



POPULAR
ANNUAL
FINANCIAL
REPORT



FOR THE FISCAL YEAR
ENDED JUNE 30, 2012



City Manager's Letter



TABLE 1. Financial Measures

(in Millions)	FY12	FY11
Net Assets	\$309.0	\$301.3
Total Revenue	\$98.6	\$96.6
Total Expenses	\$89.8	\$89.0
Outstanding Debt	\$135.9	\$131.2
Bond Ratings	AAA/ Aaa	AAA/ Aaa

TABLE 2. Budget Measures

(in Millions)	FY12	FY11
Adopted Budget	\$107.2	\$104.9
Amended Budget	\$114.1	\$116.0
Adopted CIP	\$72.3	\$68.9
Amended CIP	\$72.6	\$68.9
Regular Full Time Equivalents (FTEs)	537.1	539.8

What is the PAFR?

The PAFR is designed to increase public confidence in the City government through user-friendly financial reporting. The PAFR includes financial information presented in the City of Rockville's FY 2012 Comprehensive Annual Financial Report (CAFR) and future information for FY 2013 as presented in the City's FY 2013 adopted budget. Since the PAFR is a summary document, it does not comply with the Generally Accepted Accounting Principles (GAAP) requirements. Residents who prefer to review a GAAP compliant report or would like more detail should review the City's audited CAFR document at www.rockvillemd.gov/budget.

It is my privilege to present to you the City's sixth Popular Annual Financial Report (PAFR) for Fiscal Year 2012 (FY 2012), which was from July 1, 2011 through June 30, 2012.

During FY 2012, the hardworking and committed City staff continued to provide excellent services to our residents despite growing community needs and shrinking budgets. I am proud of the ongoing efforts to increase efficiency in order to reduce the administration costs of the government.

Successful efforts in FY 2012 included changes to employee benefits, such as the pursuit of new insurance providers to decrease costs, outsourcing the municipal golf course and parking garage management, and using technology to reduce manual transactions in favor of electronic workflow. This past year also saw the completion of the renovation and expansion to the Rockville Senior Center and the modernization of the City maintenance facility on Gude Drive.

The City of Rockville has experienced economic pressures similar to the rest of the country, although to a lesser degree. The City's General Fund, our main operating fund, ended FY 2012 in a positive position with a fund balance of \$9.9 million, which represents a 15 percent reserve. The City's enterprise funds, which include water, sewer and refuse, continued to show mixed results. Looking forward, the City must continue to address the deficiencies in the Water and Sewer funds through rate increases, expenditure reductions or a combination of both.

As Rockville's new City Manager this is my first financial report. I would like to thank everyone, both residents and City staff, for the warm welcome that I have received.

Sincerely,

Barbara B. Matthews,
Rockville City Manager



Rockville's Form of Government

The City operates under the council-manager form of municipal government. The Mayor and City Council are responsible for establishing City policy and providing direction to the City Manager. The Mayor and Council are a five-member board that includes a mayor and four at-large council members. All members are elected every two years.

Our Mission...

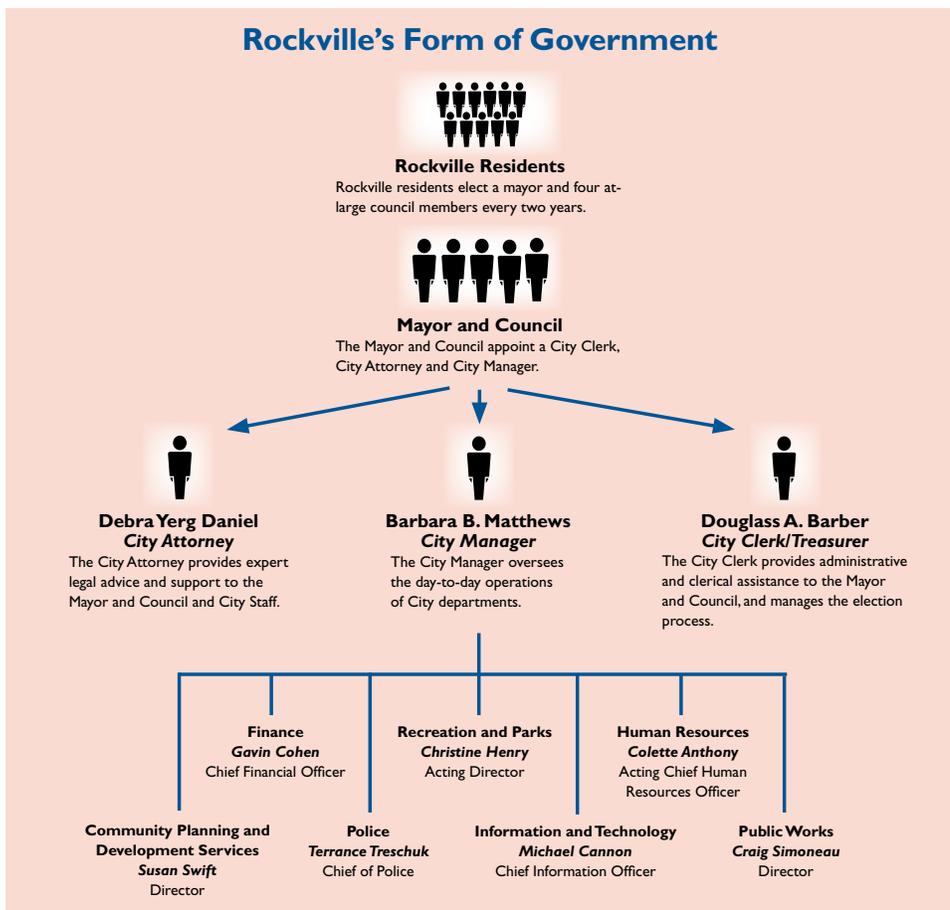
The City of Rockville provides our residents and customers with premium quality, responsive, high value municipal services. We create and recreate our organization to anticipate and serve the current and future needs of our dynamic community.



