

POPULAR
**Annual
Financial Report**

City of Rockville, Maryland



City of
Rockville
Get Into It
www.rockvillemd.gov/finance

**Fiscal Year Ended
June 30, 2020**

CITY MANAGER LETTER

**To the Mayor and Council
and Rockville community:**

I am pleased to present the Fiscal Year (FY) 2020 Popular Annual Financial Report (PAFR) for the City of Rockville. This report highlights a variety of relevant and helpful financial information in a simple, user-friendly format.

The City ended FY 2020 with a healthy overall net position of \$293.4 million. Our FY 2020 financial position remained strong, despite some revenues coming in under budget as a result of the COVID-19 pandemic. Due to our rapid response to restrict all non-essential spending and institute a hiring freeze, the General Fund reserve ended the year at \$22 million, which is \$5.1 million above the current reserve target. We were also pleased to have our bond rating reaffirmed at AAA/Aaa.

Moving into FY 2021, City staff will continue to use resources wisely to address the needs of the Rockville community as we work to implement the Mayor and Council's top priority initiatives. We also appreciate and look forward to the input of our volunteer Financial Advisory Board.

If you have any suggestions or questions regarding our City's finances, please do not hesitate to contact me.

Sincerely,



Robert DiSpirito
City Manager
rdispirito@rockvillemd.gov
240-314-8102



What is the PAFR and is it consistent with GAAP?

The PAFR or Popular Annual Financial Report is a document designed to increase transparency and awareness in City government finances through user-friendly financial reporting. The PAFR includes financial and other information that is presented in the City of Rockville's Comprehensive Annual Financial Report (CAFR) and annual budget document.

Because the PAFR is a summary document, not all the financial information complies with the requirements of Generally Accepted Accounting Principles (GAAP). Residents who prefer to review a GAAP-compliant report may review the CAFR at www.rockvillemd.gov/budget.

What's inside the PAFR?

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ROCKVILLE
CITY HALL

ALL ABOUT ROCKVILLE

What is the form of government?

The City operates under the council-manager form of government. The Mayor and Council are responsible for establishing City policy and providing direction to the City Manager. There are five elected members comprised of a mayor and four at-large council members. All members are elected for 4-year terms.

Mayor and Council (2019-2023)



From Left to Right: David Myles, Beryl L. Feinberg, Bridgett Donnell Newton (Mayor), Mark Pierzchala, Monique Ashton

What services does the City provide? *

Rockville provides a full range of services, including:

- ✓ community centers
- ✓ community development
- ✓ community outreach
- ✓ farmers market
- ✓ housing
- ✓ leaf collection
- ✓ licensing and permits
- ✓ police protection
- ✓ property code maint.
- ✓ public parking
- ✓ public parks
- ✓ recreation programs
- ✓ recycling/refuse collection
- ✓ senior services
- ✓ snow removal
- ✓ stormwater management
- ✓ street maintenance
- ✓ water and sewer utilities
- ✓ zoning and planning

* Some services are provided by other 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 fire protection, the public education system, libraries, and most social services in Rockville.

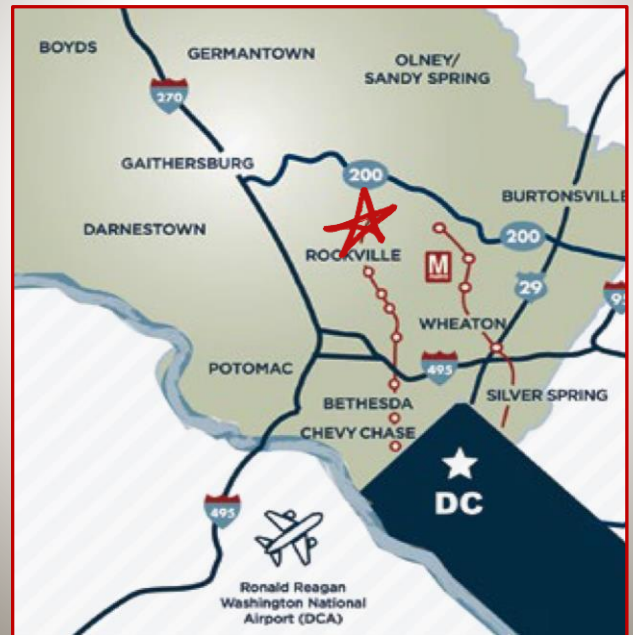
What makes up the community?

