

MEMORANDUM

DATE: July 9, 2025

FROM: Financial Advisory Board
City of Rockville

TO: The Honorable Mayor and Councilmembers
City of Rockville

SUBJECT: FY 2025 Annual Report and the Proposed FY 2026 Action Plan

On July 9, 2025, the Financial Advisory Board (the Board) approved its Annual Report for FY 2025. Also, on July 9, 2025, the Board adopted a proposed FY 2026 Action Plan. The two documents are Enclosure A and Enclosure B, respectively, to this memorandum. When the Board presents to the Mayor and Council, the Board requests the Council accept the FY 2025 Annual Report and approve the proposed FY 2026 Action Plan.

At the Board meeting on May 21, 2025, Dr. Robert Wright was elected Chair of the Financial Advisory Board for FY 2026. For the first time the Board also elected a Vice Chair, Mr. Michael Patrick.

The Board thanks the Mayor, Councilmembers, the City Manager, the City Clerk/Director of Council Operations and the city staff for their support during the fiscal year. We are grateful to have Mr. Barry Jackson as the Council liaison to the Board and look forward to his continued service as the liaison. Ms. Xiaojing Zhang, Director of Accounting is the city staff liaison to the Board. Ms. Zhang's efforts in logistics and support of the Board are outstanding.

Mr. William Mako was appointed to the Board in October 2024. Mr. Gary Correll resigned in November 2024. In March 2025 the Mayor and Council appointed Mr. Michael Wheet to the Board. Ms. Diane Hack Gould resigned in April 2025. That vacancy has not yet been filled. Thus, at the close of FY 2025 we had six members out of seven authorized members serving on the Board.

There were nine Board meetings in FY 2025. As required by the Rockville City Code we met at least once in each fiscal year quarter in City Hall. Board meetings took place on August 7, 2024; September 4, 2024; November 13, 2024; January 15, 2025; February 12, 2025; March 12, 2025; April 9, 2025; April 23, 2025; and May 21, 2025.

FY 2025 ANNUAL REPORT

Enclosure A to this memorandum is the complete FY 2025 Annual Report. The Board is required to review six actions (Actions 1-6) as mandated by the City Code, Chapter 2, Division 2, Section 2-241. There were no material findings in those reviews. Action 6 is quite extensive as it requires the Board review the contents of the entire budget. The questions and comments and staff responses for that review are documented and available upon request to our staff liaison Ms. Xiaojing Zhang or the Deputy Chief Financial Officer, Ms. Kim Francisco.

In FY 2025 the Board forwarded the following three memorandums:

1. Memorandum to the Honorable Mayor and Councilmembers, RE: FY 2024 Annual Report and the Proposed FY 2025 Action Plan, August 7, 2024.

Memorandum to the Mayor and Council

2. Memorandum to the Honorable Mayor and Councilmembers RE: Review of the FY 2024 Procurement Annual Report and FY 2025/FY 2027 Strategic Plan, April 9, 2025.
3. Memorandum to the Honorable Mayor and Councilmembers RE: Review of the Proposed FY 2026 Operating Budget and Capital Improvements Program, April 23, 2025.

The Financial Advisory Board completed a New Member Orientation Manual in January 2025 specifically tailored to the Board. The manual includes a welcome message from the Mayor and Council.

PROPOSED FY 2026 ACTION PLAN

Two actions from FY 2025, Action 8, “Review the Rockville Community Survey to assure that it reflects residents’ evaluation of the included questions regarding the City’s finances and how well they are perceived.” and Action 10, “Review annual revenue sources” were not carried forward into FY 2026. The closures for those two actions are described in the FY 2025 Annual Report (Enclosure A).

Enclosure B is the Financial Advisory Board’s proposed FY 2026 Action Plan. One new action was added, Action 10. That action asks if other municipalities like Rockville have financial best practices that are not currently used by the City. If so, what are they and should Rockville adopt them.