City of Rockville Mayor and Council

(Rockville's elected officials - serving two year term from Nov. 2011 to Nov. 2013)

Above: (Standing, left to right) Councilmembers Tom Moore, Mark Pierzchala, and John F. Hall, Jr. (Sitting, left to right) Mayor Phyllis Marcuccio and Councilmember Bridget Donnell Newton.



Rockville At A Glance



Rockville is justifiably regarded as one of America’s leading small cities for work, for play and for life. It is the vibrant, highly educated, business-friendly home to some of the nation’s and the world’s most prominent biomed and technology companies and is blessed by proximity to the world’s most powerful city, Washington, D.C.

The City of Rockville is approximately 13 square miles and is made up of neighborhoods rich in history and diversity. The City has grown considerably from a small community of farmers and shop owners into an urban community with a population upwards of 62,000. The City serves as the seat for the Montgomery County government.

Rockville is a residential community and an employment center. The City has an employed labor force of approximately 74,550 and the labor force is expected to continue to grow.

City and Community Services

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 municipal facilities.

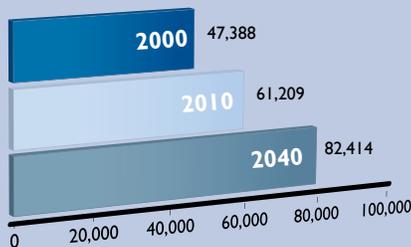
A handful of the City’s services are provided in partnership with other governmental and nonprofit entities. Both Montgomery County and the City of Rockville provide police protection to City residents. In some areas of the City—King Farm, College Gardens and portions of Twinbrook and Potomac Woods—the Washington Suburban Sanitation Commission (WSSC) provides water and sewer service. The County provides the City’s fire protection, public education system, libraries and most social services.

FIGURE 1. Top 10 Employers

	Employees
1 County Government	4,985
2 County Board of Education	2,500
3 Lockheed Martin	2,000
4 Westat	2,000
5 Booz Allen Hamilton	1,282
6 Montgomery College	955
7 Quest Software	784
8 BAE Systems	650
9 City of Rockville	537
10 Adventist Healthcare	415

Source: FY 2012 Comprehensive Annual Financial Report (CAFR), page 84.

FIGURE 2. The City’s Population is Projected to Continue to Increase



Source: U.S. Census Bureau. Historical Census Data and CPDS, MWCog Round 8.1

FIGURE 3. Projected Employment Growth by 2040



Source: MWCog Round 8.1 Forecasts, CPDS



Rockville's Financial Structure



The City maintains six individual governmental funds and six enterprise funds for a total of 12 individual funds. The governmental funds reflect the City's basic operations, like public safety, inspections, snow removal, and recreation programs. The majority of these services are financed through real and personal property taxes. The enterprise funds reflect the City's main utilities and public services, including water, sewer, refuse, stormwater management, parking and golf.

These funds support two basic types of spending: operating and capital. The operating budget is an annual budget that accounts for the day-to-day costs to provide services to residents. The Capital Improvements Program (CIP) is a five-year investment plan that maps out how the City will replace, repair or create new infrastructure.

TABLE 3. The City's Fund Structure

	Fund name	Purpose is to support the...	Major FY12 revenue	Supports the...
Governmental Funds	General	City's general provision of programs and services	Property taxes	OP
	Capital Projects	CIP projects benefiting all residents	General Fund transfer	CIP
	Debt Service	principal and interest payments on bonds supporting the Capital Projects Fund	General Fund transfer	OP
	Speed Camera	speed camera operations and pedestrian safety initiatives	Speed Camera violations	OP CIP
	Special Activities	specific programs as defined by the legal restrictions on the revenue	Donations	OP CIP
	Community Development Block Grant	nonprofit service providers and home renovations for low-to-moderate income homeowners	Federal grant	OP
Enterprise Funds	Water	production, delivery and storage of safe water	Usage charges	OP CIP
	Sewer	collection and transport of wastewater to the treatment plant	Usage charges	OP CIP
	Refuse	collection and disposal of recycling and refuse	Annual fee	OP CIP
	Stormwater Management	protection of streams, private property and watersheds from stormwater runoff	Annual fee	OP CIP
	Parking	parking permit program, the parking meter program and parking garages	Parking violations	OP CIP
	RedGate Golf	operations of the golf course	Usage charges	OP CIP

What is a Fund?

A fund is a fiscal entity with revenues and expenses that are segregated for the purpose of carrying out specific activities in accordance with special regulations, restrictions or limitations.

Why Use Fund Accounting?

The main reason we use funds is to show accountability and stewardship of our resources. For example, we want to be able to ensure that all payments received from our water utility customers are only spent to provide water to those customers. This is why we have a separate fund called the Water Fund.

Operating Budget

Capital Improvements Program Budget

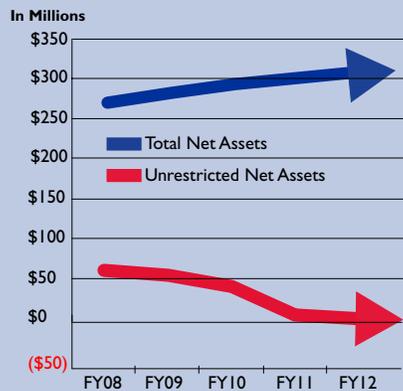
Citywide Financial Results



History of Net Assets

The City's total net assets have slowly increased each year since FY 2008, while unrestricted net assets have decreased. A major reason for the decrease is our increasing investment in capital assets.

FIGURE 4. History of Net Assets



Source: FY 2008 to FY 2012 CAFRs, page 17.

What Does It Mean to Have Negative Unrestricted Net Assets?

