

Land Area: **13.03 miles** Population (estimate): **64,860** Unemployment
 Rate (estimated 2009): **5.50%** Number of Households: **21,895**
 City Real Property Tax Rate (per \$100 of assessed value): **\$0.292**
 City Personal Property Tax Rate (per \$100 of assessed value): **\$0.805**
 Parks and Public Open Space (acreage): **1,071** Number of City
 Playgrounds: **48** Number of City **Popular** Centers: **6** Number of Building
 Permits Issued: **741** Number of **Annual** arrests made by the Police
 Department: **1,292** Number of **Financial** citations issued by the Police
 Department: **26,874** Number of **Report** Water Customers: **12,654** Tons of
 Refuse Collected: **22,206** Tons of Recyclables Collected: **21,454**
 Number of miles of City Streets: **156.42** Number of miles of City
 Sidewalks **297.62** Bond Rating: **AAA/Aaa** Total City Debt Outstanding:
\$118,054,130 City Net Assets: **\$283,796,847** City Unrestricted
 Net Assets: **\$54,294,461** Number of Full-time City Employees: **554**

FISCAL YEAR ENDING JUNE 30, 2009



Letter from the City Manager



Scott Ullery

It is my privilege to present to you the City's third Popular Annual Financial Report (PAFR) for Fiscal Year (FY) 2009 (July 1, 2008 – June 30, 2009). This PAFR is designed to increase public confidence in City government through user-friendly financial reporting.

Although the City is operating in a difficult economy, with many governments facing deficits, the City ended FY09 in a financial position well prepared to address future uncertainty. The City's General Fund, our main operating fund, began FY10 \$3.4 million above our required reserve level. This \$3.4 million will provide the City with the flexibility to address any unforeseen challenges in a calm and efficient manner. During FY09 the City continued to review plans and options to improve the financial performance of some enterprise funds.

During FY09, the City:

- Continued to implement the once-per-week, single-stream recycling and refuse program. All City residents should be part of the new program by January 2010;
- Increased the City's water rates by 25 percent with a plan to continue the increases until FY12;
- Continued only modest increases in the City's sewer fees; and
- Passed legislation to allow for a stormwater management fee.

The Mayor and Council adopted a balanced Operating and Capital Improvements Program budget for FY10 (July 1, 2009 to June 30, 2010). The total operating budget for all funds was adopted at \$101.8 million.

In August 2009, the State of Maryland reduced funding to the City by \$2.4 million. These reductions were taken mainly from the City's portion of highway user fees, which includes the City's share of gasoline tax and vehicle registrations collected by the State.

In response to these reductions the City realigned the FY10 budget to reduce expenditures in October 2009. The City continues to closely monitor actions taken by the State and Montgomery County as they attempt to address budget shortfalls.

The City's sound financial management has allowed us to provide our residents with a continued high level of programs and services, and has allowed the City to navigate its way through the toughest economic challenges that it has faced in a decade. I trust that residents, when reviewing the PAFR, will see the City's finances being managed in the most prudent manner.

Respectfully,

Scott Ullery, City Manager

City of Rockville Mayor and Council (Elected November 2009 to November 2011)



Mayor
Phyllis Marcuccio



Councilmember
John B. Britton



Councilmember
Piotr Gajewski



Councilmember
Bridget Newton



Councilmember
Mark Pierzchala

Popular Annual Financial Report Fiscal Year 2009

July 1, 2008 to June 30, 2009

Scott Ullery, City Manager

Prepared by the Department of Finance • Division of Budget

Gavin Cohen, *Chief Financial Officer*; Stacey Tate, *Budget and Finance Manager*; Mary Sue Martin, *Management and Budget Analyst*; Erica Tompkins, *Management and Budget Analyst*

Report to Rockville Residents

The Popular Annual Financial Report (PAFR) includes financial information presented in the City of Rockville's F09 Comprehensive Annual Financial Report (CAFR) and future information as estimated in the City's FY10 adopted budget. All financial numbers in the PAFR are actual and not estimates unless otherwise noted. Since the PAFR summarizes information, it does not comply with Generally Accepted Accounting Principles (GAAP) requirements. Residents who prefer to review an independently audited GAAP compliant report should review the City's audited CAFR document.

The PAFR, CAFR and the City's adopted budget are available on the City's Web site at www.rockvillemd.gov/government/finance.htm. A resident can also call the Finance Department at 240-314-8400 to request a copy of these documents, subject to availability.

Residents and businesses are encouraged to participate in the City government. At every Mayor and Council meeting, time is set aside for residents to speak to the Mayor and Council on any topic. The mayor and one council member host drop-in sessions once a month. The public is welcome to discuss issues of importance in a one-on-one setting. To view a schedule of up coming Mayor and Council meetings and drop-in sessions, go to www.rockvillemd.gov/government/mc or call the City Clerk's Office at 240-314-8280.



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Award Given for Rockville's PAFR

The Government Finance Officers Association of the United States and Canada (GFOA) has given the City of Rockville an award for Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report (PAFR) for Fiscal Year 2008, which ended June 30, 2008.

The award is a prestigious national honor recognizing conformance with the highest standards for preparation of state and local government popular reports.