CLOSURE

We look forward to working with the Mayor and Council, the City Manager, and the city staff in FY 2026. If during FY 2026 an issue arises that the Board believes merits your attention, we will petition to amend the FY 2026 Action Plan. Our annual presentation to you is scheduled for September 15, 2025. At that time, we request you accept the FY 2025 Annual Report and approve our proposed FY 2026 Action Plan.

Respectfully,

Members of the Financial Advisory Board

Mr. Jack Kelly
Mr. William Mako
Ms. Lori Merrill
Mr. Michael Patrick, Vice Chair
Mr. Michael Wheet
Dr. Robert Wright, Chair

CC Mr. Jeffrey J. Mihelich, City Manager
 Mr. Barack Matite, Deputy City Manager
 Mr. Robert Dawson, City Attorney

Memorandum to the Mayor and Council

Ms. Sara Taylor-Ferrell, City Clerk/Director of Council Operations
Ms. Stacey Webster, Chief Financial Officer
Ms. Kimberly Francisco, Deputy Chief Financial Officer
Ms. Xiaojing Zhang, Director, Office of Accounting, Department of Finance, and Staff
Liaison to the Board
Councilmember Barry Jackson, Council Liaison to the Board

Enclosures: A. Financial Advisory Board FY 2025 Annual Report
 B. Financial Advisory Board Proposed FY 2026 Action Plan
 Annex 1: FAB Review of the FY 2024 Annual Comprehensive Financial Report
 Annex 2: FAB Review of the FY 2024 Popular Annual Financial Report

**ENCLOSURE A
CITY OF ROCKVILLE
FINANCIAL ADVISORY BOARD
FY 2025 ANNUAL REPORT**

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FY 2025 ACTION PLAN ACCOMPLISHMENTS

1. *Annually review the City's Comprehensive Annual Financial Report, the Single Audit Report, and all other reports issued by the auditors and published in final form. The review should encompass and include any management letters and audit findings, as appropriate. [Mako]*
 - a. *Additionally review the Popular Annual Financial Report (PAFR)*

Annual Comprehensive Financial Report

An email dated May 1, 2025 from Financial Advisory Board (the Board) member Mr. William Mako to Ms. Xiaojing Zhang noted that according to the independent audit report, the City's financial statements and related notes "present fairly, in all material respects, the respective financial position of the [City] as of June 30, 2024." The auditor also concluded that supplementary information "presented for the purposes of additional analysis . . . is fairly stated, in all material respects, in relation to the basic financial statements as a whole." In addition, having reviewed other information in the introductory and statistical sections for material consistency with the basic financial statements, the independent auditor raised no questions. Hence, on this material, no further comment is warranted.

After noting that--

- (i) the Government Financial Officers Association (GFOA) values highly the Annual Comprehensive Financial Reports (ACFR) ["The ACFR should be the normal means for a government to meet its financial reporting responsibilities...for the benefit of existing or potential holders of municipal securities."] and
- (ii) consistently the City receives GFOA's "Certificate of Achievement of Excellence in Financial Reporting" award for its ACFRs.

Mr. Mako suggested minor changes to the ACFR's Transmittal Letter (TL) and Management's Discussion and Analysis (MD&A) that might nevertheless enhance the communication of useful information to current or potential investors.

In her initial response dated May 2, 2025, Ms. Zhang expressed thanks for this review: "We greatly appreciate your comments and feedback. I would like to let you know that many of the tables and content in the ACFR are prescribed by the *Government Accounting Standards Board* (GASB) and not readily changeable; but I will consider some of the suggestions that enhance clarity and provide greater economic insights." The Board recognizes the GASB's authority.

In a follow-up email dated May 21, 2025, Ms. Zhang indicated that--

- (i) the Finance Department will consider including in future MD&As a short description of the City's policy on maintaining the General Fund unassigned reserve within a specified range and how the City implements this policy, and
- (ii) consider adding some highlights from REDI's periodic economic overview – if available – to the MD&A of "Economic Factors and Next Year's Budget and Rates."