Rockville is one of the largest cities in Maryland, a county seat, and a vibrant home to some of the world's most prominent bio-med, technology, and knowledge companies. The City has a wide variety of housing styles, a low crime rate, a vast transportation network including Amtrak and Metro, an excellent school system, and a very diverse population.



Where is Rockville located?

Rockville is a 13.5 square mile municipality of nearly 70,000 residents located in the southern portion of Montgomery County, approximately 12 miles northwest of Washington DC, and 35 miles southwest of Baltimore.





COVID-19 and the City of Rockville

The COVID-19 pandemic started to impact the Rockville community in March 2020. The city was under a stay-at-home order issued by the State of Maryland Governor for most of the fourth quarter of FY 2020. Total General Fund revenues ended nearly \$2 million under the amended budget, mainly due to decreases in hotel tax, admissions and amusement tax, and recreation fees and charges for services.

Due to the rapid response from the Mayor and Council to restrict all non-essential spending and institute a hiring freeze, and the continued strong performance of other revenue sources like income tax, Rockville ended FY 2020 with a reserve balance that was \$5.1 million above the policy target. The reserves will continue to offer a layer of protection to help mitigate the financial risks of the continuing pandemic.

How is the City helping?

- ✓ Provided \$100,000 to caregiver agencies to assist with COVID-19 related expenses
- ✓ Hosted COVID-19 testing sites at City facilities
- ✓ Converted parking lots for meal distribution
- ✓ Provided free masks to the community
- ✓ Kept residents informed by using social media, digital communication, and posting signage at City parks and facilities
- ✓ Delivered weekly meals to >200 seniors
- ✓ Provided >300 virtual programs for seniors
- ✓ Offered >400 virtual recreation programs
- ✓ Modified summer and school-year programs with small group capacity and safety protocols
- ✓ Safely opened the Swim and Fitness Center on a reservation basis with capacity restrictions
- ✓ Expanded trash pickup in parks and bike trails



City of Rockville submitted over **\$1.1 million** in emergency response aid reimbursements since March 2020.





FINANCIAL STRUCTURE

What is the City of Rockville's financial structure?

The City records its financial transactions in 6 governmental and 6 enterprise funds. The governmental funds account for the City's basic operations, like street maintenance, inspections, snow removal, and recreation. Most of these services are financed by property and income taxes. The enterprise funds account for the City's main utilities and public services and are managed like private industry where costs are covered by fees and charges.

Why use separate funds?

Separate funds show accountability and stewardship of specific resources. For example, the City wants to ensure that all payments received from its water utility customers are spent to provide water services to those customers.



	Fund Name	Purpose is to support the...	Type
Governmental Funds	GENERAL	City's general provision of programs and services	Operating
	CAPITAL PROJECTS	Capital (CIP) projects benefitting all residents	Capital
	DEBT SERVICE	Principal and interest payments on bonds supporting the Capital Projects Fund	Operating
	SPEED CAMERA	Speed camera operations and pedestrian safety initiatives	Operating Capital
	SPECIAL ACTIVITIES	Specific programs as defined by the legal or policy restrictions on the revenue	Operating Capital
	COMMUNITY DEVEL. BLOCK GRANT	Nonprofit service providers and home renovations for low- to-moderate income homeowners	Operating
Enterprise Funds	WATER	Production, delivery, and storage of safe water	Operating Capital
	SEWER	Collection and transportation of wastewater to the Blue Plains treatment facility	Operating Capital
	REFUSE	Collection and disposal of residential recycling and refuse	Operating Capital
	STORMWATER MANAGEMENT	Protection of streams and watersheds from stormwater runoff	Operating Capital
	PARKING	Parking permit program, parking meter program, and debt service for parking garages	Operating
	REDGATE GOLF	Debt service on past improvements to the municipal golf course (course is now closed)	Operating

What types of spending does the City support?