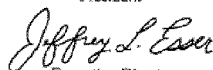
In order to receive an award for Outstanding Achievement in PAFR, a government must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An award for Outstanding Achievement in Popular Annual Financial Reporting is valid for one year only. We believe our current report for Fiscal Year 2009 continues to conform to the PAFR requirements, and we will be submitting it to GFOA.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO
City of Rockville
Maryland
for the Fiscal Year Ended
June 30, 2008




President

Executive Director

The City's Profile

The City of Rockville, Maryland, was incorporated in 1860, and is located 12 miles northwest of Washington, D.C. Rockville is located in one of the largest and most vibrant counties in Maryland and serves as the seat of Montgomery County. As the second largest city in the State of Maryland, the City's 2009 population is estimated at 64,860 people.

Rockville is both a residential community and an employment center with an employed labor force of approximately 83,972. The City's largest employer in FY09 was Westat, Inc., with 1,900 employees.

The City operates under the council-manager form of municipal government. The governing body is the Mayor and Council, and they develop the City's vision and set policies that are implemented by the City administration. The Mayor and Council are comprised of a mayor and four council members who are elected every two years. On Nov. 3, 2009, residents elected a new mayor and council.

The City of Rockville provides a full range of services, including public safety, water, sewer, stormwater management, refuse, recycling, licensing, permits, inspections, snow removal, leaf collection, street maintenance, parking, zoning, planning, public parks, recreation programs and a golf course.

A handful of the City's services are provided in partnership with other governmental and nonprofit entities. Rockville citizens are provided protection by both the Montgomery County and Rockville Police. In outlying areas

Rockville at a Glance in FY09

Land Area	13.03 miles	▶
Population (estimate)*	64,860	▲
Unemployment Rate (estimated 2009)*	5.50%	▲
Number of Households**	21,895	▶
City Real Property Tax Rate (per \$100 of assessed value)	\$0.292	▼
City Personal Property Tax Rate (per \$100 of assessed value)	\$0.805	▶
Bond Rating.....	AAA/Aaa	▶
Total City Debt Outstanding	\$118,054,130	▲
City Net Assets	\$283,796,847	▲
City Unrestricted Net Assets	\$54,294,461	▼
Number of Full-time City Employees	554	▲

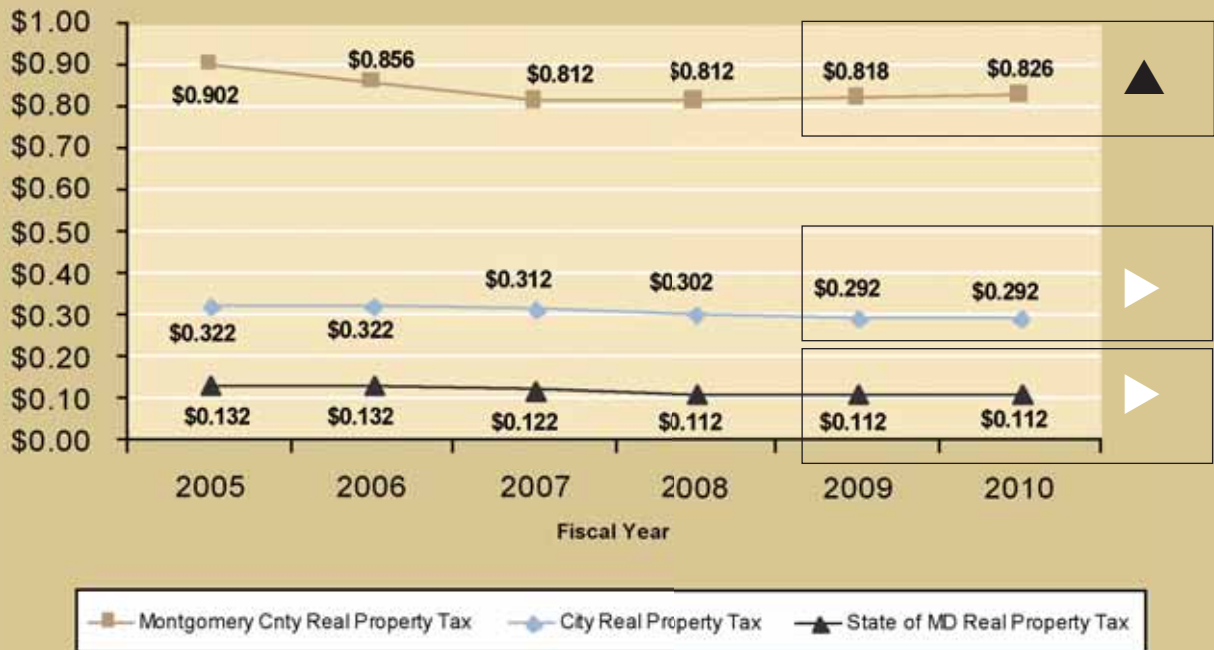
KEY:

* Source: City of Rockville Department of Community Planning and Development Services estimates.

** Source: 2005 Census Update Survey; Research & Technology Center, Montgomery County Planning Department, M-NCPPC June 2006.

