

In the opinion of Bond Counsel, assuming continuous compliance with certain covenants in the Tax Certificate and Compliance Agreement to be executed and delivered by the City on the date of delivery of the Bonds, and subject to the conditions stated herein under "Tax Matters," under existing law, (a) the interest on the Bonds is excludable from gross income for Federal income tax purposes, and (b) the interest on the Bonds is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations, and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States. As described herein under "Tax Matters," other Federal income tax consequences may arise from ownership of the Bonds. It is also the opinion of Bond Counsel that, under existing law of the State of Maryland, the interest on the Bonds and profit realized from the sale or exchange of the Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Bonds or the interest thereon. See "Tax Matters" herein."

\$ 21,750,000
GENERAL OBLIGATION BONDS OF 2007
MAYOR AND COUNCIL, CITY OF ROCKVILLE, MARYLAND

Dated: September 27, 2007

Principal Due: June 1, 2008/2027

The \$21,750,000 General Obligation Bonds of 2007 (the "Bonds") of the City of Rockville, Maryland (the "City" or "Issuer") are issued pursuant to the authority of Article 23A of the Annotated Code of Maryland (2005 Replacement Volume and 2006 Supplement), as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with ordinances enacted by the City on July 23, 2007 and August 6, 2007 authorizing the issuance of the Bonds (the "Ordinance") to finance the cost of the 2008 Capital Improvements Program, and pay the costs of issuing the Bonds. The Bonds are general obligations of the City, backed by its full faith, credit and unlimited taxing powers.

The Bonds will be issued as fully registered bonds without coupons and, when issued will be in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of the Bonds, payable annually on each June 1 and interest on the Bonds, payable on each June 1 and December 1 commencing June 1, 2008, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. The Bonds will mature on June 1 in the years and amounts as follows:

MATURITY SCHEDULE

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>774217</u>	<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>774217</u>
2008	\$ 1,340,000	4.000%	3.500%	V2 6	2016	\$ 1,345,000	4.000%	3.610%	W2 5
2009	1,360,000	4.000%	3.500%	V3 4	2017	1,340,000	4.000%	3.680%	W3 3
2010	1,360,000	4.000%	3.500%	V4 2	2018	825,000	4.000%	3.800%	W4 1
2011	1,355,000	4.000%	3.500%	V5 9	2019	825,000	4.000%	3.900%	W5 8
2012	1,355,000	4.000%	3.500%	V6 7	2020	825,000	4.000%	4.000%	W6 6
2013	1,350,000	4.000%	3.500%	V7 5	2021	825,000	4.000%	4.050%	W7 4
2014	1,350,000	4.000%	3.520%	V8 3	2022	825,000	4.000%	4.100%	W8 2
2015	1,345,000	4.000%	3.550%	V9 1	2023	825,000	4.000%	4.160%	W9 0

\$1,650,000 4.125% Term Bonds due June 1, 2025 Priced to yield 4.250% CUSIP: 774217 X3 2
\$1,650,000 4.250% Term Bonds due June 1, 2027 Priced to yield 4.310% CUSIP: 774217 X5 7

The Bonds maturing in the years June 1, 2018 and thereafter are subject to prior redemption on June 1, 2017 at a price of par plus accrued interest to the date of redemption.

NOT BANK QUALIFIED: The Bonds are not "Qualified Tax-Exempt Obligations."

LEGAL OPINION: Venable LLP, Baltimore, Maryland

Piper Jaffray has agreed to purchase the \$21,750,000 General Obligation Bonds from the Mayor and Council, City of Rockville, Maryland for an aggregate price of \$21,938,183.30. Delivery of the Bonds is currently anticipated to be on or about September 27, 2007.

The date of this Official Statement is September 13, 2007.

(THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.)

PIPER JAFFRAY

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No dealer, broker, salesman or other person has been authorized by the City, the Financial Advisor or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement or the Final Official Statement and, if given or made, such other information and representations must not be relied upon as having been authorized by the City, the Financial Advisor or the Underwriters. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City and other sources which are believed to be reliable, but it is not to be construed as a representation by the Financial Advisor or Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement or the Final Official Statement nor any sale made thereafter shall, under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein, since the date thereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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INTRODUCTION TO THE OFFICIAL STATEMENT

The following information is furnished solely to provide limited introductory information regarding the \$21,750,000 General Obligation Bonds of 2007 (the "Bonds") of the City of Rockville, Maryland (the "City" or "Issuer") and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Issuer:	City of Rockville, Maryland.						
Purpose:	The proceeds of the Bonds will be used to finance the cost of the 2008 Capital Improvements Program; and pay the costs of issuing the Bonds.						
Security:	The Bonds are general obligations of the City, and taxable property in the territory of the City is subject to ad valorem taxes without limitation as to rate or amount to pay the Bonds.						
Authority for Issuance:	The Bonds are issued pursuant to ordinances of the City and pursuant to and in full compliance with the Constitution and laws of the State of Maryland.						
Principal Payments:	Payable on June 1 of the years 2008 through 2027.						
Interest Payments:	Payable on June 1 and December 1, commencing June 1, 2008.						
Optional Redemption:	The Bonds maturing in the years June 1, 2018 and thereafter are subject to prior redemption on June 1, 2017 at a price of par plus accrued interest to the date of redemption.						
Tax Status:	Generally exempt from federal and Maryland state income taxes (see "Tax Matters" herein).						
Book-Entry System:	The Bonds will be issued as book-entry only securities through The Depository Trust Company.						
Professional Consultants:	<table><tr><td><i>Financial Advisor:</i></td><td>Public Financial Management, Inc. Minneapolis, Minnesota</td></tr><tr><td><i>Bond Counsel:</i></td><td>Venable LLP Baltimore, Maryland</td></tr><tr><td><i>Registrar/Paying Agent:</i></td><td>Director of Finance City of Rockville, Maryland</td></tr></table>	<i>Financial Advisor:</i>	Public Financial Management, Inc. Minneapolis, Minnesota	<i>Bond Counsel:</i>	Venable LLP Baltimore, Maryland	<i>Registrar/Paying Agent:</i>	Director of Finance City of Rockville, Maryland
<i>Financial Advisor:</i>	Public Financial Management, Inc. Minneapolis, Minnesota						
<i>Bond Counsel:</i>	Venable LLP Baltimore, Maryland						
<i>Registrar/Paying Agent:</i>	Director of Finance City of Rockville, Maryland						

Questions regarding the Bonds or the Official Statement can be directed to and additional copies of the Official Statement, the City's audited financial reports and the Ordinance may be obtained from Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, Minneapolis, Minnesota 55402 (612/338-3535 612/338-7264 FAX), the City's Financial Advisor, or inquiries may be directed to Mr. Gavin Cohen, Director of Finance, City of Rockville, 111 Maryland Avenue, Rockville, Maryland 20850, or by telephoning (240) 314-8402.

DESCRIPTION OF THE BONDS

Authorization

The Bonds are issued under and in full compliance with the Constitution and laws of the State of Maryland, including Article 23A of the Annotated Code of Maryland, as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with ordinances enacted by the City on July 23, 2007 and August 6, 2007 authorizing the issuance of the Bonds.

Purpose

The Bonds are issued to provide funds to finance various public improvements within the City in accordance with the City's Capital Improvements Program, and pay the costs of issuing the Bonds. Those projects and the estimated costs are listed in Table 1 below.

Table 1
Estimated Sources and Uses of Funds

Sources:	
Par Amount of Bonds	\$ 21,750,000
Premium	<u>179,042</u>
Total Sources of Funds	<u>\$ 21,929,042</u>
Uses:	
Capital projects	\$ 10,401,655
Water fund projects	1,750,000
Sewer fund projects	6,126,000
Refuse fund projects	3,399,332
Estimated cost of issuance and contingency	<u>252,055</u>
Total Uses of Funds	<u>\$ 21,929,042</u>

Redemption Provisions

Optional Redemption

At the option of the City, Bonds or portions thereof maturing on June 1, 2018, and thereafter may be called for redemption and payment prior to the stated maturity thereof on June 1, 2017, and at any time thereafter in whole or in part in such amounts for such stated maturities as shall be determined by the City at the redemption price of 100% of the principal amount thereof plus accrued interest thereon to the redemption date. The Bonds may be called in part in one or more units of \$5,000. If less than the entire principal amount of any Bonds in a denomination of more than \$5,000 is to be redeemed, the Bond Registrar will issue and deliver to the registered owner thereof, upon surrender of such original Bond, a new Bond or Bonds, in any authorized denomination, in a total aggregate principal amount equal to the unredeemed balance of the original Bond. Notice of such redemption as aforesaid identifying the Bond or Bonds (or portion thereof) to be redeemed shall be mailed first class to the registered owners thereof at the addresses shown on the City's registration books not less than 30 days prior to such redemption date. All Bonds for which the City exercises the right of redemption and for which proper notice has been given and adequate funds provided, shall cease to bear interest on the redemption date.

Mandatory Sinking Fund Redemption

Term Bonds maturing on June 1, 2025, are required to be redeemed in part prior to maturity on June 1 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2024	\$ 825,000
2025 (Final Maturity)	825,000

Term Bonds maturing on June 1, 2027, are required to be redeemed in part prior to maturity on June 1 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2026	\$ 825,000
2027 (Final Maturity)	825,000

Interest Computation

Interest on the Bonds will be payable on June 1 and December 1 of each year commencing June 1, 2008. It will be computed on a 360-day year, 30-day month basis and paid to the owners of record as of the close of business on the fifteenth day of the immediately preceding month. Payments coming due on a non-business day will be paid the following business day.

Security

The Bonds and interest thereon will constitute general obligations of the City payable as to both principal and interest from ad valorem taxes which may be levied without limitation as to rate or amount upon all the taxable tangible property, real and personal, within the territorial limits of the City.

Book-Entry Only System

The information contained in the following paragraphs of this subsection “Book-Entry Only System” has been extracted from a schedule prepared by Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE.” The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The Depository Trust Company (“DTC”), New York, NY will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity specified on the cover page hereof in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates.

Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discounted.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. if less than all of the Bonds within an issue are being redeemed. (DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.)

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of, redemption premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the City or Paying Agent, on payable date in accordance with their respective holding shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such Participant and not of DTC, Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of City or Paying Agent, disbursement of such payments to Direct Participants will be responsibility

of DTC, and disbursement of such payments to the Beneficial Owners will be responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the Bonds at any time by giving reasonable notice to City or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

NEITHER THE CITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS OF A SERIES; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF BONDS; OR (VI) ANY OTHER MATTER.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Continuing Disclosure

In order to permit bidders for the Bonds and other participating underwriters in the primary offering of the Bonds to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), the City will adopt, for the benefit of the registered holders or beneficial owners of the Bonds, an undertaking to provide annual reports of specified information and notice of the occurrence of certain events, if material. The information to be provided on an annual basis, the events as to which notice is to be given, if material, and a summary of other provisions of the undertaking, including termination, amendment and remedies, are set forth in Appendix C to this Official Statement.

Breach of the undertaking will not constitute a default or an event of default under the Bonds or under the ordinances adopted by the City authorizing any series of the Bonds. The City is in full compliance with all of its prior 15c2-12 obligations.

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THE CITY OF ROCKVILLE

General Information

The following information is provided for the purpose of presenting certain information relating to the City of Rockville (the “City”), Maryland (the “State”). Except as otherwise stated, the information is provided as of June 30, 2007.

Rockville, the County seat of Montgomery County, occupies 13.50 square miles within the Metropolitan Washington Area and is located 12 miles northwest of Washington, D.C. The City lies within four miles of I-495, the Capital Beltway, and is traversed by I-270. The topography is rolling with small hills. Average altitude of the area is 400 feet above sea level.

Rockville was first settled in the late 1700s, chosen as the County seat in 1776, and officially designated as Rockville by the Maryland General Assembly in 1801. The name was derived from Rock Creek, which runs past the eastern boundary of the city. Rockville was incorporated in 1860. The Confederate Monument in Rockville commemorates the days when General Jubal Early's forces passed through Rockville to and from an attack on Washington.

Rockville is both a residential community and an employment and economic center. Rockville experienced its greatest growth after World War II. The population grew from 2,047 to 6,934 between 1940 and 1950 and to 26,090 by 1960. During the 1960s Rockville shared in the rapid population growth experienced in the entire Washington, D.C. Metropolitan Statistical Area (MSA). In 1970 Rockville's population was 42,739, an increase of 64 percent over 1960. Population growth moderated during the 1970s. According to the 2000 figures from the U.S. Bureau of the Census, the City's population was 47,388. The City of Rockville Planning Department estimates the 2007 population of the City is 61,030.

For the 17th year, the National Arbor Day Foundation awarded Rockville a Tree City USA Award for planting and urban forest management. In past years, Rockville has been designated an “All-America City” four times.

Government and Organization of the City

Rockville is a city sharing local government taxing authority with Montgomery County. The City of Rockville derives its governing authority from a charter granted by the General Assembly of Maryland. The City has operated under the Council-Manager form of government since 1948. The governing body of the City is the Mayor and Council, which formulates policies for the administration of the City. The Mayor and Council are comprised of the Mayor and four council members each elected at large for two year concurrent terms. Mayor and Council members and their terms of office are:

Mayor and Council Members

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Larry Giammo	Mayor	2007
Robert E. Dorsey	Council Member	2007
Susan R. Hoffmann	Council Member	2007
Phyllis Marcuccio	Council Member	2007
Anne M. Robbins	Council Member	2007

The City Manager is appointed by the Mayor and Council to serve as the City's Chief Executive Officer. He is responsible to the Mayor and Council for the proper administration of all affairs of the City. To this end, he has appointive and removal authority over department heads and all other employees, except the City Clerk and the City Attorney, is responsible for the preparation and administration of the annual budget, for keeping the Mayor and Council apprised of the financial condition and future needs of the City by way of an annual report to the Mayor

and Council, recommending and enforcing all policies and procedures laws and ordinances as established by the Mayor and Council, consolidate or reorganize positions, departments or divisions as needed, purchase all materials, supplies and equipment pursuant to purchasing regulations, and investigate any and all complaints and affairs concerning the administration of the government and the utilities service provided. Financial operations of the City are performed by the Finance Department under the supervision of the Director of Finance, who reports directly to the City Manager.

Mayor and Council Members

Larry Giammo was elected Mayor of Rockville on Nov. 6, 2001 and re-elected on November 4, 2003 and November 8, 2005. He brought with him considerable experience working with local government and a wealth of business and management experience from the private sector. He served on Rockville's Planning Commission from 1996-2001, including one year as its chair. He was chair of Rockville's Town Center Land Use Advisory Committee from December 2000 through May 2001. The committee worked with the consultants hired by the City to develop a new master plan for Town Center. From 1994 through March of 2001, Mayor Giammo worked for the Corporate Leadership Council in Washington, D.C., a division of the Corporate Executive Board. He played a key role in the launch, growth and management of the Council, which had nearly 100 employees and more than \$30 million in annual revenue when he departed as a Managing Director. Mayor Giammo previously worked for Mercer Management Consulting in Washington and in Brisbane, Australia as an associate. He earlier served as a financial analyst for General Electric Information Services in Rockville and London. Mayor Giammo served in the U.S. Army Reserve from 1982-88, serving at Fort Gordon, GA, and Fort Meade, MD. He served about one year of active duty (including advanced training for microwave repair) and five years of part-time duty. He holds a Masters of Business Administration from Carnegie-Mellon University and bachelor degrees in Finance and Economics from the University of Maryland.

Robert E. Dorsey is serving his seventh term on the Rockville City Council. Mr. Dorsey was a member of the Rockville Human Rights Commission for more than 12 years. He is on the Public Safety and Crime Prevention Committee of the National League of Cities, the Maryland Municipal League Communications Committee, and the Maryland Municipal League Public Safety Committee. Mr. Dorsey is a past president of the Metropolitan Washington Council of Governments (COG). He has served as a board member of the Montgomery County Boys & Girls Clubs, and has been a member of the Alliance of Rockville Citizens, the Rockville Optimists Club, the Twinbrook Citizens Association, Southern Christian Leadership Conference, the NAACP, the Lincoln Park Historical Society, and the Monument Toastmasters Club. He is a graduate of Montgomery College and is retired following 27 years as Marketing Representative and Systems Engineer with IBM Corporation.

Susan R. Hoffmann was elected to her third term on the City Council in November 2005. Since August 1995, Ms. Hoffmann has been the manager of marketing and communications in the Silver Spring Regional Services Center, the local source of government services for the Silver Spring/Takoma Park Region. The Center includes the Silver Spring Redevelopment Office, established to implement and monitor the redevelopment and revitalization of downtown Silver Spring as a "town center." She collaborates daily with the development team, governmental agencies, and other key private sector players such as the American Film Institute and Discovery Communications, Inc. In December 1986, Ms. Hoffmann joined Montgomery County as a legislative analyst in its Office of Intergovernmental Relations. She represented the County's interests before the Maryland General Assembly, the Governor and the state agencies' staff. Beyond her day-to-day responsibilities, she was appointed by the county executive to serve on the Montgomery County Task Force to study the Municipal Tax Duplication Reimbursement Program, and produced, wrote and hosted "Eye on Annapolis," a weekly cable television program on the Maryland General Assembly. Ms. Hoffmann's past experience includes tenures as a Congressional Aide to two members of the U.S. House of Representatives; a public affairs assistant to the 1980 White House Conference on Families; and a feature writer with Bucks County Courier/Doylestown Intelligencer (a suburban Philadelphia daily). Ms. Hoffmann holds a Bachelor of Science degree in Communications from Temple University and has done post-graduate work in Basic Economic Development through the University of Maryland's University College.

Phyllis Marcuccio was elected to her first term on the Rockville City Council in November 2005. Phyllis has always been available to her neighborhood and community. She has been the science curriculum consultant to

several local area school systems, including Montgomery County. She helped to found the Rockville Consortium for Science and remains active in Rockville's Annual Science Day. Phyllis served on the Rockville Housing Authority for 10 years and was part of the Croydon Park Advisory Board and Review Committee. As president of the East Rockville Civic Association, she was instrumental in having an East Rockville Park. That mission led to creation of Mary Trumbo Park. She also helped spearhead the establishment of a neighborhood plan to ensure that East Rockville was considered in Town Center master planning. For 38 years, Phyllis worked for the National Science Teachers Association (NSTA), establishing herself as a national leader and innovator in childhood education. Among educators, she was probably best known for being one of the founders and editor of Science and Children magazine. She has written, edited and published journals, books and articles used by teachers at every level from kindergarten through college. She also was project director and/or judge for numerous grants (totaling more than \$30 million) and awards. Her periodicals have been widely recognized (e.g., Eleanor Fishburn and Educational Press Awards). Phyllis was known as a teacher of teachers, a presenter at science teacher conferences and a mentor for more than 50 NSTA staff. She was on the boards of several associations including the National Academy of Sciences / Smithsonian Institution; the Pocono Environmental Education Center; and the Rockville area's own Hands-On-Science Outreach, Inc. She has lived in Rockville for more than 50 years and her life has been filled with community-minded activities and service.