The City supports two types of spending: operating and capital. Operating accounts for the day-to-day costs to provide services to City residents. Capital or CIP is a five-year investment plan that maps out how the City will replace, repair, or build new infrastructure. Several of the funds support both the operating and capital budgets.

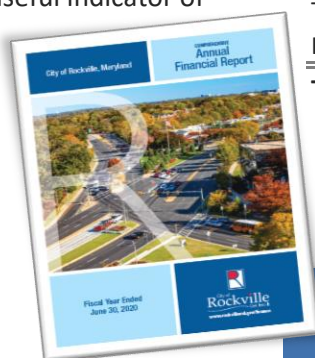
FINANCIAL RESULTS

What is the City's Net Position?

The City's FY 2020 overall net position increased by \$10.3 million to \$293.4 million. Net position is a useful indicator of a government's financial health and represents total assets less total liabilities on an organization-wide basis.

In FY 2019, there were restatements of net position that adjusted it down by \$93.4 million.

These restatements consisted of corrections of historical errors that relate to the depreciation of City infrastructure and utility improvements that were originally acquired and placed into service between 1980 and 2006. These were book-entry adjustments that had no impact on the City's cash position or reserve level.



Net Position (millions)

	2016	2017	2018	2019	2020
Total Assets and Deferred Outflows of Resources	\$518.7	\$528.7	\$546.8	\$475.5	\$478.1
Total Liabilities and Deferred Inflows of Resources	\$182.9	\$179.9	\$187.2	\$192.5	\$184.7
TOTAL NET POSITION	\$335.8	\$348.8	\$359.6	\$283.1	\$293.4

Source: Annual CAFRs, "Management's Discussion and Analysis."

Note: Deferred outflows of resources refers to the consumption of net assets that is applicable to a future reporting period; deferred inflows of resources refers to an acquisition of net assets that is applicable to a future reporting period.

FY 2020 General Fund Budget Activity

One of the City's financial performance measures is to maintain an overall variance for actual General Fund expenditures and revenues of +/- 5 percent of the adopted budget. This measure supports the goal of providing the City of Rockville with high quality, accurate budgetary and analytical services. For FY 2020, the City accomplished this goal with expenditures coming in slightly over budget and revenues coming in slightly under budget. Expenditures can exceed the adopted budget only when the elected body increases the total authorized appropriations via a mid-year budget amendment.

	2016	2017	2018	2019	2020
Expenditure Variance	-3.2%	6.9%	3.0%	1.0%	0.5%
Revenue Variance	3.8%	3.9%	3.7%	4.4%	-0.4%

Source: Annual Budget Documents, Finance Department section.

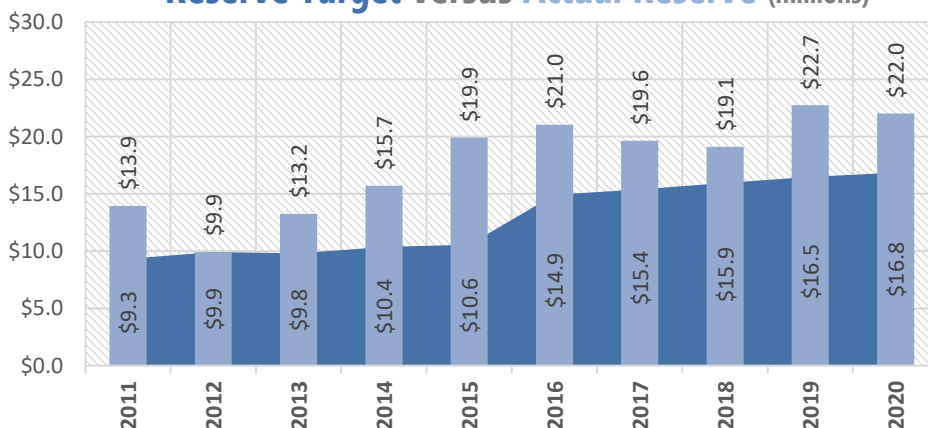
What is the City's Reserve Level?

