City of Rockville, Maryland
Proposed General Obligation Bonds, Series 2010A and General Obligation Refunding Bonds, Series 2010B

October 20, 2010

The PFM Group
comprised of:
Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

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October 20, 2010

Mr. Gavin Cohen, Finance Director
City of Rockville
City Hall
111 Maryland Avenue
Rockville, MD 20850

Dear Mr. Cohen:

Public Financial Management Inc. (PFM) is pleased to submit preliminary sizings, an estimated time schedule and our credentials to the City of Rockville, Maryland (the "City") to continue to serve as its Financial Advisor.

We have prepared for your review preliminary amortization schedules for the City's upcoming general obligation bond transaction with 10 and 20 year schedules, and a preliminary time schedule which targets a competitive bond sale on Monday, December 6, 2010. This schedule includes the Resolution of Intent that was adopted by the Council in March 2010, Ordinance received in October 2010, Council action in November 2010, with bond proceeds available by the middle of December 2010. Also included is information regarding a current refunding opportunity.

We have also included a slightly revised section regarding the American Recovery and Reinvestment Act (ARRA) of 2009 passed by Congress last year. As an appendix to this proposal we have included a detailed description of our scope of services for both competitive and negotiated transactions, and resumes for the PFM team.

We hope our past performance, comprehensive scope of services and the depth of expertise presented in this proposal will encourage the City to continue its partnership with PFM as its Financial Advisor.

Please let us know if you have any questions or would like additional clarification.

Sincerely,

Public Financial Management

Jessica Cameron

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Proposed Time Schedule

Preliminary Time Schedule

The time schedule on the following pages targets a competitive bond sale, for both the new money and refunding bonds, on Monday, December 6, 2010.

This schedule includes:

1. Resolution of Intent passed in March 2010;
2. Ordinance received in October 2010;
3. Council action on the Ordinance in November 2010; and
4. Bond proceeds available by the end of December 2010.

The time schedule outlines a closing of the bonds before December 31, 2010 so that the bonds can be designated as a "qualified tax-exempt obligation" commonly referred to as bank qualified bonds (BQ).

In order for bonds to be qualified tax-exempt obligations the bonds must be (i) issued by a "qualified small issuer", (ii) issued for public purposes, and (iii) designated as qualified tax-exempt obligations. A "qualified small issuer" is an issuer that issues no more than $30 million of tax-exempt bonds during the calendar year. The limit prior to the American Recovery and Reinvestment Act (ARRA) of 2009 was $10 million. The limit has been raised to $30 for municipal tax-exempt bonds issued through December 31, 2010, it is uncertain if the revised limit will be extended beyond 2010 (see additional information provided under the section "Stimulus Bill" included herein).

Under the Tax Reform Act of 1986 (the "Act"), section 265(b) of the Internal Revenue Code of 1986, as amended (the "Code"), banks may not deduct the carrying cost (the interest expense incurred to purchase or carry an inventory of securities) of tax-exempt municipal bonds. For banks, this provision has the effect of eliminating the tax-exempt benefit of municipal bonds. An exception is included in the Code that allows banks to deduct 80% of the carrying cost of a "qualified tax-exempt obligation".

Although banks may purchase non-bank qualified bonds they seldom did prior to the enactment of ARRA. This was due in part because the rate they would require in order for the investment to be profitable would approach the rate of taxable bonds. As a result, issuers obtain lower rates by selling bonds to investors that realize the tax-exempt benefit. In contrast, banks have a strong appetite for bank qualified bonds. Prior to the ARRA the result was that bank qualified bonds carried lower rates than non-bank qualified bonds. However, the ARRA also included a provision that creates a temporary safe harbor (2% de minimis rule) that permits financial institutions to deduct 80% of the cost of buying and carrying tax-exempt bonds to the extent their tax-exempt holdings do not exceed 2% of their assets. The result of which has been compression in the differential between BQ and NBQ rates because of a financial intuitions ability to hold NBQ bonds without suffering the effect of the pro rata disallowance rule.

The City's $6,100,000 General Obligation Bonds, Series 2001 were designated as bank-qualified tax-exempt obligations upon issuance, so long as the refunding bonds are current refunding bonds, do not have a maturity beyond thirty years, and do not extend the weighted average maturity of the remainder of the 2001 bonds, the current refunding bonds are not counted towards the City's BQ threshold for the 2010 year.

Should the City defer the bond sale and/or closing into 2011, we would need to work closely with bond counsel to determine if the bonds should be designated as BQ or NBQ. If there has not been action by Congress by the time documents would need to be distributed, the bonds would need to be designated as NBQ.

PROPOSED TIME SCHEDULE
CITY OF ROCKVILLE, MARYLAND

$27,630,000 General Obligation Bonds, Series 2010A
$3,005,000 General Obligation Refunding Bonds, Series 2010B

October 2010						
S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

November 2010						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

December 2010						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

Date	*Task and Description*	*Responsibility*
October 2010	• Bond sizing and proposal information provided for City's review and consideration	FA
By mid-October	• Ordinance provided to City	BC
By November 1	• Preliminary draft of preliminary official statement (POS) provided for review	FA
By November 5	• Comments and any remaining updates on POS due to FA	City, BC
November 8	• Ordinance introduced to Mayor and Council	City
By November 8	• Draft of credit presentation book distributed	FA
Week of November 8	• Conference call to review rating agency meeting plans and credit presentation book (date and time TBD)	City, FA
By November 9	• Second draft of POS and credit presentation book to be distributed	FA
By November 12	• Meeting/call plans and credit presentation book finalized for discussions with rating agencies	City, FA

Date	*Task and Description*	*Responsibility*
November 12	• POS, Ordinance and other related documentation forwarded to rating agencies	FA
November 15	• Meeting of Mayor and Council, Approval of Ordinance	City
Week of November 15	• Meetings, or conference calls with rating agency analysts (dates and times TBD)	City, FA, RA
November 24	• Print and post electronically the POS	FA
By November 23	• Receive notification of ratings	City, FA, RA
December 6	• Bond sale and award	City, FA, BC
December 22	• Bond closing – City receives bond proceeds	City, FA, BC

Financing Team Members:

City = City of Rockville, Maryland (issuer)

BC = Venable LLP (bond counsel)

FA = Public Financial Management, Inc. (financial advisor)

RA = Moody's Investors Service and Standard & Poor's (rating agencies)

Preliminary Schedules

Preliminary Debt Service Schedules

Preliminary structuring options for the upcoming General Obligation Bond issue have been provided on the following pages. The assumptions utilized in the preliminary schedules are as follows:

1. Competitive bond sale on December 6, 2010;
2. Dated Date as of Delivery, December 22, 2010;
3. Interest payments to begin on June 1, 2011;
4. Principal repayments to begin on June 1, 2012;
5. Proceeds to provide $4,241,000 for asphalt repair and replacement projects have been gross funded and amortized over 10 years;
6. Proceeds to provide $4,700,000 for Gude Drive facility improvement have been gross funded and amortized over 20 years;
7. Proceeds to provide $8,000,000 for the Police Station have been gross funded and amortized over 20 years;
8. Proceeds to provide $1,000,000 for the Senior Center improvements that have been gross funded and amortized over 20 years;
9. Proceeds to provide $9,871,000 for water and sewer projects have been gross funded and amortized over 20 years;
10. Payments have been structured to effect a level principal structure per project;
11. No capitalized interest;
12. Current market rates as of October 18, 2010 plus 10 basis points, reflecting recent triple “A” bond sales;
13. Cost of issuance estimate;
14. Minimum bid of Par for the competitive sale; and
15. Underwriter compensation estimate of 0.6%.

Please note that the par amount of the bonds is less than the required project costs. This is due to the fact that the minimum bid requirement would be a bid of no less than par, and the estimated net premium reduces the issue size. We would propose to allow for adjustment of the par amount after receipt of bids, as we have done on prior bond issues. This adjustment would ensure that the City does not issue bonds in excess of the project needs. It does not cost the City to allow for this adjustment, and it is a common feature for competitively issued bonds.