Anne M. Robbins was elected to her fourth term on the City Council in November 2005. Prior to being elected to the City Council, Ms. Robbins did library consultation work for the Montgomery County Council. Her other work experience includes teaching government experience at the Federal level (U.S. Department of Housing and Urban Development) and local level (Montgomery County Government). Ms. Robbins' public service volunteer work has included participating as an advisor on First Lady Rosalyn Carter's Mental Health Commission, directing her high school PTSA's "Organized to Resist Drugs Initiative," and serving on the Board of Directors of the Rockville Community Ministries, the F. Scott Fitzgerald Commemorative Committee, and the Twinbrook Library Advisory Committee. Ms. Robbins received her bachelor's degree in Education from Penn State University and Master of Public Administration degree from the Maxwell School of Citizenship and Public Affairs at Syracuse University.

City Staff

Scott Ullery started as City Manager of the City of Rockville on November 29, 2004. He has 28 years of government experience. He served as Deputy County Administrator in Santa Barbara County from 1997 to 2004. His responsibilities in Santa Barbara County focused primarily on strategic planning, capital improvement planning, information technology, annexations, project management and economic development. Prior to his work in Santa Barbara, Mr. Ullery spent 18 years with the City of Tucson. He was the Assistant City Manager of Tucson from 1994 to 1997 and was the assistant to the city manager from 1992 to 1994. He held several responsible positions prior to that in the Department of Budget and Research. Mr. Ullery received his Bachelor of Arts from the University of Arizona.

Gavin Cohen joined the City of Rockville as Director of Finance in May 2005. He previously served as the Finance Director for the City of Solana Beach in San Diego County, California from 1999 through 2005 and the Assistant Finance Director for the City of Glendora in Los Angeles County California from 1996 through 1999. Prior to this he was a controller and auditor in private industry. Mr. Cohen has a Bachelor of Commerce degree from the University of Cape Town. He is a Certified Public Accountant and Certified Management Accountant. Mr. Cohen is a member of several professional organizations including American Institute of Certified Public Accountants, Association of Public Treasuries of the United States and Canada, Institute of Certified Management Accountants and the national and local Government Finance Officers Associations.

Paul T. Glasgow, City Attorney, holds a Bachelor of Arts degree from the University of Maryland and a law degree from George Washington University. He is past treasurer and past president of the Maryland Municipal Attorney's Association, has served on the Governor's Task Force to study local government antitrust liability, and was a member of the State Trial Courts Judicial Nominating Commission. He is a member of the American, Maryland, and Montgomery County Bar Associations. Mr. Glasgow is a partner in Venable LLP, which is serving as bond counsel in connection with the sale and issuance of the Bonds.

Burton R. Hall has served as Director of Recreation and Parks since April 1992. His career with the City of Rockville began in 1974 at the Municipal Swim Center where he was the Aquatics Supervisor and Swim Center Director. He was appointed Superintendent of Recreation in 1983. Mr. Hall holds a Bachelor of Science degree from Amherst College and is a Certified Leisure Professional. He is a member of, and has served in various volunteer capacities with, the Maryland Recreation and Parks Association and the National Recreation and Parks Association.

Craig Simoneau has served as the Director of Public Works for the City of Rockville since September 2005. Prior to coming to Rockville, he served as Director of Public Works and Logistics at Fort Monroe, VA. Mr. Simoneau was in the U.S. Army for 20 years. During his years in the U.S. Army, he held management positions for construction project design, facility operations and project design. Mr. Simoneau is a Licensed Professional Engineer. He is a West Point graduate, and has a Master of Science degree in Civil Engineering from Massachusetts Institute of Technology.

Arthur D. Chambers has served as the Director of Community Planning and Development Services (CPDS) for the City of Rockville since September 2000. CPDS includes Planning, Long-Range Planning, Inspection Services, the Moderately Priced Dwelling Unit Program, the Community Development Block Grant program and Town Center Redevelopment. Mr. Chambers came to Rockville from Olathe, Kansas where he worked as Director of Planning for 16 years. Over the last seven years as Rockville's Director of CPDS, he has worked on the Town Center Master Plan, neighborhood plans, development projects, and he manages the development review process. Mr. Chambers holds a master's degree in City and Regional Planning from the University of Oklahoma. He is a member of the American Planning Association and is a charter member of the American Institute of Certified Planners.

City Government Services

The City of Rockville provides a full range of services for the community including: zoning and planning; water, sewer, and refuse collection services; one-stop location for licenses, permits, and inspections; snow removal, leaf collection, street maintenance, and other public works functions; recreation and parks services; and special programs for senior citizens, youth and low-income residents.

City Manager's Office

The Department of the City Manager coordinates with the Mayor and Council to enact and implement City policy and to manage the policy agenda by providing management and administrative support for the day-to-day operations of the City government. Neighborhood Resources Program, Graphics and Printing, the Public Information Office, Citizen Satisfaction Survey, Citizen Service Requests, Customer Service, the Intergovernmental Program, and the Performance Measurement Program are part of the City Manager's Office.

Community Planning and Development Services

The Department of Community Planning and Development Services promotes and facilitates the orderly development and redevelopment of the city to benefit both residential and business activity. The department prepares plans and develops programs that provide policy guidance and support to the Mayor and Council, Planning Commission Boards and Commissions, and the City senior management staff to make public decisions with respect to the provision of adequate public facilities and services, the use of land, and the administration of laws affecting development policies. The Department contains six divisions: Executive, Management and Support, Planning, Inspection Services, Long Range Planning and Redevelopment, and CPDS Studies and Plans.

In addition the Department serves as liaison to Rockville Economic Development Inc. (REDI). REDI was established by the City as a public-private partnership to deliver the City's economic development services. REDI's mission is to strengthen and broaden the economic base of Rockville. REDI's four major goal areas recently adopted by the Mayor and Council as part of its 2007-2008 Strategic Work Plan are (1) Build Rockville's economy

for the future (2) Attract new businesses to Rockville (3) Retain and support Rockville's existing business base (4) Support the revitalization of Rockville Town Center.

Finance

The Department of Finance helps the various agencies of the City government meet their service objectives by acquiring goods and services, allocating the organization's available financial resources, processing financial transactions and providing information and analysis as a basis for decision making. The department bills and/or collects the major City revenues and provides assistance to taxpayers and utility customers. The department also provides financial planning services for the City, secures financing for capital construction, and safeguards and invests City funds.

Fire Department

Fire protection is provided by the Rockville Volunteer Fire Department, which is staffed by 141 paid professional and 251 volunteer fire fighters. The Rockville District includes four fire stations, two of which are located in the city limits. All four, however, respond to calls within Rockville.

There are 34 fire and rescue stations, and 12 worksites in Montgomery County, all of which participate in overall planning, fire prevention programs, operation of a centralized dispatch service, and training provided by the Montgomery County Fire and Rescue Services.

The Rockville Volunteer Fire Department is funded by a special County consolidated fire district tax of \$0.123 per \$100 of real property assessed value.

Human Resources

The City of Rockville Human Resources Department recruits, retains, and services qualified and capable people in the most fair, effective, and efficient manner possible; and provides a full range of personnel and safety services in support of all other City departments and their functions.

Information and Technology

The Information and Technology Department manages the City's telephone, telecommunications, cable television, and computer systems, including mainframes, personal computers, and local and wide area networks. The department also maintains and manages the City's website and geographic information systems and collects revenues from telecommunications activities.

Public Safety

Police protection within Rockville is provided by both the City and Montgomery County, with the City's force providing an enhanced level of public safety service for City residents supplementary to that of the County. Both City and County respond to all types of calls. The Police Department has 54 authorized officers, plus 36 full time employees. City police officers are dispatched by the City dispatch system, but also listen to and respond to calls for service from the County dispatch system. Written memoranda of understanding between the City and the County govern their respective jurisdictions and responsibilities.

In addition, the Rockville Police Department provides community policing services and community enhancement and code enforcement, which are specially designed to meet the needs of the Rockville community through the assurance that residential and community properties are well maintained.

Public Works

The City's Department of Public Works provides services in the areas of streets and drainage; refuse collection and recycling; water and sewer utilities; leaf collection, traffic operations; snow and ice control, and storm water management. In Fiscal Year 2006, the Public Works Department maintained an estimated 156 miles of streets and

298 miles of sidewalks. Refuse collection is provided to 13,618 dwelling units. Solid waste is disposed of at a sanitary landfill operated by Montgomery County, which charges the City for disposal on a per-ton basis.

The City operates a water treatment plant and 178 miles of water mains, which serve 12,472 accounts within the City. The Washington Suburban Sanitary Commission (WSSC) operates 20.5 miles of water mains within the city, serving approximately 5,600 residences.

The City provides sewage collection for all but the WSSC service area. The City's sewage is treated at the Blue Plains regional treatment plant in the District of Columbia. Rockville has contractual entitlement to 9.3 million gallons per day of capacity at this plant, under an agreement with the WSSC. The City also maintains 93.0 miles of storm sewers. The City currently inspects and maintains 43 wet or dry ponds, 23 oil/grit separators, 9 stormceptors, 7 sand filters, 7 underground detention facilities, 3 bio-retention facilities, 3 infiltration trenches, 8 dry wells and 1 bay saver.

Recreation and Parks

The City's Recreation and Parks Department provides such services as parks and urban forest maintenance, recreation and cultural arts programs, special events, the wellness program, community services, a municipal golf course, and a swim center. It also maintains City buildings and facilities and provides quality maintenance and landscaping of all City rights-of-way. The department offers athletic programs, classes, cultural arts programs, and special fee supported trips. The department also offers community recreation programs such as playgrounds and open gyms that are supported through General Fund revenues. The operating expenses of the municipal golf course, the swim center and the childcare program are fee supported. The department also provides for the well being of individuals, families, and communities through the identification of the human service needs of all residents; delivery of preventive and intervention programs including counseling and outreach services.

Regional Authorities

Washington Suburban Sanitary Commission

Operation and maintenance of the water and sewer system for approximately 5,600 residences in Rockville and for the rest of Montgomery County and Prince George's County is the responsibility of a bi-county agency, the Washington Suburban Sanitary Commission ("WSSC"). WSSC operates under State law and is governed by a six-member commission. The county executives of Montgomery County and Prince George's County each appoint three members, subject to confirmation by the respective county councils. The FY 2007 approved operating and capital budget for WSSC totaled \$757.1 million and it currently employs more than 1,500 positions.

Two major sources -- the Potomac and Patuxent Rivers -- provide the raw water supply. WSSC has 175 million gallons of water supply storage and an effective filtration capacity of 341 million gallons per day. Most of the WSSC sewage flows through a gravity trunk line system for treatment at the Blue Plains Wastewater Treatment Plant in Washington, D.C. WSSC has upgraded the Blue Plains Wastewater Treatment Plant to a wastewater treatment capacity of 370 million gallons per day.

The Maryland-National Capital Park and Planning Commission

The Maryland-National Capital Park and Planning Commission administers more than 32,900 acres of parkland including 12 regional parks, each consisting of more than 200 acres, and 370 different park and open space areas, most locations serving as local and neighborhood parks. These parks feature 630 acres of lakes including Lake Frank, Lake Needwood, Little Seneca Lake and Pine Lake. Additionally, the 1,865 acre Seneca Creek State Park is located in the heart of Montgomery County. The National Park Service provides additional park facilities including the C&O Canal National Park and Great Falls National Park.

Pension and Retirement Plan

The City employees participate in one single-employer defined benefit pension plan and one defined contribution pension plan. The Principal Financial Group is the administrator of this single-employer defined benefit pension plan and defined contribution pension plan, which was established by the City of Rockville. The Public Employee Retirement System (PERS) is considered part of the City of Rockville reporting entity and is included in the City's financial reports as pension trust funds. The PERS has a defined benefit option and a defined contribution option which report as separate pension trust funds.

The payroll for employees covered by the PERS for the plan year ended March 31, 2006 was \$26,243,676.

For further information pertaining to the City's pension plans refer to "Note 3" of the "Notes to General Purpose Financial Statements" contained as a part of Appendix A to this Official Statement.

Employee Relations and Bargaining Units

The City currently funds approximately 536 full-time equivalents on its work force. Administrative, technical, and clerical employees have the option of joining the Association of Administrative Municipal Employees (AAME), which meets and confers with management on various items of employee concern. Police officers also have the option of joining the Fraternal Order of Police (FOP), which also meets and confers with management. Neither AAME nor the FOP engages in collective bargaining with the City. Labor classification employees, who work in the Public Works and Recreation and Parks Departments, are represented by the American Federation of State, County and Municipal Employees (AFSCME) Local 1453, which bargains collectively with the City. The current contract is in force through June 30, 2008. Since the City recognized the union in 1967, there have been no strikes by municipal employees. The City considers its labor relations to be excellent.

Investment Policy

The City maintains an active cash and investment management program. The primary goals of the program are compliance the federal, state and local laws governing the investment of public monies, providing sufficient liquidity to meet financial obligations and the attainment of a favorable rate of return.

The City's investment policy was revised in May 2006, and complies with all State of Maryland requirements. The City is authorized to invest in obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, in obligations that a federal agency issues in accordance with an Act of Congress, or in repurchase agreements that any of the foregoing obligations secure. In addition, the City may invest in bankers' acceptances, commercial paper of the highest investment grade, money market funds which are also of the highest investment grade and any investment created under the Maryland Local Government Investment Pool that is administered by the State Treasurer.

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ECONOMIC AND DEMOGRAPHIC INFORMATION

Population

The City, with an estimated 2007 population of 61,030 is the third largest city in the State of Maryland. Rockville experienced the same rapid population growth in the 1950s and 1960s that made the Washington Metropolitan Statistical Area one of the most rapidly growing large metropolitan areas in the nation. The City's population grew from 6,934 in 1950 to 26,090 by 1960 and 42,079 by 1970. Population growth moderated during the 1970s. Table 2 presents the population of the City and Montgomery County as recorded in the past five decennial censuses.

Table 2
Population Statistics

<u>Year</u>	<u>City of Rockville</u>	<u>Montgomery County</u>
2007 Estimate	61,030 ⁽¹⁾	953,000 ⁽²⁾
2000 Census	47,388	877,944
1990 Census	44,835	759,600
1980 Census	43,811	579,053
1970 Census	42,079	522,809
1960 Census	26,090	340,928

⁽¹⁾ City of Rockville Planning Department.

⁽²⁾ Maryland - National Capital Park and Planning Commission.

Source: U.S. Census Bureau, unless otherwise noted.

While Rockville's population has continued to grow, the makeup of its population continues to be relatively young with more than 62 percent of residents younger than age 45 in 2000. The distribution of population by age is presented in the table below.

Table 3
Percent of Total Population by Major Age Group

<u>Age Group</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>	<u>1960</u>
19 years and under	25.4	25.6	32.8	43.9	48.5
20 to 44 years	37.1	42.5	40.6	34.2	39.1
45 to 64 years	24.5	21.4	20.3	17.9	9.6
65 years and over	<u>13.1</u>	<u>10.5</u>	<u>6.3</u>	<u>4.0</u>	<u>2.9</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: U.S. Bureau of the Census. (Detail may not add to summations due to rounding.)

Employment Characteristics

The City of Rockville Department of Community Planning and Development Services estimates that in 1980, the number of jobs in Rockville was approximately 36,400. In 1990, it was estimated that there were 54,000 jobs in the City. In the 2007 fiscal year, it is currently estimated that there were 80,059 jobs in the City, exceeding the current population estimate of 61,030.

Employment in the City and in Montgomery County is well diversified, with the largest percentage of employment occurring in services, retail trade and government. Table 4 presents categories of civilian employment in Montgomery County in 2000 (the most recent year for which statistics are available) compared with 1990.

Table 4
Analysis of Change in Montgomery County Civilian At-Place Employment

<u>Employment Category</u>	<u>2000</u>	<u>1990</u>	<u>Difference</u>
Private Employment:			
Construction	5.90%	7.00%	-1.10%
Manufacturing	4.50%	4.70%	-0.20%
Retail Trade	16.40%	19.00%	-2.60%
Wholesale Trade	3.00%	3.70%	-0.70%
Finance, Insurance and Real Estate	7.10%	7.30%	-0.20%
Services	41.20%	34.80%	6.40%
Transportation, Communication & Public Utilities	3.00%	2.90%	0.10%
Other	<u>1.60%</u>	<u>1.10%</u>	<u>0.50%</u>
Total Private Sector	<u>82.70%</u>	<u>80.50%</u>	<u>2.20%</u>
Government Employment			
Federal	8.80%	11.20%	-2.40%
State	0.20%	0.40%	-0.20%
Local	<u>8.30%</u>	<u>7.90%</u>	<u>0.40%</u>
Total Government	<u>17.30%</u>	<u>19.50%</u>	<u>-2.20%</u>
Grand Total	<u>100.00%</u>	<u>100.00%</u>	

Source: State of Maryland, Department of Labor, Licensing and Regulation.

Labor Force and Unemployment

Table 5 lists the labor force, employed persons and average unemployment rates for Montgomery County as compared to the unemployment rates for the State of Maryland for the years 2002 through 2006, and June 2007 only. Information presented in the table below has not been seasonally adjusted.

Table 5
Unemployment Statistics

<u>Year</u>	<u>Montgomery County</u>			<u>State of Maryland</u>	
	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>
2007 ⁽¹⁾	524,071	507,560	16,511	3.2%	4.0%
2006	516,688	504,751	14,937	2.9%	3.9%
2005	507,556	491,643	15,913	3.1%	4.2%
2004	498,237	482,131	16,106	3.2%	4.3%
2003	497,820	481,200	16,620	3.3%	4.5%
2002	496,101	478,782	17,319	3.5%	4.5%

⁽¹⁾ June 2007 only.

Source: Maryland Department of Labor, Licensing and Regulation, Office of Workforce Information and Performance.

Major Employers

In addition to the Montgomery County and City of Rockville governments, the 10 largest private employers by number of employees are as follows:

Table 6
Major Employers in the City of Rockville

<u>Name</u>	<u>Product/Service</u>	<u>Employees</u>
Westat Inc.	Research Organization	1,800
Lockhead Martin Information Systems	Engineering Contractor	800
Wolpoff & Abramson, LLP	Attorneys	800
United Healthcare	Managed Health Care & Insurance	600
Community Services for Autistic Adults & Children	Nonprofit Servicing Disabled Persons	545
Booz Allen Hamilton	Management Consulting	500
Ostuka American Pharmaceutical	Pharmaceutical Firm	435
BioReliance Invitrogen Bioservices	Research Organization	425
EU Services	Printing and Direct Mail Production	385
Thompson Financial	Publications and Information	375

Source: Rockville Economic Development, Inc (2006).