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Although the Finance Department has not agreed, the Board continues to recommend that--

- (i) the Transmittal Letter include some details to support the claim that “management has established a comprehensive internal control framework;” and
- (ii) the MD&A of “Financial Highlights” consider including some different or additional items.

For a complete record of the exchanges between the Board and staff regarding the FY2024 ACFR, see Annex 1 (enclosed).

Popular Annual Financial Report

In his email dated May 16, 2025 to the Finance Department, Mr. Mako expressed admiration for the FY 2024 Popular Annual Financial Report (PAFR). The GFOA has regularly provided the City with an “Award for Outstanding Achievement in Popular Annual Financial Reporting.”

Nonetheless, from his perspective as a resident who appreciates excellent municipal services but doesn’t want to pay too much for them, Mr. Mako suggested a few changes that might make future PAFRs even better. These include:

- (i) a summary of how government accounting differs from corporate accounting;
- (ii) less discussion on city-wide statements of financial position and activities;
- (iii) more discussion of General Fund (GF) revenues and expenditures, including the importance of the General Fund’s unassigned reserve and how the City manages it;
- (iv) some discussion of interest expense savings from the City’s AAA rating;
- (v) some reordering of the discussion on property taxes and utility bills; and
- (vi) suggested improvements to the PAFR’s page 12 exhibits on enterprise fund policy targets for the City’s utilities.

An email dated May 16, 2025 from Ms. Kim Francisco indicated that she “will take these into consideration as the FY 2025 PAFR is being prepared.” She also responded to a few questions in Mr. Mako’s email. His question about the presentation on finances for the City’s four utilities, however, remains an open matter.

For a complete record of the exchanges between the Board and staff regarding the FY 2024 PAFR, see Annex 2 (enclosed).

2. *Annually review the City’s Financial Management Policies published in the City’s budget document to evaluate whether those policies are appropriate. [Mako]*

At the Board meeting on April 9, 2025 Mr. Mako asked Ms. Francisco if there were planned changes in FY 2026 to the Financial Management Policies. Ms. Francisco noted one change, which is to include the word “designee”, i.e., the City manager *or his/her designee* may approve the use of contingency funds and budget transfers. No Board member raised questions or objected to this change.

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3. *Annually review the City's investment policy to evaluate whether that policy is appropriate. [Wheet]*

In FY 2024 the Board, received a presentation by the City's Chief Financial Officer and the City's investment advisor, PFM Asset Management, regarding an update to the City's investment policy to be consistent with the State of Maryland laws regarding such policies. In FY 2025 there were no changes to the City's investment policy. PFM Asset Management continues as the City's investment advisor.

In a memorandum, dated April 24, 2024, to the Chief Financial Officer was a reminder that Section XIX of the Investment Policy requires a certification of compliance with the Investment Policy and a certification that the City has sufficient liquidity to meet its expenditure obligations for the next six months. These certifications now appear in the web page subheading for the "Investment Policy and Reports" of the City's web page for Budget:

For the investment reports posted below, city staff acknowledges compliance with the city's [Statement of Investment Policy](#) and certifies that the city has sufficient liquidity to meet its expenditure obligations for the next six months

The Board believes that a better practice would be to incorporate the certification into each Investment Report. The Board intends to discern the appropriate form of a certification statement in FY 2026.

No modification to the City's Investment Policy was noted in the proposed FY 2026 Operating Budget and CIP.

4. *Review the City's cash and investment report when published. [Patrick]*

As of June 30, 2025, Investment Reports for the fourth quarter of FY 2024 and the first, second, and third quarters of FY 2025 have been published on the City's website. These reports, prepared by the City's investment advisor, PFM Asset Management, LLC, provide an overview of the portion of the City's investments managed by PFM.

The reports indicate that the PFM-managed portfolio remains compliant with the State of Maryland's statutory requirements and continues to prioritize safety, liquidity, and yield. As of March 31, 2025, the portfolio held approximately \$44.1 million, with an effective duration of 2.47 years and an average credit quality of AA. The report also reflects reasonable economic expectations for interest rates and market conditions, while acknowledging ongoing market volatility and uncertainty.