At the end of FY 2012 total unrestricted net assets were (\$496,041). This was caused by the large negative balance under business-type activities (i.e. enterprise funds) due to:

1. An increase in capital assets, which are considered restricted,
2. The Water and Sewer funds investment in infrastructure and
3. An increase in legal fees in the Parking Fund that reduced unrestricted net assets.

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 all of its financial obligations. Across all funds the City's net assets increased by \$7.7 million, a 2.6 percent increase over FY 2011. This means that the City's various revenues across all funds were more than sufficient to cover expenses, and the City's net worth increased.

The City's consolidated balance sheet is divided into governmental activities, which are those activities supported by general taxes and business type activities, which are supported by fees and charges paid by beneficiaries of the specific service.

TABLE 4. Consolidated Balance Sheet

(In Millions)	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	FY12	FY11	FY12	FY11	FY12	FY11
ASSETS						
Current and Other Assets	\$40.3	\$51.6	\$12.9	\$14.9	\$53.2	\$66.5
Capital Assets	\$262.3	\$247.0	\$142.3	\$133.2	\$404.6	\$380.2
Total Assets	\$302.6	\$298.6	\$155.2	\$148.1	\$457.8	\$446.7
LIABILITIES						
Current & other Liabilities	(\$3.2)	(\$2.7)	\$15.2	\$12.1	\$12.0	\$9.4
Long-term Liabilities	\$51.4	\$55.2	\$85.4	\$80.7	\$136.8	\$136.0
Total Liabilities	\$48.2	\$52.6	\$100.6	\$92.8	\$148.8	\$145.4
NET ASSETS						
Invested in Capital Assets (net of related debt)	\$215.2	\$203.9	\$61.8	\$54.1	\$277.0	\$258.1
Restricted	\$32.5	\$38.8	\$ -	\$ -	\$32.5	\$38.8
Unrestricted	\$6.8	\$3.2	(\$7.3)	\$1.2	(\$0.5)	\$4.4
TOTAL NET ASSETS	\$254.5	\$246.0	\$54.5	\$55.3	\$309.0	\$301.3

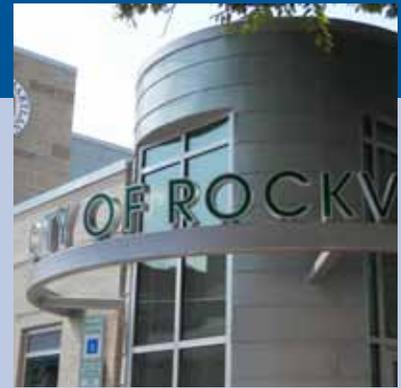
Source: FY 2012 CAFR, page 17.

Definition: Invested in Capital Assets (net of related debt) is the largest portion of the City's net assets. This represents assets used to provide services less any debt used to acquire the assets.

New Accounting Standard Implemented in the FY 2012 Financial Standards

The City implemented the new GASB 54 accounting standard starting with the FY 2012 financial statements. The purpose of this new accounting standard is to improve financial reporting by providing more easily understood fund balance categories and classifications. The new classifications are a hierarchy based on the legal restrictions, if any, associated with the fund balance.





The CIP is financed by several different sources, including the City’s enterprise funds (Water, Sewer, Stormwater Management), Speed Camera Fund, and Capital Projects Fund. The enterprise funds and the Speed Camera Fund are mainly supported by each individual fund, along with bond proceeds for the enterprise funds. The Capital Projects Fund supports all tax supported general CIP projects like recreation facilities, transportation improvements, asphalt and concrete, etc. It has been the City’s practice to fund a majority of the capital program with a combination of transfers from the General Fund and bond proceeds, which are categorized under Governmental Activities in Table 5.

TABLE 5. Outstanding General Obligation Bonds

(In Millions)	FY12	FY11
Governmental Activities	\$47.1	\$51.0
Enterprise Funds		
Water Fund	\$24.6	\$23.4
Sewer Fund	\$25.6	\$20.3
Refuse Fund	\$1.8	\$2.2
Parking Fund	\$34.7	\$32.2
Golf Fund	\$0.3	\$0.3
SWM Fund	\$1.7	\$1.9
TOTAL	\$135.8	\$131.3

Source: FY 2011 CAFR page 44 and 46 and FY 2012 CAFR page 46 and 48.

In FY 2012 the City issued new long term debt for the Water and Sewer funds and restructured the Parking Fund debt from non-taxable to taxable to enable the City to lease the parking garages. The City’s outstanding debt, including general obligation bonds, increased by \$4.7 million or 3.5 percent between FY 2012 and FY 2011.

The City’s bonds are secured by our ability to raise taxes as needed. Our financial management polices ensure that we use debt responsibly and sets affordability guidelines in the form of debt ratios (Table 6). Among other things, the policy mandates that we cannot

use debt to pay operating or routine maintenance costs, such as employee salaries.

TABLE 6. Debt Ratios

	Target	FY12 Adopted	FY11 Adopted
Governmental Activities - Debt Ratios			
Debt per Assessed Valuation	<1.0%	0.6%	0.6%
Debt per Capita*	<\$700	\$1,198	\$1,223
Debt per Capita as % of per Capita Income	<2.5%	2.6%	2.6%
Debt Service as % of Operating Budget	<15.0%	12.3%	11.2%

*The debt per capita ratio target was increased to \$1,200 by the Mayor and Council during the summer of 2012 and will be adjusted annually in accordance with the Consumer Price Index (CPI).

Source: FY 2012 Adopted Operating Budget page 3-37 and the FY 2011 Adopted Operating Budget page 3-25.

FIGURE 5. Top 10 CIP Projects by FY 2012 Spending



The City’s Bond Rating

In FY 2012, the City maintained the highest bond rating from both Standard and Poor’s (AAA) and Moody’s (Aaa). At every bond sale the City is evaluated by these two nationally recognized credit rating agencies. The credit rating agencies evaluate Rockville based on four categories: debt burden, management, financial performance and the City’s economic base and prospects.