Retail Sales and Buying Income

Income levels in the City of Rockville are among some of the highest in the nation. Retail sales have grown steadily in the City. Many of the major retail centers in the City are located in the Town Center and along Rockville Pike (Maryland Route 355). A significant percentage of the City's retail trade results from expenditures by individuals living outside the City.

Table 7 lists median household effective buying income (EBI) and per capita retail sales for the City of Rockville and Montgomery County for the years 2001 through 2006, as reported in *Sales and Marketing Management*, "Survey of Buying Power." Retail sales figures are projections provided during the current year; whereas median household effective buying income is reported for the previous calendar year.

Table 7
Retail Sales/Buying Income

<u>Year</u>	<u>Median Household EBI</u>		<u>Per Capita Retail Sales</u>	
	<u>City of Rockville</u>	<u>Montgomery County</u>	<u>City of Rockville</u>	<u>Montgomery County</u>
2006	N/A	N/A	\$ 28,960	\$ 16,588
2005	\$ 60,776	\$ 62,745	27,562	15,920
2004	57,206	61,223	26,901	14,640
2003	56,501	59,508	27,400	13,937
2002	56,213	58,620	24,424	13,186
2001	57,943	61,797	20,717	13,547

Source: *Sales and Marketing Management*, "Survey of Buying Power," for the editions 2001 through 2005, and Claritas, Inc. for 2006 edition.

Household Income Levels

The relative distribution of income among Rockville households by income levels for 2004 is presented in the following table.

Table 8
Distribution of Rockville Households by Income Levels

<u>Income Range</u>	<u>Number of Households</u>	<u>Percentage of Households</u>
Less than \$15,000	985	4.5%
\$15,000 - \$29,999	1,423	6.5%
\$30,000 - \$49,999	3,766	17.2%
\$50,000 - \$74,999	3,109	14.2%
\$75,000 - \$99,999	3,788	17.3%
\$100,000 +	<u>8,824</u>	<u>40.3%</u>
Total	<u>21,895</u>	<u>100.0%</u>

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

Land Use

Rockville's land use patterns reflect that of a maturing suburban employment center with stable residential neighborhoods. Many of Rockville's single family residential neighborhoods date from the post-war period through the early 1980s, but there is little available land remaining for this type of development. Most of the current and future growth will occur within the City's three Comprehensive Planned Developments: Tower Oaks, King Farm and Falls Grove. While Tower Oaks is primarily an office park, King Farm and Falls Grove represent a new development pattern of dense, mixed-use, transit-oriented residential development served by a neighborhood retail center, coupled with significant amounts of campus-style office development. Ingleside at King Farm, now under construction, caters to the needs of the senior population. New residential and retail development is proposed at the Twinbrook Metro Station, known as Twinbrook Station, and in Town Center near the Rockville Metro Station with projects like Duball and KSI. Older employment and retail areas such as the Rockville Pike corridor and the Research Boulevard / Piccard Drive areas adjacent to the I-270 corridor are mostly built, but have been subject to redevelopment efforts which replace older structures or add new buildings to existing sites to create more intense development. A major redevelopment of the core of the Town Center, undertaken by the City, is complete, which features a mixed-use, pedestrian-oriented downtown area featuring retail, office and residential structures, as well as a new library development adjacent to the Rockville Metro station.

Table 9
Vacancy Rates (as of July 7, 2007)

<u>Location</u>	<u>Total Square Footage</u>	<u>Available Square Footage</u>	<u>Vacancy Rate</u>
City of Rockville	11,697,722	1,249,683	10.68%

Source: CoStar Property, Montgomery County's source for commercial real estate information.

Construction - Residential and Commercial Development

The City has experienced significant residential and commercial growth for a number of years. Current expectations for Rockville's future are for continued strong residential, commercial and industrial development activity. The following table presents a summary of new residential and new commercial/industrial construction permit activity in Rockville for the past five years.

Table 10
Building Permits

<u>Fiscal Year</u>	<u>New Residential</u>		<u>New Commercial/Industrial</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
2007	671	\$ 168,374,473	327	\$ 171,334,724
2006	693	38,769,436	297	179,031,831
2005	831	63,497,645	346	138,827,591
2004	1,204	73,202,005	323	62,754,668
2003	1,452	150,206,165	360	116,078,331

Source: City of Rockville Community Planning and Development Services.

Development and Growth Goals

The City government has development review and permit processes that assists in promoting Rockville as an advantageous location for doing business. The City consistently follows its updated Master Plan in zoning and approving new development. The City is currently rewriting its Zoning Ordinance to become more user-friendly and reflect the City's maturation.

The Master Plan and City policies also promote the preservation of residential neighborhoods through zoning, enforcement of codes, and land-use decisions. All rental units in the City are licensed and inspected for conformance to building codes. The City does not have rent control.

City Growth Areas

King Farm. Office and commercial activity continues to be strong in the 430-acre King Farm urban village in Rockville. The residential component of King Farm is completed with 363 single-family detached units, 749 multifamily attached units, and 2,092 multifamily units. There are 650 units approved for the Ingleside, at the King Farm community, which would primarily cater to the needs of the City's senior population by providing senior living facility including independent living, assisted living and nursing home uses. Construction of the newest office building, Four Irvington Centre, has been completed and features over 200,000 square feet of space and a 120-person conference room. Lead tenants are Fed Med Inc., and Health Extras Inc. Three Irvington Center broke ground in August 2000 and delivered in April 2002. The 217,000 square foot building has experienced significant leasing activity, most notably a 75,000 square foot lease by Dental Benefit Provider, a 24,000 square foot lease by Hilb, Rogal and Hamilton Company, and an 11,000 square foot lease by Mason Dixon Funding. The 165,000 square foot building at Two Irvington Center delivered in December 2000 and includes tenants such as Wolpoff and Abramson, Avendra, and Client Network Services Inc. One Irvington Center, the first office building completed on campus, is almost completely leased to companies such as Aronson and Company, Artesia Technologies and Quest Software, Inc. This building also includes the upscale restaurant Nick's Chophouse. Also, construction of a 175,000 square foot full service Sheraton hotel was completed in 2006. In the pipeline are five, six, seven and eight Irvington Center with approximately 1 million square feet of office space and 20,000 square feet of retail proposed to be built by 2015. The entire Irvington Center campus is comprised of over 90 acres and will ultimately include over two million square feet of office commercial, retail, and hotel space.

Upper Rock District. The Upper Rock District is the City of Rockville's newest mixed use community, proposed on 19.8 acres of property known as Danac Technological Park, located adjacent to the King Farm development,

bounded by Choke Cherry Road to the north, Shady Grove Road to the west and I-270 to the south. The applicant, JBG Companies, is building a community that is compatible with the new urbanism of neighboring King Farm, and is proposing mixed-use development including residential, commercial and live/work components with residential amenity facilities and structured parking to complement and redevelop existing office uses. There are two existing office buildings, a nine-story building of 238,087 square feet at 1 Choke Cherry Road, and a three-storied building of 73,700 square feet at 5 Choke Cherry Road. Proposed additional development includes 23,500 square feet of commercial/retail (including 14,500 square feet in the market place), 844 multi-family residential units in six buildings, which include up to 126 live/work units, and structured parking garages, a marketplace for retail and office uses, outdoor plaza, and green spaces. The existing 73,700 square feet of office building will eventually be converted into residential units, included in the 844 units approved. The entire project is expected to be completed by 2012, with the first two residential buildings already approved.

Rockville Town Center/Rockville Metro Plaza. Plans were announced in 2003 for the redevelopment of more than 15 acres in downtown Rockville, which included two major components. First is the 12.5-acre \$369 million mixed-use Town Square project, which is complete. It includes approximately 185,000 square feet of retail space, which is almost completely leased; 644 residential units (152 condominiums and 492 apartments); the Arts and Innovation Center, which includes a 2-story center for visual arts and a 2-story “incubator” for start-up biotechnology-oriented companies; the new Rockville Library, which has 2 stories of library space and one story of County offices; three public parking garages with 970 parking spaces; a new public plaza; and two new streets. The project has been funded by approximately \$267 million in private investment and \$102 million in public investment from a combination of the City of Rockville, Montgomery County, the State of Maryland and the federal government. Adjacent to Town Square is the privately financed Rockville Metro Plaza, will include two new office buildings at the Rockville Metro Plaza site totaling 400,000 square feet. Already completed is the first of these buildings, which is a 230,000-square-foot Class A facility that delivered in October 2002. Software developer SAS Institute is the lead tenant in this building. Town Square is only one part of the broader Town Center, which includes thriving retail strips that include successful restaurants such as California Tortilla, Tara Asia, the Apollo, Blimpie’s, Ben & Jerry’s, and Pot Belly’s; and the 13-screen Regal Cinemas movie theater. A nearby surface parking lot, also part of the Rockville Center project, is approved for 485 room hotel and 45,300 square feet of street level retail, to be built by Duball LLC. Another project is proposed for Kettler, at 255 North Washington Street, consisting of 9,037 square feet of retail and 293 multifamily units.

Tower Oaks Corporate Park. This 200-acre site is prominently located just off I-270 in Rockville. The 180,000 square foot building located at the Preserve at Tower Oaks is now fully leased with the 2003 additions of Capital Management Strategic Financial Services and Paradigm Solutions Corporation. The primary tenant in this building continues to be Legato Systems. Booz Allen and Hamilton and Bank of America are among the tenants in the dramatic 260,000 square foot Tower Building located on Wootton Parkway, signing a lease for 40,000 square feet in March 2003. This building also includes the U.S. Department of Health and Human Services, Telenor Satellite Holdings, and HHS Ventures. The 30,000 square foot Oak Plaza delivered in March 2002 and is fully leased, and includes Sun Control Systems, and Ronald Cohen Investments as lead tenants. The Clyde’s Tower Oaks Lodge restaurant opened in the park in 2002, representing the first retail establishment to locate in the development. Currently under construction on Tower Oaks Boulevard is 200,000 square feet of office building being built by the Tower Companies and Lerner Enterprises, and the scheduled completion is summer of 2008. A renaissance hotel, a condominium hotel and fitness center will be added at a later phase to this site. The entire Tower Oaks Corporate Park is planned for over two million square feet of office, retail, restaurant and hotel space.

Fallsgrove (Thomas Farm). In fiscal year 2000, the Mayor and Council approved a Comprehensive Planned Development (CPD) for the Fallsgrove development (formerly known as the Thomas Farm). The 254-acre property was approved for 1,530 residential units, 950,000 square feet of office and research and development space, and 150,000 square feet of commercial retail.

The project will ultimately include a large section of the Millennium Trail Bike path, a park, a school site, the first community center west of I-270, and significant open space.

Fallsgrove now includes a total of 1,411 units residential units, of which there are 186 single family detached units, 480 attached units and 745 multifamily units. Approval has been granted for approximately 472,470 square feet of

office space, and 140,000 square feet of retail space. The Village Center retail is complete and fully leased. A proposal to convert 150,000 square feet of office space to a hotel was approved in 2005 and 133,052 square foot hotel has already been approved.

Twinbrook Commons. Twinbrook Commons is a proposed mixed-use development at the Twinbrook Metro Station that was annexed by the City in 2005. The 26-acre property is approved for 1,595 multi-family dwelling units, 320,000 square feet of office, and 220,000 square feet of commercial retail space.

Housing

As of fiscal year 2000, more than 75 percent of the City's housing stock was less than 30 years old. Because a majority of homes were built within a relatively short span following World War II, the entire housing stock in several large neighborhoods will approach maturity at the same time. City policy has mandated that careful attention be directed to the conditions of these dwellings and the public improvements made within these areas to maintain the housing quality and the neighborhood environment. The City's policy is to prevent deterioration and encroachment of commercial and industrial development, thus maintaining property values and neighborhood stability.

Another method of preserving neighborhoods is the City's home improvements program. Since 1975, the City has operated a federally funded Community Development Block Grant (CDBG) rehabilitation program under which loans and grants are provided to low and moderate income families who would not normally be able to afford the necessary repairs and improvements to their homes. To date, on average 15 – 20 households per year receive assistance under this program.

Trends in housing prices in Rockville have increased at a higher rate than those throughout the nation. Currently, the average resale price for homes is over \$500,000. In the year 2006, the median price of a new townhouse was \$650,000 and a new single family home was \$1,342,868, based on Tax Assessment Records.

Rockville negotiated an agreement with WSSC in 1975 which guarantees the City a total of 9.31 mg/d sewer capacity, so there is adequate capacity to accommodate additional housing construction. Any limits on construction activity in Montgomery County due to sewage capacity problems should not restrict development of Rockville.

Table 11 presents housing units by type from 1960 to 2000.

Table 11
Dwelling Units Occupied by Year and by Type

	<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>	<u>1960</u>
Single Family Detached	10,487	10,181	9,797	8,537	5,478
Single Family Attached	2,755	1,919	1,870	86	91
Multi-Family	<u>4,526</u>	<u>4,212</u>	<u>3,387</u>	<u>3,045</u>	--
Total	<u>17,768</u>	<u>16,312</u>	<u>15,054</u>	<u>11,668</u>	<u>5,569</u>

Source: U.S. Bureau of the Census.

Based on the pipeline projects and forecasts, it is anticipated that the percentage of population living in a multifamily or a condominium is expected to be 75% in all development proposed between 2000 and 2030. This trend is expected to continue as the City is maturing and developable land is getting scarce.

Utilities

Electricity

Electric power for Rockville and the surrounding area is provided by the Potomac Electric Power Company (PEPCO).

Gas

Three natural gas transmission pipeline companies (Columbia Gas Transmission, Dominion Transmission and Transcontinental Gas Pipeline Corporation) supply Rockville and surrounding areas with natural gas. The distributor is the Washington Gas Light Company.

Wastewater

The City of Rockville operates its own wastewater collection system serving the entire City except for the two WSSC service areas. Rockville's capacity at the Blue Plains treatment plant in the District of Columbia is 9.3 millions of gallons per day ("mg/d"); average daily demand in fiscal year 2007 was 6.80 mg/d.

Water

The City of Rockville owns and operates the Sandy Landing Road Water Treatment Plant and distributes water to about 90 percent of the City. The Potomac River is the source of the water. Average demand during fiscal year 2007 was 5.013 mg/d. About 10 percent of the City's residents and businesses receive water service from the WSSC.

Rockville invested \$15 million to upgrade its Water Treatment System to meet three objectives: rehabilitate the 45-year old plant, including raw and finished water pumps, to reduce maintenance requirements; upgrade the treatment process to meet stricter environmental standards; and expand the production capability to meet future demand. The construction program began in the early 1990s and was completed in 2006. The State approved the City's request for a rated capacity expansion of the plant from 8.0 mg/d to 12.1 mg/d to serve projected growth. The City's sewage flows through the WSSC system for treatment at Blue Plains. The City's allotted capacity at Blue Plains is 9.3 mg/d, which is included in the WSSC's total allocation of 170 mg/d.

Transportation

Rockville is located along one of the major east coast rail and highway routes to the northeast. Interstate 270 bisects the City and is the major route to such industrial centers as Buffalo, Pittsburgh, and Cleveland. Interstate 495 (Capital Beltway) and Interstate 95 provide access to Baltimore, Philadelphia, and New York City. Rail service in Rockville includes Amtrak passenger trains, Baltimore and Ohio freight and passenger service, and six-day commuter rail service. Six other railroads are available in nearby Washington, D.C.

Rockville is within 30 minutes driving time of three major airports: Baltimore-Washington International Thurgood Marshall, Dulles International, and Ronald Reagan Washington National Airport. Private and business aircraft are served by Montgomery County Airpark, 10 minutes north of Rockville.

Rockville is served by the Washington Metropolitan Area Transit Authority's Metrobus system and Metrorail. Several bus lines travel between Montgomery College, the Rockville Town Center, and downtown Washington, D.C. Other lines provide access between Rockville and suburbs to the east, including the Silver Spring Metrorail station. In addition, a County-operated, neighborhood-oriented 'Ride-On' minibus system has been in operation in Rockville since 1984.

Rockville is served by the Metro rapid transit system which connects Rockville to downtown Washington. Downtown Washington and the greater metropolitan community are easily accessible for those who live and those who work in Rockville. One rapid rail station is located in downtown Rockville, close to the County Government Center and the businesses in the Town Center. A second station, the Twinbrook Station, is located near several residential neighborhoods and the commercial area along Maryland Route 355. Rockville residents are able to travel to downtown Washington in 25 minutes. The combination of service to, from and within Rockville facilitate travel for area employees and shoppers.

Educational Facilities

Primary and Secondary

Public schools in Rockville are operated by the Montgomery County Board of Education. Currently the 16th largest school district in the United States, the system operates 192 elementary and secondary schools, 7 special/alternative schools and one technology career center. The operating budget is \$1.85 billion for fiscal year 2007. The emphasis that the County residents place on education is reflected in per pupil operating expenditures of \$12,422 in fiscal year 2007, and in the high percent of high school graduates who continue formal education. The total MCPS staff complement (full-time) is 21,840, with a student to instructional staff ratio of 12.08:1.

In fiscal year 2007, projected enrollment is 137,798 students. Between 1985 and 2005, 55 schools have been built or reopened in response to increasing enrollments. Enrollment in the public schools is anticipated to continue to increase, with 145,622 students projected for fiscal year 2008.

Montgomery County Public Schools (MCPS) students continue to score above state and national averages on Scholastic Aptitude Tests. Of MCPS 2004 graduates, 76.9 percent went on to college study after graduation, compared to 64.4 percent of all State graduates. MCPS students in 2007 continue to achieve various forms of academic distinctions, including 58 National Merit Scholars and 32 National Blue Ribbon schools from 1983 to 2007.

Institutions of Higher Education

Montgomery College. Founded in 1946, Montgomery College was the first community college in Maryland. It has grown into a fully accredited institution of higher learning offering a two-year college program with an enrollment of about 14,000. The Rockville campus offers 600 courses and 40 curricula and options.

Area Universities. Eleven major universities offering advanced degree programs in engineering, medical, business and computer sciences are located within commuting distance of Rockville. Included among them are the University of Maryland, Georgetown University, The George Washington University, Johns Hopkins University, Howard University, Hood College, American University, Catholic University of America, and the University of the District of Columbia.