It is the City's goal to maintain a General Fund reserve level of at least 20 percent of annual adopted General Fund revenue (up through FY 2015 it was 15 percent).

Reserves may be used for an emergency or natural disaster. If reserves exceed the policy target, they can be used to finance capital projects or other one-time needs with approval by the Mayor and Council.

At the end of FY 2020, the actual General Fund reserve balance was \$22 million, which is \$5.1 million over the current reserve target.

Reserve Target versus Actual Reserve (millions)



Source: Actual Reserves are from "Balance Sheet, Governmental Funds" in the CAFR. Reserve Targets are based on the Annual Adopted Budgets.

CAPITAL INVESTMENT

City of Rockville's Capital Budget

The City's capital budget focuses on maintaining and improving existing infrastructure—including roadways, sidewalks, water and sewer systems, and facilities—while incorporating new projects that promote the health, recreation, and general livability of the city. New capital projects that the City funded in FY 2020 include the **Outdoor Recreation Pool Renovations** (\$74k concept design) and **Stonestreet Corridor Improvements** (\$350k planning and design).

How is the Capital Budget Funded?

Capital investments are funded from various revenue sources, including:

- ✓ transfers from the General Fund/other funds,
- ✓ developer and community contributions,
- ✓ State of Maryland and federal grants,
- ✓ speed camera citation revenues, and
- ✓ bond proceeds.


Why does the City issue Bonds?

The City issues bonds to raise cash while promoting intergenerational equity by spreading the investment costs over time. General tax revenues pay for bonds used to support projects funded through the Capital Projects Fund. Revenues from utility rates and charges pay for bonds used to support the projects funded through each enterprise fund.

There are **no restrictions on the amount of debt the City of Rockville can issue** per Maryland State law or the City Charter. The City ensures that debt is being used responsibly by setting affordability guidelines or debt ratios in Rockville's Financial Management Policies. No new debt was issued in FY 2020 and the total outstanding debt decreased by 7.8 percent.

What is the City's Bond Rating?

The City maintains a **Aaa/AAA** bond rating by Moody's Investor Services and Standard and Poor's. This rating saves the taxpayers money by allowing the City to issue bonds at the lowest possible interest rates. Each year, Rockville is evaluated for overall debt burden, financial management, financial performance, and the City's economic base and prospects.