Property Taxes



TABLE 7. Tax Rates Table

(per \$100 of assessed value)	FY13	FY12	FY11
Real Property Tax Rate	\$0.292	\$0.292	\$0.292
Personal Property Tax Rate	\$0.805	\$0.805	\$0.805
Special Taxing Districts			
Town Square Street and Area Lighting Tax District (residential and commercial)	\$ -	\$ -	\$0.116
Town Square Commercial Tax District (commercial only)	\$ -	\$ -	\$1.32
Town Center Parking District (commercial only)	\$0.330	\$0.330	\$0.330

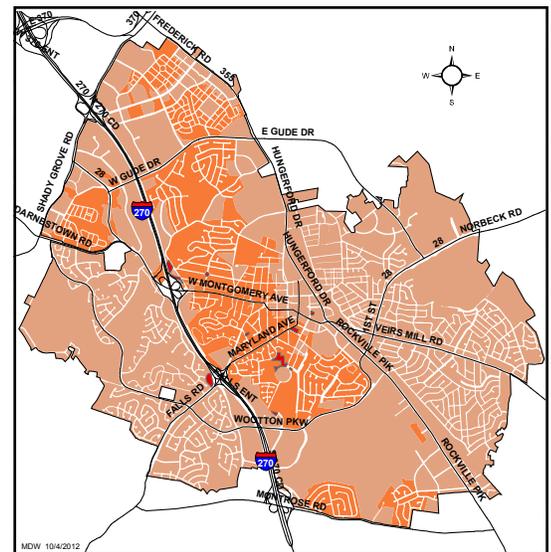
Source: FY 2011 Adopted Budget Ordinance, FY 2011 Adopted Operating Budget, page vi to vii. FY 2012 Adopted Budget Ordinance, FY 2012 Adopted Operating Budget page viii to ix. FY 2013 Adopted Budget Ordinance, FY 2013 Adopted Operating Budget page viii to ix.

The City of Rockville charges residents a real property tax, and charges businesses a real and personal property tax. More than half of all General Fund revenues are derived from property taxes. The amounts charged are based on the City's tax rates and the value of the properties

The City is in the midst of a property reassessment cycle. Every three years the State of Maryland assesses the value of real estate property. The new assessment cycle began in January.

FIGURE 6. Tax Assessment Cycle Areas in Rockville

With over two million properties to assess the State divides the region into groups. Group 1 (orange) properties will be reassessed in January 2013 and group 3 properties (light orange) were reassessed this past January.



History of Actual Property Tax Revenue Received Versus Budgeted Revenue

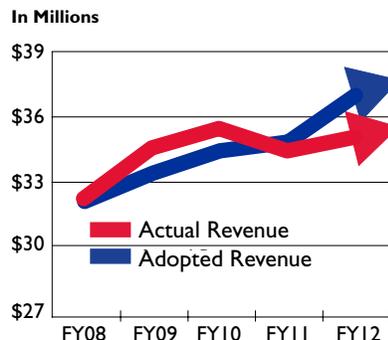
The City's actual revenue for property taxes was less than budgeted in FY 2011 and FY 2012 due to assessment appeals and the related refunds of prior year taxes paid by residents and businesses.

FIGURE 8. Top 10 FY12 Taxpayers

- 1 Rockville Town Square (CIM Group)
- 2 King Farm Presbyterian Retirement
- 3 Congressional Plaza Assoc LLC
- 4 King Farm Apartments
- 5 Realty Apartments
- 6 Boston Prop LTD Partnership
- 7 Congressional Village Assoc LLC
- 8 Brandywine Research LLC
- 9 Tower-Dawson LLC
- 10 Congressional Towers

Source: FY 2012 CAFR, page 78.

FIGURE 7. History of Property Tax Revenue



Source: FY 2008 to FY 2011 CAFRs page 59 and FY 2012 CAFR page 63.



My FY 2012 Property Tax Bill



SAMPLE Property Tax Bill for FY 2012 (July 2011 to June 2012)

DOE, JANE
101 PLEASANT DRIVE
ROCKVILLE, MD 20850-0001

BILL DATE	
8/16/2011	
PROPERTY DESCRIPTION	
COLLEGE GARDENS	

LOT	BLOCK	DISTRICT	SUB	TAX CLASS	BILL #	ACCOUNT #								
5	2	00	000	R050	00000001	00001111								
MORTGAGE INFORMATION		PROPERTY ADDRESS			REFUSE AREA	REFUSE UNITS								
UNKNOWN		101 PLEASANT DRIVE			R40	1								
TAX DESCRIPTION		ASSESSMENT	RATE	TAX/CHARGE	* PER \$100 OF ASSESSMENT									
STATE PROPERTY TAX		253,850	0.112*	284.31	<table border="1"> <tr> <th colspan="2">CURRENT YEAR FULL CASH VALUE TAXABLE ASSESSMENT</th> </tr> <tr> <td colspan="2">253,850</td> </tr> <tr> <th colspan="2">CONSTANT YIELD RATE INFORMATION</th> </tr> <tr> <td colspan="2">COUNTY RATE OF 0.713 IS MORE THAN THE CONSTANT YIELD RATE OF 0.724 BY 0.11</td> </tr> </table>		CURRENT YEAR FULL CASH VALUE TAXABLE ASSESSMENT		253,850		CONSTANT YIELD RATE INFORMATION		COUNTY RATE OF 0.713 IS MORE THAN THE CONSTANT YIELD RATE OF 0.724 BY 0.11	
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CONSTANT YIELD RATE INFORMATION														
COUNTY RATE OF 0.713 IS MORE THAN THE CONSTANT YIELD RATE OF 0.724 BY 0.11														
COUNTY PROPERTY TAX		253,850	0.873*	2,216.11										
ROCKVILLE PROPERTY TAX		253,850	0.292*	741.24										
SOLID WASTE CHARGE			51.75	51.75										
ROCKVILLE STORMWATER MGMT FEE				62.48										
		TOTAL		3,335.89										
CREDIT DESCRIPTION		ASSESSMENT	RATE	AMOUNT										
STATE HOMEOWNER'S CREDIT				-1,000.75										
STATE HOMESTEAD CREDIT		-33,078	0.112	-37.05										
COUNTY HOMEOWNER'S CREDIT				-447.18										
COUNTY HOMESTEAD CREDIT		-33,078	0.873	-288.77										
COUNTY PROPERTY TAX CREDIT				-692.00										
MUNICIPAL HOMEOWNER'S CREDIT				-394.46										
MUNICIPAL HOMESTEAD CREDIT		-33,078	0.292	-96.59										
TOTAL CREDITS				-2,956.80										
TOTAL ANNUAL AMOUNT DUE:				399.09										

