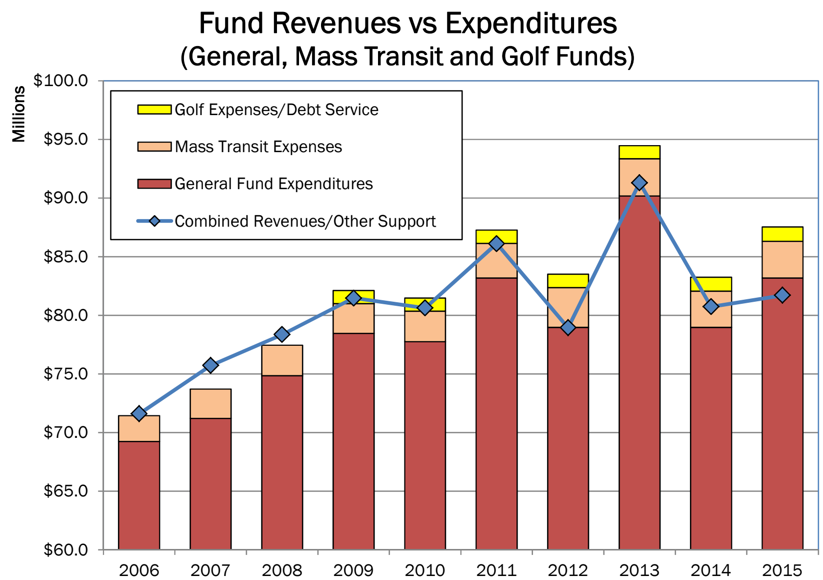
- When evaluating the Structural Balance/Imbalance of the City, the General, Mass Transit and Golf Funds must be viewed collectively as a whole.

- Prior to the most recent Administration, the City began to have Structurally Unbalanced finances starting on or about FY2009 (shown highlighted in red), when considering the General Fund in combination with the Mass Transit and Golf Funds.

## General, Mass Transit and Golf Funds

| Fiscal Year | Revenues and Other Financing Sources | Expenditures and Other Financing Uses (1) | Surplus (Deficit) |
|---|---|---|---|
| 2006 | $71,595,797 | $71,434,808 | $160,989 |
| 2007 | 75,705,404 | 73,698,939 | 2,006,465 |
| 2008 | 78,346,937 | 77,445,481 | 901,456 |
| 2009 | 81,462,562 | 82,100,638 | (638,076) |
| 2010 | 80,617,478 | 81,472,950 | (855,472) |
| 2011 | 86,108,475 | 87,256,750 | (1,148,275) |
| 2012 | 78,930,576 | 83,510,888 | (4,580,312) |
| 2013 | 91,303,448 | 94,455,217 | (3,151,769) |
| 2014 | 80,726,074 | 83,234,701 | (2,508,627) |
| 2015 | 81,699,317 | 87,531,402 | (5,832,085) |

(1) Excludes Depreciation in Mass Transit and Golf Funds.




Source: City CAFRs

# Use of Cash/Decline in Unassigned Fund Balance

- In order to financially address the Structural Imbalance in a given year, a drawing on cash is required. The operating imbalance is difficult to determine due to the use of cash, but is reflected in declining cash balances (i.e. liquidity) and Fund Balance.
  - The table below shows the cash balances in the General Fund. As the cash balance declines from FY 2009 to FY 2012, Unassigned Fund Balance declines as well.
    - It is important to note that Unassigned Fund Balance prior to FY 2011 ***includes*** Due from Other Funds/Interfund Loans amounts and is inflated by such amounts.
  - By FY 2013 the cash levels are insufficient to cover additional Structural Imbalances and a Reconciled Overdraft appears for the first time in the City CAFR.

General Fund

| Fiscal Year | Cash Balance | Reconciled Overdraft | Unassigned Fund Balance(1) | Due from Other Funds/ Interfund Loans(1) |
|---|---|---|---|---|
| 2006 | 3,157,180 | 0 | 10,447,674 | 5,109,057 |
| 2007 | 1,355,272 | 0 | 10,227,794 | 6,919,812 |
| 2008 | 2,764,547 | 0 | 11,935,086 | 9,611,785 |
| 2009 | 4,623,797 | 0 | 14,837,698 | 7,777,243 |
| 2010 | 3,034,728 | 0 | 15,403,526 | 7,324,395 |
| 2011 | 2,792,940 | 0 | 6,552,487 | 8,225,957 |
| 2012 | 649,102 | 0 | 4,615,214 | 9,148,704 |
| 2013 | 0 | 1,737,655 | 1,725,979 | 9,148,704 |
| 2014 | 0 | 1,182,980 | 174,507 | 9,148,704 |
| 2015 | 0 | 7,049,166 | (5,011,152) | 9,148,704 |

(1) Note Beginning in FY 2011 Interfund loans are reported separately from Unassigned Fund Balance. In prior years Interfund loans were included in Undesignated Fund Balance.