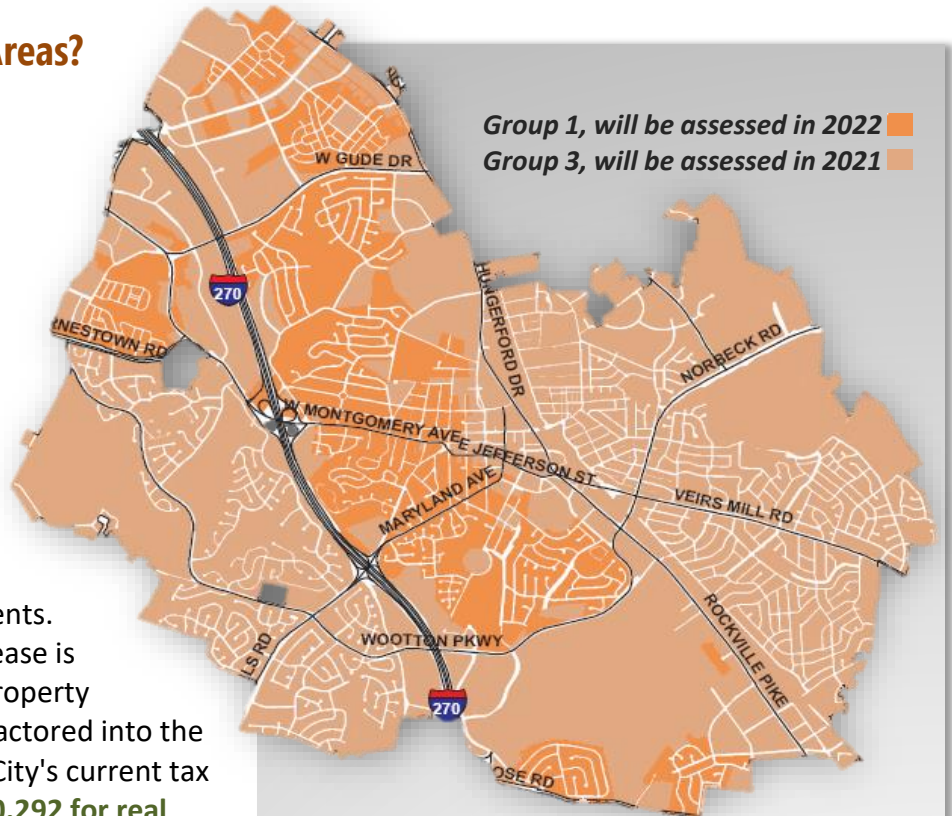
	2018	2019	2020	Change
Taxpayer Supported				
Water	\$32.4	\$34.9	\$30.8	↓ -11.8%
Sewer	\$25.3	\$24.6	\$22.5	↓ -8.6%
Refuse	\$39.0	\$42.9	\$39.5	↓ -7.8%
Stormwater	\$0.7	\$0.7	\$0.6	↓ -13.8%
Parking	\$2.4	\$2.1	\$0.6	↓ -14.7%
RedGate	\$29.7	\$28.6	\$1.8	↓ -1.8%
Total Outstanding Debt	\$0.1	\$0.1	\$0.1	↓ -26.1%
	\$129.7	\$133.8	\$123.3	↓ -7.8%

Source: Annual CAFRs, "Long Term Debt" sections.



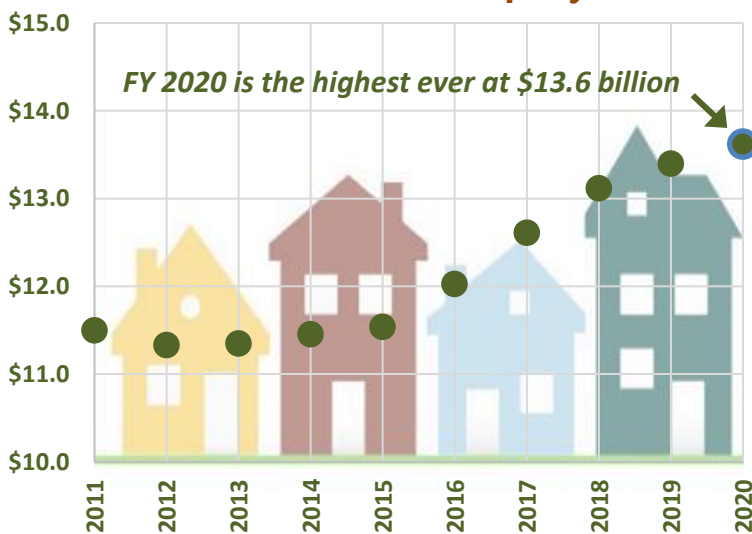
What are Rockville's Assessment Areas?

The City contains two real property assessment areas: Group 1 (dark orange) and Group 3 (light orange). Property value is determined by the assessed value of real estate (including land and structures on the land) and the assessed value of personal property (including inventory, furniture, and fixtures). The State Department of Assessments and Taxation (SDAT) is responsible for determining the assessed values for all properties located in the City. The State assesses real property **every three years**, and tax bills are based on those assessments. If a property increases in value, that increase is equally phased in over three years. If a property decreases in value, the decrease is fully factored into the first levy year after the assessment. The City's current tax rates per \$100 of assessed value equal **\$0.292 for real property** and **\$0.805 for personal property**.