- ▲ Increase from FY08
- ▼ Decrease from FY08
- ▶ No significant change from FY08

Chart A. Comparison of the Real Property Tax Rates for the City, Montgomery County and the State of Maryland



of the City, the Washington Suburban Sanitation Commission (WSSC) provides water and sewer service. The County provides the City's fire protection and education system.

The City's Property Tax Rate

From FY08 to FY09 the City's actual assessed real property value increased 9.5 percent to \$11.1 billion. Property values are no longer increasing at the same rate as they once did because of a declining economy.

The City of Rockville is also "built out," meaning there are no large undeveloped parcels of land in the city. As a result of these two factors, large increases in property tax values are no longer expected. Between FY09 and FY10, the City is estimating real property assessments to increase by less than 2 percent.

The City's real property tax rate of \$0.292 in FY09 remains the same for FY10 (See Chart A). That means the

rate is 29.2 cents for every \$100 of assessed property value. From FY07 through FY09 the Mayor and Council have also provided a one-time \$100 credit per residential property, and continued with the Homeowners Tax Credit Program targeting low-income taxpayers (See Table A).

Starting in FY09, the Mayor and Council added a new program that focused on tax relief for Rockville's senior citizens, in which seniors who are at least 70 years old, are primary homeowners and who qualify for the Homeowners Tax Credit receive an additional 25 percent credit. This program continues in the current fiscal year, FY10.

The City's personal property tax is paid only by commercial entities and remained unchanged in FY09 at 80.5 cents per \$100 of assessed value.

Real Property Tax Assessments

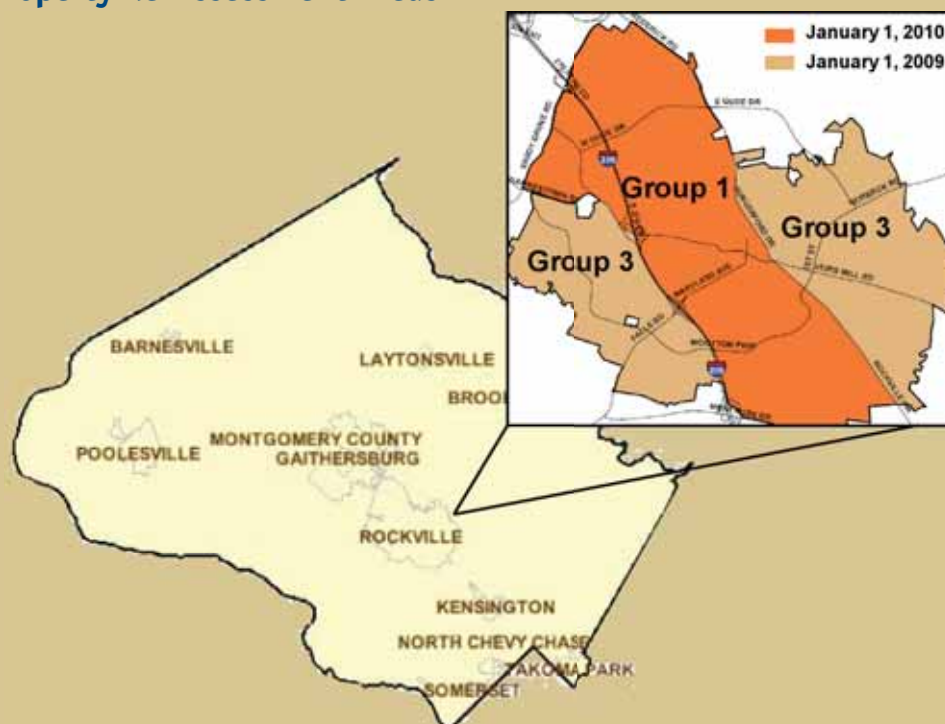
Starting in FY10, the City anticipates that assessed property values and property tax revenue will increase at a much slower rate. Group 3 properties, which includes Rockville east of 355 and portions of Rockville west of I-270 (see Figure A) were reassessed on Jan. 1, 2009. The flattening and in some cases decline of Group 3 property assessments is reflected in the City's FY10 real property assessment estimate. The final group of properties, Group 1, will be reassessed in January 2010. Upon completion of the remaining assessments, the total assessed value will potentially flatten or even decrease in FY11.

**Table A.
History of All Real Property
Tax Relief Provided**

	FY05	FY06	FY07	FY08	FY09
Tax Rate Reduction	-	-	900,000	1,009,321	1,123,694
Homeowner's Tax Credit	-	73,200	194,040	195,579	187,594 *
\$100 Owner Occupied Tax Credit	-	-	-	1,527,400	1,527,400
Total Relief Provided	\$0	\$73,200	\$1,094,040	\$2,732,300	\$2,838,688

Note: The City did not have tax relief initiatives in FY05
* Includes the senior tax credit for qualified residents.

Figure A. Real Property Re-Assessment Areas



Summary of the City's Overall Financial Position

A good measure of the City's overall financial health is the change in net assets, which indicates if the government has sufficient financial capacity to cover unforeseen events. Overall net assets increased by \$12.3 million to \$283.8 million, a 4.5 percent increase over FY08. This means that the City's varied revenues across all funds were more than sufficient to cover expenses and the City's net worth increased.