TABLE 8. Property Tax Relief

Homeowner's Credit: This program provides tax credits for homeowners based on income

In FY 2012....	In FY 2013...
Gross Income: \$85,000 or less	Gross Income: \$91,000 or less
Net Worth: \$200,000 or less	Net Worth: \$200,000 or less
Tax Relief: on first \$400,000 of home's AV	Tax Relief: on first \$495,000 of home's AV
Senior Property Tax Credit: An additional 25 percent credit for seniors 70 years or older who are primary homeowners	Senior Property Tax Credit: An additional 25 percent credit for seniors 70 years or older who are primary homeowners

Homestead Credit: This program limits taxable assessment increases to 10 percent a year

In FY 2012....	In FY 2013...
For most residents this credit is still calculated from the 2009/2011 assessment cycle	For some residents reassessed in January 2012 this credit went away due to significantly lower assessed values

The General Fund - Revenue



What is Revenue from Other Governments?

Revenue from Other Governments is a very important revenue source that accounted for approximately a quarter of all revenues received in FY 2012.

The largest revenue source in this category is income tax revenue. This consists of the City's share of income taxes received by the State of Maryland from returns filed from Rockville.

The City does not have a separate income tax rate, but receives 17 percent of collected County income taxes. The County income tax rate for FY 2012 was 3.2 percent.

TABLE 9. Revenue from Other Governments Detail

(In Millions)	FY12	FY11
Income Taxes	\$10.8	\$11.1
Gas and Motor Vehicle Taxes*	\$0.7	\$0.2
County Tax Duplication	\$1.9	\$1.9
Admission and Amusement Taxes	\$1.1	\$1.0
Grants and Other Governmental Revenue	\$1.6	\$1.6
TOTAL	\$16.1	\$15.8

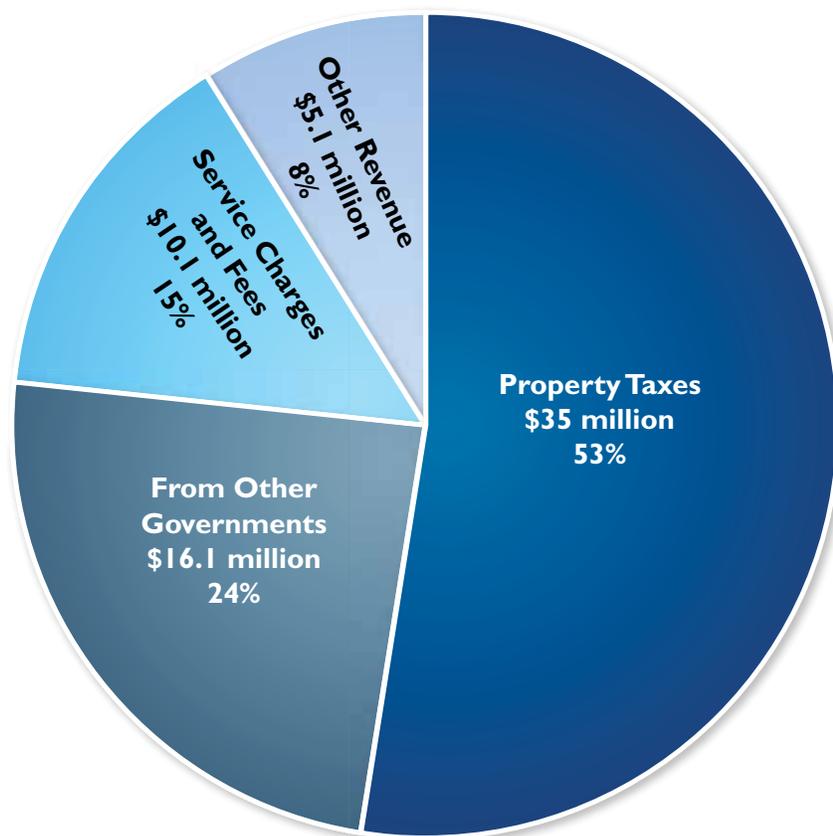
* Also known as Highway User Revenue.

Source: FY 2011 CAFR, page 27 and FY 2012 CAFR page 29.

The General Fund received \$66.3 million in revenues. Revenues came in \$314,000 higher than the FY 2012 adopted budget mainly due to an increase in Licenses and Permits which offset decreases in other revenues.

Property taxes received by the City in FY 2012 were \$1.9 million less than budgeted, due to property tax refunds to residents who appealed their assessments and were owed refunds for several years' worth of taxes.