Recreation and Parks

Rockville has 66 public parks comprising more than 1,042 acres of parkland. Under its Urban Forestry program, the City maintains more than 25,200 street trees and thousands of trees located on facility grounds and in the parks; Rockville is a Tree City USA. The City operates a Municipal Swim Center with four large pools (indoor/outdoor), a senior center, municipal golf course, a civic center complex, which includes a historical mansion and a 500-seat theater, plus several community recreation centers. Recreation programs for all ages are offered throughout the year, housed in City facilities, and utilizing the eight elementary schools, two middle schools and three high schools. These include sports, dance, arts, crafts, cooking, exercise, lifetime skills and hobbies, and more. Rockville residents enjoy an extensive arts program, including an art gallery, seven resident theater groups, art-in-public places, concert series, and other events. Major special events include Independence Day fireworks; Hometown Holidays, a three-day festival over Memorial Day Weekend; Spirit of Rockville, a celebration of cultures; Antique and Classic Car Show; and the Rockville Rotary Twilight Runfest.

Rockville residents enjoy a variety of private-sector recreational facilities and programs, including two private golf courses and country clubs, a major ice skating arena, indoor children's amusement park, miniature golf, racquetball/squash courts, exercise clubs, and more.

FINANCIAL SUMMARY

Full Cash Value - as of July 3, 2007		\$14,466,562,220	
Assessed Value - as of July 3, 2007		\$12,428,764,505	
Taxable Assessed Value - as of July 3, 2007		\$10,228,660,264	
General Obligation Long-Term Debt (Includes the Bonds)		\$ 120,721,486	
Revenue Debt		\$ --	
Overlapping General Obligation Debt		\$ 121,061,302	
Population (2007 Estimate)		61,030	
Debt Ratios:			
	<u>Amount</u>	Debt Per Capita <u>(61,030)</u>	% of <u>Full Cash Value</u>
General Obligation Long-Term Debt	\$ 120,721,486	\$ 1,978	0.83%
Overlapping Debt	<u>121,061,302</u>	<u>1,984</u>	<u>0.84%</u>
Total	<u>\$ 241,782,788</u>	<u>\$ 3,962</u>	<u>1.67%</u>

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INDEBTEDNESS OF THE CITY

Authorization of Debt

The City of Rockville has the authority to issue general obligation bonds or bond anticipation notes upon a majority vote of the Mayor and Council. General Obligation Bonds and Bond Anticipation Notes are issued to finance public improvements including the acquisition of land for public purposes, construction of significant facilities, nonrecurring rehabilitation or major repair of facilities and engineering, design, and planning work related to projects as set forth in the City's Capital Improvement Program.

General obligation debt of the City is divided, for the purposes of the following schedules, between debt that is primarily paid from the City's tax levy and special assessment collections and debt that is paid from the revenues of the City's water, sanitary sewer and refuse enterprise funds. Though various sources of revenue are used to pay debt service, the City's general obligation bonds are all backed by the City's full faith, credit and taxing power.

Debt History

Table 12 presents the City's historical summary of bonded indebtedness for the past five years.

Table 12
Historical Summary of Bonded Indebtedness

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Total</u> <u>Bonded Debt</u> ⁽¹⁾	<u>Enterprise</u>	<u>Net Bonded Debt</u>	<u>Adjusted Net</u> <u>Bonded Debt</u> ⁽²⁾
2007	\$ 98,971,486	\$ 61,165,450	\$ 37,806,036	\$ 35,111,065
2006	105,504,220	63,592,756	41,911,464	38,310,272
2005	65,989,905	22,500,169	43,489,736	27,637,527
2004	68,947,917	22,923,193	46,024,724	42,480,282
2003	53,951,717 ⁽³⁾	18,656,273	35,295,444	31,786,218

(1) Includes general obligation bonds and the Enterprise Fund debt.

(2) The net bonded debt is reduced by the amount of equity in the Debt Service Fund for the purpose of calculating the ratio and per capita figures in the following table.

(3) The amount of bonded debt for the fiscal year 2003 includes a refunding bond issue of \$13,395,000 in addition to the City's annual CIP issue.

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Table 13 presents debt statistics for the past five years.

Table 13
Five Year Debt Statistics

Fiscal Year <u>Ending June 30</u>	<u>Population</u> ⁽¹⁾	<u>Assessed Value (000's)</u>	<u>Adjusted Net Bonded Debt to Assessed Value</u>	<u>Adjusted Net Bonded Debt Per Capita</u>
2007	61,030	\$ 9,396,506	0.5%/0.3% ⁽²⁾	627/404
2006	59,887	7,941,275	0.6%/0.4% ⁽³⁾	705/492 ⁽³⁾
2005	59,658	7,595,618	0.5%/0.4% ⁽⁴⁾	671/463 ⁽⁴⁾
2004	57,100	6,717,906	0.6%/0.4% ⁽⁴⁾	737/523 ⁽⁴⁾
2003	52,401	6,393,360	0.5%/0.3% ⁽²⁾	607/326 ⁽²⁾

(1) Provided by the City of Rockville Department of Community Planning and Development Services.

(2) On September 8, 2003, the City paid off \$14,715,000 of the 1993 series general obligation bonds, which were refunded on June 1, 2003. Based upon the above information the restated ratios as of September 8, 2003 for adjusted net bonded debt to assessed value is 0.3% and the adjusted net bonded debt per capita would be \$326.

(3) On September 23, 2005, the City issued \$56,735,000 in general obligation bonds for costs associated with the development of Town Center. Based upon the above information the restated dollar amount for adjusted net bonded debt per capita would be \$492, adjusted net bonded debt per capita as a percentage of per capita income would be 2.0% and the ratio for adjusted net bonded debt assessed value is 0.4%.

(4) The City issued \$12,350,000 of short-term Bond Anticipation Notes (BAN's) in June 2004 for costs associated with the redevelopment of Town Center. The BAN's were repaid with developer contributions during FY 2006. Based upon the above information the restated ratio for adjusted net bonded debt to assessed value is 0.4% and the adjusted net bonded debt per capital would be \$523.

Debt Limit

There are no statutory or Charter provisions limiting the amount of general obligation debt that may be issued by the City.

Revenue Debt

The City has no revenue debt outstanding.

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General Obligation Long-Term Debt

The table below summarizes the outstanding debt of the City as of June 30, 2007 and upon the issuance of the Bonds described herein.

Table 14
General Obligation
Debt Outstanding by Issue

General Fund	<u>Issue Date</u>	<u>Interest Range Outstanding</u>	<u>Final Maturity Date</u>	<u>Principal Outstanding</u>
General Improvements	1998	4.30%	2013	\$ 880,000
General Improvements	2001	4.00% - 4.65%	2021	1,858,427
General Improvements	2003	2.20% - 3.875%	2023	8,107,196
General Improvements – refunding	2003	2.20% - 3.00%	2013	3,709,227
General Improvements	2004	4.00% - 5.00%	2029	9,690,000
Community Energy Loan Program	2005	2.00%	2012	431,186
General Improvements	2005	3.50% – 5.00%	2036	13,130,000
General Improvements	2007	Issue Herein	2027	<u>10,410,000</u>
Total General Fund Bonds				\$ <u>48,216,036</u>
Business Type Activity				
General Improvements	1999	3.21%	2019	\$ 1,881,946 ⁽¹⁾
General Improvements	2000	3.21%	2020	1,453,757 ⁽¹⁾
General Improvements	2001	4.00% - 4.65%	2021	2,411,573 ⁽²⁾
General Improvements	2002	1.90%	2023	2,935,741 ⁽¹⁾
General Improvements	2003	2.20% - 3.875%	2023	2,607,803 ⁽³⁾
General Improvements – refunding	2003	2.20% - 3.00%	2013	1,515,773 ⁽⁴⁾
General Improvements	2004	4.00% - 5.00%	2029	7,015,000 ⁽⁵⁾
General Improvements	2005	0%	2036	1,238,857 ⁽⁶⁾
General Improvements	2005	3.50% - 5.00%	2036	40,105,000 ⁽⁷⁾
General Improvements	2007	Issue Herein	2027	<u>11,340,000⁽⁸⁾</u>
Total Business Type Activity Bonds				\$ <u>72,505,450</u>
Total General Obligation Bonds				\$ <u>120,721,486</u>

(1) This portion represents the amount abated with funds from the water fund.

(2) This portion represents the amount abated with funds from the sanitary sewer and refuse funds.

(3) This portion represents the amount abated with funds from the sanitary sewer, refuse and golf course funds.

(4) This portion represents the amount abated with funds from the water and sanitary sewer funds.

(5) This portion represents the amount abated with funds from the parking, sanitary sewer, and refuse funds.

(6) This portion represents the amount abated with funds from the stormwater fund.

(7) This portion represents the amount abated with funds from the parking, water, sanitary sewer, and refuse funds. Currently, parking fund revenues abate only portion of the debt service allocable to \$30,810,000 payable from parking funds. The remainder of the debt service is paid from general fund revenues.

(8) This portion represents the amount abated with funds from the water, sanitary sewer and refuse funds, and is part of the Bonds as described herein.

As indicated in the table above, portions of the City's general obligation debt service are being paid with revenues of the sewer, water, refuse and parking funds. The schedules on the following page report annual debt service payments for the City of Rockville's general obligation debt by source of payment. The following table presents the portion of the City's debt service, including debt service on a portion of the Bonds, which is being paid through the tax levy and special assessments. The second table following presents the portion of the City's debt service, including debt service on a portion of the Bonds, which is being paid with revenues of City enterprise funds.

General obligation debt of the City is divided, for the purposes of the following schedules, between debt that is primarily paid from the City's tax levy and special assessment collections and debt that is paid from the revenues of the City's water, sanitary sewer and refuse enterprise funds. Though various sources of revenue are used to pay debt service, the City's general obligation bonds are all backed by the City's full faith, credit and taxing power.

Table 15 presents the annual principal and interest payments for the City's general obligation bonds, including the Bonds.

Table 15
General Obligation Debt
Schedule of Annual Maturities

<u>Fiscal Year</u>	<u>Outstanding Debt</u>		<u>This Issue</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal⁽¹⁾</u>	<u>Interest⁽²⁾</u>	
2008	\$ 6,952,144	\$ 3,787,438	\$ 1,340,000	\$ 625,338	\$ 12,704,920
2009	5,409,941	3,586,618	1,360,000	873,050	11,229,609
2010	5,442,390	3,385,814	1,360,000	822,050	11,010,254
2011	4,880,195	3,209,247	1,355,000	770,370	10,214,812
2012	4,878,365	3,045,882	1,355,000	718,203	9,997,450
2013	4,610,251	2,880,420	1,350,000	665,358	9,506,029
2014	4,277,496	2,711,872	1,350,000	612,033	8,951,401
2015	4,309,952	2,554,804	1,345,000	558,033	8,767,789
2016	4,337,781	2,403,942	1,345,000	503,560	8,590,283
2017	4,385,996	2,229,578	1,340,000	447,743	8,403,317
2018	4,360,525	2,047,630	825,000	391,463	7,624,618
2019	4,483,627	1,879,800	825,000	355,988	7,544,415
2020	4,346,628	1,699,463	825,000	320,100	7,191,191
2021	4,253,327	1,524,498	825,000	283,800	6,886,625
2022	3,986,819	1,358,255	825,000	247,500	6,417,574
2023	4,035,721	1,203,683	825,000	206,250	6,270,654
2024	3,207,664	1,033,685	825,000	165,000	5,231,349
2025	2,557,664	895,966	825,000	123,750	4,402,380
2026	1,330,000	791,140	825,000	82,500	3,028,640
2027	1,390,000	733,040	825,000	41,250	2,989,290
2028	1,450,000	672,300	--	--	2,122,300
2029	1,515,000	608,350	--	--	2,123,350
2030	1,580,000	541,525	--	--	2,121,525
2031	1,645,000	474,375	--	--	2,119,375
2032	1,715,000	404,463	--	--	2,119,463
2033	1,790,000	331,575	--	--	2,121,575
2034	1,865,000	255,500	--	--	2,120,500
2035	1,945,000	173,906	--	--	2,118,906
2036	<u>2,030,000</u>	<u>88,813</u>	<u>--</u>	<u>--</u>	<u>2,118,813</u>
Total	<u>\$ 98,971,486</u>	<u>\$ 46,513,582</u>	<u>\$ 21,750,000</u>	<u>\$ 8,813,336</u>	<u>\$ 176,048,404</u>

(1) Preliminary, subject to change.

(2) Estimated.

Table 16 reflects estimated net tax requirements for debt service of the City's long-term obligations as of June 30, 2007. This table does not include the issuance of the Bonds described herein.

Table 16
General Obligation Debt
City Net Requirement Analysis

Fiscal Year June 30	Total General Obligation Debt Service Requirements	Debt Service Paid By Other Business Funds ⁽¹⁾	Series 2005 Debt Service Allocable to Parking Funds ⁽²⁾	Direct City Debt Service Obligations ⁽³⁾
2008	\$ 10,739,582	\$ 3,520,406	\$ 1,773,284	\$ 5,445,892
2009	8,996,559	2,975,871	1,780,259	4,240,429
2010	8,828,204	2,915,437	1,783,259	4,129,508
2011	8,089,442	2,725,049	1,783,309	3,581,084
2012	7,924,247	2,670,248	1,782,659	3,471,340
2013	7,490,671	2,567,900	1,776,309	3,146,462
2014	6,989,368	2,462,043	1,781,309	2,746,016
2015	6,864,756	2,410,180	1,780,109	2,674,467
2016	6,741,723	2,355,499	1,781,309	2,604,915
2017	6,615,574	2,305,556	1,781,346	2,528,672
2018	6,408,155	2,176,663	1,780,109	2,451,383
2019	6,363,427	2,209,229	1,779,508	2,374,690
2020	6,046,091	1,965,959	1,782,709	2,297,423
2021	5,777,825	1,779,221	1,779,509	2,219,095
2022	5,345,074	1,564,707	1,780,109	2,000,258
2023	5,239,404	1,537,218	1,779,308	1,922,878
2024	4,241,349	1,118,815	1,777,109	1,345,425
2025	3,453,630	952,865	1,782,302	718,463
2026	2,121,140	340,500	1,780,640	--
2027	2,123,040	341,500	1,781,540	--
2028	2,122,300	341,750	1,780,550	--
2029	2,123,350	341,250	1,782,100	--
2030	2,121,525	--	2,121,525	--
2031	2,119,375	--	2,119,375	--
2032	2,119,463	--	2,119,463	--
2033	2,121,575	--	2,121,575	--
2034	2,120,500	--	2,120,500	--
2035	2,118,906	--	2,118,906	--
2036	<u>2,118,813</u>	<u>--</u>	<u>2,118,813</u>	<u>--</u>
Total	<u>\$ 145,485,068</u>	<u>\$ 41,577,866</u>	<u>\$ 54,008,802</u>	<u>\$ 49,898,400</u>

- (1) Reflects debt issued by the City of Rockville but paid through the sewer, water, refuse, parking and golf course funds.
- (2) Currently, parking fund revenues abate only portion of the Series 2005 debt service payable from parking funds. The remainder of the debt service is paid from general fund revenues.
- (3) Portion of debt paid directly by general fund monies.

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General Obligation Short-Term Debt

The City currently has no short-term debt outstanding. The City has not borrowed for cash flow purposes in the last ten years.

Other Commitments

Washington Suburban Sanitary Commission (WSSC)

The City has contracted with the WSSC to purchase a portion of the capacity of the Blue Plains Wastewater Treatment Plant. Through June 30, 2006, the City had paid approximately \$26,275,837 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines. The City's remaining contribution through the completion of the project is estimated to be \$13,452,216 for treatment capacity. The City intends to issue bonds to fund most of these costs.

In addition to the capacity cost described above, the WSSC charges the City a portion of its operating costs for treatment of sewage. The City accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges which result from subsequent billings by the WSSC are recorded in the period during which the final bill is received by the City.

Lease Commitments

The City entered into a ten year office lease which began on June 1, 2004, and expires on May 31, 2014. Total annual rent is \$94,800, with an annual rent increase of 3% for each year thereafter. The City has also entered into a five year office lease which began on June 1, 2003 and expires on May 31, 2008. Total annual rent is \$90,227 with an annual rent increase of 3% each year thereafter. The following table presents the annual rental commitments.

Table 17
Operating Lease Annual Maturity Schedule

<u>Year</u>	<u>Rent Amount</u>
2008	\$ 208,249
2009	109,899
2010	113,196
2011	116,592
2012	120,090
2013	123,692
2014	<u>127,403</u>
Total	<u>\$ 919,122</u>

Capital Improvements Program and Future Financing

The Capital Improvements Program ("CIP") is a projection of the City's capital investments plan over a five-year period. The CIP is both a fiscal and planning device which allows the City to monitor all capital project costs, funding sources, departmental responsibilities, and timing. Each year the CIP is reviewed within the context of ongoing City, County, State, and federal planning programs and policies, as well as the City's Master Plan.

Capital investments involve City projects which normally have long useful lives. Items included within a CIP are usually defined within one of the following six categories:

1. The acquisition of land for a public purpose.

2. The construction of a significant facility, e.g., a building or a road, or the addition to or extension of an existing facility.
3. Nonrecurring rehabilitation or major repair to all or a part of a facility, such as infrequent repairs that are not considered to be recurring maintenance, provided the total cost is more than \$25,000.
4. Any specific planning, engineering study, or design work related to an individual project falling within the three preceding categories.
5. Any long-term project funded through a grant where the establishment of a CIP project is a condition of the grant, regardless of the amount of funding per fiscal year.
6. A significant one-time investment in tangible goods of any nature, the benefit of which will accrue over a multi-year period. Examples include items such as large initial investments in technology improvements or the purchase of a new telephone system over \$25,000.

The recommended CIP includes five years of projected capital needs. The first year of the program becomes the capital budget for which project money will be authorized. The remaining four years of the CIP will serve as a financial plan for capital investments.

From the fiscal year 2008 to the fiscal year 2012 the City anticipates constructing approximately \$69,483,000 of capital improvement projects that will be supported by General Fund Sources.

The following table presents a summary of the City's 2008 through 2012 Capital Financing Plan.

Table 18
Capital Financing Plan
(000s)

	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>
Funds Needed for Capital Projects	\$ 26,565	\$ 15,511	\$ 12,215	\$ 7,187	\$ 6,622
Sources of Funds (projected)					
External (other governments or private contributions)	\$ 9,121	\$ 5,067	\$ 1,665	\$ 956	\$ 53
Bond Issues	8,075	8,075	6,075	5,075	5,075
Pay As You Go	<u>2,365</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>
Total Sources of Funds	<u>\$ 19,561</u>	<u>\$ 17,142</u>	<u>\$ 11,740</u>	<u>\$ 10,031</u>	<u>\$ 9,128</u>
Beginning Cash Balance	<u>866</u>	<u>(6,137)</u>	<u>(475)</u>	<u>(4,981)</u>	<u>(2,137)</u>
Ending Cash Balance	<u>\$ (6,137)</u>	<u>\$ (4,506)</u>	<u>\$ (4,981)</u>	<u>\$ (2,137)</u>	<u>\$ 367</u>

Negative ending cash balances represent federal grant funds owed at year end and payments from Montgomery County for funds advanced by the City for the redevelopment of Town Center.