We would suggest that the City include a standard ten year call option for the new money issue, bonds maturing in the years 2021 and thereafter callable on June 1, 2020. We are still seeing value in having a call provision for 20 year bonds, and ultimately, the main purpose of a call feature is to provide flexibility to the City. Because 85% of the projects are amortized over 20 years the City may want to: 1) pay the bonds off early, 2) restructure this issue in the future, or 3) take advantage of a refunding opportunity in the future for debt service savings. Because the City's bonds will be offered at a price of not less than par, a premium bond structure will be in place for this issue. If there is a high coupon structure for the later maturities, there is the likelihood that this issue would be a good refunding candidate in the future. Without a call feature the City would not have the opportunity to take advantage of any potential debt service savings in the future.

Refunding Opportunity

In addition to the new money bonds, the City has an opportunity to capture debt service savings by refinancing existing debt. In August of 2001 the City issued $6,100,000 General Obligation Bonds of 2001 to finance various public improvement projects within the City. The City may elect on March 15, 2011 to prepay Bonds due on or after March 15, 2012. We have confirmed this call date with Jim Cumbie at Venable LLP.

The proposed refunding bonds would be current refunding bonds as the refunding bonds would be issued within 90 days of the call date. Based on current interest rates, this issue is projected to produce total interest rate savings of $359,696 with a present value of $324,249, which is 9.42% of the present value of refunded debt service. These savings figures are net after all refinancing costs, and preliminary schedules have been provided on the following pages.

The 2001 Bonds have a principal payment date of March 15th and the refunding bonds are currently structured to retain the March 15th payment date. However, if the city would like to align the principal payment date of the refunding bonds with the new money issue with a June 1 payment date, the closing date of the refunding bonds will need to be pushed into 2011. This does not pose a problem for the City, nor should it not garner any additional cost. The reason the refunding bonds would need to close in 2011 would be due to the regulations surrounding the bank qualification designation. The remaining weighted average maturity of the 2001 bonds is currently 5.74; a refunding of this issue pushing the principal payments to June 1st from March 15th will provide a revised weighted average maturity of 5.76. In order for the refunding bonds to not count against the City's BQ threshold for 2010 the weighted average maturity of the refunding bonds must not be greater than the bonds to be currently refunded. Because we cannot determine in advance what the ultimate par amount will be on the new money bonds based on the bidders' premium, we need to be cautious and close the refunding bonds in 2011 to ensure the City's issuance for 2010 remains under $30 million.

There is one additional bond issue outstanding that is currently callable, the 1998 Bonds. There are three remaining maturities for the 1998 Bonds, March 15, 2011-2013. At this time it is not recommended that the City consider those maturities to be refunded. A refunding of the 2012 and 2013 maturities is projected to produce total interest rate savings of $16,682. However, these maturities are callable on any date, and if the City has sufficient debt service funds on hand, it may consider prepayment of these remaining maturities for debt service savings.

The City's other debt obligations would be considered advance refunding candidates as the call dates for those issues would be more than 90 days from the proposed closing date.

SOURCES AND USES OF FUNDS

Mayor and Council, City of Rockville, Maryland
$27,630,000 General Obligation Bonds, Series 2010
Preliminary Schedules - October 19, 2010
Based on current market rates plus 10 bpts contingency
Tax-Exempt Bonds

Dated Date	12/22/2010
Delivery Date	12/22/2010

Sources:	Transportation (10YR)	Capital (20 YR)	Sewer (20 YR)	Water (20 YR)	Total
Bond Proceeds:					
Par Amount	4,220,000.00	13,605,000.00	5,295,000.00	4,510,000.00	27,630,000.00
Net Premium	83,597.90	284,287.35	110,565.70	94,282.20	572,733.15
	4,303,597.90	13,889,287.35	5,405,565.70	4,604,282.20	28,202,733.15

Uses:	Transportation (10YR)	Capital (20 YR)	Sewer (20 YR)	Water (20 YR)	Total
Project Fund Deposits:					
Project Fund	4,241,000.00	13,700,000.00	5,330,000.00	4,541,000.00	27,812,000.00
Delivery Date Expenses:					
Cost of Issuance	16,922.77	54,557.86	21,233.65	18,085.72	110,800.00
Underwriter's Discount	42,200.00	136,050.00	52,950.00	45,100.00	276,300.00
	59,122.77	190,607.86	74,183.65	63,185.72	387,100.00
Other Uses of Funds:					
Contingency	3,475.13	(1,320.51)	1,382.05	96.48	3,633.15
	4,303,597.90	13,889,287.35	5,405,565.70	4,604,282.20	28,202,733.15

BOND DEBT SERVICE

Mayor and Council, City of Rockville, Maryland
$27,630,000 General Obligation Bonds, Series 2010
Preliminary Schedules - October 19, 2010
Based on current market rates plus 10 bpts contingency
Tax-Exempt Bonds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
06/01/2011			332,994.59	332,994.59	332,994.59
12/01/2011			376,975.00	376,975.00	
06/01/2012	1,605,000	2.000%	376,975.00	1,981,975.00	2,358,950.00
12/01/2012			360,925.00	360,925.00	
06/01/2013	1,600,000	2.000%	360,925.00	1,960,925.00	2,321,850.00
12/01/2013			344,925.00	344,925.00	
06/01/2014	1,595,000	2.000%	344,925.00	1,939,925.00	2,284,850.00
12/01/2014			328,975.00	328,975.00	
06/01/2015	1,595,000	2.000%	328,975.00	1,923,975.00	2,252,950.00
12/01/2015			313,025.00	313,025.00	
06/01/2016	1,590,000	2.000%	313,025.00	1,903,025.00	2,216,050.00
12/01/2016			297,125.00	297,125.00	
06/01/2017	1,590,000	2.000%	297,125.00	1,887,125.00	2,184,250.00
12/01/2017			281,225.00	281,225.00	
06/01/2018	1,590,000	2.000%	281,225.00	1,871,225.00	2,152,450.00
12/01/2018			265,325.00	265,325.00	
06/01/2019	1,590,000	2.500%	265,325.00	1,855,325.00	2,120,650.00
12/01/2019			245,450.00	245,450.00	
06/01/2020	1,590,000	2.500%	245,450.00	1,835,450.00	2,080,900.00
12/01/2020			225,575.00	225,575.00	
06/01/2021	1,590,000	3.000%	225,575.00	1,815,575.00	2,041,150.00
12/01/2021			201,725.00	201,725.00	
06/01/2022	1,170,000	3.000%	201,725.00	1,371,725.00	1,573,450.00
12/01/2022			184,175.00	184,175.00	
06/01/2023	1,170,000	3.000%	184,175.00	1,354,175.00	1,538,350.00
12/01/2023			166,625.00	166,625.00	
06/01/2024	1,170,000	3.000%	166,625.00	1,336,625.00	1,503,250.00
12/01/2024			149,075.00	149,075.00	
06/01/2025	1,170,000	3.500%	149,075.00	1,319,075.00	1,468,150.00
12/01/2025			128,600.00	128,600.00	
06/01/2026	1,170,000	3.500%	128,600.00	1,298,600.00	1,427,200.00
12/01/2026			108,125.00	108,125.00	
06/01/2027	1,170,000	3.500%	108,125.00	1,278,125.00	1,386,250.00
12/01/2027			87,650.00	87,650.00	
06/01/2028	1,170,000	3.500%	87,650.00	1,257,650.00	1,345,300.00
12/01/2028			67,175.00	67,175.00	
06/01/2029	1,170,000	3.500%	67,175.00	1,237,175.00	1,304,350.00
12/01/2029			46,700.00	46,700.00	
06/01/2030	1,170,000	4.000%	46,700.00	1,216,700.00	1,263,400.00
12/01/2030			23,300.00	23,300.00	
06/01/2031	1,165,000	4.000%	23,300.00	1,188,300.00	1,211,600.00
	27,630,000		8,738,344.59	36,368,344.59	36,368,344.59