FIGURE 9. Where the Money Originated: \$66.3 Million



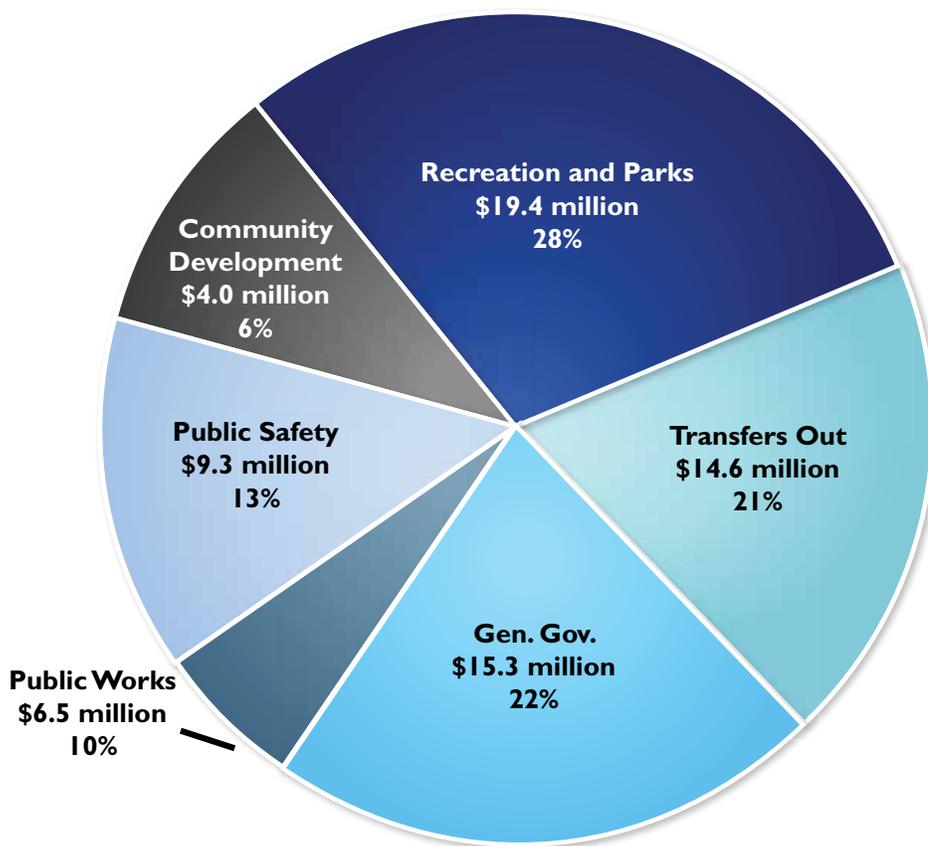
Source: FY 2012 CAFR, page 29.



The General Fund - Spending

Normal City operations account for 79 percent of all General Fund expenditures. Transfers from the General Fund to other City funds account for 21 percent of all expenditures and included transfers to Debt Service (\$5.1 million), Capital Projects (\$8.3 million), Refuse (\$41,200), Parking (\$500,000) and RedGate Golf (\$630,000).

FIGURE 10. How the Money was Spent: \$69.1 Million



Source: FY 2012 CAFR, page 29.



ATTACHMENT A



The General Fund Unassigned Fund Balance is: \$9,904,002

An unassigned fund balance is the total fund balance in the General Fund in excess of non-spendable, restricted, committed and assigned fund balance. This fund balance is at the Mayor and Council policy level of 15 percent.

TABLE 10. General Fund Fund Balance History

(In Millions)

Fiscal Year	Fund Balance*	% of Adopted Revenue
2008	\$15.1	25.6%
2009	\$13.6	22.0%
2010	\$15.3	24.6%
2011	\$13.7	20.7%
2012	\$9.9	15.0%
2013	\$9.9	15.2%

* Fiscal Years 2008 through 2011 represent total audited fund balances, 2012 represents an unassigned fund balance, and 2013 represents an unassigned estimated fund balance.

Source: FY 2008 to FY 2011 CAFRs, page 25. FY 2012 CAFR page 27. FY 2013 1st quarter report, page A-4.

Enterprise Funds

Report Card

Goal #1

	FY12	FY11	FY10	FY09	FY08
Water Fund	✓	✗	✗	✗	✗
Sewer Fund	✗	✗	✓	✓	✓
Refuse Fund	✓	✓	✓	✓	✓
Parking Fund	✗	✓	✓	✓	✓
SWM Fund	✗	✗	✗	✗	✗
Golf Fund	✗	✗	✗	✗	✗

The Goal...

Each enterprise fund's total revenue should equal or exceed total expenses. The exception in the financial management policies is for enterprise funds where the City is not the sole provider, which includes the City's Parking and Golf funds. Under these circumstances fees and rates must cover operating costs. For all enterprise funds it is acceptable in any one year for expenses to exceed revenues as long as there are sufficient reserves in place.

Action Plan to Improve Enterprise Fund Results

1. The City outsourced the operations of the municipal golf course and parking garages. These changes will improve the finances of the Golf and Parking funds going forward.
2. The temporary liquidity issues of the Water and Sewer funds, which are the result of investments in infrastructure improvements, will be resolved through planned rate increases.

Goal #1: Revenues Exceed Expenses

The City's enterprise funds continued to show mixed results in FY 2012. In the Stormwater Management Fund expenses exceeded revenues due to a planned spend down of its cash reserves, while in the Water and Sewer Funds the City increased rates consistently each year with the goal of better aligning revenues and expenses.

The City's two competitive enterprise funds, Parking and Golf, also struggled in FY 2012 to generate sufficient revenues to cover expenses. The City has addressed this by contracting out the management of the Golf course and City parking garages to private companies. FY 2012 was the transition year for both operations.