However, it is important to note that these reports do not provide a comprehensive view of all the City's investments. Additional invested balances held outside of the PFM-managed portfolio are not included in these reports, specifically in the Maryland Local Government Investment Pool (MLGIP, \$45.3 million as of June 30, 2024) and certificates of deposit (CDs, \$8.3 million as of June 30, 2024).

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5. *Review the City's quarterly financial reports (QFR) to assess whether spending and revenue collection are tracking with adopted and amended budgets, analyzing variances, and to highlight problem areas, if any. [Merrill]*

As of June 30, 2025, Ms. Merrill has reviewed the FY 2024 4th Quarter and FY 2025 1st, 2nd, and 3rd Quarter Financial Reports posted on the City's website. The reports are reasonable, and no further analysis is needed. The City appears to be on target with most of its expenditures and revenues. The general contingency fund was supported by subscription-based information technology arrangements (SBITAs) savings and was at zero at the end of Q3. Assuming there are no unanticipated expenses during the 4th quarter, the City is likely to have a surplus in the General Fund at the end of FY 2024.

6. *Annually provide comments and recommendations, as appropriate, regarding the next fiscal year's Operating and Capital budgets. [Board as a whole]*

The review by the Financial Advisory Board (the Board) of the Proposed FY 2026 Operating Budget and Capital Investments Program had no material findings. In a memorandum dated April 23, 2025, the Board recommended to the Mayor and Council the following:

- a) Staff should continue to contemporaneously record the interaction between the Board and staff during the budget review.
- b) Staff should continue to apply for external grants as grants in some areas provide substantial amounts of funds.
- c) In support of Vision Zero the Mayor and Council should pursue a legislative initiative to increase the value of fines associated with red light and speed cameras.
- d) The proposed FY 2026 budget introduces considerations worth noting given the current economic environment and in advance of the City's next planned debt issuance in FY 2027. These actions will help the City retain its AAA/Aaa credit rating from the credit rating agencies.

7. *Review City actions to implement the Calyptus 2015 Purchasing Study as well as other actions the City has taken to address the Board's recommendations regarding the City's procurement activities. [Kelly]*

This was the first year since the Board began tracking the implementation of the 2015 Calyptus recommendations that the Procurement Department did not present its Procurement Annual Report to the Mayor and Council. The Procurement Director graciously did present a special briefing on February 12, 2025, to the Board on both the FY 2024 Procurement Annual Report and the FY 2025/FY 2027 Strategic Plan for Procurement. The Board was pleased to note that the Procurement Department had incorporated many of the suggestions made by it via comments on the FY 2023 Procurement Annual Report. One Board suggestion not addressed in the FY 2024 report was the inclusion of footnotes that identified grant spending included in the Purchase Order totals. The Procurement Director stated that staff will consider including those footnotes in future reports. There were two other suggestions regarding changes to future reports. Those suggestions

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were documented in the meeting minutes for February 12, 2025, and will be tracked when future reports are received.

The Board commented on the FY 2025/FY 2027 Strategic Plan and noted it included a detailed objective to “explore and adopt a methodology for strategic sourcing.” The Procurement Director asked whether including this objective would satisfy the Board regarding the Calyptus recommendation to implement a strategic sourcing program. The Board said it needed time to consider this question and, in a subsequent memorandum, clarified that it requires that the Procurement Department first demonstrate at least one successful procurement using a strategic sourcing methodology. That methodology ought to be documented, along with the results achieved, and be presented to the Board. The Board asked that the Procurement Annual Report continue to include steps taken to implement the strategic sourcing methodology.

Finally, the Board intends to forward a memorandum to the Procurement Director outlining critical content that ought to be included in future Procurement Annual Reports. Some of this content will address apparent discrepancies in how grant spending is presented in the printed Adopted Budgets and the Excel Budget Workbook. The Board intends to complete this memorandum early in FY 2026.