DETAILED BOND DEBT SERVICE

Mayor and Council, City of Rockville, Maryland
$27,630,000 General Obligation Bonds, Series 2010
Preliminary Schedules - October 19, 2010
Based on current market rates plus 10 bpts contingency
Tax-Exempt Bonds
Transportation Projects - 10 Year Amortization

Serial Bonds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
06/01/2011			40,986.67	40,986.67	40,986.67
12/01/2011			46,400.00	46,400.00	
06/01/2012	425,000	2.000%	46,400.00	471,400.00	517,800.00
12/01/2012			42,150.00	42,150.00	
06/01/2013	425,000	2.000%	42,150.00	467,150.00	509,300.00
12/01/2013			37,900.00	37,900.00	
06/01/2014	425,000	2.000%	37,900.00	462,900.00	500,800.00
12/01/2014			33,650.00	33,650.00	
06/01/2015	425,000	2.000%	33,650.00	458,650.00	492,300.00
12/01/2015			29,400.00	29,400.00	
06/01/2016	420,000	2.000%	29,400.00	449,400.00	478,800.00
12/01/2016			25,200.00	25,200.00	
06/01/2017	420,000	2.000%	25,200.00	445,200.00	470,400.00
12/01/2017			21,000.00	21,000.00	
06/01/2018	420,000	2.000%	21,000.00	441,000.00	462,000.00
12/01/2018			16,800.00	16,800.00	
06/01/2019	420,000	2.500%	16,800.00	436,800.00	453,600.00
12/01/2019			11,550.00	11,550.00	
06/01/2020	420,000	2.500%	11,550.00	431,550.00	443,100.00
12/01/2020			6,300.00	6,300.00	
06/01/2021	420,000	3.000%	6,300.00	426,300.00	432,600.00
	4,220,000		581,686.67	4,801,686.67	4,801,686.67

DETAILED BOND DEBT SERVICE

Mayor and Council, City of Rockville, Maryland
$27,630,000 General Obligation Bonds, Series 2010
Preliminary Schedules - October 19, 2010
Based on current market rates plus 10 bpts contingency
Tax-Exempt Bonds
Capital Projects - 20 Year Amortization

Serial Bonds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
06/01/2011			169,732.50	169,732.50	169,732.50
12/01/2011			192,150.00	192,150.00	
06/01/2012	685,000	2.000%	192,150.00	877,150.00	1,069,300.00
12/01/2012			185,300.00	185,300.00	
06/01/2013	680,000	2.000%	185,300.00	865,300.00	1,050,600.00
12/01/2013			178,500.00	178,500.00	
06/01/2014	680,000	2.000%	178,500.00	858,500.00	1,037,000.00
12/01/2014			171,700.00	171,700.00	
06/01/2015	680,000	2.000%	171,700.00	851,700.00	1,023,400.00
12/01/2015			164,900.00	164,900.00	
06/01/2016	680,000	2.000%	164,900.00	844,900.00	1,009,800.00
12/01/2016			158,100.00	158,100.00	
06/01/2017	680,000	2.000%	158,100.00	838,100.00	996,200.00
12/01/2017			151,300.00	151,300.00	
06/01/2018	680,000	2.000%	151,300.00	831,300.00	982,600.00
12/01/2018			144,500.00	144,500.00	
06/01/2019	680,000	2.500%	144,500.00	824,500.00	969,000.00
12/01/2019			136,000.00	136,000.00	
06/01/2020	680,000	2.500%	136,000.00	816,000.00	952,000.00
12/01/2020			127,500.00	127,500.00	
06/01/2021	680,000	3.000%	127,500.00	807,500.00	935,000.00
12/01/2021			117,300.00	117,300.00	
06/01/2022	680,000	3.000%	117,300.00	797,300.00	914,600.00
12/01/2022			107,100.00	107,100.00	
06/01/2023	680,000	3.000%	107,100.00	787,100.00	894,200.00
12/01/2023			96,900.00	96,900.00	
06/01/2024	680,000	3.000%	96,900.00	776,900.00	873,800.00
12/01/2024			86,700.00	86,700.00	
06/01/2025	680,000	3.500%	86,700.00	766,700.00	853,400.00
12/01/2025			74,800.00	74,800.00	
06/01/2026	680,000	3.500%	74,800.00	754,800.00	829,600.00
12/01/2026			62,900.00	62,900.00	
06/01/2027	680,000	3.500%	62,900.00	742,900.00	805,800.00
12/01/2027			51,000.00	51,000.00	
06/01/2028	680,000	3.500%	51,000.00	731,000.00	782,000.00
12/01/2028			39,100.00	39,100.00	
06/01/2029	680,000	3.500%	39,100.00	719,100.00	758,200.00
12/01/2029			27,200.00	27,200.00	
06/01/2030	680,000	4.000%	27,200.00	707,200.00	734,400.00
12/01/2030			13,600.00	13,600.00	
06/01/2031	680,000	4.000%	13,600.00	693,600.00	707,200.00
	13,605,000		4,742,832.50	18,347,832.50	18,347,832.50

DETAILED BOND DEBT SERVICE

Mayor and Council, City of Rockville, Maryland
$27,630,000 General Obligation Bonds, Series 2010
Preliminary Schedules - October 19, 2010
Based on current market rates plus 10 bpts contingency
Tax-Exempt Bonds
Sewer Projects - 20 Year Amortization

Serial Bonds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
06/01/2011			66,040.21	66,040.21	66,040.21
12/01/2011			74,762.50	74,762.50	
06/01/2012	265,000	2.000%	74,762.50	339,762.50	414,525.00
12/01/2012			72,112.50	72,112.50	
06/01/2013	265,000	2.000%	72,112.50	337,112.50	409,225.00
12/01/2013			69,462.50	69,462.50	
06/01/2014	265,000	2.000%	69,462.50	334,462.50	403,925.00
12/01/2014			66,812.50	66,812.50	
06/01/2015	265,000	2.000%	66,812.50	331,812.50	398,625.00
12/01/2015			64,162.50	64,162.50	
06/01/2016	265,000	2.000%	64,162.50	329,162.50	393,325.00
12/01/2016			61,512.50	61,512.50	
06/01/2017	265,000	2.000%	61,512.50	326,512.50	388,025.00
12/01/2017			58,862.50	58,862.50	
06/01/2018	265,000	2.000%	58,862.50	323,862.50	382,725.00
12/01/2018			56,212.50	56,212.50	
06/01/2019	265,000	2.500%	56,212.50	321,212.50	377,425.00
12/01/2019			52,900.00	52,900.00	
06/01/2020	265,000	2.500%	52,900.00	317,900.00	370,800.00
12/01/2020			49,587.50	49,587.50	
06/01/2021	265,000	3.000%	49,587.50	314,587.50	364,175.00
12/01/2021			45,612.50	45,612.50	
06/01/2022	265,000	3.000%	45,612.50	310,612.50	356,225.00
12/01/2022			41,637.50	41,637.50	
06/01/2023	265,000	3.000%	41,637.50	306,637.50	348,275.00
12/01/2023			37,662.50	37,662.50	
06/01/2024	265,000	3.000%	37,662.50	302,662.50	340,325.00
12/01/2024			33,687.50	33,687.50	
06/01/2025	265,000	3.500%	33,687.50	298,687.50	332,375.00
12/01/2025			29,050.00	29,050.00	
06/01/2026	265,000	3.500%	29,050.00	294,050.00	323,100.00
12/01/2026			24,412.50	24,412.50	
06/01/2027	265,000	3.500%	24,412.50	289,412.50	313,825.00
12/01/2027			19,775.00	19,775.00	
06/01/2028	265,000	3.500%	19,775.00	284,775.00	304,550.00
12/01/2028			15,137.50	15,137.50	
06/01/2029	265,000	3.500%	15,137.50	280,137.50	295,275.00
12/01/2029			10,500.00	10,500.00	
06/01/2030	265,000	4.000%	10,500.00	275,500.00	286,000.00
12/01/2030			5,200.00	5,200.00	
06/01/2031	260,000	4.000%	5,200.00	265,200.00	270,400.00
	5,295,000		1,844,165.21	7,139,165.21	7,139,165.21