Source: City CAFRs

# Cash Reserves (i.e. Liquidity)

Prior to FY 2012

- As shown in the table to the right, the City essentially had minimal or no Cash Reserves (i.e. Liquidity).
- *In FY 2011, S&P Upgraded the City on the understanding that it had a total fund balance of $21.4 million, $15.4 million of which was unreserved – all of which S&P considered liquidity or "Cash Reserves".*
  - *However, upon closer examination the total fund balance included non-cash inventory, due(s) from other governmental units and interfund loans due from the Mass Transit and Golf Funds.*

In FY 2012

- The City's "Cash Reserves" remained in a negative position.

FY 2013 and thereafter

- The City's "Cash Reserves" continued to decline despite efforts to adopt structurally balanced budgets.
  - The decrease in Unassigned Fund Balance and "Cash Reserves" may be partially attributable to declining Tax collection rates.

| FY | Undesignated / Unassigned Fund Balance(1) | Less: Due from Other Governmental Units | Less: Interfund Loans(1) | Cash Reserves/ (i.e. Liquidity) |
|---|---|---|---|---|
| 2006 | $10,447,674 | ($4,251,707) | ($4,775,247) | $1,420,720 |
| 2007 | 10,227,794 | (5,489,016) | (6,451,837) | (1,713,059) |
| 2008 | 11,935,096 | (9,793,654) | (5,341,648) | (3,200,206) |
| 2009 | 14,837,698 | (5,381,551) | (7,663,840) | 1,792,307 |
| 2010 | 15,403,526 | (7,391,158) | (7,434,105) | 578,263 |
| 2011 | 6,522,487 | (7,934,587) | 0 | (1,412,100) |
| 2012 | 4,615,214 | (5,071,769) | 0 | (456,555) |
| 2013 | 1,725,979 | (4,711,750) | 0 | (2,985,771) |
| 2014 | 174,507 | (4,971,831) | 0 | (4,797,324) |
| 2015 | (5,011,152) | (5,089,693) | 0 | (10,100,845) |

(1) Note Beginning in FY 2011 Interfund loans are reported separately from Unassigned Fund Balance. In prior years Interfund loans were included in Undesignated Fund Balance.

*As a result of S&P's more in-depth analysis of the City's actual Fund Balance position in 2014, the City was downgraded to its current rating of "BBB".*

*In 2014, the City adopted an Unassigned Fund Balance Policy and an approach toward increasing funding.*

*However, due to the City's recent financial performance, no progress has been made.*

Source: City CAFRs

# Property Tax Collection Rates – Key Observations

| Fiscal Year | Total Tax Levy | Current Tax Collections | % of Levy Colected | Delinquent Tax Collections | Total | % of Current Levy | Outstanding Delinquent Taxes | % of Current Levy |
|---|---|---|---|---|---|---|---|---|
| 2006 | $26,220,677 | $24,386,327 | 93.0% | $1,831,044 | $26,217,371 | 100.0% | $3,306 | 0.0% |
| 2007 | 26,039,276 | 23,249,391 | 89.3% | 2,772,297 | 26,021,688 | 99.9% | 17,588 | 0.1% |
| 2008 | 28,468,895 | 26,388,079 | 92.7% | 2,022,978 | 28,411,057 | 99.8% | 57,838 | 0.2% |
| 2009 | 33,415,398 | 31,253,720 | 93.5% | 2,010,344 | 33,264,064 | 99.5% | 151,334 | 0.5% |
| 2010 | 34,297,170 | 32,267,620 | 94.1% | 1,529,770 | 33,797,390 | 98.5% | 499,780 | 1.5% |
| 2011 | 34,058,168 | 31,830,367 | 93.5% | 1,535,066 | 33,365,433 | 98.0% | 692,735 | 2.0% |
| 2012 | 32,693,624 | 30,092,517 | 92.0% | 1,729,766 | 31,822,283 | 97.3% | 871,341 | 2.7% |
| 2013 | 33,280,733 | 31,079,168 | 93.4% | 952,625 | 32,031,793 | 96.2% | 1,248,940 | 3.8% |
| 2014 | 33,169,073 | 30,643,027 | 92.4% | 603,986 | 31,247,013 | 94.2% | 1,798,804 | 5.4% |
| 2015 | 31,769,767 | 30,122,272 | 94.8% | 0 | 30,122,272 | 94.8% | 5,371,592 | 16.9% |

- As shown in the table above, the City's Current Tax Collection rate is less than 95%.
- Until FY 2011, the City's Total Collections (when factoring in Delinquent Tax Collections) has been on a downward trend, but in excess of 98%.
- Since FY 2012, the City's Total Collections has decreased to below 95%.
  - At the same time Outstanding Delinquent Taxes have increased to their highest level over the past ten years.
  - Slow/Delinquent collections may cause deteriorating financial performance and cash flow difficulties if there is insufficient liquidity or "Cash Reserves".
- *It is important to recognize that in Petersburg, like many other Virginia localities, the sole role/responsibility for Tax Billing and Collections rests with Elected Officials and not the appointed Administrative officers.*