What are Net Assets?

Net assets are the difference between all assets (what the City owns) and all liabilities (what the City owes). Net assets are not the same as a fund balance. The difference between net assets and a fund balance is the type of assets and liabilities used in the calculation. Net assets use all assets in a fund (including buildings, land, bridges, parks, playgrounds etc.) and all liabilities in a fund (including long-term debt). A negative change in net assets means the revenues from taxes and fees charged for the services were not sufficient to cover expenses. It is important to evaluate the changes in net assets over time as net assets serve as a measure of net worth.

The City's General Fund

The City's General Fund supports the majority of governmental activities. Governmental activities of the City include internal operations and administration, public safety, streets, economic development, community development, community services, and parks and recreation. Since the General Fund comprises more than 50 percent of total revenues and expenditures, its financial health is a key indicator of the ability of the City to pay its financial obligations.

In FY09 the General Fund received \$62.8 million in revenue (See Chart B) and spent \$62.8 million (See Chart D). The majority of General Fund revenues, 55 percent or \$34.5 million, came directly from property taxes paid by residents and businesses in Rockville.

Other governments, such as the State of Maryland and Montgomery County provided 28 percent or \$17.8 million in revenue to the General Fund. The portion of revenue received from other governments has taken on increased importance, due to State and County budget shortfalls.

In August 2009, the State cut \$2.4 million in funding to the City and as the State works to balance the FY10 budget, the City expects additional reductions during FY10 and into FY11.

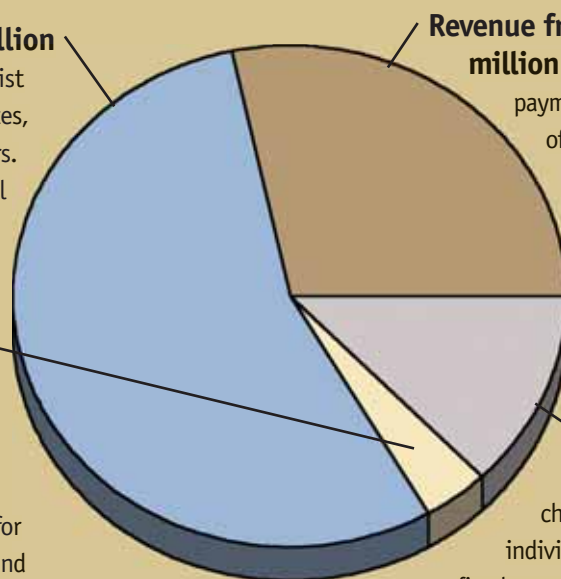
Chart B. Where Did the City's Money Come From? (FY09 Actual General Fund Revenues)

Property Taxes (\$34.5 million or 55%):

Property taxes consist of real and personal property taxes, paid by Rockville property owners. A little more than half of General Fund revenues are derived from property taxes.

Other Revenue (\$2.4 million or 4%):

Other revenue consists mainly of proceeds from the City's hotel tax, the auction of retired City vehicles, and payment received for overhead costs in the General Fund from the City's enterprise funds.



Revenue from Other Governments (\$17.8 million or 28%):

The City of Rockville receives payments from Montgomery County, the State of Maryland and the federal government. These payments are in the form of grants, entitlements, shared revenues or payments in lieu of taxes. The two largest payments in this category were income tax (\$10.4 million) and highway user revenues (\$2.6 million).

Service Charges and Fees (\$8.1 million or 13%):

These charges consist of fees paid by users who individually benefit from a City service. The five largest revenue generators in this category are recreation program fees, facility rental fees, recreation membership fees, F. Scott Fitzgerald Theatre tickets and pool admission charges.

Can We Spend More Than We Receive? (General Fund Revenues vs. Expenditures)

By City Charter, the General Fund budget must be in balance, which means it cannot spend more than it has from current year revenues and prior year reserves. Total revenues exceeded total expenditures from FY05 to FY06 (See Chart C). Starting in FY07 the General Fund expenditures were more than revenues. This is mainly due to the City transferring a portion of the prior year's General Fund surplus to the Capital Projects Fund to help support the City's Capital Improvement Program. This allows the City to rely less on debt funding to build or improve infrastructure.

How Do We Know Our Finances Are Healthy? (General Fund's Fund Balance)

The City's policy is to maintain a fund balance of 15 percent of annual adopted General Fund revenues. The City exceeded this fund balance goal. At the end of FY09 the General Fund's fund balance was \$13.6 million, which is 22 percent of the General Fund's budgeted FY10 revenues. This means that the City has a General Fund surplus of \$3.4 million at the start of FY10, which can be used for one-time expenditures or capital needs.