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Overlapping Debt

The City of Rockville shares local governing authority with Montgomery County. Montgomery County provides health, welfare, additional social services, mass transit, the public library system, and education within the City. Montgomery County also coordinates most of the fire and volunteer rescue services in the area.

Montgomery County is the only taxing jurisdiction overlapping the City which has the power to issue debt. The County's general obligation debt outstanding as of June 30, 2006 is presented in Table 19.

Table 19
Overlapping Debt⁽¹⁾

	<u>General Obligation Debt</u>	<u>Percentage Applicable to the City</u>	<u>Amount Applicable to the City</u>
Montgomery County ⁽¹⁾	\$ 1,724,519,978	7.02% ⁽²⁾	\$ 121,061,302

(1) Excludes county debt not attributable to the City of Rockville.

(2) Based on fiscal year 2006 assessed valuations reported by the State of Maryland Department of Assessments and Taxation.

Payment Record

The City has never defaulted in the payment, when due, of principal or interest on any of its debt obligations nor has the City failed to appropriate funds to pay when due its annual appropriation lease obligations.

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FINANCIAL INFORMATION

Financial Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) which may or may not fall within the City's oversight and control. The specific factors which are addressed in determining which organizations to include in the entity are delineated below:

Manifestations of Oversight Responsibility
Selection of Governing Authority
Designation of Management
Ability to Significantly Influence Operations

Accountability for Fiscal Matters
Budgetary Authority
Responsibility for Debt
Financial Management
Revenue Characteristics

Additional factors which may significantly influence the definition of the reporting entity are:

Scope of Public Service
Special Financing Relationship

The relative importance of each criterion must be evaluated in light of specific circumstances. Although the decision to include or exclude a potential component unit is left to the professional judgment of responsible local officials, a positive response to any of the above criteria requires that the specific reasons for excluding the potential component unit be disclosed. Accordingly, listed below are all organizations for which there is at least one positive response with respect to the above criteria:

1. Included Within the Entity

None. It is important to note, however, that the pension plan, for which the City acts in a trustee capacity, is included in the reporting entity.

2. Excluded from the Entity

Rockville Housing Enterprises. The Board of Directors is appointed by the Mayor and Council of the City of Rockville. Once appointed, however, the directors of Rockville Housing Enterprises operate autonomously, with no authority being exercised over them by the Mayor and Council. Rockville Housing Enterprises is responsible directly to the United States Department of Housing and Urban Development, rather than to any local jurisdiction. No financial interdependency, ability to significantly influence operations or accountability for fiscal matters exists between this entity and the City of Rockville.

Financial Reports

The City Charter specifies that the financial books and accounts of the City must be audited annually by a certified public accountant. The auditor is required to examine all funds of the City in accordance with generally accepted accounting standards.

The accounts of the City are organized into funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenue and expenditures (or expenses, as appropriate). Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be expended and the means by which spending activities are controlled. The following fund types are used by the City:

Governmental Funds – General Fund, Community Development Block Grant Fund, Special Activities Fund, Speed Camera Fund, Town Center Management District Fund, Debt Service Fund and Capital Projects Fund;
Proprietary Funds – Water Facility Fund, Sanitary Sewer Fund, Refuse Fund, Storm Water Management Fund, Parking Fund, and RedGate Golf Course Fund;
Fiduciary – Pension Trust Fund.

The modified accrual basis of accounting is followed by the governmental funds, as well as the “financial flow measurement focus.” Under this method of accounting, revenue is recorded when susceptible to accrual, i.e. when measurable and available for the funding of current appropriations.

Copies of the City's audited financial reports for the years ended June 30, 2003 through 2006 and the Fiscal Year 2008 Adopted Operating Budget and Capital Improvements Program are available at the City's website www.rockvillemd.gov/government/finance.htm or upon request from the City. Excerpts from the City's 2006 Comprehensive Annual Financial Report are attached as Exhibit A to this Official Statement.

Budgeting and Accounting

The City Charter requires the City Manager to submit a budget to the Mayor and Council at least one month before the beginning of each fiscal year. In addition to the operating budget, a five-year capital improvements plan is presented for the Mayor and Council's review. Each department and agency prepares its own budget request for the City Manager's review. The Mayor and Council schedule public hearings and publish advance notices of them. The budget is approved in the form of an appropriations ordinance. During the year, the City Manager has authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for a given fund can only be enacted by the Mayor and Council through a budget amendment ordinance.

The City places continued emphasis on maintenance of an accounting system which provides strong internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. The internal controls in place in the City are subject to continuous review by management officials and the City's external auditors.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rockville, Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2006. In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The City has been awarded the Certificate of Achievement for the past seventeen years. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. See Appendix A for selected excerpts from the City's 2006 comprehensive annual financial report.

The City of Rockville has also earned the Government Finance Officers Association Distinguished Budget Presentation Award for the past fifteen years.

General Fund Revenue

For Fiscal Year 2008, the three largest sources of revenue to the City are the property tax (54.4% of revenues), the City's share of the earned income tax (14.1%) and charges for services (9.4%). The earned income tax is collected by the State of Maryland. Other significant sources of General Fund revenues are the City share of the State gas and motor vehicle tax, Montgomery County's payment for City services for which the County collects taxes, grants and other government revenue, licenses and permits, and interest income.

Historical Results of Operations

Statements of revenues and expenditures of the operating funds of the City have been compiled from the City's financial reports. They have been organized in such a manner as to facilitate year-to-year comparisons. Appendix A to this Official Statement presents excerpts from the City's Comprehensive Annual Financial Report for the year ended June 30, 2006.

Table 20 below presents the adopted general fund budgets for the 2007 and 2008 fiscal years.

Table 20
Adopted Fiscal Year 2007
and 2008 General Fund Budgets

	<u>2007 Adopted</u>	<u>2008 Adopted</u>
Revenue		
Property Taxes	\$ 30,770,000	\$ 32,024,080
Revenue from Other Governments	15,512,100	16,107,699
Licenses and Permits	1,709,000	1,714,500
Charges for Services	5,253,855	5,539,942
Fines and Forfeitures	784,000	774,000
Use of Money and Property	608,200	1,073,812
Other Revenue	<u>1,606,000</u>	<u>1,672,872</u>
Total Revenue	<u>\$ 56,243,155</u>	<u>\$ 58,906,905</u>
Expenditures		
Personnel	\$ 34,074,349	\$ 35,897,207
Operating Expenditures	11,682,187	12,751,016
Capital Outlays	584,636	709,378
Other Charges	2,438,359	2,278,410
Contribution to CIP	1,812,824	2,365,002
Debt Service	<u>5,650,800</u>	<u>4,905,892</u>
Total Expenditures	<u>\$ 56,243,155</u>	<u>\$ 58,906,905</u>

Table 21 below presents the statements of revenues and expenditures of the City's general fund for the fiscal years ended June 30, 2004 through 2007.

Table 21
General Fund Statement of Revenues and Expenditures
and Changes in the General Fund
(Years Ended June 30)

	<u>2007⁽¹⁾</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue				
Property Taxes	\$ 31,268,502	\$ 28,513,927	\$ 26,229,753	\$ 23,386,926
Revenue from Other Governments:				
Income Taxes	9,638,500	9,035,343	7,874,409	7,019,049
Gas and Motor Vehicles	3,126,022	3,097,689	2,497,974	1,991,434
County Tax Duplication Payment	2,228,449	2,131,796	1,698,450	1,259,511
Admissions and Amusement Taxes	911,521	883,793	882,405	1,023,395
Grants and Other Governmental Revenues	1,370,986	1,435,118	1,370,778	1,427,093
Licenses and Permits	2,114,909	1,778,686	1,638,646	1,699,991
Charges for Services	4,620,144	4,586,595	4,262,498	4,368,465
Use of Money and Property	1,913,971	2,106,781	952,387	724,632
Fines and Forfeitures	877,136	799,486	811,771	285,253
Other Revenue	<u>331,442</u>	<u>1,740,729</u>	<u>1,616,350</u>	<u>1,698,046</u>
Total Revenue	<u>\$ 58,401,582</u>	<u>\$ 56,109,943</u>	<u>\$ 49,835,421</u>	<u>\$ 44,883,795</u>
Expenditures				
Current Operations:				
General Government	\$ 10,839,405	\$ 9,356,447	\$ 8,180,536	\$ 8,185,223
Community Development	3,723,093	3,526,755	1,579,939	1,482,277
Community Services ⁽²⁾	--	965,965	1,164,978	1,287,759
Public Safety	7,412,886	6,662,819	7,985,542	7,603,115
Public Works	5,851,733	5,253,643	5,315,785	5,232,331
Recreation and Parks	16,270,409	13,786,689	13,348,331	13,323,501
Non-Departmental	<u>--</u>	<u>2,884,558</u>	<u>2,598,367</u>	<u>2,311,980</u>
Total Expenditures	<u>\$ 44,097,526</u>	<u>\$ 42,436,876</u>	<u>\$ 40,173,478</u>	<u>\$ 39,426,186</u>
Excess (Deficiency) of				
Revenue Over Expenditure	<u>\$ 14,304,056</u>	<u>\$ 13,673,067</u>	<u>\$ 9,661,943</u>	<u>\$ 5,457,609</u>
Other Financing Sources (Uses)				
Operating Transfers In	\$ 1,376,500	\$ --	\$ --	\$ 8,369
Operating Transfers Out	<u>(17,280,348)</u>	<u>(11,580,341)</u>	<u>(6,385,421)</u>	<u>(4,456,475)</u>
Total Other Financing Sources (Uses)	<u>\$(15,903,848)</u>	<u>\$(11,580,341)</u>	<u>\$ (6,385,421)</u>	<u>\$ (4,448,106)</u>
Excess (Deficiency) of Revenue and Expenditures and Other Financing Sources (Uses)	(1,599,792)	2,092,726	3,276,522	1,009,503
Fund Balance at Beginning of Year	<u>\$ 16,950,559</u>	<u>\$ 14,857,833</u>	<u>\$ 11,581,311</u>	<u>\$ 10,571,808</u>
Fund Balance at End of Year	<u>\$ 15,350,767</u>	<u>\$ 16,950,559</u>	<u>\$ 14,857,833</u>	<u>\$ 11,581,311</u>

(1) Unaudited actual information as of August 15, 2007, prior to year end adjustments and accruals.

(2) Beginning in fiscal year 2007, Community Services was incorporated into Recreation and Parks.

PROPERTY VALUATIONS AND TAXES

Property Valuation

The assessment of real and tangible personal property for purposes of property taxation by state and local governmental units is the responsibility of the State Department of Assessment and Taxation. Assessment records and tax rolls are maintained in each county seat and in Baltimore City. One-third of the real property base is physically inspected and revalued once every three years. Any increase in full cash value arising from such reassessment is phased in over the ensuing three taxable years in equal annual installments, although a decline becomes effective the first year. Taxable assessed value is subject to statutory limits and annual increases for taxable assessed valuation are capped at 10% for existing residential property. Table 22 presents the City's full cash value, assessed value and taxable assessed value as of July 3, 2007.

Table 22
Full Cash Value and Assessed Value

	<u>Full Cash Value</u>	<u>Assessed Value</u>	<u>Taxable Assessed Value</u>
Taxable Property	\$ 13,383,934,660	\$ 11,458,366,036	\$ 11,458,366,036
Tax-exempt Property	<u>1,082,627,560</u>	<u>970,398,469</u>	<u> --</u>
Total	<u>\$ 14,466,562,220</u>	<u>\$ 12,428,764,505</u>	\$ 11,458,366,036
Less: Value Exceeding Cap Limitation			<u>(1,229,705,772)</u>
Net Total			<u>\$ 10,228,660,264</u>

Property Tax Exemptions

Exemptions from State and local property taxation include real property owned by Federal, State, County and other governmental units, churches, schools, fraternal organizations, cemeteries, disabled veterans and the blind. The State Department of Assessments and Taxation grants exemptions from property taxes, pursuant to State law.

Property Valuations

Table 23 presents the City's taxable assessed value of taxable property for the past five years.

Table 23
Taxable Assessed Value

Year Ended <u>June 30</u>	<u>Assessed Value</u>
2007	\$ 9,396,506,804
2006	7,941,275,256
2005	7,595,618,601
2004	6,717,905,829
2003	6,393,359,633

Table 24 presents the City's assessed value of all taxable property by class for the past five years.

Table 24
Assessed Value of All Taxable Property by Class

Year Ended <u>June 30</u>	<u>Real Property</u>	<u>Personal Property</u>	Privately Owned <u>Public Utilities</u>	<u>Total</u>
2007	\$ 9,008,163,075	\$ 266,743,524	\$ 121,600,205	\$ 9,396,506,804
2006	7,008,816,746	282,505,725	118,952,785	7,941,275,256
2005	7,193,741,551	286,635,530	115,241,520	7,595,618,601
2004	6,312,353,479	294,840,190	110,712,160	6,717,905,829
2003	5,921,959,542	358,574,751	112,825,340	6,393,359,633

Property Tax Levies and Collections

Montgomery County levies real and personal property taxes on all taxable property within its boundaries. Taxes are due in full on July 1 and payable without penalty in equal installments on the following September 30 and December 31. Interest at the rate of 2/3 of 1% per month and penalty of 1% per month are charged on each delinquent installment; new tax bills may be paid within 30 days without interest or penalty. Tax sales are held on the second Monday in June in the fiscal year taxes are due and payable to recover delinquent real property taxes. Legal action may be taken to enforce payment of both real and personal property taxes.

Table 25 presents the tax levy and tax collections for the City of Rockville for each of the past five fiscal years.

Table 25
Property Tax Levies and Collections

Year Ended <u>June 30</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections and Adjustments⁽¹⁾</u>	<u>Total Tax Collection</u>	<u>Total Collection as Percent of Current Levy</u>
2007 ⁽²⁾	\$ 31,124,821	\$ 30,670,042	98.5%	\$ 534,609	\$ 31,204,651	98.2%
2006	28,956,431	28,410,726	98.1%	91,920	28,502,646	98.4%
2005	26,398,958	26,027,181	98.6%	87,464	26,226,753	98.9%
2004	24,315,580	23,325,909	95.9%	61,017	23,386,926	96.2%
2003	22,578,731	21,732,287	96.3%	(235,304)	21,496,983	95.2%

⁽¹⁾ Collections and adjustments are for all prior years.

⁽²⁾ Information has not yet been audited.

Source: City of Rockville, Maryland Comprehensive Annual Financial Report.

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Tax Rate Valuation

A single tax rate applies for each fiscal year to the assessed value of the taxable real and personal property. The rate is equal to the ratio of the amount to be raised per \$100 of assessed value. Personal property in Maryland has always been assessed at full value. State law now requires that personal property shall be taxed at 2.5 times the real property rate.

Table 26 presents the tax rates for all taxing jurisdictions in the City for the last five fiscal years.

**Table 26
Property Tax Rates⁽¹⁾
Overlapping Governments**

Year Ended <u>June 30</u>	<u>City</u>	<u>State</u>	<u>County⁽²⁾</u>	<u>Total</u>
2007	0.312	0.112	0.812	1.236
2006	0.322	0.132	0.856	1.310
2005	0.322	0.132	0.902	1.356
2004	0.322	0.132	0.914	1.368
2003	0.322	0.084	0.910	1.316

(1) Per \$100 of Assessed Value.

(2) County tax rates include school levies.

For the Fiscal Year 2008, the City’s real property is taxed at the rate of \$0.302 per \$100 of assessed valuation and personal property is taxed at the rate of \$0.805 per \$100 of assessed valuation.

Principal Taxpayers

A list of the 10 principal taxpayers in the City on the 2006 assessment is presented in Table 27.

**Table 27
Principal Taxpayers**

<u>Name</u>	<u>Assessable Base</u>	<u>Percentage of Taxpayer Base to Total Assessable Base</u>
Prentiss Property Research	\$ 66,782,400	0.80%
Realty Associates Fund, LLP	64,963,800	0.78%
Potomac Electric Power	53,569,644	0.64%
Verizon	42,566,985	0.51%
Research Grove Associates	41,500,000	0.50%
TA/Western, LLC	41,281,700	0.49%
Syn Rock, LLC	41,318,700	0.49%
Transwestern Gateway, LLC	39,135,000	0.47%
Hub Woodmont Inc.	35,503,200	0.42%
Prime 1801, LLC	<u>34,481,800</u>	<u>0.41%</u>
Total	<u>\$ 461,103,229</u>	<u>5.51%</u>

Source: State of Maryland Department of Assessments and Taxation.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc., of Minneapolis, Minnesota, as financial advisor (the “Financial Advisor”) in connection with the issuance of the Bonds. In preparing the Official Statement, the Financial Advisor has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the City to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Bonds.

Requests for information concerning the City should be addressed to Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, Minneapolis, Minnesota 55402 (612/338-3535, 612/338-7264 fax).

RATINGS

The Bonds have been assigned ratings of “Aaa” by Moody’s Investors Service, Inc. and “AAA” by Standard & Poor’s. A rating is subject to withdrawal at any time; withdrawal of a rating may have an adverse effect on the marketability of the Bonds. For an explanation of the significance of the rating, an investor should communicate with the rating agency. The outstanding general obligation debt of the City is currently rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s.

TAX MATTERS

Federal Income Tax

In the opinion of Bond Counsel, under existing law, the interest on the Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes) and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

Under the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), there are certain requirements that must be met subsequent to the issuance of the Bonds in order for the interest on the Bonds to remain excludable from gross income for federal income tax purposes, including restrictions that must be complied with throughout the term of the Bonds. Such restrictions include, among other things, limitations on the yield of investments acquired with gross proceeds of the Bonds and the periodic payment to the United States of specified portions of arbitrage profit derived from such investments.

In order to comply with the requirements of the Code, the City has made covenants and agreements that are designed to satisfy the requirements of Section 103 and Sections 141 through 150, inclusive, of the Code, and the income tax regulations issued thereunder. In the opinion of Bond Counsel, these covenants and agreements are sufficient to meet the requirements (to the extent applicable to the Bonds) of Section 103 and Sections 141 through 150 of the Code. However, Bond Counsel assumes no responsibility for, and will not monitor, compliance with these covenants and agreements. In the event of noncompliance with such covenants and agreements, the available

enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes retroactively to the date of issue.