Source: City FY 2015 CAFR

# Credit Ratings Overview and Impact

- S&P last reviewed the City's rating in June 2014 as part of a credit surveillance process undertaken with the release of its updated U.S. Local Governments Rating Methodology.
  - In its 2011 report S&P incorrectly noted that the City had strong Total Fund Balance at $21.4 million which included a very strong $15.4 million of Unreserved Fund Balance.
  - The Internal loans that affect Fund Balance and liquidity were not factored in S&P's analysis.
  - Upon a more detailed review by S&P, the City was downgraded from "A+" to its current "BBB" rating in 2014.
  - Although the City's budgetary performance and liquidity was cited as "Weak", the City's debt burden was cited as "Strong" and is considered a credit strength.
- The City does not currently have a published Moody's or Fitch rating.
- As a part of the City's initiative in adopting "Best Practices" with respect to financial management in 2014, the City adopted certain Financial Policies in order to govern its debt issuance in a prudent and fiscally responsible manner and show credit improvement over time.

| | | Moody's | S&P | Fitch |
|---|---|---|---|---|
| Top tier "Highest Possible Rating" | | Aaa | AAA | AAA |
| 2nd Tier "Very Strong" | (Highest) | Aa1 | AA+ | AA+ |
| | (Middle) | Aa2 | AA | AA |
| | (Lowest) | Aa3 | AA- | AA- |
| 3rd Tier "Strong" | (Highest) | A1 | A+ | A+ |
| | (Middle) | A2 | A | A |
| | (Lowest) | A3 | A- | A- |
| 4th Tier "Adequate Capacity to Repay" | (Highest) | Baa1 | BBB+ | BBB+ |
| | (Middle) | Baa2 | **BBB** | BBB |
| | (Lowest) | Baa3 | BBB- | BBB- |
| 5th - 10th Tiers "Below Investment Grade" | | BB, B, CCC, CC, C, D | | |

= Prior Rating

= Current Rating

Source: Moody's Investors Service.

# Tax Revenue Anticipation Note Trends

- Because of the City's Unassigned Fund Balance levels(s) and low liquidity position, it has historically not had true "Cash Reserves". As a result, the City has used Tax Revenue Anticipation Notes (RANs) to provide annual cash flow within the fiscal year.

- Since 2006, the City has borrowed upwards of $5+ million over the July 1 to June 30 annual fiscal year time period to pay operating expenditures.

- Such borrowings are required to be repaid in full from tax revenues prior to the end of each fiscal year and are not a part of the City's long-term debt burden.

- However, RANs cost the City real money as a result of:
  - Interest expense paid on the borrowing; and
  - Foregone interest earnings because there is no significant cash balance.

| Fiscal Year | Annual RAN |
|---|---|
| 2006 | 5,000,000 |
| 2007 | 5,000,000 |
| 2008 | 5,000,000 |
| 2009 | 5,000,000 |
| 2010 | 5,000,000 |
| 2011 | 4,500,000 |
| 2012 | 6,000,000 |
| 2013 | 5,925,000 |
| 2014 | 5,000,000 |
| 2015 | 5,000,000 |

Source: City documents; CAFRs

# Existing Debt Portfolio

- As of June 30, 2015, the City has the following Governmental related indebtedness that is paid by the General Fund:

| Debt Category | Amount |
|---|---|
| General Obligation Bonds | $33,873,564 |
| Literary Loans | 2,600,000 |
| Notes Payable | 694,935 |
| QZAB | 8,795,695 |
| Capital Leases | 1,910,695 |
| Total | $47,874,889 |

- We show on the next several pages the City's key debt ratios compared to governmental medians and the City's Self Imposed Financial Policy Guidelines as adopted in 2014.

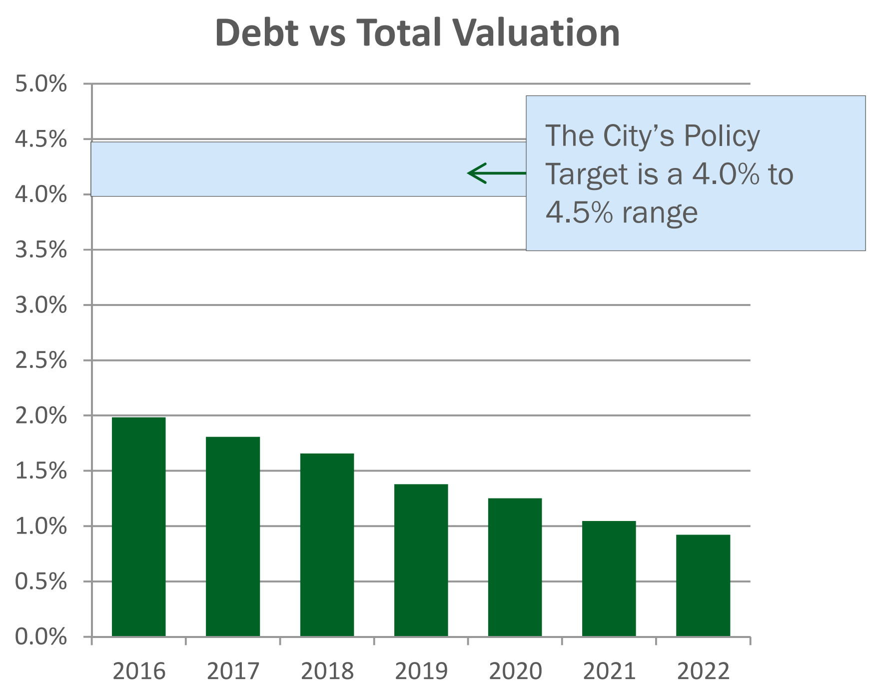
- *It is important to note that S&P considers the City's debt and contingent liability position to be "Strong" and is considered a credit strength.*