8. *Review the Rockville Community Survey to assure that it reflects residents' evaluation of the included questions regarding the City's finances and how well they are perceived. [Merrill]*

The Financial Advisory Board (the Board) discussed the FY 2024 Resident Survey at its meeting on January 15, 2025. We are pleased most residents believe the quality of life in Rockville is outstanding. Although we did not have the opportunity to provide input (Action 8 in the Board's FY 2025 Action Plan and Action 10 in the Board's FY 2024 Action Plan) we note the following from our review:

- a. As noted in the resident survey “the results of the survey comprise a major component of Rockville’s work to measure performance and also are intended for use in planning and resource allocation.” The Board is not aware of any reference in an operating budget that the results of the survey were used to either plan or allocate resources either to a particular activity or project.
- b. Although actions might be constructed afterwards, the survey would be more valuable if questions had been drafted in an actionable format. For example, ask what actions would make you feel safer during the day: (1) wider sidewalks, (2) emergency phones available, (3) cleaner streets, sidewalks and garages, (4) better signage, (5) greater police presence.

The Board notes that FY 2026 has funding for procuring a vendor for the biennial community survey and that the City Staff do not need or want Board input into the survey. We plan to include a review of the 2026 Rockville Community Survey in the FY 2027 Action Plan.

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9. *Conduct a comprehensive review of all City awarded grants including associated activities and processes. Report material findings regarding those activities and associated processes and recommend improvements. [Merrill/Kelly]*

The focus for FY 2025 was a comprehensive review of the grant process and grants update for the Community Services and Enrichment Grant Program that was proposed for the FY 2026 Budget. Prior to FY 2026, the city had two separate community grant processes: the caregiver agency grants, for organizations that help meet basic needs; and the community organization grants, for organizations that provide other benefits to Rockville individuals and families. A third, much smaller, grant program called the Community Empowerment Matching Grant program was created in FY 2025 within the JEDI Cost Center in the City Manager's Office. The processes for the two larger grant programs were consolidated for FY 2026, into a single Community Services and Enrichment Grants process. Beginning in FY 2026, all grants are now budgeted within the Department of Housing and Community Development, Community Services Division.

The Board received information and reviewed the Community Services and Enrichment Grants process and found it well documented and had no further questions on review. The Board requested information on the Community Empowerment Matching Grant process and has not yet received that information. The Board proposes to review the process in FY 2026.

10. *Review annual revenue sources [Wright]*

No single source was identified for municipalities to access different types of revenue sources, that includes the Maryland Municipal League. Ms. Francisco has said City fees are frequently evaluated and benchmarked Internally, and proposed changes are reflected in the next fiscal year's proposed budget. Fees that are frequently reviewed by an external consultant are those for utilities, particularly those for water, sewer, and storm water management. Finding new fees for revenue is best accomplished through conferences and workshops attended by city staff. This Action will not be proposed in FY 2026.

11. *Review Rockville's use of financial Key Performance Indicators (KPIs), note trends, and benchmark its KPIs against comparable municipalities. [Patrick]*

Through analysis of credit rating agency reports, we identified several key financial metrics commonly used to evaluate municipal creditworthiness. These included indicators related to assessed property values, available fund balances, liquidity, long-term liabilities (including pension and OPEB obligations), and fixed costs.

While we sought to benchmark these KPIs against other Maryland municipalities, we were unable to identify consistent, comparable data across jurisdictions due to significant variations in reporting methods and calculations.

The insight we gained informed our feedback on the City's FY 2026 proposed budget, as reflected in the Board's budget review memo. Specifically, we highlighted how certain budget elements could influence these KPIs, such as the Compensation and Classification Study recommendations and the

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practice of cash-funding capital projects in advance of bi-annual debt issuances. While the City's AAA/Aaa credit rating remains well-supported, we noted that these factors may contribute to downward movement in some metrics over the coming year. Ongoing monitoring of these KPIs will remain important as the City approaches its next planned debt issuance in FY 2027.