Group 1, will be assessed in 2022
Group 3, will be assessed in 2021

Assessed Value of Real Property (billions)



Source: FY 2020 CAFR, page 88.

Revenue from Property Tax

Fiscal Year	Property Tax Revenue	% of Total Revenues
2016	\$38,435,104	49.6%
2017	\$40,105,715	50.2%
2018	\$41,385,200	50.1%
2019	\$42,167,988	49.0%
2020	\$42,551,677	50.7%

Source: Annual Budget Documents.

The City collected
99.7% of all billed
property taxes
from FY 2020



Source: FY 2020 CAFR, page 91.

SAMPLE TAX BILL

PROPERTY OWNER
999 OWENS ST
ROCKVILLE, MD 20850

Assessment is determined by the
Maryland State Department of
Assessments and Taxation (SDAT).

Over 99% of
Rockville properties
are located in
Tax Class R050.

PRINCIPAL RESIDENCE

BILL DATE	
11/19/2020	
PROPERTY DESCRIPTION	
WEST END PARK	
BILL #	ACCOUNT #
00000001	00001111
REFUSE AREA	REFUSE UNITS
R40	1

LOT	BLOCK	DISTRICT	SUB	TAX CLASS
98	52	04	324	R050
MORTGAGE INFORMATION		PROPERTY ADDRESS		
UNKNOWN		999 OWENS ST		

TAX DESCRIPTION	ASSESSMENT	RATE	TAX/CHARGE
STATE PROPERTY TAX	553,633	.1120	620.07
COUNTY PROPERTY TAX	553,633	.8876	4,914.04
ROCKVILLE PROPERTY TAX	553,633	.2920	1,616.61
SOLID WASTE CHARGE		31.1900	31.19
ROCKVILLE REFUSE CHARGE			445.00
ROCKVILLE STORMWATER MGMT FEE			132.00
TOTAL			7,758.91
CREDIT DESCRIPTION	ASSESSMENT	RATE	AMOUNT
COUNTY PROPERTY TAX CREDIT			-692.00
TOTAL CREDITS			-692.00
PRIOR PAYMENTS ****			3533.47
INTEREST			0

The annual amounts that are due for the City's
stormwater management program and
recycling and refuse services.

The annual amount that is due to the City for real property tax. This
amount is calculated by multiplying the assessed value by the City's
property tax rate of \$0.292 per \$100 of assessed value.

Total Annual Amount Due :

3,533.44

YOU CAN VIEW AND PAY YOUR BILL ON THE INTERNET AT www.montgomerycountymd.gov/finance

ENTER ONE OF THE FOLLOWING TO VIEW PROPERTY TAX RECORDS

ACCOUNT NUMBER	00232034	VIEW
BILL NUMBER	12345678	VIEW
STREET ADDRESS	123 MAIN	VIEW

DO NOT ENTER STREET NAME SUFFIXES OR TYPES (AVENUE, STREET, LANE, ETC).

Rockville's Property Tax Credits

Note: Credits are not included on the sample tax bill.

Homeowners' Property Tax Credit

This credit assists low-to-moderate income homeowners with taxes due on the first \$495,000* of their home's assessed value. This program is managed by the State of Maryland. To apply, please visit <https://dat.maryland.gov/> and search HTC.

*Values are set by each jurisdiction.

Homestead Property Tax Credit

This credit mitigates the impact of rapidly raising assessments by setting a 10% cap* on the maximum annual assessment increase. This program is managed by the State of Maryland. To apply, please visit <https://dat.maryland.gov/> and search homestead.

*Caps are set by each jurisdiction.



What Services are Operated by the City?

The City of Rockville manages four utility services: **water, sewer, recycling and refuse, and stormwater management (SWM)**. The City accounts for these services in enterprise funds, which operate and account for their transactions like private businesses.

Enterprise fund budgets are presented on the full accrual basis of accounting. Under this method of accounting, revenue is recognized when it is earned and expenses are recognized when they are incurred. This is the same way as they are incorporated within the operating budget.