Source: FY 2015 CAFR

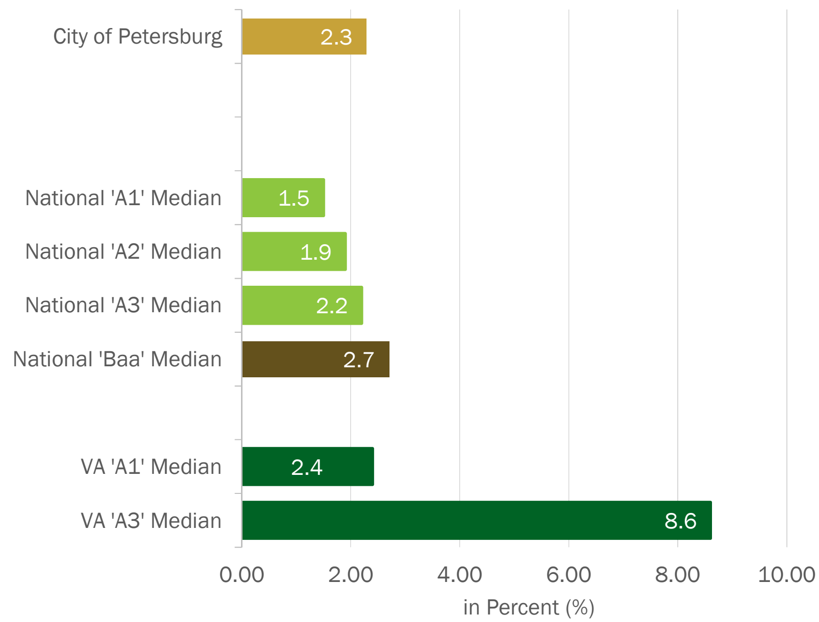
# Debt vs. Taxable Valuation

## Debt Policy: Debt vs. Taxable Valuation

- The City's debt ratio is well below the Policy Target limit of 4.0% to 4.5% and compares favorably to National and Virginia medians.




Debt to Assessed Value Peer Comparative




Note: City Data is FY 2015. The comparative data shown above is from Moody's Municipal Financial and Ratio Analysis FY 2013 data database and includes the following:

| | National cities | Virginia cities |
|---|---|---|
| – A1 | 638 Credits | 5 Credits |
| – A2 | 249 Credits | NA |
| – A3 | 75 Credits | 2 Credits |
| – Baa | 95 Credits | NA |

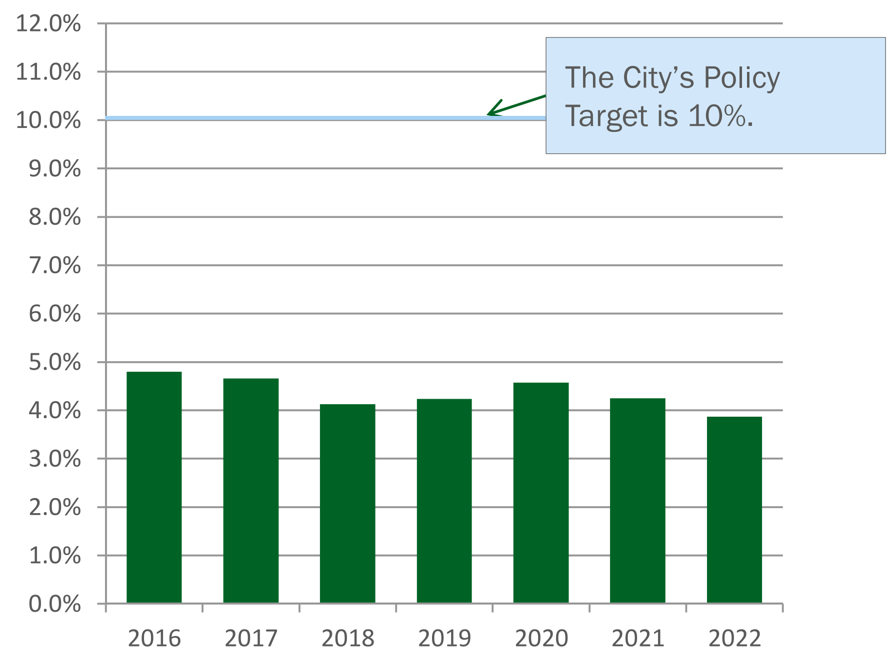
Source: Moody's Investors Service.