OTHER

In January 2025 the Board completed a NEW MEMBER ORIENTATION MANUAL tailored to the Board. It includes a welcome message from the Mayor and Council on the back side of the front cover. It is a living document. Feedback from new Board members is solicited. A recent new Board member reports that it is well done and helpful.

**ENCLOSURE B
CITY OF ROCKVILLE
FINANCIAL ADVISORY BOARD
PROPOSED FY 2026 ACTION PLAN**

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Actions in the Rockville Municipal Code

NO.	ACTION	FAB LEAD	NARRATIVE	ORIGIN	RKV STAFF
1	Annually review the City's Annual Comprehensive Financial Report, the Single Audit Report, and all other reports issued by the auditors and published in final form. The review should encompass and include any management letters and audit findings, as appropriate. Additionally review the Popular Annual Financial Report (PAFR).	MAKO	In FY 2026 the Board will review the FY 2025 Annual Comprehensive Financial Report and the Popular Annual Financial Report.	§ 2-241 (c)	Xiaojing Zhang 8413 Kim Francisco 8402
2	Annually review changes to the City's Financial Management Policies published in the City's budget document to evaluate whether those policies are appropriate.	MAKO	In FY 2026 the Board will review only <u>newly</u> adopted and amended Financial Management Policies.	§ 2-241 (d)	Kim Francisco 8402 Stacey Webster 8407
3	Annually review the City's investment policy to evaluate whether that policy is appropriate.	WHEET	The City's Investment Policy was updated in May 2024. The Board does not anticipate updates to the Investment Policy in FY 2026.	§ 2-241 (e)	Kim Francisco 8402 Stacey Webster 8407

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Actions in the Rockville Municipal Code

NO.	ACTION	FAB LEAD	NARRATIVE	ORIGIN	RKV STAFF
4	Review the City's cash and investment report when published.	WHEET	Reports will be reviewed when published in FY 2026.	§ 2-241 (f)	Kim Francisco 8402 Stacey Webster 8407
5	Review the City's quarterly financial reports (QFR) to assess whether spending and revenue collection are tracking with adopted and amended budgets, analyzing variances, and to highlight problem areas, if any.	MERRILL	In FY 2026 the quarterly financial reports (QFR) will be reviewed after posting to the City's website.	§ 2-241 (g)	Kim Francisco 8402
6	Annually provide comments and recommendations, as appropriate, regarding the next fiscal year's Operating and Capital budgets.	BOARD	All members of the Board will participate in the review of the Proposed FY 2027 Operating Budget and Capital Improvements Program. Selected performance measures in the budget will be reviewed for effectiveness, efficiency and support of the Mayor and Council's Critical Success Factors.	§ 2-241 (h)	Kim Francisco 8402

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Actions Proposed to the Mayor and Council

NO.	ACTION	FAB LEAD	NARRATIVE	ORIGIN	RKV STAFF
7	Assess actions by the Procurement Department to a) Implement a strategic sourcing methodology (a Calyptus Report recommendation), b) Implement its Strategic Plan, c) Increase competitive bidding for goods and services, d) Classify spending by various pathways, e.g., disparate sources for piggy-back contracting.	KELLY MAKO	The Board will continue to review the City's Procurement Annual Report and the implementation of its Procurement Strategic Plan, including progress on the implementation of the City's strategic sourcing methodology, increasing the number of awards competitively bid, and identifying spending via different procurement pathways. The Board will continue to review the Year-End MFD-V Outreach Report, will work with City staff to annotate the Procurement Annual Report to reflect the inclusion of grant awards among the normal procurement activities	FAB Proposed	Jessica Lewis 8432
8	Conduct a comprehensive review of the complete process, beginning to end, used by the Community Empowerment Matching Grant Program to make awards. Report material findings regarding those processes and if appropriate recommend improvements.	MERRILL KELLY	In FY 2026 the Board will evaluate the processes used by the City to award grants for thoroughness, consistency, transparency and accountability. A review of the processes used by the Community Empowerment Matching Grant Program to make awards will be conducted.	FAB Proposed	Sarah Maizel 8304