DETAILED BOND DEBT SERVICE

Mayor and Council, City of Rockville, Maryland
$27,630,000 General Obligation Bonds, Series 2010
Preliminary Schedules - October 19, 2010
Based on current market rates plus 10 bpts contingency
Tax-Exempt Bonds
Water Projects - 20 Year Amortization

Serial Bonds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
06/01/2011			56,235.21	56,235.21	56,235.21
12/01/2011			63,662.50	63,662.50	
06/01/2012	230,000	2.000%	63,662.50	293,662.50	357,325.00
12/01/2012			61,362.50	61,362.50	
06/01/2013	230,000	2.000%	61,362.50	291,362.50	352,725.00
12/01/2013			59,062.50	59,062.50	
06/01/2014	225,000	2.000%	59,062.50	284,062.50	343,125.00
12/01/2014			56,812.50	56,812.50	
06/01/2015	225,000	2.000%	56,812.50	281,812.50	338,625.00
12/01/2015			54,562.50	54,562.50	
06/01/2016	225,000	2.000%	54,562.50	279,562.50	334,125.00
12/01/2016			52,312.50	52,312.50	
06/01/2017	225,000	2.000%	52,312.50	277,312.50	329,625.00
12/01/2017			50,062.50	50,062.50	
06/01/2018	225,000	2.000%	50,062.50	275,062.50	325,125.00
12/01/2018			47,812.50	47,812.50	
06/01/2019	225,000	2.500%	47,812.50	272,812.50	320,625.00
12/01/2019			45,000.00	45,000.00	
06/01/2020	225,000	2.500%	45,000.00	270,000.00	315,000.00
12/01/2020			42,187.50	42,187.50	
06/01/2021	225,000	3.000%	42,187.50	267,187.50	309,375.00
12/01/2021			38,812.50	38,812.50	
06/01/2022	225,000	3.000%	38,812.50	263,812.50	302,625.00
12/01/2022			35,437.50	35,437.50	
06/01/2023	225,000	3.000%	35,437.50	260,437.50	295,875.00
12/01/2023			32,062.50	32,062.50	
06/01/2024	225,000	3.000%	32,062.50	257,062.50	289,125.00
12/01/2024			28,687.50	28,687.50	
06/01/2025	225,000	3.500%	28,687.50	253,687.50	282,375.00
12/01/2025			24,750.00	24,750.00	
06/01/2026	225,000	3.500%	24,750.00	249,750.00	274,500.00
12/01/2026			20,812.50	20,812.50	
06/01/2027	225,000	3.500%	20,812.50	245,812.50	266,625.00
12/01/2027			16,875.00	16,875.00	
06/01/2028	225,000	3.500%	16,875.00	241,875.00	258,750.00
12/01/2028			12,937.50	12,937.50	
06/01/2029	225,000	3.500%	12,937.50	237,937.50	250,875.00
12/01/2029			9,000.00	9,000.00	
06/01/2030	225,000	4.000%	9,000.00	234,000.00	243,000.00
12/01/2030			4,500.00	4,500.00	
06/01/2031	225,000	4.000%	4,500.00	229,500.00	234,000.00
	4,510,000		1,569,660.21	6,079,660.21	6,079,660.21

REFUNDING RESULTS SUMMARY

Mayor and Council, City of Rockville, Maryland
Current Refunding of Series 2001 Bonds
Preliminary Schedules - October 18, 2010
Current Refunding Based on Current Market Rates plys 10 bpts
Call Date - March 15, 2011

Dated Date	12/16/2010
Delivery Date	12/16/2010
Arbitrage Yield	1.932111%
Escrow Yield	0.108508%
True Interest Cost	2.045384%
Bond Par Amount	3,040,000.00
Par Amount of Refunded Bonds	3,050,000.00
PV of Prior Debt to Delivery Date at the Arbitrage Yield	3,440,071.52
Net PV Savings	324,249.37
Net PV Savings as a Percent of Refunded Debt Service	9.425658%

SAVINGS

Mayor and Council, City of Rockville, Maryland
Current Refunding of Series 2001 Bonds
Preliminary Schedules - October 18, 2010
Current Refunding Based on Current Market Rates plys 10 bpts
Call Date - March 15, 2011

Date	Prior Debt Service	Refunding Debt Service	Refunding Receipts	Refunding Net Cash Flow	Savings	Present Value to 12/16/2010 @ 1.9321108%
03/15/2011			3,517.70	(3,517.70)	3,517.70	3,517.70
03/15/2012	440,572.50	403,771.04		403,771.04	36,801.46	36,067.11
03/15/2013	428,067.50	394,875.00		394,875.00	33,192.50	32,057.98
03/15/2014	415,257.50	378,275.00		378,275.00	36,982.50	34,979.86
03/15/2015	402,142.50	366,875.00		366,875.00	35,267.50	32,703.28
03/15/2016	388,722.50	354,000.00		354,000.00	34,722.50	31,563.55
03/15/2017	374,997.50	341,250.00		341,250.00	33,747.50	30,072.20
03/15/2018	361,272.50	323,625.00		323,625.00	37,647.50	32,866.54
03/15/2019	347,395.00	311,250.00		311,250.00	36,145.00	30,931.64
03/15/2020	333,365.00	299,000.00		299,000.00	34,365.00	28,825.10
03/15/2021	319,182.50	281,875.00		281,875.00	37,307.50	30,664.41
	3,810,975.00	3,454,796.04	3,517.70	3,451,278.34	359,696.66	324,249.37

Savings Summary

PV of savings from cash flow	324,249.37
Net PV Savings	324,249.37

SUMMARY OF BONDS REFUNDED

Mayor and Council, City of Rockville, Maryland
Current Refunding of Series 2001 Bonds
Preliminary Schedules - October 18, 2010
Current Refunding Based on Current Market Rates plys 10 bpts
Call Date - March 15, 2011

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
$6.1M General Obligation Bonds of 2001:					
SERIAL	03/15/2012	4.100%	305,000.00	03/15/2011	100.000
	03/15/2013	4.200%	305,000.00	03/15/2011	100.000
	03/15/2014	4.300%	305,000.00	03/15/2011	100.000
	03/15/2015	4.400%	305,000.00	03/15/2011	100.000
	03/15/2016	4.500%	305,000.00	03/15/2011	100.000
	03/15/2017	4.500%	305,000.00	03/15/2011	100.000
	03/15/2018	4.550%	305,000.00	03/15/2011	100.000
	03/15/2019	4.600%	305,000.00	03/15/2011	100.000
	03/15/2020	4.650%	305,000.00	03/15/2011	100.000
	03/15/2021	4.650%	305,000.00	03/15/2011	100.000
			3,050,000.00		

Fee Proposal

Fee Schedule

The City has an outstanding contract with PFM. We would propose to utilize the same fee schedule in the contract. For example, if the City were to issue general obligation bonds of $27.620 million, the fee would be $38,620 plus out-of-pocket expenses. For the general obligation refunding bonds of $3.0 million, the fee would be $21,000 plus out-of-pocket expenses.

We are quite flexible as to the structure of the fees, and are willing to work with the City to reach an overall compensation structure that is fair and reasonable to all concerned.

Arbitrage Rebate

PFM has been providing arbitrage rebate compliance services since 1989. Over the past 21 years, we have assisted hundreds of issuers and borrowers, including authorities, cities, counties, health care and higher education systems, school districts, states, and 501 ©(3) organizations, in complying with the complicated and onerous post-issuance compliance requirements commonly referred to as the “Arbitrage Rebate Regulations.”

PFM’s Arbitrage Group efficiently completes a significant volume of calculations each year. PFM arbitrage rebated specialists annually prepare in excess of 2,900 calculations, including arbitrage rebate, yield restriction compliance, and spending exception compliance calculations for the 350+ clients that have engaged our services through a separate contractual arrangement, and for the hundreds of participants with bond proceeds invested in the thirteen local government investment pool programs that we support.