# Debt Service vs. Total Governmental Expenditures

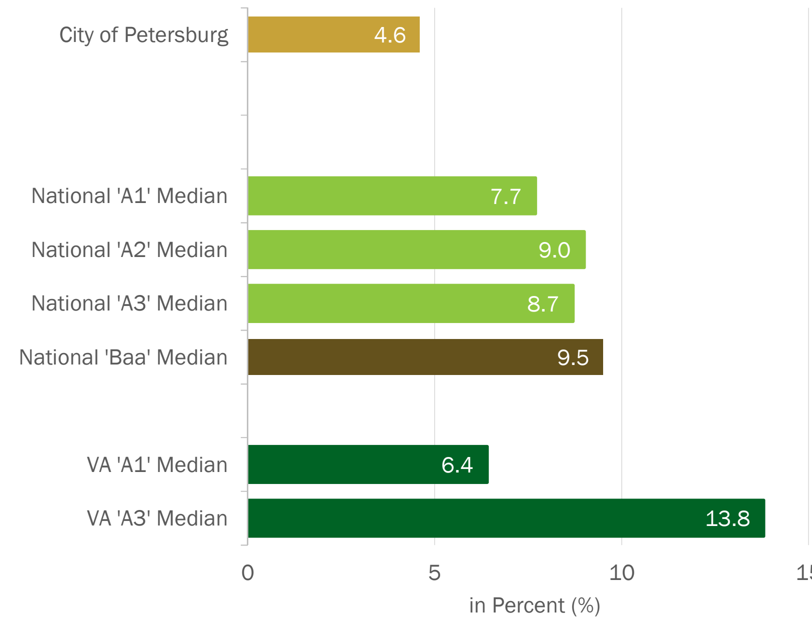
## Debt Policy: Debt Service vs. Total Governmental Expenditures

- The City's debt ratio is well below the Policy Target limit of 10% and compares favorably to National and Virginia medians.

### Debt Service vs Total Expenditures




### Debt Service vs. General Fund Expenditures Peer Comparative




Note: City Data is FY 2015. The comparative data shown above is from Moody's Municipal Financial and Ratio Analysis FY 2013 data database and includes the following:

| | National cities | Virginia cities |
|---|---|---|
| – A1 | 638 Credits | 5 Credits |
| – A2 | 249 Credits | NA |
| – A3 | 75 Credits | 2 Credits |
| – Baa | 95 Credits | NA |

Source: Moody's Investors Service.

# 10-Year Payout Ratio

## Debt Policy: 10 Year Debt Payout Ratio

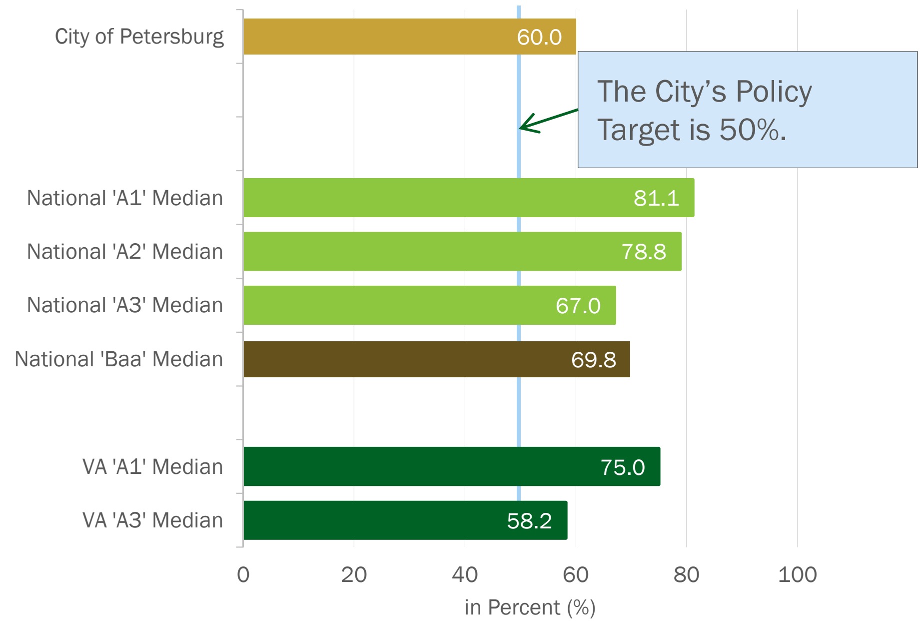
- The City's debt ratio is strong and well above its **50% policy target.** In addition, the City's ratio compares favorably to National and Virginia medians.

| FY | 10 Year Payout Ratio |
|---|---|
| 2016 | 64.4% |
| 2017 | 69.3% |
| 2018 | 71.2% |
| 2019 | 72.7% |
| 2020 | 73.5% |
| 2021 | 72.9% |
| 2022 | 73.9% |

- The ratio above indicates that as of FY 2016, the City will repay approximately 64.4% of its outstanding principal in the next ten years.