Chart C. FY09 General Fund Revenues versus Expenditures

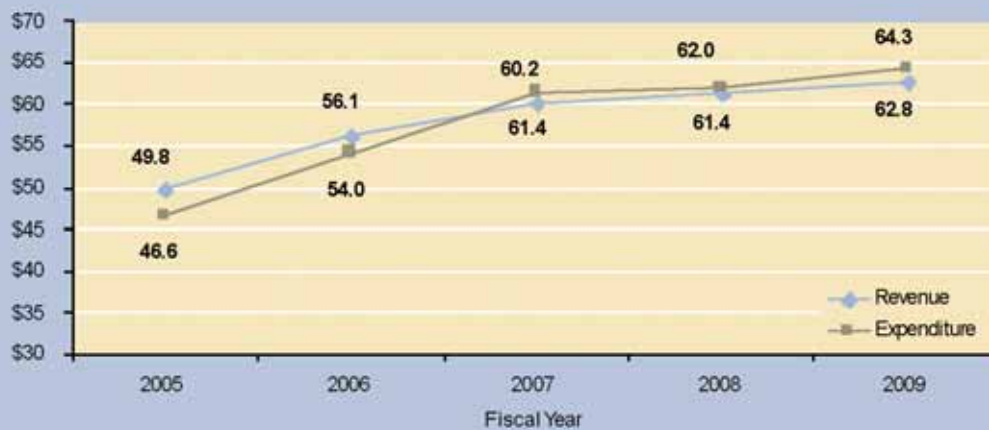


Chart D. How Did The City Spend the Money? (FY09 Actual General Fund Expenditures)

General Government (\$17.8 million, 28%): Personnel and operating expenses of the Mayor and Council, City Attorney, City Manager, Community Planning and Development Services, Finance, Information Technology and Human Resources departments.

Recreation and Parks (\$18.5 million, 29%): Personnel and operating expenses associated with the City's recreation programs, parks and maintenance of public facilities.

Transfers Out (\$13.7 million, 21%): Transfers from the General Fund to the Debt Service (\$4.1 million), Capital Projects (\$8.5 million), Refuse (\$30,000), Parking (\$950,000) and Golf (\$93,000) funds.

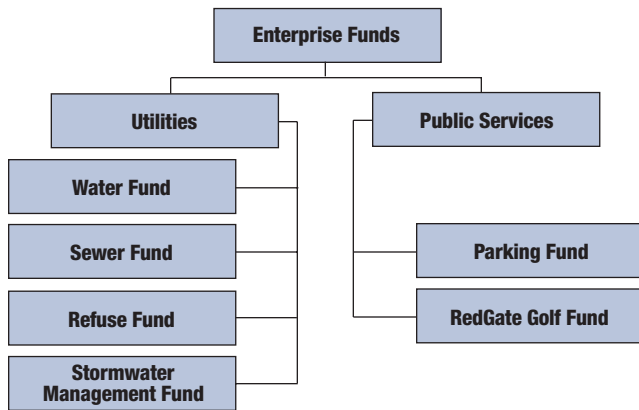
Public Safety (\$8.1 million, 13%): Personnel and operating expenses for the City's police department and public safety initiatives.

Public Works (\$6.1 million, 9%): Personnel and operating expenses for the Public Works department. Of the \$19.3 million spent in all funds, 32% (\$6.1 million) was provided by the General Fund and the rest (\$13.2 million, 68%) was from the City's proprietary funds.

The City's Enterprise Funds (Proprietary Funds)

Services supported by the City's enterprise funds are designed to operate like "small businesses." This means that revenues for these funds are generated by directly charging customers for the services. Revenues generated by utility fees cannot be used for any other City services. Enterprise funds are generally self-sufficient and do not rely on taxes. Not all residents, business or taxpayers use the City's utility services.

An example of a City enterprise fund is the Water Fund. Residents who use the City's water services are billed monthly or quarterly based on the amount of water used. All of the costs associated with providing safe and dependable water to customers are entirely supported through these bills. The City's enterprise funds support the City's four main utility functions and two public services.



What are the City's Utility Rates?

Utility rates are set each year based on multi-year cash flows (See Table B). Rates are set to minimize fluctuations and to generate sufficient revenue to cover operating costs.

Table B.
A History of the City's Utility Rates

	FY05	FY06	FY07	FY08	FY09
Water Rate (per 1,000 gallons)	\$2.07	\$2.26			
Up to 12,000 gallons			\$1.62	\$1.78	\$2.23
Next 12,000 gallons			\$2.33	\$2.56	\$3.20
Usage beyond 24,000 gallons			\$2.50	\$2.75	\$3.44
Sewer Rate (per 1,000 gallons)	\$3.61	\$3.75	\$3.63	\$3.82	\$3.97
Ready-to-Serve (based on meter size)			\$9.00	\$9.00	\$9.27
Refuse Rate (annual)	\$333.00	\$354.00	\$372.00	\$392.40	\$392.40

Are the Enterprise Funds Meeting Their Goals?

As stated in the City's financial policy an enterprise fund must meet two main goals.

GOAL #1: Expenses vs. Revenues

An enterprise fund must set fees and rates to cover all expenses (See Charts E&F). The exception to this is for funds that actively compete with privately owned businesses such as golf and parking. In these cases the policy requires that the fees and rates cover all operating expenses.