PFM’s sophisticated accounting and reporting system provides accurate and up-to-date reports on each issuer’s investment portfolio(s). These reports are furnished to bond counsel for use in its annual review.

The five year arbitrage rebate calculation date of the City’s $56,735,000 General Obligation Bonds of 2005 was September 29, 2010. PFMs proposed fee to complete the arbitrage rebate calculation for this issue is $3,500 ($1,500 base plus $500 per 4 additional annual computation periods).

The IRS permits issuers to make on-time payments within 60 days of each computation date; therefore, if the 2005 Bonds have accrued an arbitrage rebate liability, a rebate payment would be due to the IRS no later than November 28, 2010.

In the event that an arbitrage rebate payment is due, it is our preference to have the calculation finalized and payment forms which provides our client two weeks to remit the payment on time. It usually takes up to two weeks to complete and review a report; therefore, we would need all information by November 1st to have enough time to meet this timeline.

Michael Steinbrook, *Senior Managing Consultant*
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One Keystone Plaza, Suite 300
North Front & Market Streets
Harrisburg, PA 17101
(717) 232-2723
(717) 233-6073 fax
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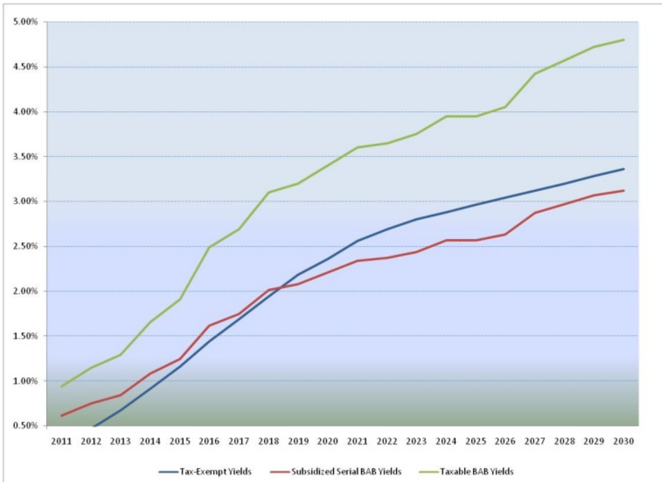
Stimulus Bill Information

American Recovery and Reinvestment Act

In February 2009, Congress adopted into law the American Recovery and Reinvestment Act (ARRA) of 2009. This legislation includes a number of provisions related to the issuance of municipal bonds, such as the increase to the small issuer limit for bank-qualification mentioned previously. Most of these provisions are not applicable to the City. However, ARRA incorporates a number of tax credit bond structures designed to decrease the cost of bonding for issuers. The most flexible of these with regards to purpose and application are Build America Bonds (BABs). ARRA permits two types of alternative interest subsidies by the federal government for BABs: (1) the issuer may receive 35% of the interest cost on each payment for the life of the bonds, so long as certain requirements are satisfied in order to qualify such bonds as BABs; or (2) a holder of a BAB will receive a tax credit on the interest payment dates of the bond if the issuer does not elect to receive the payment.

In the current market, tax credit bonds in which the benefit is received by the holder have a very limited universe of potential purchasers given the economic downturn and the lack of secondary market liquidity associated with such transactions. As such, the real benefit of the BABs structure will most likely result from the payment of 35% of the interest costs to issuers. PFM has begun assisting clients with break-even analyses to determine potential cost savings issuers may receive by choosing to issue bonds as BABs that would otherwise be issued as tax-exempt. Such analysis takes into consideration the size of the project and the term of the bonds, as well as the benefits of issuing such bonds as two tranches – a tax-exempt portion and a BAB portion. Analysis would need to be done each time an issuer contemplates issuing bonds which would be eligible to be BABs. The authorization for BABs currently extends to bonds issued between January 1, 2009 and December 31, 2010.

Quantifying the potential benefits of the financing options available to municipal issuers under the ARRA requires a thorough understanding of the market. When analyzing the potential savings to be realized through the issuance of BABs, many investment banking and financial advisory firms have merely focused on the spreads between tax-exempt and taxable bonds in the national municipal market. When reviewing the use of BABs for our clients, PFM has expanded this analysis to quantify the value of a lost call option, if applicable, the likelihood of a term versus serial structure for the bonds, and the impact the state tax exemption has on tax-exempt pricing levels for specific issuers. We also assist the issuer in further identifying future risks, such as the potential elimination of issuer subsidy by future Congresses and future staff missing the application window for filing the necessary semiannual request for subsidy. PFM is familiar with the market considerations and legal requirements associated with BABs.



In looking at the current market rates of tax-exempt and taxable yields, analysis indicates that there would be some debt service savings if the City elected to sell the General Obligation Bonds as Taxable Build America Bonds – Direct Pay to Issuer for which the US Treasury would subsidize 35% of the interest cost on each payment for the life of the BABs, so long as certain requirements are satisfied.

The graph depicts the current environment of how the City would price as tax-exempt bonds, taxable bonds, and subsidized taxable bonds. Tax-exempt yields outperform the subsidized taxable yields until approximately 2018, after which subsidized taxable yields provide the lower interest cost to the City.

The City could elect to issue tax-exempt bonds through 2017 and also issue a taxable BABs issue for the 2018 and later maturities; or to issue one taxable BABs issue. Additional analysis indicating the potential interest cost savings to the City is listed below.

Tax-Exempt vs. Taxable BABs

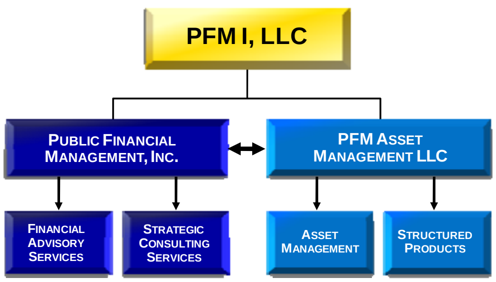
	Traditional Tax-Exempt			Taxable BABs				BABs
Year	Principal	Interest	Debt Service	Principal	Interest	Subsidy	Net Debt Service	Gross Debt Service Savings
2011	$ -	$ 332,995	$ 332,995	$ -	$ 412,296	$ (144,304)	$ 267,992	$ 65,002
2012	1,605,000	$ 753,950	2,358,950	1,595,000	933,500	(326,725)	2,201,775	157,175
2013	1,600,000	721,850	2,321,850	1,595,000	901,600	(315,560)	2,181,040	140,810
2014	1,595,000	689,850	2,284,850	1,595,000	869,700	(304,395)	2,160,305	124,545
2015	1,595,000	657,950	2,252,950	1,595,000	837,800	(293,230)	2,139,570	113,380
2016	1,590,000	626,050	2,216,050	1,585,000	805,900	(282,065)	2,108,835	107,215
2017	1,590,000	594,250	2,184,250	1,590,000	774,200	(270,970)	2,093,230	91,020
2018	1,590,000	562,450	2,152,450	1,585,000	726,500	(254,275)	2,057,225	95,225
2019	1,590,000	530,650	2,120,650	1,590,000	678,950	(237,633)	2,031,318	89,333
2020	1,590,000	490,900	2,080,900	1,590,000	623,300	(218,155)	1,995,145	85,755
2021	1,590,000	451,150	2,041,150	1,590,000	567,650	(198,678)	1,958,973	82,178
2022	1,170,000	403,450	1,573,450	1,170,000	512,000	(179,200)	1,502,800	70,650
2023	1,170,000	368,350	1,538,350	1,170,000	471,050	(164,868)	1,476,183	62,168
2024	1,170,000	333,250	1,503,250	1,165,000	424,250	(148,488)	1,440,763	62,488
2025	1,170,000	298,150	1,468,150	1,165,000	377,650	(132,178)	1,410,473	57,678
2026	1,170,000	257,200	1,427,200	1,165,000	331,050	(115,868)	1,380,183	47,018
2027	1,170,000	216,250	1,386,250	1,165,000	278,625	(97,519)	1,346,106	40,144
2028	1,170,000	175,300	1,345,300	1,160,000	226,200	(79,170)	1,307,030	38,270
2029	1,170,000	134,350	1,304,350	1,160,000	174,000	(60,900)	1,273,100	31,250
2030	1,170,000	93,400	1,263,400	1,160,000	116,000	(40,600)	1,235,400	28,000
2031	1,165,000	46,600	1,211,600	1,160,000	58,000	(20,300)	1,197,700	13,900
Total	**$ 27,630,000**	**$ 8,738,345**	**$ 36,368,345**	**$ 27,550,000**	**$ 11,100,221**	**$ (3,885,077)**	**$ 34,765,144**	**$ 1,603,201**