TABLE II. History of Enterprise Fund Revenues and Expenses

(In Millions)	FY12	FY11	FY10	FY09	FY08
Water Fund					
Revenues	\$10.2	\$9.9	\$7.1	\$5.8	\$5.3
Expenses	\$9.5	\$10.4	\$7.4	\$7.0	\$6.2
Income/(Loss)	\$0.7	(\$0.5)	(\$0.3)	(\$1.2)	(\$0.9)
Sewer Fund					
Revenues	\$8.3	\$7.1	\$6.4	\$6.3	\$6.0
Expenses	\$8.3	\$7.7	\$6.4	\$6.0	\$6.0
Income/(Loss)	(\$0.0)	(\$0.6)	\$0.0	\$0.3	\$0.0
Refuse Fund					
Revenues	\$6.0	\$6.0	\$5.5	\$5.6	\$5.5
Expenses	\$5.7	\$5.6	\$5.0	\$5.1	\$4.9
Income/(Loss)	\$0.3	\$0.4	\$0.5	\$0.5	\$0.6
Parking Fund*					
Revenues (op)	\$1.8	\$2.7	\$2.2	\$2.2	\$1.7
Expenses (op)	\$2.5	\$1.9	\$1.3	\$1.3	\$1.7
Income/(Loss)	(\$0.7)	\$0.8	\$0.9	\$0.9	\$0.0
SWM Fund					
Revenues	\$2.9	\$2.7	\$1.9	\$0.8	\$0.9
Expenses	\$3.2	\$3.0	\$2.5	\$1.9	\$1.2
Income/(Loss)	(\$0.3)	(\$0.3)	(\$0.6)	(\$1.1)	(\$0.3)
Golf Fund*					
Revenues (op)	\$0.5	\$0.9	\$1.0	\$1.1	\$1.2
Expenses (op)	\$0.9	\$1.5	\$1.4	\$1.4	\$1.2
Income/(Loss)	(\$0.4)	(\$0.6)	(\$0.4)	(\$0.3)	(\$0.1)

*For the Parking and Golf funds operating revenues must exceed operating expenses.

Source: FY 2008 to FY 2011 CAFRs, page 30., FY 2012 CAFR, page 32.



Goal #2: Meet or Exceed Required Reserve Levels

Sufficient cash reserves are available in every enterprise fund except the Water and Sewer funds. These two funds have struggled to raise additional revenues to pay for growing capital improvements and emergency repairs. For example, during FY 2011 the City experienced a large water main break that shut down the City's water plant and required millions in additional expenses to repair. The City's plan has been to increase water and sewer rates to support expenses and to rebuild the cash balances in these funds.

	FY12	FY11	FY10	FY09	FY08
Water Fund	X	X	X	✓	X
Sewer Fund	X	X	X	X	✓
Refuse Fund	✓	✓	✓	✓	✓
Parking Fund	✓	✓	✓	✓	✓
SWM Fund	✓	✓	✓	✓	✓
Golf Fund	✓	✓	X	X	X

TABLE 12. History of Enterprise Cash Balances

(In Millions)	FY12	FY11	FY10	FY09	FY08
Water Fund					
Reserve Required	\$2.4	\$2.6	\$1.8	\$1.7	\$1.5
Cash Balance	(\$6.7)	(\$6.7)	(\$3.4)	\$5.9	\$0.4
Sewer Fund					
Reserve Required	\$2.1	\$1.9	\$1.6	\$1.5	\$1.5
Cash Balance	(\$4.5)	(\$2.7)	(\$3.6)	\$0.4	\$5.4
Refuse Fund					
Reserve Required	\$0.5	\$0.5	\$0.4	\$0.4	\$0.4
Cash Balance	\$2.6	\$2.3	\$2.0	\$2.5	\$3.5
Parking Fund					
Reserve Required	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
Cash Balance	\$1.3	\$2.6	\$3.0	\$3.5	\$4.1
SWM Fund					
Reserve Required	\$0.8	\$0.7	\$0.6	\$0.5	\$0.3
Cash Balance	\$3.3	\$3.6	\$3.3	\$5.5	\$7.5
Golf Fund					
Reserve Required	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Cash Balance	\$0.2	\$0.2	(\$1.4)	(\$0.9)	(\$0.6)

Source: FY 2008 to FY 2011 CAFRs, page 31, FY 2012 CAFR page 33.

The Goal...

According to the City's financial management policies the Water, Sewer, and Stormwater Management funds must maintain cash balances of 90 days of operating expenses as reserves. The City's Refuse Fund must maintain a 30 day balance, and, although the Parking and RedGate Golf funds do not have a reserve requirement formally stated in the financial management policies, in practice staff aims to maintain a 30 day cash balance in these two funds.



Why Is My Utility Bill Increasing?



What is the Ready-to-Serve Charge?

The ready-to-serve charge is a flat fee based on the water meter size, which is billed quarterly. The revenue generated from this charge is split equally between the Water and Sewer funds. The rationale for this charge is to provide a revenue source that is fixed to help support the fixed costs related to running a water and sewer utility. For example, the majority of the costs associated with running a Water Treatment Plant will still occur whether or not water is used.

TABLE 14. Ready-to-Serve Rate Comparison

Ready-to-Serve Charge	Current Quarterly Rates		
	FY13	FY12	FY11
5/8" meter	\$8.10	\$6.75	\$6.56
3/4" meter	\$12.15	\$10.14	\$9.84
1" meter	\$20.25	\$16.89	\$16.40
1 1/2" meter	\$40.50	\$33.75	\$32.80
2" meter	\$64.80	\$54.00	\$52.48
3" meter	\$129.60	\$108.00	\$104.96
4" meter	\$202.50	\$168.75	\$164.00
6" meter	\$405.00	\$337.50	\$328.00
8" meter	\$648.00	\$540.00	\$524.80
10" meter	\$972.00	\$810.00	\$787.20

The most common residential meter.

Source: FY 2013 and FY 2012 Adopted Operating Budget page 3-15.

The City bills utility customers for water and sewer usage and recycling and refuse. A major concern of our utility customers is the increasing water and sewer rates. The goal in setting the City's utility rates is low rates over time, while covering all operating and capital expenses and maintaining required reserves.