Charts E and F. FY09 Enterprise Fund Expenses vs. Revenues

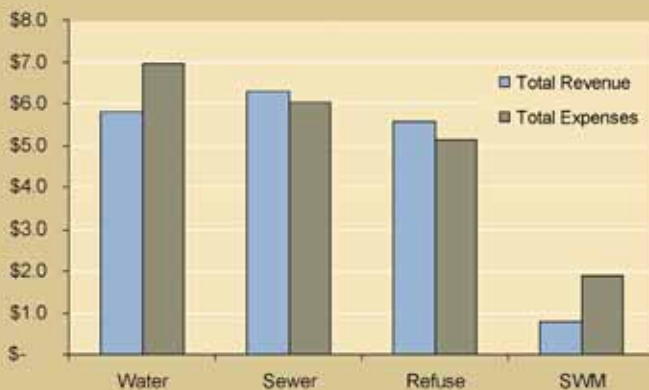


Chart E. Total Revenue and Expenses for the Water, Sewer, Refuse and Stormwater Management (SWM): As stated in the City's financial management policies the Water, Sewer, Refuse and SWM funds' total revenue should equal or exceed total expenses. In FY09 the Sewer and Refuse funds' total revenues exceeded total expenses. The expenses in the SWM Fund were planned to exceed revenues as the large working capital balance is spent down to a more appropriate level.

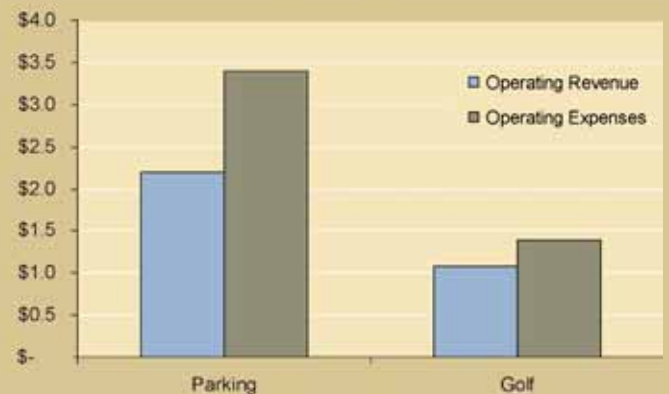


Chart F. Operating Revenue and Expenses for the Parking and Golf Funds: The exception in the financial management policy is for enterprise funds where the City is not the sole provider. Under these circumstances fees and rates must cover operating costs. The City's Parking and Golf funds are included in the exception category. In FY09 the Parking and Golf funds' expenses exceeded revenues, therefore not meeting the financial management policy goal.

GOAL #2: Required Reserve Levels

Each enterprise fund must maintain working capital balances of 90 days of operating expenses as reserves. The City's Refuse Fund is the only exception and it must maintain as reserves a working capital balance of 30 days. In addition, the Water and Sewer funds need to maintain a repair, renewal and replacement reserve of a maximum of 1 percent of the book value of assets.

**Table C.
Enterprise Fund Report Card**

	Water	Sewer	Refuse	Parking	Storm Water	Golf
Goal #1: Expenses v. Revenues	✗	✓	✓	✗	✗	✗
Goal #2: Reserves	✓	✗	✓	✓	✓	✗

The City has plans in place to address the Water, Sewer and Stormwater deficiencies. It is OK in any one year for expenses to exceed revenues as long as there are sufficient reserves in place. The Parking and Golf funds' financial outlook is currently being reviewed.

How Much Money Does Each Enterprise Fund Have to Operate? (Working Capital)

A key measure of short-term liquidity in the private sector is working capital. As in the private sector, the City's enterprise funds can have assets and be profitable, but not have enough cash (or cash equivalents) in the bank to

cover day-to-day operations. Positive working capital means the fund can pay for current expenses from current assets such as cash, accounts receivables and inventory. If working capital declines over a long period this can be an indication that the fund's revenue sources and levels of expenses need to be evaluated.

The **Water Fund's** working capital increased between FY08 and FY09 due to the issuance of bonds to fund the City's residential meter replacement, water main rehabilitation and water plant upgrade projects (See Chart G).

The **Sewer Fund's** working capital decreased between FY08 and FY09 due to a planned payment to the Blue Plains Advanced Wastewater Treatment Plant. The negative working capital balance will be addressed through planned rate adjustments (See Chart G).

The **Refuse Fund's** working capital increased significantly in FY08 due to the issuance of bonds to fund the purchase of new carts and vehicles (See Chart H). The new trash and recycling carts are part of the City's new once-per-week single-stream recycling and refuse program. In FY09 more than half of the carts were purchased so working capital decreased from FY08 to FY09.

The **Golf Fund** continues to have a negative working capital balance (See Chart H). This is due to financial losses over several years. Recognizing that the financial situation of the fund is not improving staff will re-evaluate the program in FY10.