Two Series of Bonds Issued: Tax-Exempt & Taxable BABs

	Traditional Tax-Exempt			Taxable BABs				
Year	Principal	Interest	Debt Service	Principal	Interest	Subsidy	Net Debt Service	Total Debt Service
2011	$ -	$ 84,579	$ 70,534	$ -	$ 315,968	$ (110,589)	$ 205,379	$ 275,914
2012	1,605,000	191,500	1,764,700	-	715,400	(250,390)	465,010	2,229,710
2013	1,600,000	159,400	1,727,600	-	715,400	(250,390)	465,010	2,192,610
2014	1,595,000	127,400	1,690,600	-	715,400	(250,390)	465,010	2,155,610
2015	1,595,000	95,500	1,658,700	-	715,400	(250,390)	465,010	2,123,710
2016	1,590,000	63,600	1,621,800	-	715,400	(250,390)	465,010	2,086,810
2017	1,590,000	31,800	1,621,800	-	715,400	(250,390)	465,010	2,086,810
2018	-	-	-	1,590,000	715,400	(250,390)	2,055,010	2,055,010
2019	-	-	-	1,590,000	667,700	(233,695)	2,024,005	2,024,005
2020	-	-	-	1,590,000	620,000	(217,000)	1,993,000	1,993,000
2021	-	-	-	1,590,000	564,350	(197,523)	1,956,828	1,956,828
2022	-	-	-	1,170,000	508,700	(178,045)	1,500,655	1,500,655
2023	-	-	-	1,170,000	467,750	(163,713)	1,474,038	1,474,038
2024	-	-	-	1,170,000	426,800	(149,380)	1,447,420	1,447,420
2025	-	-	-	1,170,000	380,000	(133,000)	1,417,000	1,417,000
2026	-	-	-	1,170,000	333,200	(116,620)	1,386,580	1,386,580
2027	-	-	-	1,170,000	280,550	(98,193)	1,352,358	1,352,358
2028	-	-	-	1,170,000	227,900	(79,765)	1,318,135	1,318,135
2029	-	-	-	1,170,000	175,250	(61,338)	1,283,913	1,283,913
2030	-	-	-	1,170,000	116,750	(40,863)	1,245,888	1,245,888
2031	-	-	-	1,165,000	58,250	(20,388)	1,202,863	1,202,863
Total	**$ 9,575,000**	**$ 580,734**	**$ 10,155,734**	**$ 18,055,000**	**$ 10,150,968**	**$ (3,552,839)**	**$ 24,653,129**	**$ 34,808,864**

However, there may be movement in the market and these conditions may change as the sale date draws nearer. We would continue to look at the relationship between taxable and tax-exempt yields before the determination would need to be made. Another consideration is potential market saturation. Since the ARRA programs currently expire at the end of this calendar year, we anticipate that there will be a large number of taxable Build America Bonds coming to market in November and December. That may have an impact on the pricing levels that differ than the analysis outlined on the previous page.

Scope of Services and Finance Team



The original practice of PFM I, LLC, ("PFM") which now includes Public Financial Management, Inc. and PFM Asset Management LLC was founded in 1975 on the principle of providing sound independent financial advice to state and local governments, higher education institutions and other issuers of tax-exempt debt. Today, PFM is the nation's leading provider of **independent and fiduciary** financial and investment advisory services with 34 offices and over 400 employees throughout the United States. PFM has been the nation's number one financial advisor, as ranked by Securities Data Corporation, for the last seven consecutive years.

In May 2009, Public Financial Management, Inc. (a Pennsylvania corporation) and PFM Asset Management, LLC (a Delaware limited liability company) and related businesses, all of which were owned by their senior employees ("Managing Directors"), reorganized into a holding company structure. The new holding company is named PFM Group, LLC (a Delaware limited liability company) and all of the above-named business entities have become indirect wholly owned subsidiaries of PFM Group, LLC. Contemporaneously, a group of well-known private equity investors made a substantial equity and credit investment in the PFM Group, LLC holding-company structure. PFM I, LLC is owned by (i) the Managing Directors who, in the aggregate, own a majority of the equity interest but do not nominate a majority of the managers, and (ii) two entities effectively controlled by ICV Capital Partners, LP.

PFM and its partner-owners regularly invest capital in both the development of its employees and business lines. PFM focuses on its long-term firm goals and plans. The firm and its owners are committed to the long-term vaibility and mission of PFM, and are currently in the process of implementing a five-year plan to double our market presence.

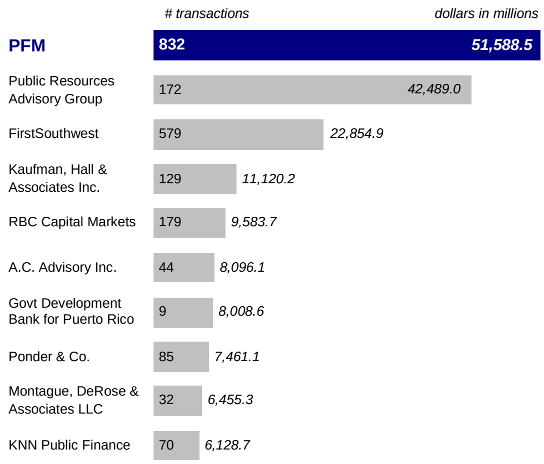
PFM is an independent advisor, not a broker or dealer, and as such we do not maintain an inventory from which we buy or sell securities for our clients. Our goal is to provide the highest quality advice to our clients so that they are able to make informed decisions to raise, invest and manage the resources they need in the most cost-effective manner possible.

PFM has five primary business activities:

- **Financial Planning:** developing and analyzing capital program and operational financial plans;
- **Debt Management:** managing transactions related to debt issuance;
- **Investment Management, Consulting and Arbitrage Compliance:** providing asset management strategies; investment advice and portfolio management for working capital and bond proceeds; and arbitrage analysis and compliance services;
- **Structured and Derivative Products Transaction Management:** analyzing and managing complex, nontraditional investment and asset/liability management transactions; and
- **Strategic Consulting:** offering highly effective capital and operating budget advice.

Over its thirty-five year history, PFM has built a strong presence in the municipal marketplace. Our reputation and consistent growth ($5.0 billion in managed debt transactions in 1986 to $51.5 billion in 2009) reflect our clients' recognition of our capabilities and of the value we add. PFM is a leader in public finance with annual revenues in excess of $100 million and management of more than $35 billion of public funds. In 2009, PFM served as Financial Advisor on transactions representing 16.4% of market share, by volume, and the greatest number of transactions in the municipal marketplace.

2009 Year End Overall Long-Term Municipal New Issues
National Municipal Financial Advisory Ranking
Source: The Bond Buyer/Securities Data Company



Although rankings provide a shorthand method of measuring success, the length of service and level of satisfaction we provide our clients is a better measure of true success. At PFM, we view our decade-long association with many clients as an affirmation of our ability to service their needs thoughtfully and efficiently. We are committed to developing long-term relationships with our clients to ensure their interests are protected and their goals are achieved.

In developing this impressive history of value added service to our clients, PFM purposefully adopted a strategy to garner the largest market share when calculated based on ***both** the number and size* of transactions managed. We reasoned that managing a large number of transactions would make us an experienced player in the capital markets, thereby allowing us to provide our clients with fresh market information. We know the preferences of the investor community and the financial and credit structures that are currently best accepted. We know which investors are active buyers, the types of securities they currently prefer, and the maximum price they are willing to pay for a given security. Additionally, we know what constitutes reasonable compensation levels for other professional services rendered during the transaction. With this current information, PFM can structure transactions to minimize our clients' cost of borrowing.