- The ratio improves over time and indicates that the City is rapidly paying off its debts.

10-Year Debt Payout Ratio
Peer Comparative




Note: City Data is FY 2015. The comparative data shown above is from Moody's Municipal Financial and Ratio Analysis FY 2013 data database and includes the following:

| | National cities | | Virginia cities |
|---|---|---|---|
| – | A1 | 638 Credits | 5 Credits |
| – | A2 | 249 Credits | NA |
| – | A3 | 75 Credits | 2 Credits |
| – | Baa | 95 Credits | NA |

Source: Moody's Investors Service.

# Utility Fund – Key Observations

- Until the Utility Fund's recent $5.2 million capital lease and $7.4 million debt issuance through VRA in 2014 and 2015 respectively, the Utility Fund had no material debt burden and had primarily used cash to fund its capital needs.
  - Until these issuances, the Utility Fund was overly reliant on cash funding of its capital needs from the General Fund or from one time connection fees.

- In addition, the Utility Fund essentially has no operating reserves.
  - The lowest investment grade rated utility credits typically have cash on hand equal to 6 to 12 months of operating revenue.
  - For the City's Utility Fund this level of cash reserves would translate into approximately $4 to $8 million dollars in reserves.

- *Based on Draper Aden's most recent Annual Virginia Water and Wastewater Rate Report (2012 in which the City of Petersburg has reported its rates and there is comparable survey data), the Utility's average monthly bill for residential water and wastewater services remains among the lowest in the Commonwealth.*
  - *Average monthly residential water rate (5,000 gals/month) is $10.73 and ranks 176 out of 178 utilities reporting.*
  - *Average monthly residential wastewater rate (5,000 gals/month) is $21.99 and ranks 151 out of 164 utilities reporting.*

# Appendix

# General Fund Historic Revenues vs. Expenditures

Prior to 2012

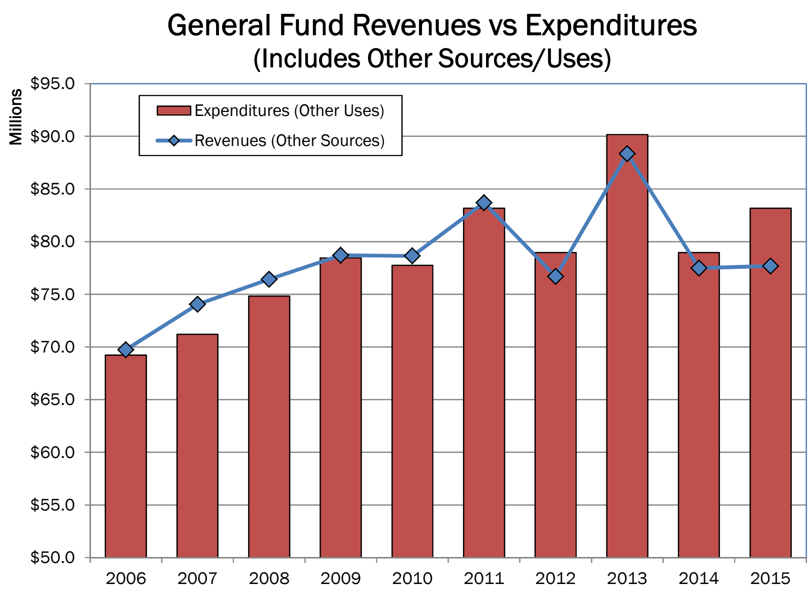
- The general fund had positive results as shown in the CAFRs, *but it is important to note that these historic figures did not incorporate increasing transfers or advances (i.e. financial support) for the Mass Transit or Golf Funds. The true operating picture of the City must include these two City supported funds because they rely on annual City support. Therefore, when factoring in all three Funds (General, Mass Transit and Golf Funds), the City was running structural deficits.*

In FY 2012

- The City experienced negative results due to a structurally unbalanced budget and lower than budgeted revenues.

FY 2013 and thereafter

- Although the City's then new management team implemented initial budgets with the goal of structural balance, the City experienced negative results due to:
  - Actual revenues not materializing as anticipated;
  - Declining tax collection rates; and
  - Certain expenditures coming in greater than budget.




| Fiscal Year | Revenues and Other Financing Sources | Expenditures and Other Financing Uses | Change in Fund Balance |
|---|---|---|---|
| 2006 | 69,737,989 | 69,227,705 | 510,284 |
| 2007 | 74,043,184 | 71,198,482 | 2,844,702 |
| 2008 | 76,418,310 | 74,828,904 | 1,589,406 |
| 2009 | 78,708,309 | 78,453,844 | 254,465 |
| 2010 | 78,632,159 | 77,748,814 | 883,345 |
| 2011 | 83,692,630 | 83,160,372 | 532,258 |
| 2012 | 76,682,751 | 78,957,566 | (2,274,815) |
| 2013 | 88,334,884 | 90,170,948 | (1,836,064) |
| 2014 | 77,486,510 | 78,956,259 | (1,469,749) |
| 2015 | 77,682,014 | 83,171,483 | (5,489,469) |

Source: City CAFRs

# Mass Transit Fund Historic Revenues vs. Expenditures

Prior to 2012

- The Mass Transit Fund required increasing operational support from the General Fund *and this operational support was outside of the budget.*

- As a result, the operational support was reflected as an advance to the Mass Transit Fund and shown as a decrease in General Fund Cash with a corresponding increase in Internal Loans.