Customers pay for water and sewer on a monthly or quarterly bill that comes from the City of Rockville (page 10). Customers pay for SWM and recycling and refuse services on their annual real property tax bill that comes from the County (page 8).



TARGET #1: Revenues versus Expenses

Each fund's operating revenues must meet or exceed that fund's total operating budget expenses, unless there is a planned use of reserves. For FY 2020, all the utility funds were in compliance.

	2016	2017	2018	2019	2020
Water	✓	✓	✓	✓	✓
Sewer	✗	✓	✓	✓	✓
Refuse	✓	✗	✗	✓	✓
Stormwater Management	✓	✓	✓	✓	✓

Source: Annual Budget Documents.



TARGET #2: Sufficient Reserve Levels

Water and Sewer funds must maintain a cash balance equal to six months, Refuse one month, and SWM three months of operating expenses. Refuse and SWM funds were in compliance for FY 2020, but Water and Sewer remain below the policy target.

The condition of Rockville's water and sewer infrastructure requires substantial ongoing capital investment. As a result, the funds have not maintained sufficient reserve levels as required by policy. In order to address this, Rockville is undergoing a study that evaluates the cost of service by property type or classification. The results, to be presented in FY 2021, will likely influence future rates and rate structures.

	2016	2017	2018	2019	2020
Water	✗	✗	✗	✗	✗
Sewer	✗	✗	✗	✗	✗
Refuse	✓	✓	✓	✓	✓
Stormwater Management	✓	✓	✓	✓	✓

Source: Annual Budget Documents.

SAMPLE UTILITY BILL



CITY OF ROCKVILLE
111 Maryland Ave., Rockville, MD 20850-2364
Ph: 240-314-8420 Fax: 240-314-8419
Email: utilitybilling@rockvillemd.gov

Acct. Number: 0101-000905.02
Bill Date: 09/15/20
Current Charges: 323.29
Total Amount Due: 323.29
Amount Due After 10/15/20: 354.12 *
*Includes 10% late fee

The Chesapeake Bay Restoration fee is a fee mandated by the State of Maryland.

UTILITY BILL

Water utility rates & structure remain unchanged.
No rate increase for 2020.
Be well and stay safe.

Per quarter rates.

1 Unit = 1,000 Gallons		Service Address 999 OWENS ST					
Type of Service	Service Period	No. of Days	Previous Reading	Current Reading	Usage	Rate	Charges
CHESAPEAKE BAY FEE	06/02-09/01	91				5.00	15.00
WATER RTS 5/8" METER	06/02-09/01	91				13.13	13.13
SEWER BILLING	05/09-08/13	96	865	882	17	@ 10.50	178.50
SEWER RTS 5/8" METER	06/02-09/01	91				15.25	15.25
WATER 5/8" METER QUARTER	05/09-08/13	96	865	882	17		101.41

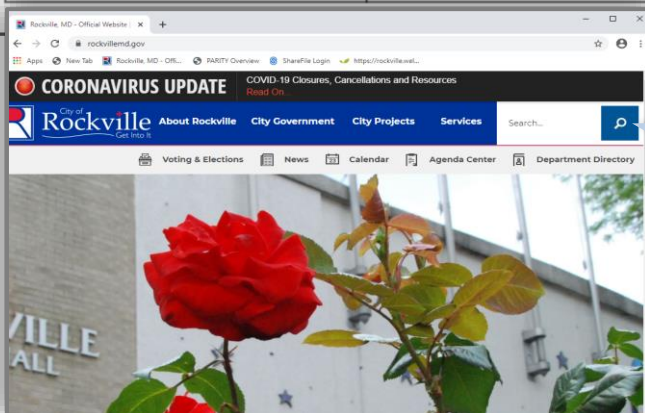
The ready to serve ("RTS") charge recovers a portion of the fixed costs of the water and sewer operations. The amount of charge is based on meter size.