The following ranking chart presents various rankings for PFM for 2009.

2009 Year End Financial Advisor Results Long-Term Municipal New Issues

dollars in millions – Source: Securities Data Corporation/The Bond Buyer

Rank	Category	Par Amount	# of Issues
1	**Overall Long-Term**	**$ 51,588**	**832**
1	Competitive	9,972	368
1	Higher Education	4,982	52
1	Midwest	3,677	169
1	Negotiated	41,616	464
1	New Money	28,420	454
1	Public Power	7,289	66
1	Refunding	23,168	378
1	Revenue	34,814	360
1	Tax-Exempt	40,493	678
1	Water, Sewer & Gas	5,072	83

Besides managing a large number of transactions, PFM also serves as financial advisor on many of the largest transactions brought to market each year. These transactions often involve intricate financial plans, the sale of sophisticated securities, high-end quantitative modeling and complicated tax analysis. Our managing such transactions ensures that PFM remains on the cutting edge of the public finance industry. Our clients benefit from our ability to optimize their transactions using the complete array of structures, securities and techniques available.

Scope of Services

We believe that the role of the financial advisor should be to serve as an extension and enhancement of the City's staff, providing flexible resources for assignment to priority tasks on an as required basis. We would expect you to rely on our quantitative and qualitative advice and resources in the areas of debt management/strategic planning, debt issue development and oversight, arbitrage rebate management and continuing disclosure services as well as refunding feasibility analysis and ongoing efforts to maintain strong relationships with the rating agencies, credit enhancement providers and investors.

Our role as financial advisor will be to assist you with capital planning in such a way as to provide you with funds in a cost effective and efficient manner while maintaining a credit worthy debt structure and debt position. Working with other members of the financing team and City staff, we will formulate the issue structure and the terms under which the bonds are to be offered in the best possible manner, given the current market. PFM will design terms and conditions of sale that are compatible with underwriter and investor interests under varying market conditions while consistent with the City's fiscal policy objectives.

PFM regularly monitors its clients' outstanding debt for refunding opportunities on an advance, current or even synthetic basis utilizing our proprietary Refunding Screen Model. We do this to provide both debt service savings to clients as well as to provide additional debt capacity.

Services that PFM would expect to provide to City for its financing regardless of sale method include:

- ✓ Coordinate financing team members throughout the entire financing process, pursuant to a financing timetable developed by PFM and approved by City staff. The timetable will clearly identify the responsibilities of each participant in the transaction to facilitate the timely completion of all tasks. The schedule will be designed to permit sufficient time for review of all disclosure materials by City staff prior to final printing and distribution. We will work closely with all external participants (e.g., printers, bond counsel, etc.) to ensure that their tasks are coordinated with the activities of City staff.
- ✓ Maintain a cost of issuance budget for each transaction.
- ✓ Compile and maintain a distribution list of the financing team.
- ✓ Make recommendations with respect to security provisions, maturity schedules, amortization schedules, redemption provisions and credit enhancement features.
- ✓ If requested, provide a written summary of the final bond structure and terms of sale along with justification for future reference.
- ✓ Provide bond counsel with the specifications of the bond issue to assist in the preparation of the required legal documents for official consideration and action.

- ✓ Assist the City in the selection of ancillary service providers, such as bond registrar, paying agent, managing underwriters (negotiated sale), private placement agents, trustee, printers, credit enhancement providers, feasibility consultants, special counsel, and such other professionals as requested by the City.
- ✓ Review the appropriate sale method, including the advantages and disadvantages of a competitive sale versus a negotiated sale or private placement given market conditions, timing concerns, size of the issue, facilities or equipment to be financed, and general security and redemption provisions.
- ✓ Implement a comprehensive credit rating strategy appropriate to the financing. Develop rating agency presentations and participate in those meetings.
- ✓ Participate with City staff and disclosure counsel in the preparation of the Preliminary Official Statement (POS), as well as other financing documents. As part of this responsibility, participate in all document drafting meetings.
- ✓ Apprise City staff about market conditions on a regular basis in preparation for selecting the most favorable time to enter the market.
- ✓ Conduct informational meetings for interested underwriters, institutional investors and other members of the investment community, if appropriate, and provide a pre-sale analysis prior to the sale.
- ✓ After the sale, prepare final transaction schedules including, but not limited to, debt service, pricing summary, proof of arbitrage yield, 8038 statistics, and tax levies when appropriate.
- ✓ Assist the City in developing a strategy for the investment of bond proceeds, if requested.
- ✓ Assist the City and other members of the financing team in the bond closing process, including attending the closing, if appropriate. Review appropriate legal documents for conformity to the terms of the sale, assist the City with the delivery of the proceeds of the bonds, payment of issuance costs, investment of funds, and any other matters related to the closing of the bond issue; compute the bond yield as defined by federal regulations. Prepare a closing memorandum for all parties detailing the transfer of funds on the day of closing.
- ✓ Prepare and deliver a postsale analysis to the City which will document the results of the sale, summarize the essential terms of the offering, identify market conditions at the time of sale, and describe the sales results of other comparable issues in the market. This analysis will be prepared by PFM and reviewed in detail, if requested.
- ✓ Provide ongoing advice throughout the life of the bond issue to discuss general matters related to the financing and answer any questions. This service is provided as part of our initial fee and no supplemental billings occur for this service.
- ✓ Attend staff and City meetings, as requested.

Competitive Sale Method. The following additional tasks are performed for bonds sold through competitive sale:

- ✓ Provide analysis and recommendations with respect to bidding rules appropriate to the size and complexity of the issue within market preferences and constraints. Rules may include the flexibility for the bidders to use serial, term, capital appreciation bonds or derivative products. Use of good faith checks or surety bonds; auction or "all or nothing" bidding restrictions will be reviewed and recommendations made. The bidding rules will be developed to encourage the largest number of bidders and to provide incentives for efficient bids to be structured so that the resulting debt service to be paid by the City will be the lowest possible.
- ✓ Assist in the preparation of a Notice of Sale and Bid Form to be used by the City in advertising the sale and describing the terms thereof and the form and rules by which bids will be taken and evaluated. The Notice of Sale and Bid Form will be distributed along with the POS to prospective bidders. PFM uses a service provided by i-Deal Prospectus to post the POS electronically on our upcoming bond calendar which can be accessed through www.pfm.com and provide a full menu of services which includes posting the client's POS and Notice of Sale on i-Deal's public calendar, e-mailing the Notice of Sale to i-Deal's investor mailing list or a custom PFM-created investor mailing list, and integrating sale data with Thomson Municipal Market Monitor ("TM3")/The Bond Buyer wire.
- ✓ Assist in setting up electronic bidding procedures.
- ✓ During the two weeks preceding the sale, place telephone calls to potential bidders and investors to market the issue and coordinate the creation of bidding syndicates.
- ✓ On the day of sale, receive, tabulate and evaluate bids to determine the most favorable bid and recommend appropriate action for the City.
- ✓ Prepare a summary of all bids received including the name of the bidder, bidder's office location, its syndicate (if any), and each bidder's coupon rates, purchase price, net interest cost in dollars, and true interest rate to be distributed at City meetings along with final debt transaction schedules.
- ✓ Notify bidders and other interested parties of the sale results following bid opening.
- ✓ Prepare and distribute good faith wire instructions to the winning bidder.

Negotiated Sale Method. While the City utilizes competitive sales for its bond transactions, the following tasks would be performed for bonds sold through negotiated sale. These tasks are in addition to the tasks which are common to all financings.

- ✓ Participate in the preparation of a request for proposals (RFP) for managing underwriters for review by the City. Provide a suggested distribution list for the RFP to qualified underwriters or firms which have indicated an interest in serving as managing underwriter.
- ✓ Assist in the development of criteria to evaluate any underwriting proposals received.
- ✓ Participate in the preparation of an RFP for other service providers, such as liquidity banks or remarketing agents, as needed.