The **Parking Fund's** working capital decreased by \$13.8 million since FY06 (See Chart I on page 10). This is due to

Chart G. History of the Water and Sewer Funds' Working Capital Balances

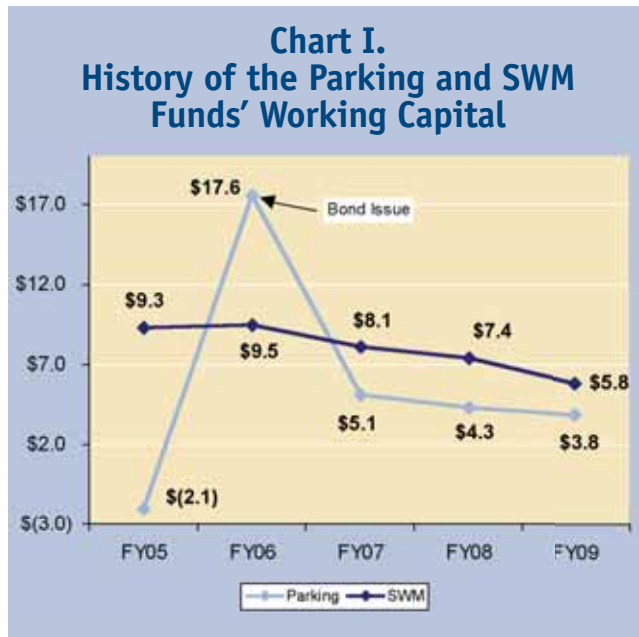


Chart H. History of the Refuse and Golf Funds' Working Capital Balances



the construction of the new Town Center parking garages and less than expected revenues generated by the garages. In October 2009 the Mayor and Council adopted a new fee schedule for the garages.

The **Stormwater Management Fund's** working capital has been undergoing a planned decrease since FY06 (See Chart I). In FY09 the City's new Stormwater Management Program was implemented. However, the new annual utility fee was deferred until FY10. This means in FY09 the new program was paid from the SWM Fund's cash balance, so working capital decreased from FY08 to FY09.



Overall How Are the Enterprise Funds Performing? (Net Assets)

A good way to get a snapshot of the overall health of each enterprise fund is to review the change in net assets over time. Net assets take into account all assets and all liabilities in a fund. Negative net assets indicate all debts outstanding against a fund are more than the value of every asset the fund can claim. A negative change in net assets indicates the fund needed to use all revenues generated during the year and additional assets within the fund to pay for operations during the year. For enterprise funds the trend and impact on net assets is key to the financial health of the fund (See Table D).

Water Fund: Net assets have decreased significantly since FY04. The negative change in net assets implies that the water rates charged in prior years did not generate sufficient revenue to pay for annual expenses (including depreciation). Because of the Water Fund's ongoing operating deficits, and as a result of two comprehensive studies released in FY08 that identified deficiencies in the City's overall water system, the City increased the water usage rates by 25 percent in FY09 and FY10, and rates are planned to increase in FY11 and FY12.

Sewer Fund: In contrast to the Water Fund, the Sewer Fund's net assets have increased every year since FY04. Because the Sewer Fund net assets have increased and the Fund appears stable, sewer rates will increase each year, but at a much slower rate than the Water Fund. From FY08 to FY09 the rate increased by \$0.15 or 3.9 percent.

The main challenge in the Sewer Fund is to ensure that future rates are sufficient to cover regular increases in labor

Table D. History of Enterprise Funds' Net Assets

		Water	Sewer	Refuse	Parking	Storm Water	Golf
FY05	Beginning Net Assets	15,039,473	24,340,919	869,277	1,406,450	13,585,572	1,797,512
	Ending Net Assets	14,199,766	25,402,898	798,867	2,728,463	13,104,741	1,656,984
	Change in Net Assets	(839,707)	1,061,979	(70,410)	1,322,013	(480,831)	(140,528)
FY06	Beginning Net Assets	14,199,766	25,402,898	798,867	2,728,463	13,104,741	1,656,984
	Ending Net Assets	12,653,889	25,675,110	969,146	3,742,102	12,766,472	1,547,293
	Change in Net Assets	(1,545,877)	272,212	170,279	1,013,639	(338,269)	(109,691)
FY07	Beginning Net Assets ¹	12,653,889	34,030,947	969,146	3,742,102	12,766,472	1,547,293
	Ending Net Assets	12,305,981	34,994,553	1,476,745	(3,115,204)	11,269,493	1,517,135
	Change in Net Assets	(347,908)	963,606	507,599	(6,857,306)	(1,496,979)	(30,158)
FY08	Beginning Net Assets	12,305,981	34,994,553	1,476,745	(3,115,204)	11,269,493	1,517,315
	Ending Net Assets	11,402,931	35,037,847	2,179,310	(2,787,716)	10,972,494	1,470,719
	Change in Net Assets	(903,050)	43,294	702,565	327,488	(296,999)	(46,596)
FY09	Beginning Net Assets	11,402,931	35,037,847	2,179,310	(2,787,716)	10,972,494	1,470,719
	Ending Net Assets	10,239,344	35,296,482	2,651,538	(3,004,911)	9,876,969	1,131,681
	Change in Net Assets	(1,163,587)	258,635	472,228	(217,195)	(1,095,525)	(339,038)

¹ In compliance with GASB 34 Beginning Net Assets of the Sewer Fund were restated to record infrastructure assets acquired prior to July 1, 2002.

costs and the City's long-term commitment to Blue Plains Advanced Wastewater Treatment Plant (AWTP). The City of Rockville sends wastewater through sewer pipes to Blue Plains AWTP for treatment and purification.