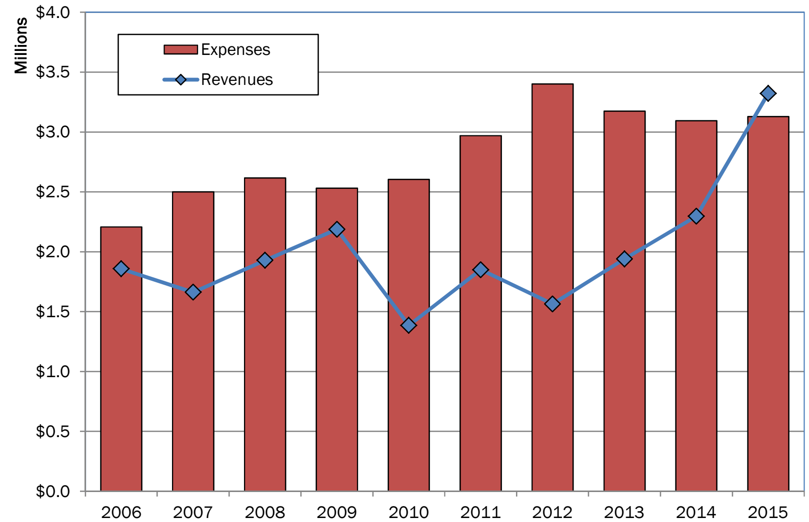
In FY 2012

- The City still had not incorporated operational subsidies to the Mass Transit Fund which had grown to over $1 million.

FY 2013 and thereafter

- The City made a concerted effort to incorporate operational subsidies into the General Fund Budget as well as attempted to decrease the support, which can be seen over the FY 2013 through FY 2015 time period.

Mass Transit Fund Revenues vs Expenditures
(Includes Non-Operating Rev/Exp)




| FY | Revenues | Expenses (1) | Revenues Over (Under) Expenses |
|---|---|---|---|
| 2006 | $1,857,808 | $2,207,103 | ($349,295) |
| 2007 | 1,662,220 | 2,500,457 | (838,237) |
| 2008 | 1,928,627 | 2,616,577 | (687,950) |
| 2009 | 2,188,310 | 2,531,514 | (343,204) |
| 2010 | 1,385,871 | 2,603,389 | (1,217,518) |
| 2011 | 1,850,219 | 2,969,543 | (1,119,324) |
| 2012 | 1,564,033 | 3,401,026 | (1,836,993) |
| 2013 | 1,940,134 | 3,173,998 | (1,233,864) |
| 2014 | 2,297,291 | 3,095,248 | (797,957) |
| 2015 | 3,323,192 | 3,128,588 | 194,604 |

(1) Excludes Depreciation

Source: City CAFRs

# Golf Fund Historic Revenues vs. Expenditures

Prior to 2012

- The Golf Fund has not had positive performance since its inception in 2009. *In addition Operational Support not included in the General Fund Budget.*

- Similar in treatment to the Mass Transit Fund, the operational support was reflected as an advance to the Golf Fund and shown as a decrease in General Fund Cash with a corresponding increase in Internal Loans.

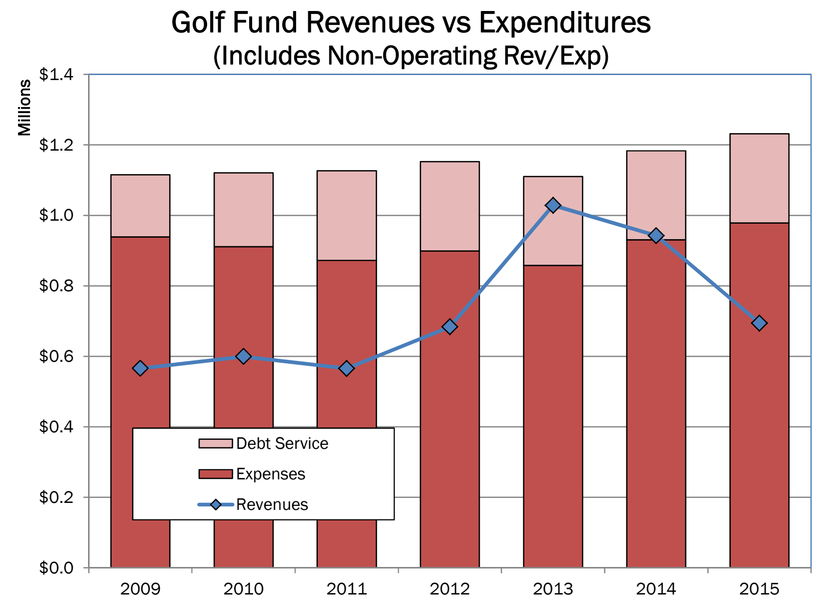
In FY 2012

- The City still had not incorporated operational subsidies to the Golf Fund which remained in the $500,000 range.