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Actions Proposed to the Mayor and Council

NO.	ACTION	FAB LEAD	NARRATIVE	ORIGIN	RKV STAFF
9	Monitor changes in key financial performance indicators (KPIs) that could materially affect the City's AAA/Aaa credit rating.	PATRICK	Credit rating agencies assess a variety of factors when determining ratings for municipal governments. Some of these factors are derived directly from financial records, such as fund balance levels, debt ratios, and pension or OPEB liabilities. Others reflect broader economic conditions, including national and regional GDP growth. We will regularly review the City's quarterly and annual financial reports, as well as the FY 2027 budget, to track trends and developments in the financial KPIs used by the credit rating agencies. Should we identify any changes that may pose a risk to the City's current AAA/Aaa credit rating, when significant we will promptly bring these matters to the attention of the Mayor and Council.	FAB Proposed	Kim Francisco 8402

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Actions Proposed to the Mayor and Council

10	Review best practices for similarly sized municipalities and assess whether there are any recommendations for high-impact financial or operational review procedures that could be performed using existing budgeted resources	PATRICK	Like many cities of similar size, Rockville does not maintain a formal internal audit function but has a small budget available to engage an external firm for limited-scope procedures if desired. To date, these funds have typically been used only in response to known issues. Best practices among similarly sized U.S. municipalities suggest that targeted audit procedures on key financial and operational processes can provide valuable insight and support strong stewardship of public resources (e.g. reviews of procurement practices, payroll and overtime controls, cash handling processes, revenue assurance, etc.). We will explore potential focus areas and recommend any procedures that may warrant consideration by the Mayor and Council.	FAB Proposed	Kim Francisco 8402
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**ANNEX 1
CITY OF ROCKVILLE
FINANCIAL ADVISORY BOARD
FY 2025 ANNUAL REPORT**

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Annex 1: FAB Review of the FY2024 Annual Comprehensive Financial Report (ACFR)

Original FAB comments in plain text. Finance Department responses underlined. Any further comments from FAB in *italics*.

Possible additions:

1.) The Transmittal Letter (TL) states (p.5) that “. . . management has established a comprehensive internal control framework that is designed both to protect the government’s assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the City’s financial statements in conformity with GAAP.” Such protection and reliability goals are of great interest. Hence, we suggest providing a few more sentences of explanation on how the City’s internal control framework operates and why an internal control audit office is not warranted.

The City’s internal control framework includes, but is not limited to, segregation of duties for finance functions, monthly audits of purchase card transactions, set schedules of high-risk assets, and audits of petty cash at City facilities. Because the cost of internal controls should not outweigh their benefits, management believes that the current internal controls operate well and an internal audit office is not warranted.

It would be good to add such explanation to the TL to support the claim of a “comprehensive internal control framework.”

2.) Some of the items in MD&A of “Financial Highlights” seem more meaningful (e.g., unassigned General Fund balance/adopted budgeted revenues, decrease in principal debt outstanding, average investment balance and average rate of return) than others (e.g., funds’ absolute net positions). Readers might also welcome inclusion in the “Financial Highlights” of the following items:

- Bond rating – disclosed in the Transmittal Letter, page 7, and MFD&A page 24
- The trend in debt to assessed property valuation – disclosed on page 95
- The trend in debt per capital – disclosed on page 95
- The trend in debt per capita as a percent of per capita income
- The trend in debt per capita as a percent of the operating budget
- The trend in debt service as a percent of the operating budget
- Budget variances – disclosed on page 75 and in the RSI page 77 and 86 and OSI pages 81-82
- Enterprise fund compliance with financial management policies
- The trend in real and personal property values (from Part III Statistical Section, unaudited) – disclosed on page 90
- The trend in property tax collection during the fiscal year levied (“) – disclosed on page 93

We will consider including the trend in debt per capita as a percent of per capita income, the trend in debt service as a percent of the operating budget, and enterprise fund compliance with financial management policies in the Statistical Section; however, we believe they are not necessary because these are disclosed in our budget document. All other “Financial Highlights” you mentioned are

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included in the RSI, OSI and Statistical Section of the document. MD&A presents the two fiscal year comparisons, and it is not intended to present long-term trends or other highlights found elsewhere in the document.