Interest on the Bonds is not included in corporate or individual alternative minimum taxable income as a separate enumerated item of tax preference or other specific adjustment. However, for purposes of computing the corporate alternative minimum tax contained in the Code, a corporation will generally be required to increase its alternative minimum taxable income by 75% of the amount by which its “adjusted current earnings” (a modified definition of “earnings and profits”) exceeds its alternative minimum taxable income (computed without regard to this adjusted current earnings adjustment). For such purpose, “adjusted current earnings” will include, among other items, tax-exempt interest income from the Bonds. Interest income on the Bonds may also be included with the “dividend equivalent amount” for purposes of determining the branch profits tax imposed by the Code on certain foreign corporations conducting a trade or business in the United States.

Other federal income tax consequences may arise from ownership of the Bonds, and in connection therewith, attention is directed to the following provisions of the Code: (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder’s interest expense allocated to interest on the Bonds, (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (c) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on obligations such as the Bonds, and (d) for S corporations having subchapter C earnings and profits, the receipt of certain amounts of passive investment income, which includes interest on the Bonds, may result in the imposition of income tax on such passive investment income and, in some cases, loss of S corporation status.

A Bond will be considered to have been issued at a premium if, and to the extent that, the holder’s tax basis in the Bond exceeds the amount payable at maturity (or, in the case of a Bond callable prior to maturity, the amount payable on the earlier call date). The holder will be required to reduce his tax basis in the Bond for purposes of determining gain or loss upon disposition of the Bond by the amount of amortizable bond premium that accrues (determined on a constant yield method) during the period of ownership. No deduction (or other tax benefit) is allowable in respect of any amount of amortizable bond premium on the Bonds.

The initial public offering price of some of the Bonds may be less than the amount payable on those Bonds at maturity. The excess, if any, of the amount payable at maturity of a Bond over the initial public offering price (plus accrued interest from the dated date of the Bond to the date of initial delivery of the Bond) at which a substantial amount of the same maturity of the Bonds was sold constitutes original issue discount (“OID”) for Federal income tax purposes. The full amount of OID will accrue over the term of a Bond in accordance with a constant yield method (using semiannual compounding) which allocates smaller portions of OID to earlier semiannual compounding periods and larger portions of OID to later semiannual compounding periods. In the case of an original or a subsequent holder of a Bond, the amount of OID which is treated as having accrued with respect to such Bond during the period that the holder has held it (a) is not included in the gross income of the holder for Federal income tax purposes, and (b) is included in the cost basis of the holder in determining, for Federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). Holders of Bonds should consult their tax advisors with respect to the determination, for Federal income tax purposes, of OID accrued upon the sale, redemption or payment at maturity of the Bonds.

Prospective purchasers of the Bonds should consider possible state and local, excise, or franchise tax consequences arising from original issue discount on the Bonds. In addition, prospective corporate purchasers of the Bonds should consider possible federal income tax consequences arising from original issue discount on the Bonds under the alternative minimum tax and the branch profits tax described above.

Legislative proposals presently before Congress or that are introduced after issuance and delivery of the Bonds, if enacted, could alter or amend one or more of the federal tax matters referred to above and/or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that any such proposal would not apply to obligations issued prior to the enactment of such

proposal. Accordingly, prospective purchasers of the Bonds should consult with their tax advisors as to the status and potential effect of such proposals.

The Internal Revenue Service (the "Service") has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for Federal income tax purposes. If the Service does audit the Bonds, under current Service procedures, the Service will treat the City as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

Interest paid on tax-exempt obligations after December 1, 2005, is subject to information reporting for federal income tax purposes in a manner similar to interest paid on taxable obligations. This reporting requirement does not in and of itself affect or alter the excludability of such interest from gross income for federal tax purposes or any other federal tax consequences of purchasing, holding or selling tax-exempt obligations.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete. Prospective purchasers and holders of the Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

Maryland State and Local Income Tax

In the opinion of Bond Counsel, under existing law of the State of Maryland, the interest on the Bonds and the profit realized from the sale or exchange of the Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; but no opinion is expressed as to estate or inheritance taxes or any other taxes not levied or assessed directly on the Bonds or the income therefrom.

Interest on the Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Prospective purchasers of the Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Bonds and regarding the taxable status of the Bonds in a particular state or local jurisdiction other than the State of Maryland.

Original Issue Premium

The Bonds shown on the cover as being sold at a price in excess of 100% (collectively, the "Premium Bonds") are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, who are subject to special rules, bondholders from time to time must reduce their federal income tax bases for the Premium Bonds for purposes of determining gain or loss on the sale or payment of such Bonds. Premium generally is amortized on the basis of a bondholder's constant yield to maturity with semiannual compounding. This might result in taxable gain upon sale of the Premium Bonds, even if they are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal income tax purposes. Bondholders should consult their tax advisors concerning the timing and rate of premium amortization.

Original Issue Discount

The Bonds shown on the cover as being sold at a price of less than 100% (collectively, the "Discount Bonds"), are offered and sold to the public at an original issue discount (the "OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of such Bond. The issue price of Discount Bonds is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over such shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other

disposition of that Discount Bond. A purchaser of a Discount Bond at its issue price in the initial public offering who holds that Bond to maturity will realize no gain or loss upon the retirement of that Bond.

Owners of Discount or Premium Bonds (or book-entry interests in them) should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for state and local tax purposes.

CERTIFICATION

The City will furnish a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statement made herein, in light of the circumstances under which they were made, not misleading.

NO LITIGATION

There is no litigation now pending or, to the knowledge of City Officials, threatened which questions the validity of the Bonds or of any proceedings of the City taken with respect to the issuance or sale thereof.

LEGAL MATTERS

All matters incident to the authorization and issuance of the Bonds are subject to the approval of Venable LLP, Baltimore, Maryland, Bond Counsel. The form of the approving legal opinion is attached hereto as Appendix B. Bond Counsel has not participated in the preparation of this Official Statement, except for the section entitled "Tax Matters." The factual and financial information appearing herein has been supplied or reviewed by certain officials of the City and its certified public accountants, as referred to herein, and Bond Counsel expresses no opinion as to the accuracy or sufficiency thereof.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and are not representations of fact, and no representation is made that any of the estimates will be realized.

This Official Statement has been approved by the City for distribution by the Director of Finance to prospective purchasers of the Bonds.

CITY OF ROCKVILLE, MARYLAND

By: /s/ Mr. Gavin Cohen
Director of Finance

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APPENDIX A

**Excerpts from the Comprehensive
Annual Financial Report
Year Ended June 30, 2006**

City of Rockville, Maryland

Balance Sheet Governmental Funds June 30, 2006

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in pooled cash and cash equivalents	\$ 17,266,932	\$ 3,905,736	\$ 4,833,250	\$ 433,074	\$ 26,438,992
Property taxes receivable, net	469,448	-	-	-	469,448
Accounts receivable, net	132,879	-	-	-	132,879
Interfund receivable	721,157	-	-	-	721,157
Due from other governments	1,931,792	-	1,070,319	88,146	3,090,257
Other assets	1,146,947	79,756	35,484	4,688	1,266,875
Unbilled assessments receivable	-	1,936,930	-	-	1,936,930
Total assets	\$ 21,669,155	\$ 5,922,422	\$ 5,939,053	\$ 525,908	\$ 34,056,538
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 1,065,468	\$ -	\$ 3,895,940	\$ 8,610	\$ 4,970,018
Interfund payable	-	-	-	21,093	21,093
Accrued liabilities	1,338,865	-	-	-	1,338,865
Deferred revenue	469,448	1,936,930	-	-	2,406,378
Unearned revenue	850,995	-	-	-	850,995
Retainages payable	30,908	-	992,942	-	1,023,850
Deposits and other liabilities	962,912	384,300	7,500	67,053	1,421,765
Total liabilities	\$ 4,718,596	\$ 2,321,230	\$ 4,896,382	\$ 96,756	\$ 12,032,964
Fund balances					
Reserved for encumbrances	\$ 51,522	\$ -	\$ 1,042,671	\$ -	\$ 1,094,193
Reserved for self insurance deposit	261,394	-	-	-	261,394
Reserved for inventory	305,632	-	-	-	305,632
Reserved for advance	250,000	-	-	-	250,000
Reserved for debt service	-	3,601,192	-	-	3,601,192
Unreserved:					
Designated special activities fund	-	-	-	429,152	429,152
Undesignated	16,082,011	-	-	-	16,082,011
Total fund balance	\$ 16,950,559	\$ 3,601,192	\$ 1,042,671	\$ 429,152	\$ 22,023,574
Total liabilities and fund balance	\$ 21,669,155	\$ 5,922,422	\$ 5,939,053	\$ 525,908	\$ 34,056,538

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds June 30, 2006

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenue					
Property Taxes	\$ 28,513,927	\$ -	\$ -	\$ -	\$ 28,513,927
Assessments	-	330,053	-	-	330,053
Revenue from other governments:					
Community development block grant	-	-	-	294,481	294,481
Income taxes	9,035,343	-	-	-	9,035,343
Gas and motor vehicles taxes	3,097,689	-	-	-	3,097,689
County tax duplication payment	2,131,796	-	-	-	2,131,796
Admission and amusement taxes	883,793	-	-	-	883,793
Grants and other governmental revenue	1,435,118	-	5,208,753	-	6,643,871
Licenses and permits	1,778,686	-	-	-	1,778,686
Charges for services	4,586,595	-	-	-	4,586,595
Use of money and property	2,106,781	273,241	94,085	14,398	2,488,505
Fines and forfeitures	799,486	-	-	-	799,486
Other revenue	1,740,729	35,764	408,443	315,138	2,500,074
Total revenue	\$ 56,109,943	\$ 639,058	\$ 5,711,281	\$ 624,017	\$ 63,084,299
Expenditures					
Current operations:					
General government	\$ 9,356,447	-	-	\$ -	\$ 9,356,447
Community development block grant	-	-	-	294,481	294,481
Community development	3,526,755	-	-	-	3,526,755
Community services	965,965	-	-	190,049	1,156,014
Public safety	6,662,819	-	-	-	6,662,819
Public works	5,253,643	-	-	-	5,253,643
Recreation and parks	13,786,689	-	-	-	13,786,689
Nondepartmental	2,884,558	-	-	-	2,884,558
Capital outlay	-	-	16,699,499	-	16,699,499
Debt service	-	18,273,187	-	-	18,273,187
Total expenditures	\$ 42,436,876	\$ 18,273,187	\$ 16,699,499	\$ 484,530	\$ 77,894,092
Excess (deficiency) of revenue over expenditures	\$ 13,673,067	\$ (17,634,129)	\$ (10,988,218)	\$ 139,487	\$ (14,809,793)
Other Financing Sources (Uses)					
Transfers in	-	5,383,112	6,107,286	-	11,490,398
Transfers out	(11,580,341)	-	-	-	(11,580,341)
Proceeds from General Obligation Bonds	-	-	14,950,000	-	14,950,000
Total other financing sources (uses)	\$ (11,580,341)	\$ 5,383,112	\$ 21,057,286	\$ -	\$ 14,860,057
Net change in fund balances	\$ 2,092,726	\$ (12,251,017)	\$ 10,069,068	\$ 139,487	\$ 50,264
Fund balances at beginning of year	14,857,833	15,852,209	(9,026,397)	289,665	21,973,310
Fund balances at end of year	\$ 16,950,559	\$ 3,601,192	\$ 1,042,671	\$ 429,152	\$ 22,023,574

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Rockville (the "City"), was incorporated in 1860. Its legal authority is derived from Article XI E of the State Constitution and Article 23A of the Annotated Code of Maryland. Rockville has an estimated population of 59,887 and a land area of 13.03 square miles. According to the 2000 census, Rockville is the third largest city in Maryland. The City has operated under the council-manager form of government since 1948. The City is a municipal corporation where the City Council is comprised of a mayor and four at-large members. Services provided include water, sewer, refuse, streets and drainage, recreation and parks, police, planning and zoning, community development, and community services. Schools, libraries, social services, and fire protection are provided by Montgomery County, Maryland.

For financial reporting purposes, the government-wide financial statements include the various departments governed directly by the Mayor and Council. The City's officials are also responsible for appointing the board of directors of the Rockville Housing Authority, but the City's accountability does not extend beyond making the appointments.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* is used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The government reports the following major proprietary funds:

The City operates six major types of enterprise funds: The Water Facility Fund, the Sanitary Sewer Fund, the Refuse Fund, the Parking Fund, the Stormwater Management Fund, and the Golf Course Fund. These funds account for the provision of water and sewer services, the parking accounts for the parking meter program, parking violations and the planning, design, construction, and operation of proposed parking garages in the City's Town Center and storm water detention/retention facilities to residents within the City's service area. The Refuse Fund and RedGate Golf Course Fund do not meet the requirements of a major fund, however management has elected to report these funds as major. The refuse fund accounts for trash collections and RedGate Golf Course fund accounts for the operating and capital costs for the City's golf course facility.

Additionally, the government reports the following fund types:

The City's pension trust funds accounts for the contributions made by the City and its employees to finance future pension payments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements but interfund services provided and used are not eliminated in the process of consolidation.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services, producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, refuse, and stormwater management funds are charges to customers for sales and services. The water and sewer funds are also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

To facilitate effective management of the City's resources, substantially all operating cash is combined in one pooled account. Pension trust fund assets are separately managed by the Principal Financial Group. Pension trust fund investments are stated at fair value and short-term investments of one year or less included in the City's equity in pooled cash and cash equivalents are stated at amortized cost plus accrued interest. These short-term investments include mutual funds and U.S. Treasury securities.

For purposes of the statement of cash flows, the proprietary fund type reflects all monies in the City's cash management pool as cash equivalents.

Interest income earned on City investments is allocated among the funds each month on a pro rata basis in accordance with average equity in pooled cash balances for the previous six months.

2. Property Taxes

Taxes on real property and business personal property are levied on property values as assessed on January 1, billed on July 1, and payable either by September 30 or in two equal installments on September 30 and December 31. Montgomery County bills and collects property taxes for the City and remits cash collections to the City once a month. Property taxes are attached as an enforceable lien on the underlying properties as of the succeeding June 1 and are thereafter, if delinquent, sold at public auction.

Real and personal property taxes are levied at rates enacted by the Mayor and Council in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rate of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public hearings.

The real property tax rate was \$0.322 per \$100 of assessed value and the personal property tax rate was \$.805 per \$100 of assessed value in fiscal year 2006. The City charges taxpayers interest (at the rate of 2/3 of 1 percent per month) and penalty (1 percent per month) on all overdue taxes.

3. Inventories and Prepaid Items

All City inventories (included in other assets in the combined balance sheet) are maintained on a consumption basis of

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Inventories and Prepaid Items (Continued)

accounting and are valued at cost on a first-in, first-out basis and consist of either goods held for resale or goods and materials used in providing services. Reservations of fund balance for the amounts of general fund inventories have been made to reflect the non-availability of those amounts for appropriation in the general fund.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Net Assets

The debt service fund is used to segregate resources accumulated for debt service payments for future years.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The capitalization threshold for infrastructure items is \$25,000.

Description	Lives (In Years)
Buildings	40 - 50
Equipment	5 - 10
Furniture and fixtures	7 - 10
Automobiles and trucks	5 - 7
Water and sewer infrastructure	20 - 50
Stormwater management facilities	20 - 50

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused annual and sick leave benefits. All annual leave and sick leave is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Long-Term Obligations (Continued)

activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "advances to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances are not legally required segregations, but rather represent the intent of the City's administration to use fund balances for specific purposes in the future.

Encumbrances related to grant-funded contracts may cause a deficit in the undesignated fund balance in some funds. This results from a timing difference between the recording of the original encumbrance of the contract and the recognition of the grant revenue when it is measurable and available.

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

The City will first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds

A. Equity in Pooled Cash and Cash Equivalents

The City maintains a cash and investment pool that is available for use by all of the City's funds, except the pension trust funds.

The City is restricted by State law to invest in any federally insured bank in the State of Maryland, federally insured savings and loan association in the State of Maryland, or in the local government investment pool. The City primarily invests in the STI Classic Money Market Fund.

As of June 30, 2006 the City had the following investments included in the Statement of Net Assets and the Statement of Fiduciary Net Assets:

Investment Type	Fair Value
Money Market Funds	\$ 22,481,275
Federal Agency Discount Notes	26,563,249
Federal Agency Notes	16,074,757
	<u>\$ 65,119,281</u>
Open End Mutual Funds	68,558,153
Total Fair Market Value of Investments	<u>\$ 133,677,434</u>

Deposits:

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Maryland State Law prescribes that local government units such as the City must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Depository Insurance Corporation insurance levels with collateral whose market value is at the least equal to the deposits. As of June 30, 2006 all the City's deposits were either covered by federal depository insurance or covered by collateral held in the pledging banks trust department in the City's name.

Investments:

Credit Risk: The Mayor and Council of Rockville recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland's Finance and Procurement Article, as well as Article 95, Section 22-22N of the Annotated Code of Maryland. The Money Market Funds are rated "AAA" by Standard and Poor's and all the Federal Agency securities have the highest rating.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. Interest rate risk is minimized due to the fact that all treasury securities are held to maturity as stated in section XVII of the City's investment policy. The money market funds and open-end mutual funds are highly liquid with no fixed maturity and therefore do not expose the City to interest rate risk.