FY 2013 and thereafter

- In FY 2013 and FY 2014, budgeted transfers into the Golf Fund from the General Fund reduced the deficit performance.

- However, in 2015 no funds were transferred in and the Golf Fund experienced a deficit result.




| FY | Revenues | Expenses (1) | Debt Service | Revenues Over (Under) Expenses |
|---|---|---|---|---|
| 2009 | $565,943 | $939,026 | $176,254 | ($549,337) |
| 2010 | 599,448 | 911,324 | 209,423 | (521,299) |
| 2011 | 565,626 | 872,469 | 254,366 | (561,209) |
| 2012 | 683,792 | 898,701 | 253,595 | (468,504) |
| 2013 | 1,028,430 | 858,007 | 252,264 | (81,841) |
| 2014 | 942,273 | 930,624 | 252,570 | (240,921) |
| 2015 | 694,111 | 978,731 | 252,600 | (537,220) |

(1) Excludes Depreciation

Source: City CAFRs

## Richmond — Headquarters

One James Center
901 East Cary Street,
Suite 1100,
Richmond, Virginia 23219

Telephone:
(804) 780-2000

Toll-Free:
(800) 846-6666


**Roland Kooch, Jr.**
Senior Vice President
804-697-2906
rkooch@investdavenport.com

**David P. Rose**
Senior Vice President and Manager of Public Finance
804-697-2905
drose@investdavenport.com

# Municipal Advisor Disclaimer

The U.S. Securities and Exchange Commission (the "SEC") has clarified that a broker, dealer or municipal securities dealer engaging in municipal advisory activities outside the scope of underwriting a particular issuance of municipal securities should be subject to municipal advisor registration. Davenport & Company LLC ("Davenport") has registered as a municipal advisor with the SEC. As a registered municipal advisor Davenport may provide advice to a municipal entity or obligated person. An obligated person is an entity other than a municipal entity, such as a not for profit corporation, that has commenced an application or negotiation with an entity to issue municipal securities on its behalf and for which it will provide support. If and when an issuer engages Davenport to provide financial advisory or consultant services with respect to the issuance of municipal securities, Davenport is obligated to evidence such a financial advisory relationship with a written agreement.

When acting as a registered municipal advisor Davenport is a fiduciary required by federal law to act in the best interest of a municipal entity without regard to its own financial or other interests. Davenport is not a fiduciary when it acts as a registered investment advisor, when advising an obligated person, or when acting as an underwriter, though it is required to deal fairly with such persons,

This material was prepared by public finance, or other non-research personnel of Davenport. This material was not produced by a research analyst, although it may refer to a Davenport research analyst or research report. Unless otherwise indicated, these views (if any) are the author's and may differ from those of the Davenport fixed income or research department or others in the firm. Davenport may perform or seek to perform financial advisory services for the issuers of the securities and instruments mentioned herein.

This material has been prepared for information purposes only and is not a solicitation of any offer to buy or sell any security/instrument or to participate in any trading strategy. Any such offer would be made only after a prospective participant had completed its own independent investigation of the securities, instruments or transactions and received all information it required to make its own investment decision, including, where applicable, a review of any offering circular or memorandum describing such security or instrument. That information would contain material information not contained herein and to which prospective participants are referred. This material is based on public information as of the specified date, and may be stale thereafter. We have no obligation to tell you when information herein may change. We make no representation or warranty with respect to the completeness of this material. Davenport has no obligation to continue to publish information on the securities/instruments mentioned herein. Recipients are required to comply with any legal or contractual restrictions on their purchase, holding, sale, exercise of rights or performance of obligations under any securities/instruments transaction.

The securities/instruments discussed in this material may not be suitable for all investors or issuers. Recipients should seek independent financial advice prior to making any investment decision based on this material. This material does not provide individually tailored investment advice or offer tax, regulatory, accounting or legal advice. Prior to entering into any proposed transaction, recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of the transaction. You should consider this material as only a single factor in making an investment decision.

The value of and income from investments and the cost of borrowing may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions or companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance and estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes or to simplify the presentation and/or calculation of any projections or estimates, and Davenport does not represent that any such assumptions will reflect actual future events. Accordingly, there can be no assurance that estimated returns or projections will be realized or that actual returns or performance results will not materially differ from those estimated herein. This material may not be sold or redistributed without the prior written consent of Davenport.

Version 01/13/2014 RK/DR