Refuse Fund: Net assets in the Refuse Fund decreased significantly up until FY05 prompting the Mayor and Council to review the entire refuse and recycling program. In December 2007 the Mayor and Council approved a semi-automated once-per-week recycling and refuse program that would reduce overall operating expenses because less personnel, contractual services, commodities and equipment would be needed. The annual refuse rate of \$392.40 remained unchanged from FY09 to FY10 because of these reduced operating expenses. Full implementation of the City's new refuse and recycling program will be completed by January 2010.

Parking Fund: Net assets in FY09 for the Parking Fund are negative. This indicates the fund does not have sufficient assets to offset liabilities. The City built three new parking garages in Town Center and began charging for parking in late March 2008.

Due to the downturn in the economy, the demand for parking in Town Center has not materialized at the levels estimated when the garages were constructed. In October 2009 the Mayor and Council adopted a new parking fee schedule for the garages. The City plans to continue an annual transfer from the General Fund to the Parking Fund until the parking garage debt is paid off in FY 2036.

Stormwater Management (SWM) Fund: Net assets for the SWM Fund have been decreasing since FY05. The Mayor

and Council approved a new fee to start in FY10 that charges a utility fee based on impervious surface area (surfaces that rainwater cannot penetrate) of all residential and commercial properties in the City. This fund currently has a large working capital balance (See chart I, page 10), which is planned to decrease over time to an appropriate level.

RedGate Golf Fund: Net assets for the Golf Fund have been decreasing and a business plan to improve the financial health of the fund was presented to the Mayor and Council in March 2006. The plan included additional marketing and course improvements to generate more rounds played.

FY09 was the third year of the five-year business plan intended to help the Golf Course generate sufficient revenues.

The fund continues to have a substantial deficit. Staff is currently reviewing the original five-year business plan and will analyze different options with the ultimate goal of improving fiscal performance in the upcoming years. Net assets in the RedGate Golf Fund have decreased every year since FY03.

Summary of the City's Debt

The City issues general obligation bonds to raise large amounts of cash to build and improve City services and infrastructure. Unlike debt issued to an individual, which can be secured by a house or other physical assets, the City's bonds are secured by the City's ability to raise taxes as needed. The City has \$118 million in outstanding long-term debt (See Table E).

Table E. A History of the City's Outstanding Long-Term Debt

	FY05	FY06	FY07	FY08	FY09
Governmental Activities					
Capital Projects Fund	\$43,489,736	\$41,911,464	\$37,806,036	\$43,661,954	\$40,194,802
Business Type Activities (includes unamortized bond discount)					
Water Fund	\$7,602,764	\$11,096,914	\$10,341,152	\$10,961,451	\$22,370,783
Sewer Fund	\$8,978,769	\$14,931,764	\$13,901,293	\$18,697,698	\$17,458,873
Refuse Fund	\$558,090	\$570,675	\$386,338	\$3,300,000	\$2,925,000
Parking Fund	\$4,855,000	\$35,540,000	\$34,920,000	\$34,270,000	\$33,595,000
Golf Fund	\$389,699	\$383,755	\$377,810	\$371,865	\$347,061
Stormwater Management Fund	\$0	\$1,260,073	\$1,307,937	\$1,235,274	\$1,162,611
Total	\$65,874,058	\$105,694,645	\$99,040,566	\$112,498,242	\$118,054,130

As described in the City's Financial Management Policies, any debt issued must be used to fund significant capital and infrastructure improvements and cannot be used to fund operating or routine maintenance costs. This means the City cannot borrow funds to pay items such as employee salaries and electricity bills. Each year the City pays both principal and interest on all outstanding debt. In FY09 the City paid a total of \$12.3 million in principal (\$7.6 million) and interest (\$4.7 million) on outstanding debt across all City funds.

Internally, bonds are divided into two groups. Bonds used to support projects funded through the Capital Projects fund, such as new recreation centers, are paid using general tax revenues. On the other hand, bonds used to support enterprise funds are paid by each individual enterprise fund through utility rates and charges. In FY09 the City issued \$13.15 million in new bonds to fund Water Fund CIP projects, which included the City's major initiative to improve the City's water delivery infrastructure over the next 20 years.

Our Bond Ratings

At every bond sale the City is evaluated by two nationally recognized credit rating agencies: Moody's Investor Services and Standard and Poor's. The credit rating agencies evaluate Rockville based on four categories: debt burden, management, financial performance and the City's economic base.

The City has earned the highest bond rating from both Standard and Poor's (AAA) and Moody's (Aaa), which is a remarkable achievement for a city the size of Rockville. This means the industry considers our bonds to be of the highest investment grade. The City's high ratings show that outside investors are confident in our ability to repay our debt, and are comfortable with the stability of our tax base and our future prospects as a community. Triple A bond ratings saves taxpayer money because the City is able to borrow money at the lowest possible interest rate.

For more information, please visit the Department of Finance's Web site at www.rockvillemd.gov/government/finance.htm or call 240-314-8400.



City of Rockville

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