Custodial Credit Risk: Custodial credit risk for investments is the risk that in the event of failure of a depository financial institution or counterparty to a transaction, the City will not recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial credit risk at June 30, 2006.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)

B. Receivables

Receivables as of year end for all the government's individual funds are as follows:

Receivables	General	Capital Projects	Water	Sewer	Refuse	Parking	Stormwater Management	Golf Course	Total
Billed / Unbilled Utilities	-	-	902,460	1,036,002	1,094,130	865,903	393,170	1,941	\$ 4,293,606
Property Taxes	469,448	-	-	-	-	-	-	-	\$ 469,448
Due from Other Governments	2,019,938	1,070,319	-	-	-	-	-	-	\$ 3,090,257
Assessments Receivable	-	-	6,596	7,142	-	-	-	-	\$ 13,738
Accounts Receivable	132,879	-	-	-	-	-	-	-	\$ 132,879
Interfund Receivable	721,157	-	-	-	-	-	-	-	\$ 721,157
Other Receivables	-	-	54,060	69,061	7,197	424,938	118,202	-	\$ 673,458

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounts to \$1,894,976 at June 30, 2006, and is composed of the following:

General Fund property taxes receivable	\$ 1,873,109
Enterprise Funds utility bills receivable	21,867
	<u>\$ 1,894,976</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$ 469,448	\$ -
Special assessments not yet due (Debt Service Fund)	1,936,930	-
Pending Allocation-Utility Receipts	-	9,574
Recreation services not earned (General Fund)	-	841,421
Total deferred/unearned revenue for governmental funds	<u>\$ 2,406,378</u>	<u>\$ 850,995</u>

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 7,843,832	\$ -	\$ -	\$ -	\$ 7,843,832
Construction in progress	53,376,522	16,325,776	-	(2,622,962)	67,079,336
Total capital assets, not being depreciated	<u>\$ 61,220,354</u>	<u>\$ 16,325,776</u>	<u>\$ -</u>	<u>\$ (2,622,962)</u>	<u>\$ 74,923,168</u>
Capital assets, being depreciated:					
Buildings	15,298,150	-	-	1,465,370	16,763,520
Improvements other than buildings	5,100,181	-	-	-	5,100,181
Equipment	8,798,970	1,246,053	(496,422)	-	9,548,601
Infrastructure	881,571	-	-	1,157,592	2,039,163
Total capital assets being depreciated	<u>\$ 30,078,872</u>	<u>\$ 1,246,053</u>	<u>\$ (496,422)</u>	<u>\$ 2,622,962</u>	<u>\$ 33,451,465</u>
Less accumulated depreciation for:					
Buildings	(6,986,243)	(286,894)	-	-	(7,273,137)
Improvements other than buildings	(1,763,011)	(154,644)	-	-	(1,917,655)
Equipment	(5,680,838)	(881,479)	496,422	-	(6,065,895)
Infrastructure	(67,004)	(46,903)	-	-	(113,907)
Total accumulated depreciation	<u>\$ (14,497,096)</u>	<u>\$ (1,369,920)</u>	<u>\$ 496,422</u>	<u>\$ -</u>	<u>\$ (15,370,594)</u>
Total capital assets, being depreciated, net	<u>15,581,776</u>	<u>(123,867)</u>	<u>-</u>	<u>2,622,962</u>	<u>18,080,871</u>
Governmental activities capital assets, net	<u><u>\$ 76,802,130</u></u>	<u><u>\$ 16,201,909</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 93,004,039</u></u>
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	\$ 2,058,940	\$ -	\$ -	\$ -	\$ 2,058,940
Construction in progress	26,113,315	16,583,246	-	(3,846,212)	38,850,349
Total capital assets, not being depreciated	<u>\$ 28,172,255</u>	<u>\$ 16,583,246</u>	<u>\$ -</u>	<u>\$ (3,846,212)</u>	<u>\$ 40,909,289</u>
Capital assets, being depreciated:					
Buildings	4,447,888	-	-	-	4,447,888
Improvements other than buildings	51,758,950	-	-	3,846,212	55,605,162
Equipment	5,351,261	502,241	(166,790)	-	5,686,712
Purchased capacity	15,279,453	-	-	-	15,279,453
Total capital assets being depreciated	<u>\$ 76,837,552</u>	<u>\$ 502,241</u>	<u>\$ (166,790)</u>	<u>\$ 3,846,212</u>	<u>\$ 81,019,215</u>
Less accumulated depreciation for:					
Buildings	(3,099,344)	(130,298)	-	-	(3,229,642)
Improvements other than buildings	(25,933,064)	(1,544,137)	-	-	(27,477,201)
Equipment	(4,484,223)	(327,030)	166,790	-	(4,644,463)
Purchased capacity	(1,139,119)	(305,589)	-	-	(1,444,708)
Total accumulated depreciation	<u>\$ (34,655,750)</u>	<u>\$ (2,307,054)</u>	<u>\$ 166,790</u>	<u>\$ -</u>	<u>\$ (36,796,014)</u>
Total capital assets, being depreciated, net	<u>42,181,802</u>	<u>(1,804,813)</u>	<u>-</u>	<u>3,846,212</u>	<u>44,223,201</u>
Business-type activities capital assets, net	<u><u>\$ 70,354,057</u></u>	<u><u>\$ 14,778,433</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 85,132,490</u></u>

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)

C. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 421,676
Community Development	15,098
Community Services	11,255
Public Safety	92,660
Public Works	337,366
Recreation and Parks	491,865
Total depreciation expense - governmental activities	<u>\$ 1,369,920</u>
Business-Type Activities:	
Water	\$ 1,002,703
Sewer	850,930
Refuse	246,980
Parking	7,262
Stormwater Management	128,018
Golf Course	71,161
Total depreciation expense - business-type activities	<u>\$ 2,307,054</u>

D. Interfund Receivables, Payables and Transfers

The governmental interfund receivable as of June 30, 2006 consists of the following:

	Interfund Receivable - General Fund Total
Governmental Fund:	
Community Development Block Grant Fund	\$ 21,093
Proprietary Fund:	
Refuse Fund	150,989
RedGate Golf Course Fund	549,075
Total	<u>\$ 721,157</u>

The interfund payables from various funds represent cash overdrafts that are payable to the General Fund within one year.

Interfund transfers for the year ended June 30, 2006 consisted of the following

	Transfer From:
Transfer To:	General
Capital Project Fund	\$ 6,107,286
Debt Service Fund	5,383,112
Refuse Fund	58,443
Parking Fund	31,500
	<u>\$ 11,580,341</u>

Transfer from the General Fund to the Capital Projects Fund represents the City's budgeted pay-as-you-go funding.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)

D. Interfund Receivables, Payables and Transfers (Continued)

Transfer from the General Fund to the Refuse Fund represents furnishing refuse pickup for Rockville Housing Enterprises.

Transfer from the General Fund to the Debt Service Fund represents resources to pay off general obligation bonds.

Transfer from the General Fund to the Parking Fund represents resources to pay off general obligation bonds.

E. Long-Term Debt

General Obligation Bonds, Bond Anticipation Notes and Loan Payable

General Obligation Bonds of approximately \$56 million were issued in September 2005. These bonds were issued mainly for the development of Town Center and the Town Center Parking Garages. Bond Anticipation Notes of \$12,350,000 plus accrued interest were paid off in December 2005.

General obligation bonds are direct city obligations against which the full faith and credit of the government is pledged. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds and loan payable currently outstanding are as follows:

	<u>Year of Issuance</u>	<u>Outstanding Principal</u>	<u>Interest Rate Range</u>	<u>Year of Final Maturity</u>
Governmental Activities				
General Improvements	1998	\$ 1,005,000	3.50 - 4.30%	2013
General Improvements - Equipment	2000	68,547	4.17 - 4.53%	2007
General Improvements	2002	1,970,990	4.00 - 4.65%	2021
General Improvements	2003	8,632,997	2.00 - 3.85%	2023
General Improvements - Refunding	2003	5,416,537	2.00 - 3.00%	2013
General Improvements	2004	10,265,000	4.00 - 5.00%	2029
Loan Payable	2005	512,393	2.00%	2012
General Improvements	2005	14,040,000	3.50 - 6.00%	2025
Total Governmental Activities		<u>\$ 41,911,464</u>		
Business-Type Activities				
General Improvements	1999	\$ 2,008,903	3.21%	2019
General Improvements	2000	1,533,236	3.64%	2020
General Improvements	2002	2,921,494	1.90%	2023
General Improvements	2002	2,604,010	4.00 - 4.65%	2021
General Improvements	2003	2,752,003	2.00 - 3.875%	2023
General Improvements - Refunding	2003	2,213,463	2.00 - 3.00%	2013
General Improvements	2004	7,295,000	4.00 - 5.00%	2029
General Improvements	2005	1,260,072	0.00%	2025
General Improvements	2005	41,195,000	3.50 - 6.00%	2036
Total Business-Type Activities		<u>\$ 63,783,181</u>		

The City anticipates that all amounts required for payment of interest and principal on business-type activities debt will be provided from the respective fund's revenues; however, the bonds are further secured by the full faith and credit and unlimited taxing power of the City.

Note: Principal amounts do not include unamortized bond discount of \$190,425 for Business – type Activities.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

City's long-term debt for Governmental Activities are payable during future years as follows:

Governmental Activities			
Fiscal Year Ending June 30,	Principal	Interest	Total Principal and Interest
2007	4,105,428	1,546,411	5,651,839
2008	4,033,922	1,411,970	5,445,892
2009	2,942,981	1,297,448	4,240,429
2010	2,939,031	1,190,477	4,129,508
2011	2,487,298	1,093,786	3,581,084
2012	2,462,120	1,009,220	3,471,340
2013	2,222,536	923,926	3,146,462
2014	1,905,061	840,955	2,746,016
2015	1,905,061	769,406	2,674,467
2016	1,905,061	699,854	2,604,915
2017	1,905,061	623,611	2,528,672
2018	1,905,061	546,322	2,451,383
2019	1,905,061	469,629	2,374,690
2020	1,905,061	392,362	2,297,423
2021	1,905,140	313,955	2,219,095
2022	1,765,678	234,580	2,000,258
2023	1,761,903	160,975	1,922,878
2024	1,260,000	85,425	1,345,425
2025	690,000	28,463	718,463
Total	\$ 41,911,464	\$ 13,638,775	\$ 55,550,239

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)
E. Long-Term Debt (Continued)

City's long-term debt for business type activities are payable during future years as follows:

Fiscal Year Ending June 30,	Water Facility		Sanitary Sewer		Refuse		Parking		RedGate Golf Course		Stormwater Management		Total Principal and Interest	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	989,710	370,695	1,030,471	578,642	184,337	19,425	620,000	1,503,487	5,945	12,365	73,663	-	5,388,740	
2008	958,477	341,895	1,028,595	538,672	186,338	13,768	650,000	1,468,887	5,945	12,246	66,319	-	5,271,142	
2009	794,615	316,526	928,825	506,747	30,000	8,320	675,000	1,445,461	24,804	12,116	66,319	-	4,808,733	
2010	798,287	293,476	926,554	470,874	30,000	6,400	710,000	1,413,061	24,803	11,526	66,319	-	4,751,300	
2011	715,813	272,487	873,565	439,294	30,000	5,300	735,000	1,387,511	24,803	10,869	66,319	-	4,560,961	
2012	720,975	252,566	866,752	408,673	30,000	4,200	760,000	1,361,061	24,803	10,162	66,319	-	4,505,511	
2013	701,508	232,457	832,687	377,808	30,000	3,100	785,000	1,333,711	24,804	9,418	66,319	-	4,396,812	
2014	683,781	212,110	800,135	345,921	30,000	1,900	820,000	1,302,312	24,803	8,674	66,319	-	4,295,955	
2015	696,235	192,456	800,136	314,800	20,000	700	850,000	1,269,512	24,803	7,930	66,320	-	4,242,892	
2016	709,065	173,327	800,136	284,906	-	-	885,000	1,238,699	24,804	7,156	66,320	-	4,189,413	
2017	681,102	146,664	800,136	251,868	-	-	920,000	1,201,086	24,804	6,349	66,320	-	4,098,329	
2018	598,349	115,356	795,135	218,553	-	-	960,000	1,161,894	24,803	5,505	66,320	-	3,945,915	
2019	609,848	96,853	795,136	185,967	-	-	1,000,000	1,122,714	24,803	4,637	66,320	-	3,906,278	
2020	376,896	68,307	795,135	153,156	-	-	1,040,000	1,081,894	24,803	3,744	66,320	-	3,610,255	
2021	236,546	48,487	795,370	119,985	-	-	1,080,000	1,039,244	24,804	2,827	66,320	-	3,413,583	
2022	237,497	40,535	619,518	86,575	-	-	1,125,000	994,669	24,803	1,896	66,320	-	3,196,813	
2023	238,210	32,566	618,478	61,129	-	-	1,175,000	948,059	24,618	954	66,320	-	3,165,334	
2024	175,000	14,438	480,000	35,213	-	-	1,220,000	898,609	-	-	66,320	-	2,889,580	
2025	175,000	7,219	345,000	14,231	-	-	1,275,000	846,053	-	-	58,977	-	2,721,480	
2026	-	-	-	-	-	-	1,330,000	791,140	-	-	-	-	2,121,140	
2027	-	-	-	-	-	-	1,390,000	733,040	-	-	-	-	2,123,040	
2028	-	-	-	-	-	-	1,450,000	672,300	-	-	-	-	2,122,300	
2029	-	-	-	-	-	-	1,515,000	608,350	-	-	-	-	2,123,350	
2030	-	-	-	-	-	-	1,580,000	541,525	-	-	-	-	2,121,525	
2031	-	-	-	-	-	-	1,645,000	474,375	-	-	-	-	2,119,375	
2032	-	-	-	-	-	-	1,715,000	404,463	-	-	-	-	2,119,463	
2033	-	-	-	-	-	-	1,790,000	331,575	-	-	-	-	2,121,575	
2034	-	-	-	-	-	-	1,865,000	255,500	-	-	-	-	2,120,500	
2035	-	-	-	-	-	-	1,945,000	173,906	-	-	-	-	2,118,906	
2036	-	-	-	-	-	-	2,030,000	88,813	-	-	-	-	2,118,813	
Total	\$11,096,914	\$ 3,228,420	\$ 14,931,764	\$ 5,393,014	\$ 570,675	\$ 63,113	\$35,540,000	\$28,092,911	\$ 383,755	\$ 128,374	\$ 1,260,073	\$ -	\$ 100,689,013	

Note: Principal amounts do not include unamortized bond discount of \$190,425 for business-type activities.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)
E. Long-Term Debt (Continued)

The requirements to long-term debt are summarized as follows:

		Governmental Activities					
Fiscal Year Ending June 30,	Principal		Interest		Total		
	Principal	Interest	Principal	Interest	Principal and Interest	Interest	
2007	4,105,428	1,546,411	5,651,839				
2008	4,033,922	1,411,970	5,445,892				
2009	2,942,981	1,297,448	4,240,429				
2010	2,939,031	1,190,477	4,129,508				
2011	2,487,298	1,093,786	3,581,084				
2012 - 2016	10,399,839	4,243,361	14,643,200				
2017 - 2021	9,525,384	2,345,879	11,871,263				
2022 - 2026	5,477,581	509,443	5,987,024				
Total	\$41,911,464	\$13,638,775	\$55,550,239				

Business-Type Activities

Fiscal Year Ending June 30,	Water Facility		Sanitary Sewer		Refuse		Parking		RedGate Golf Course		Stormwater Management		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal and Interest	Interest
2007	989,710	370,695	1,030,471	578,642	184,337	19,425	620,000	1,503,487	5,945	12,365	73,663	-	5,388,740	-
2008	958,477	341,895	1,028,595	538,672	186,338	13,768	650,000	1,468,887	5,945	12,246	66,319	-	5,271,142	-
2009	794,615	316,526	928,825	506,747	30,000	8,320	675,000	1,445,461	24,804	12,116	66,319	-	4,808,733	-
2010	798,287	293,476	926,554	470,874	30,000	6,400	710,000	1,413,061	24,803	11,526	66,319	-	4,751,300	-
2011	715,813	272,487	873,565	439,294	30,000	5,300	735,000	1,387,511	24,803	10,869	66,319	-	4,560,961	-
2012 - 2016	3,511,564	1,062,916	4,099,846	1,732,108	110,000	9,900	4,100,000	6,505,295	124,017	43,340	331,597	-	21,630,583	-
2017 - 2021	2,502,741	475,667	3,980,912	929,529	-	-	5,000,000	5,606,832	124,017	23,062	331,600	-	18,974,360	-
2022 - 2026	825,707	94,758	2,062,996	197,148	-	-	6,125,000	4,478,530	49,421	2,850	257,937	-	14,094,347	-
2027 - 2031	-	-	-	-	-	-	7,580,000	3,029,590	-	-	-	-	10,609,590	-
2032 - 2036	-	-	-	-	-	-	9,345,000	1,254,257	-	-	-	-	10,599,257	-
Total	\$11,096,914	\$3,228,420	\$14,931,764	\$5,393,014	\$570,675	\$63,113	\$35,540,000	\$28,092,911	\$383,755	\$128,374	\$1,260,073	\$-	\$100,689,013	\$-

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

Defeasance of Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2006, \$6,058,700 of bonds outstanding are considered defeased, \$1,666,200 pertaining to bonds that were accounted for in business-type activities, and \$4,392,500 relating to general obligations that were accounted for within the governmental activities group. In accordance with the applicable bond indentures, the trustees will continue to extinguish the defeased debt until 2011.

Changes in Long-Term Liabilities

The following is a summary of changes in the City's long-term debt for the year ended June 30, 2006:

	Balance as of 6/30/05	Additions	Reductions	Net Amortization of Bond Discount/ Premium	Balance as of 6/30/06	Remaining Unamortized Bond (Discount) / Premium 6/30/06	Due within One Year
<u>Governmental Activities</u>							
General obligation bonds	\$ 30,526,921	\$ 14,950,000	\$ (4,098,665)	\$ 20,815	\$ 41,399,071		\$ 4,024,221
Bond anticipation notes	12,350,000	-	(12,350,000)	-	-	-	-
Loan payable-CELP	592,000	-	(79,607)	-	512,393	-	81,207
Accrued obligations for compensated absences	2,896,949	152,395	(7,124)	-	3,042,220	-	2,220,821
Governmental activity long-term liabilities	<u>\$ 46,365,870</u>	<u>\$ 15,102,395</u>	<u>\$ (16,535,396)</u>	<u>\$ 20,815</u>	<u>\$ 44,953,684</u>	<u>\$ -</u>	<u>\$ 6,326,249</u>
<u>Business-type Activities</u>							
General obligation bonds							
Water facility fund	7,585,032	4,303,107	(906,752)	5,622	10,987,009	(14,833)	989,710
Sanitary sewer fund	8,905,837	6,980,000	(1,027,005)	13,022	14,871,854	(65,212)	1,030,471
Refuse fund	555,048	200,000	(187,415)	832	568,465	(2,363)	184,337
Parking fund	4,834,229	30,810,000	(125,000)	3,666	35,522,895	(106,724)	620,000
Stormwater management fund	-	1,260,072	-	-	1,260,072	-	73,663
RedGate golf course fund	388,330	-	(5,945)	76	382,461	(1,293)	5,945
Accrued obligations for compensated absences	558,937	27,761	(28,880)	-	\$ 557,818	-	407,207
Business-type activity long-term liabilities	<u>\$ 22,827,413</u>	<u>\$ 43,580,940</u>	<u>\$ (2,280,997)</u>	<u>\$ 23,218</u>	<u>\$ 64,150,574</u>	<u>\$ (190,425)</u>	<u>\$ 3,311,333</u>

The compensated absences in the governmental activities will be paid out of the general fund.

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

F. Restricted Assets

The balances of the restricted asset accounts in the proprietary funds are as follows:

Reserved for debt payment – Water Facility	\$169,400
Reserved for debt payment – Sanitary Sewer	209,118
Reserved for debt payment – Stormwater Management	75,000
	<u>\$ 453,518</u>

G. Operating Leases

The City entered into a ten year office lease which began on June 1, 2004, and expires on May 31, 2014. Total annual rent is \$94,800, with an annual rent increase of 3% for each year, thereafter. The City also has a five year office lease which began on June 1, 2003 and expires on May 31, 2008. Total annual rent is \$90,227 with an annual rent increase of 3% each year thereafter.