The number of units in a billing period.
1 unit = 1,000 gallons

Water Usage in Units		Water Tier Rate for Current		Account Activity	
Current:	17	15 @ 5.61	= 84.15	Previous Balance	252.81
Last Period:	13	2 @ 8.63	= 17.26	Payments Received	-252.81
Last Year:	17			Current Charges	323.29
Two Years Ago:	15			Total Amount Due	323.29

Water charges are based on a four tier structure. This customer used 15,000 gallons of water or 15 units at \$5.61 per unit (first tier) and 2 units at \$8.63 per unit (second tier).

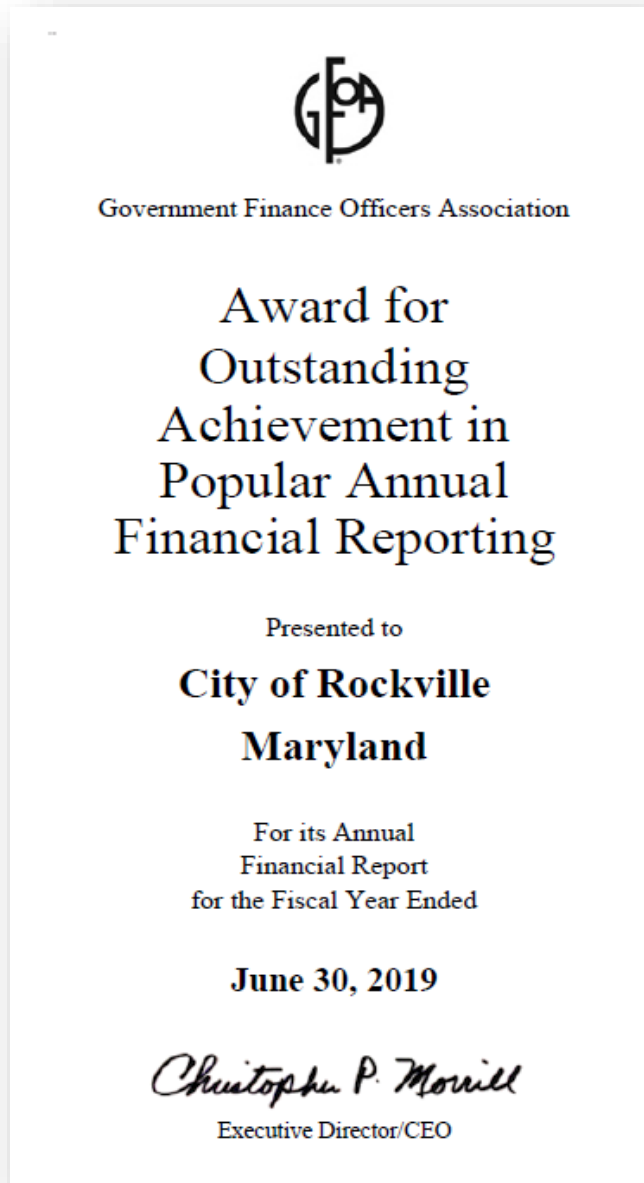
Sewer charge equals \$10.50 per 1,000 gallons or 1 unit.



Please visit the City's website and search **water and sewer service** to:

- ✓ view water and sewer rates,
- ✓ request e-bills,
- ✓ make payments,
- ✓ start or stop service, and
- ✓ find emergency hotline information

RECOGNITION



The **Government Finance Officers Association (GFOA)** has given an **Award for 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, 2019. 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.

The award represents a significant achievement by the City of Rockville. In order to be eligible for the PAFR award, a government must also submit its Comprehensive Annual Financial Report (CAFR) to GFOA's Certificate of Achievement for Excellence in Financial Reporting Program and receive the CAFR award for the current fiscal year. Each eligible report is reviewed by judges who evaluate the report based on the following categories: reader appeal, understandability, distribution methods, creativity and other elements.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The City believes the current report continues to conform to Popular Annual Financial Reporting requirements, and is submitting it to the GFOA for consideration.

Prepared by the Department of Finance

City of Rockville, Maryland

111 Maryland Avenue

Rockville, MD 20850

www.rockvillemd.gov