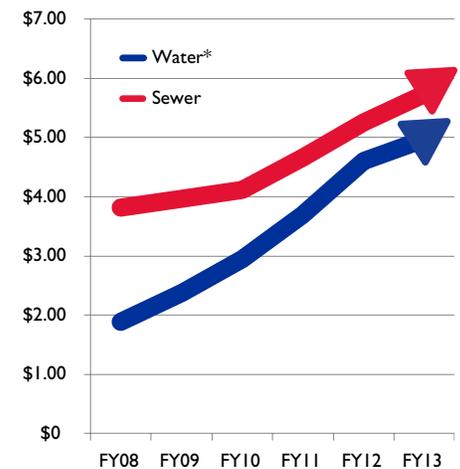
The City establishes rates on a multi-year basis to maintain consistency and reduce volatility. In order to set the rates the City uses cash flow models that take into account factors such as future changes in operating expenses, debt obligations and changes in revenue.

The key drivers of utility rate increases and decreases are the current and projected:

1. Cash balance of the fund
2. Operating expenses
3. Capital improvement expenses
4. Debt obligations

The City's water and sewer utility rates have been increasing over the past few years. Between FY 2008 and FY 2013 the three tiered water rates have increased at the highest rate, with 25 percent increases each year between FY 2009 and FY 2012. The sewer rates have also increased but at a slower rate than water.

FIGURE 11. History of Water and Sewer Rates



* Water usage assumes an average of 14,000 gallons per quarter.

Source: FY 2013 Adopted Operating Budget, page 3-15, graph 3-11 and page 3-17, graph 3-14.

TABLE 13. Utility Rates Comparison

	Water Usage Rates	Current Utility Rates		
		FY13	FY12	FY11
(per 1,000 gallons)	0 to < 12,000 gal	\$4.68	\$4.33	\$3.48
	12,000 to < 24,000 gal	\$6.73	\$6.23	\$5.01
	> 24,000 gal	\$7.23	\$6.69	\$5.37
	Sewer Usage Rates	\$5.73	\$5.26	\$4.66
	Refuse Annual Fee	\$372.00	\$392.40	\$392.40

Source: FY 2013 Adopted Operating Budget pages 3-14 to 3-18. FY 2012 Adopted Operating Budget pages 3-14 to 3-18. FY 2011 Adopted Operating Budget pages 3-10 to 3-14.



Why Is My Utility Bill Increasing? cont.

Why are the Water Rates Increasing?

The City's water rates have been increasing in order to keep pace with the rising costs of maintaining and repairing the City's aging water infrastructure. The major infrastructure improvement in the Water Fund is the ongoing Water Main Rehabilitation CIP project, which appears in the City's Top 10 CIP projects list (Figure 5). Another CIP project with significant future implications for the Water Fund is the Water Tank Improvements project which funds the design, inspection, and rehabilitation of two water tanks (Hunting Hill and Carr Avenue) and the decommissioning of the Talbott Tank. The actual cash payments from the Water Fund have been dramatically increasing since FY 2008. Although cash received from customers has also been increasing each year, it has not kept pace with the cash leaving the fund. This has resulted in the City needing to issue new bonds each year to pay for needed infrastructure and a depletion of the cash balance in this fund. As shown in Table 12 of cash balances for each enterprise fund, the Water Fund's cash balance at the end of FY 2012 was negative.

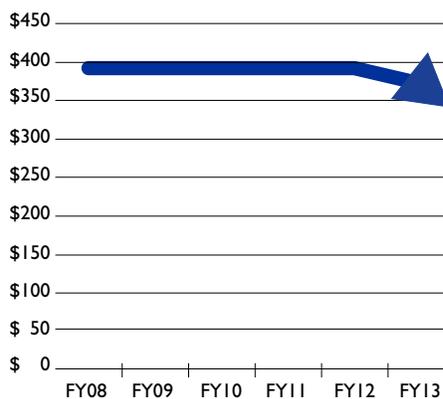
Why are the Sewer Rates Increasing?

The City's sewer rates have also been increasing in order to keep pace with the rising costs of the City's share to maintain the region's wastewater treatment plant. The City supports the Blue Plains Wastewater Treatment Plant through an operating contribution and a capital projects contribution. The capital contribution is made through the Blue Plains Treatment CIP project, which was the CIP project with the highest spending in FY 2012 (Figure 5). In FY 2012 the City also paid \$2.4 million out of the operating budget to Blue Plains. In comparison to the Water Fund the actual cash payments leaving the Sewer Fund have been slowly but steadily increasing since FY 2008. Although cash received from customers has also been increasing each year, it has not kept pace with the cash leaving the fund. This has resulted in the City needing to issue new bonds each year to pay for needed infrastructure and a depletion of the cash balance in this fund. As shown in Table 12 of cash balances for each enterprise fund, the Sewer Fund's cash balance at the end of FY 2012 was negative.

What About Refuse Rates?

In FY 2008 the City implemented a semi-automated once per week recycling and refuse program. This new program reduced operating and capital expenses allowing the annual refuse rates to remain the same between FY 2008 and FY 2012 and to actually decrease by 5 percent in FY 2013.

FIGURE 14. History of Refuse Rates



Source: FY 2013 Adopted Operating Budget, page 3-19.

FIGURE 12. Cash Payments Into and Out of the Water Fund



FIGURE 13. Cash Payments Into and Out of the Sewer Fund



- Cash Paid for Capital Improvements
- Cash Received from Customers
- Cash Paid for Debt Service
- Cash Paid for Operating Expenses

Source: FY 2008 to 2011 CAFR, page 31 and the FY 2012 CAFR, page 33.



Recognition for Thorough Reporting



The Government Finance Officers Association of the United States and Canada (GFOA) has given an award of Outstanding Achievement in Popular Annual Financial Reporting to the City of Rockville for its Popular Annual Financial Report for the fiscal year ended June 30, 2011. The award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award 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 Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

We believe our current report continues to conform to Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

City of Rockville
Maryland

for the Fiscal Year Ended

June 30, 2011



Christopher P. Merrill
President

Jeffrey L. Esser
Executive Director



City of
Rockville
Get Into It

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