Year	Rent Amount
2007	\$ 202,184
2008	208,249
2009	109,899
2010	113,196
2011	116,592
2012 - 2014	371,187
Total	<u>\$ 1,121,307</u>

H. Construction Commitments

The City has various commitments under several construction projects as of June 30, 2006. The largest of these projects is the construction of Town Center. As of June 30, 2006 the City has \$3,500,000 remaining as its commitment with various contractors. The City has an agreement with the contractor, RD Rockville, to build a residential floor for each of the 3 parking decks. These floors of the parking decks will be used for private parking. The parking spaces were sold to the developer and the developer is reimbursing money to the City monthly over the construction period.

The City has an agreement with the County to receive \$12,000,000 for Town Center in accordance with a timeline established by a Memorandum of Understanding. As of June 30, 2006, \$2,317,000 has been received. The City also has a \$3,000,000 agreement with the State of Maryland for Town Center. As of June 30, 2006, the City has received \$1,500,000 from the State.

City of Rockville, Maryland

Notes to Basic Financial Statements

June 30, 2006

(3) Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters; and employee health benefits.

The City participates in the Montgomery County Liability and Property Coverage self-insurance fund, under which participants share coverage for worker's compensation, comprehensive general, automobile and professional liability, fire and theft, and the liability for errors, omissions and other selected areas that require coverage. The Montgomery County Division of Risk Management is the administrator of the fund. The City pays an annual premium to Montgomery County for its insurance coverage.

The City continues to carry commercial insurance for employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

Washington Suburban Sanitary Commission (WSSC)

The City has contracted with the WSSC to purchase a portion of the capacity of the Blue Plains Waste Water Treatment Plant. Through June 30, 2006, the City had paid \$26,275,837 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines. The City's remaining contribution through the completion of the project is estimated to be \$13,452,216 for treatment capacity. The City intends to issue bonds to fund most of these costs.

The City has no direct ongoing equity interest in WSSC's assets and liabilities. Furthermore, the City has no significant influence over the management of the treatment facilities. Accordingly, the City does not record this contractual arrangement as a joint venture.

In addition to the capacity cost described above, the WSSC charges the City a portion of its operating costs for treatment of sewage. The City accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges which result from subsequent billings by the WSSC are recorded in the period during which the final bill is received by the City.

Litigation

The City is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. The total amount of pending lawsuits and claims not covered by insurance nor expressly provided for in these statements is considered to be immaterial.

C. Other Post-employment Benefits

In addition to the pension benefits described in Note 3D, the City provides post-employment health benefits. The pension plan, under the direction of the Retirement Board, authorizes a retiree who elects to stay with the City's policy group to receive from the City the employer's share (i.e., the same level of premium support given to current employees) of medical insurance premiums up until age 65. In the event a retiree establishes residency outside the geographic area served by the City's group health insurance carriers, that person may purchase coverage and receive reimbursement from the City in an amount not to exceed the prevailing two-person coverage employer rate granted to current employees.

City of Rockville, Maryland

Notes to Basic Financial Statements

June 30, 2006

(3) Other Information (Continued)

C. Other Post-employment Benefits (Continued)

The pension plan stipulates that eligible retirees from the administrative and union employee groups shall include those who (a) retire, having attained age 60 while employed with the City and who have completed at least 10 years of service prior to retirement, (b) take early retirement occasioned by poor health, having attained age 50 while employed with the City and having completed 10 years of service, or (c) take early retirement from the City when their age plus service equals or exceeds 85. Eligible police retirees are those who have met the conditions stated above or who have attained their normal retirement date on the first day of the month coinciding with or following the earlier of (a) the employee's 60th birthday or (b) the later of the employee's 51st birthday and completion of 25 years of credited service. Currently, the City finances the post employment health insurance benefits on a pay-as-you-go basis and expenditures for these insurance premiums are recorded in the General Fund. During fiscal year 2006, 33 retirees received post-employment health benefits. Expenditures of approximately \$33,407 were incurred by the City in furnishing these benefits.

D. Pension Plan

The City employees participate in one single-employer defined benefit pension plan and one defined contribution pension plan. The Retirement Board has the authority to establish and amend the benefit provisions of the pension plans including contribution requirements of the employees and employer.

The financial statements of the City's pension plans are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. City contributions to each plan are recognized when due and the City has a made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The Principal Financial Group is the administrator of the single-employer defined benefit plan and defined contribution plan, which was established and is administered by the City of Rockville. The Public Employee Retirement System (PERS) is considered part of the City of Rockville reporting entity and is included in the City's financial reports as pension trust funds. The plans do not issue separate financial statements.

The PERS has a defined benefit option and a defined contribution option, which are reported as separate pension trust funds.

(1) Defined Benefit Option

This option is available to police employees, which participate 100 percent in the defined benefit option regardless of the date of employment and non-police employees who were members of the plan as of April 14, 1986. All benefits vest after 10 years of credited service. An employee who retires at age 60 or a police employee with the completion of 25 years of credited service regardless of age is entitled to an annual retirement benefit, payable monthly for life (120 payments are guaranteed), for union employees in an amount equal to 1.8 percent of his/her final average salary, for each year of credited service, for administrative personnel in an amount equal to 1.8 percent before April 1, 1996, and 2.0 percent on or after April 1, 1996, of his/her final average salary, for each year of credited service and for police personnel in an amount equal to the lesser of (a)(1) 2.0 percent of his/her final average earnings multiplied by his/her years of credited service prior to April 1, 2004, plus (2) 2.25 percent of his/her final average earnings multiplied by his/her years of credited service on or after April 1, 2004, or (b) 60 percent of his/her final average earnings. Final average salary for administrative personnel and union employees is computed as the average earnings over three consecutive years within the last 10 years of service which produces the highest average and for police employees the average annual earnings is computed as the average annual earnings during the final 60 months of employment with the City.

City of Rockville, Maryland

Notes to Basic Financial Statements

June 30, 2006

(3) Other Information (Continued)

D. Pension Plan (Continued)

Covered police and pre-1986 non-police employees are required by statute to contribute a certain percent (4.2 percent for union, 5.2 percent for administrative and 8.5 percent for police) of their salaries to the plan. If an employee leaves covered employment or dies before 10 years of credited service (based upon a graduated vesting schedule of 50 percent after five years, up to 100 percent after 10 years of credited service), accumulated employee contributions plus credited interest thereon at the rate of 6 percent and a portion of the City's contribution (City contributions are deemed to be 150 percent of the employees contributions plus credited interest) are paid to the employee or designated beneficiary.

This option also is available to full-time, permanent, non-police employees hired on or after April 15, 1986. These employees also are covered by the defined contribution option described below. Employees are required to participate from the date of employment. Union employees are covered for an annual benefit equal to 1 percent of average salary and administrative personnel are covered for an annual benefit equal to 1.0 percent before April 1, 1996, and 1.2 percent on or after April 1, 1996, of average salary (as previously defined) for each year of credited service. Administrative personnel are required by statute to contribute 1 percent of their salaries to the plan starting April 1, 1996. Employees are vested 100% after 10 years of service.

(2) Defined Contribution Option

Full-time, permanent non-police employees hired on or after April 15, 1986, are required to participate in this option from the date of employment. The plan allows contributions up to a maximum of 5 percent of earnings. The employee contributions are matched \$.50 by the City for each \$1 contributed by the employee. The employee is fully vested in his/her employee contributions and investment earnings thereon. The City's contribution for each employee (City's contributions and investment earnings thereon) is partially vested after three years and fully vested after seven years of credited service. Employees attaining the age of 60 become fully vested regardless of the number of years of credited service. The contributions actually made in FY 06 for plan members were \$900,477 and the City contributed \$449,659.

Membership in the defined benefit plan consisted of the following at April 1, 2006, the date of the latest actuarial valuation.

Retirees and beneficiaries receiving payments	146
Terminated plan members entitled to but not yet receiving payments	145
Active plan members	<u>503</u>
Total	<u><u>794</u></u>

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(3) Other Information (Continued)

D. Pension Plan (Continued)

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006

	Defined Contributions Option	Defined Benefit Option	Total Pension Trust Funds
<u>Additions</u>			
Contributions			
Employer	449,659	1,476,671	1,926,330
Plan members	900,477	631,923	1,532,400
Total contributions	<u>\$ 1,350,136</u>	<u>\$ 2,108,594</u>	<u>\$ 3,458,730</u>
Investment Income			
Net appreciation in the fair value of plan investments	900,569	4,262,610	5,163,179
Interest and dividends	25,226	-	25,226
Total investment income	<u>\$ 925,795</u>	<u>\$ 4,262,610</u>	<u>\$ 5,188,405</u>
Total additions	<u>\$ 2,275,931</u>	<u>\$ 6,371,204</u>	<u>\$ 8,647,135</u>
<u>Deductions</u>			
Benefits	\$ -	\$ 2,306,404	\$ 2,306,404
Refunds to terminated employees	328,725	-	328,725
Administrative expense	28,614	2,300	30,914
Total deductions	<u>\$ 357,339</u>	<u>\$ 2,308,704</u>	<u>\$ 2,666,043</u>
Net increase	1,918,592	4,062,500	5,981,092
Net assets - beginning	10,769,746	51,807,315	62,577,061
Net assets - ending	<u>\$ 12,688,338</u>	<u>\$ 55,869,815</u>	<u>\$ 68,558,153</u>

Combining Statement of Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006

	Defined Contributions Option	Defined Benefit Option	Total Pension Trust Funds
Assets			
Investments at fair value - equity in pooled pension trust	<u>\$ 12,688,338</u>	<u>\$ 55,869,815</u>	<u>\$ 68,558,153</u>
Liabilities			
	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets			
Available for plan benefits	<u>\$ 12,688,338</u>	<u>\$ 55,869,815</u>	<u>\$ 68,558,153</u>

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(3) Other Information (Continued)

D. Pension Plan (Continued)

Funding Policy and Annual Pension Cost - Defined Benefit Option

The employee contribution requirements for the plan are set by the Retirement Board. The City's annual contribution is based on annual actuarial valuations. The City of Rockville bears the cost of administering the pension plan.

Contribution rates	
City	5.29% - 13.24%
Plan members	0.00% - 8.50%
Annual pension cost	\$1,919,531
Contributions made	\$1,919,531
Actuarial valuation date	4/1/2006
Actuarial cost method	Entry age normal
Amortization method	Closed
Amortization period	20 years
Asset valuation method	
Fixed income assets	Contract basis
United States Stock	Four years smoothed market
Actuarial assumptions	
Investment rate of return	7.75%
Projected salary increases	3.88% - 8.10%
includes inflation at	3.00%
Cost of living adjustment	1.00%

City of Rockville, Maryland

Notes to Basic Financial Statements
June 30, 2006

(4) New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2006 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City:

- GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the City beginning with its year ending June 30, 2008. This statement establishes uniform financial reporting standards for other post-employment benefit plans (OPEB plans) and supersedes existing guidance.
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, will be implemented in phases using the same criteria applied in the implementation of the new governmental reporting model. As a result, this Statement will be effective for the City beginning with its year ending June 30, 2009. This Statement will require governments to recognize an expense under the accrual basis for annual required OPEB contributions, regardless of amounts paid. This cumulative difference between amounts expensed and paid will create a liability (asset) similar to net pension obligations.
- GASB Statement No. 47, *Accounting for Termination Benefits* was effective for the City beginning after June 30, 2005. This statement provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. There were no voluntary or involuntary terminations during the current fiscal year.

APPENDIX B

Form of Legal Opinion

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[closing date]

Mayor and Council of Rockville
Rockville, Maryland

Ladies and Gentlemen:

We have examined certified copies of the legal proceedings and other proofs submitted relative to the issuance and sale by Mayor and Council of Rockville, Maryland (the "City") of \$ _____ General Obligation Bonds of 2007, dated September 27, 2007 (the "Bonds"). The Bonds bear interest, mature and are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth therein.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the City and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any change in law that may hereafter occur.

Based on the foregoing, it is our opinion that, under existing law:

1. The Bonds are valid and binding general obligations of the City, all the real and tangible personal property subject to assessment for unlimited municipal taxation within the corporate limits of which is subject to the levy of an ad valorem tax, without limitation of rate or amount, to pay the Bonds and the interest thereon.

2. Under existing law of the State of Maryland, the interest on the Bonds and profit realized from the sale or exchange of the Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied directly on the Bonds or the interest thereon.

3. Under existing law, the interest on the Bonds (i) is excludable from gross income for Federal income tax purposes, and (ii) is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations, and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

In rendering the opinion expressed above in this paragraph (3), we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate and Compliance Agreement of even date herewith executed and delivered by the City (the "Tax Agreement"), which covenants and agreements are designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the income tax regulations issued thereunder (the "Regulations") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal tax purposes. In our opinion, the covenants and agreements in the Tax Agreement are sufficient to meet such requirements (to the extent applicable to the Bonds) of the Code and Regulations. However, we assume no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includible in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds.

Other than as set forth in the preceding paragraphs 2 and 3, we express no opinion regarding the federal or state income tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Respectfully submitted,

{to be signed "Venable LLP"}

APPENDIX C

Form of the Continuing Disclosure Agreement

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of September 27, 2007 (the “Disclosure Certificate”), is executed and delivered by Mayor and Council of Rockville, Maryland (the “City”) in connection with the issuance of \$ General Obligation Bonds of 2007 (the “Obligations”). The City hereby covenants and agrees as follows:

SECTION 1. *Purpose of the Disclosure Certificate.* This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders from time to time of the Obligations and the beneficial owners from time to time of the Obligations and in order to assist the Underwriters (defined below) in complying with the Rule (defined below).

SECTION 2. *Definitions.* In addition to the definitions set forth above, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 4 and 5 of this Disclosure Certificate.

“Disclosure Representative” shall mean the Director of Finance of the City or his designee, or such other person as the City shall designate from time to time.

“Dissemination Agent” shall mean the City or any Dissemination Agent designated in writing by the City.

“Listed Events” shall mean any of the events listed in Section 6(a) of this Disclosure Certificate.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository recognized by the Securities and Exchange Commission for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)

Standard & Poor's Securities Evaluations, Inc.

55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975

“Repository” shall mean each National Repository and each State Repository. The listing of repositories herein shall be automatically amended from time to time if the Securities and Exchange Commission ("SEC") designates additional or other entities as “Nationally Recognized Municipal Securities Information Repositories” (“NRMSIRs”) under the Rule, or if the SEC at any time revokes the designation of an entity as a NRMSIR under the Rule.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of Maryland as a state repository for the purpose of the Rule. As of the date of this Disclosure Certificate, there is no State Repository.

“Underwriters” shall mean and include the original underwriter(s) of any of the Obligations required to comply with the Rule in connection with the offering or sale of the Obligations.

SECTION 3. Scope of Agreement.

(a) The disclosure obligations under this Disclosure Certificate relate solely to the Obligations. Such disclosure obligations are not applicable to any other securities issued or to be issued by the City.

(b) The City is the only "obligated person" with respect to the Obligations within the meaning of the Rule.

SECTION 4. Provision of Annual Reports. The City shall, not later than March 31 after the end of the Fiscal Year, commencing with the Fiscal Year ending June 30, 2007, provide to each Repository an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Certificate. In each case, the Annual Report may be submitted as a single document

or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report.

SECTION 5. *Content of Annual Reports.* The City's Annual Report shall contain or incorporate by reference the following:

- Comprehensive audited financial statements for the immediately preceding fiscal year, prepared in accordance with generally accepted accounting principles; and
- the following information provided in the Official Statement prepared and delivered by the City with respect to the Obligations: the Tables listed immediately below utilizing the same accounting standards as were used in preparing such information for the Official Statement and updated as of a date no earlier than the last day of the immediately preceding fiscal year.
 - Historical Summary of Bonded Indebtedness
 - General Obligation Debt Outstanding by Issue
 - General Obligation Debt Schedule of Annual Maturities
 - General Obligation Debt City Net Requirement Analysis
 - Overlapping Debt
 - General Fund Statement of Revenues and Expenditures and Changes in the General Fund
 - Assessed and Estimated Market Value of Taxable Property
 - Assessed Value of All Taxable Property by Class
 - Property Tax Levies and Collections
 - Property Tax Rates Overlapping Governments
 - Corporation Real Property Taxes
 - Corporation Personal Property Taxes

SECTION 6. *Reporting of Significant Events.*

(a) In a timely manner, the City will provide to each Repository and to the Municipal Securities Rulemaking Board, notice of the occurrence of any of the following events with respect to the Obligations, if material:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers or their failure to perform;

- Adverse tax opinions or events affecting the tax-exempt status of the Obligations;
- Modifications to rights of holders of the Obligations;
- Obligation calls,
- Defeasances;
- Release, substitution, or sale of property securing repayment of the Obligations;
or
- Ratings changes.

The City hereby acknowledges that certain of the above-enumerated events do not, and are not ever expected to, apply to the Obligations. Nevertheless, the City intends to provide the Underwriters with complete assistance in complying with the Rule. Therefore, the City covenants to provide notice of all of the above-enumerated events should they occur.

(b) In a timely manner, the City will give to each Repository, or to the Municipal Securities Rulemaking Board and the State Repository (if any), notice of any failure to comply with the covenants set forth herein.

SECTION 7. Filing with Certain Dissemination Agents or Conduits. The City may satisfy its obligations under this Disclosure Agreement to file any notice, document or information with a Repository by filing the same with any dissemination agent or conduit, including any “central post office” or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such Repository, to the extent permitted by the Securities and Exchange Commission or its staff or required by the Securities and Exchange Commission. For this purpose, permission shall be deemed to have been granted by the Securities and Exchange Commission staff if and to the extent the agent or conduit has received an interpretive letter, which has not been revoked, from the Securities and Exchange Commission staff to the effect that using the agent or conduit to transmit information to the Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the Repositories.

SECTION 8. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate when there are no longer any Obligations outstanding.

SECTION 9. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 10. *Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) said amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted by the City;

(b) said provision, as amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the initial offering of the Obligations after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) said amendment or waiver does not materially impair the interests of holders of the Obligations, as determined either by nationally recognized bond counsel or by an approving vote of the holders of 25% of the outstanding aggregate principal amount of the Obligations.

SECTION 11. *Additional Information.* Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrences of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 12. *Default.* Failure to comply with this Disclosure Certificate shall not be deemed to be a default or an event of default with respect to the Obligations.

SECTION 13. *Beneficiaries.* This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent (if any), the Underwriters, and the holders and beneficial owners from time to time of the Obligations, and shall create no rights in any other person or entity.

MAYOR AND COUNCIL OF ROCKVILLE,
MARYLAND

By: _____
Gavin Cohen
Director of Finance