- ✓ Recommend a structure (number of firms and types of firms to be represented) for the group of managing underwriters. If requested, we will recommend selection of specific firms.
- ✓ Assist in the negotiation of the compensation terms for the managing underwriters. Some of these terms can and should be determined following selection (management fee and expenses) while other elements (takedown and net to underwriting) should be reflective of market conditions in most cases.
- ✓ Represent the City during the planning, structuring, and marketing of the issue.

Prior to market entry, prepare an independent analysis of market conditions and proposed interest rates based upon comparable issues. Negotiate on behalf of the City the most favorable interest rates with the managing underwriters during the course of pre-marketing, order taking period and final pricing.

Project Team

PFM utilizes a team approach combining both regional and sector expertise to provide its clients with unparalleled service and knowledge. The individuals selected for the City's project team have been chosen because of their previous experience serving the City, project finance expertise and ready accessibility.

Jessica Cameron and Heather Casperson, Senior Managing Consultants, would be the co-client managers primarily responsible for the engagement with the City. **Matt Schnackenberg and Virginia Rutter**, Consultants, will support the team in providing quantitative and analytical services required for completing all transactions. In addition to the core project team, PFM will utilize the expertise and services of additional personnel as needed or as the City desires. These individuals provide pricing expertise, investment advisory/structured products services, services related to derivative products including swaps and hedges, and arbitrage rebate compliance services.

All team members are knowledgeable of public finance law and regulations and have extensive experience in public interaction and presentations. Our team is unconditionally committed to providing the service that the City deserves and requires.

Resumes for the project team members are presented on the following pages.

Jessica Cameron
Senior Managing Consultant

Jessica Cameron is a Senior Managing Consultant in PFM's Minneapolis office. During her ten-year career, she has served a variety of state and local government entities including: Burlington, Vermont; Burlington International Airport; Duluth, Minnesota; Fort Smith, Arkansas; St. Louis County, Minnesota; Western Lake Superior Sanitary District, Minnesota; Chittenden Solid Waste District, Vermont; Maryland Water Quality Financing Administration; Missouri Highways and Transportation Commission; Montgomery County, Maryland; Oklahoma Water Resources Board; North Dakota Building Authority; North Dakota Public Finance Authority; North Dakota Department of Transportation; Iowa Finance Authority; and South Dakota Conservancy District.

Ms. Cameron provides project management and day-to-day contact for our clients, as well as a wide variety of analytical and quantitative functions including: the review of legal documents, structuring of bonds, preparing and maintaining disclosure documentation, overseeing the rating process, preparing terms and conditions of sales, creating models for quantitative analysis and analyzing market conditions. Ms. Cameron graduated with a BA in Sociology from Asbury College in Wilmore, Kentucky.

Heather Casperson
Senior Managing Consultant

Heather Casperson is a Senior Managing Consultant in Public Financial Management's Minneapolis office. She provides financial advisory services including: financial analysis, debt schedule development and modeling, preparing rating agency presentations, and preparation/review of disclosure materials. In September 2010, she was a speaker at the Minnesota Government Finance Officers Association 47th annual conference. Featured in a break-out session panel, she presented the topic of American Recovery and Reinvestment Act of 2009 with emphasis on the new bonding programs available to local governments as a result of the Act.

Ms. Casperson has experience and currently works with clients in Minnesota, Iowa, Kansas, Maryland, and North Dakota, including cities, counties, and school districts. She has provided assistance on various types of bonds and notes, including general obligation, hotel revenue, lease revenue, sewer revenue, water revenue, and parking bonds for public facilities and economic development projects.

Ms. Casperson joined Evensen Dodge, now PFM, in 1998 after working for three years in the Corporate Trust Services department at U.S. Bank Trust, NA. She received a B.S.B. in general management with psychology, with distinction, from the Carlson School of Management at the University of Minnesota.

Matthew Schnackenberg
Consultant

Matthew Schnackenberg joined PFM's Minneapolis office as a Consultant in October 2005.

Mr. Schnackenberg actively supports senior staff by providing services such as the sizing and structuring of bond issues, analyzing debt, conducting refunding analyses, developing comprehensive debt profiles and creating Excel based cash flow models. He has provided assistance on various types of bonds and notes including general obligation and revenue-secured financings.

Some of his clients include Sioux Falls, SD; North Dakota State Water Commission; North Dakota Building Authority; South Dakota Conservancy District; North Dakota Public Finance Authority; the Washington County Housing and Redevelopment Authority, MN; City of Duluth, MN; City of Wayzata, MN; Western Lake Superior Sanitary District, MN; City of Burlington, VT; Metropolitan St. Louis Sewer District, MO; and has assisted with the State of Ohio and the St. Louis Art Museum.

Mr. Schnackenberg received a B.B.A. in Finance from the Haworth College of Business at Western Michigan University.

Virginia Rutter
Consultant

Virginia Rutter joined PFM in 2009 and works in the Minneapolis office.

Virginia works primarily providing technical and quantitative support for various clients. Her present duties include structuring, sizing, and pricing new money and refunding municipal bond issues, assessing municipal issuer's outstanding debt and performing analysis of refunding opportunities.

Mrs. Rutter graduated from Pomona College with a Bachelor's Degree in Public Policy Analysis and holds a Master's of Public Policy from the University of Minnesota H.H.H. Institute of Public Affairs.

Rating Agency Discussion

General Experience and Approaches
We recognize and congratulate the City in obtaining triple "A" ratings from Moody's Investors Service and Standard & Poor's in 2007. PFM has many city and other local government triple "A" rated clients and is sensitive to the special attention required to support these superior ratings.

PFM has developed extensive experience in working with the major national rating agencies (i.e., Moody's Investors Service, Inc., Standard & Poor's Corporation, and Fitch Ratings) and has a clear understanding of their analytical methodology. Over the past three years, PFM has submitted hundreds of financings to rating agencies for their evaluation – in many instances the result being an upgrade of one or more levels by one or more of the firms. We believe the following tenets act as the cornerstone of productive relationships with the rating agencies:

Credible Strategic Financial Plan. An issuer must develop a credible long term financial plan which addresses funding for its forecast capital projects. The Strategic Financial Plan may be comprised of several components, including a Capital Improvement Plan and a Debt management Policy. Many clients are also developing multi-year budget forecasts, often included as part of the annual budget.

The Capital Improvement Plan should identify specific sources of funding, including the planned use of reserves or other "pay-go" sources, as well as planned debt issues. The impact of the debt on tax and rate payers as well as the impact of the planned project on ongoing financial operations should be quantified and discussed.

The Debt Management Policy should identify parameters and guidelines for the issuance of debt and recognize appropriate measures of debt burden. Target savings parameter for refundings should be specified. Guidelines for the use of swaps or other structured products should be outlined as well as provisions for the analysis of the risks associated with any use of such products.

Analysis of Credit Strengths and Weaknesses. As part of our initial work with new clients, Public Financial Management completes a comprehensive evaluation of the client's credit strength and weaknesses. Credit reports issued in the last five years are reviewed so credit-related trends and issues identified by rating analysts are well understood. PFM then completes a historic analysis of all key financial performance and economic benchmarks. PFM observations and often recommendation to improve documentation of key credit parameters are review with city staff. PFM identifies any weak performance indicators and works with staff to develop appropriate responses or documentation for discussion with rating agency analysts. Key credit strengths are thoroughly analyzed. This analytical approach reflects PFM's view that the issuer must develop a thorough understanding of the key credit issues and the ability to comfortably and confidently discuss the issues with credit analysts, thus demonstrating the management direction expected of high credit quality issuers.

Comprehensive Credit Presentation. PFM assists our clients in developing sophisticated, comprehensive credit presentations which incorporate all of the client's positive credit features and provides responses to any actual or potential credit negatives. The PFM documentation provided credit analysts often becomes incorporated in final credit reports.