We observed that the above-listed items are presented elsewhere in the ACFR. Our question is whether readers might consider some of these as more of a “financial highlight” than some of the items (e.g., funds’ absolute net positions) now presented in “Financial Highlights.”

3.) Include in MD&A a short description of the City’s policy on maintaining the General Fund unassigned reserve within a specified range and how the City implements this policy. – We will consider this.

4.) The text on changes in net position (pp. 19-22) is sometimes challenging to read through. Two tables included on pages 19 & 20 showing FY23-to-FY24 changes in government-wide assets/liabilities/net position and revenues/expenses/net position are helpful. The addition of similar 2-FY comparisons for the General Fund and total Enterprise Funds could similarly help readers. – The total enterprise funds comparisons are presented “Business-Type.” We will not present General Fund separately. Readers can easily refer to the Basic Fund Statements if they need to see details about the General Fund.

5.) In MD&A of “General Budgetary Fund Highlights,” two additional tables showing (i) changes in the amended vs. adopted budget for the current fiscal year, and (ii) a comparison of amended budgets for the current and previous fiscal years would provide meaningful information on changes in priorities or unexpected events. – This comparison for the audited fiscal year is disclosed on page 75 of the RSI budgetary comparison schedule for General Fund. We do not provide budgetary comparisons for prior years.

6.) MD&A of “Economic Factors and Next Year’s Budget and Rates” (p. 34) doesn’t actually discuss economic factors. If MD&A is going to claim consideration of economic factors, it could at least include some highlights from REDI’s periodic economic overview. – We will consider adding some highlights from REDI’s economic overviews, if available.

ANNEX 1
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Possible deletions:

- 1.) The photos on pp. 17 and 23 of the MD&A take up space. It might be better to exclude photos and either make the MD&A text more compact or include (as suggested above) some additional comparative tables.
- 2.) The graphic exhibits on pp.21-22 of the MD&A certainly look appropriate for a Popular Annual Financial Report. But for this MD&A, efficient text and interesting tables could suffice.

Possible edits:

- 1.) The LT (pp.6-7) states that “The City’s economic environment mirrors what is being experienced regionally and nationally.” A table then shows Montgomery County labor statistics plus County and State unemployment rates for 2019-2024. To efficiently support the “mirrors” assertion, perhaps change the table on p.7 to include only multi-year unemployment rates for Rockville, Montgomery County, Maryland, and the U.S. (i.e., exclude County employment numbers). Rockville unemployment rates are in a table on p.97 of the FY2024 ACFR. It might be worth noting in the text that the City’s unemployment rates have been lower than those for the County and State since FY2020. Also, this table and discussion might be better placed in the MD&A section on “Economic Factors and Next Year’s Budget and Rates.”
- 2.) The 1st paragraph in MD&A basically just advises the reader to read elsewhere. It might be better here to outline what MD&A will cover.: I. Financial Highlights; II. Overview (and Explanation) of the Financial Statements; III. Government-wide Financial Analysis; IV. Financial Analysis of the Government’s Funds; V. General Fund Budgetary Highlights; VI. Capital Asset and Debt Administration; and VII. Economic Factors and Next Year’s Budgets and Rates.
- 3.) The “Overview of Financial Statements” in MD&A does a good job of summarizing the focus and composition of the City’s various funds. This section also includes many sentences summarizing fund increases or decreases from FY23 to FY24. Further editing of this text (e.g., pp.19-22) might enhance its clarity and meaningfulness. Or – perhaps better – the CAFR could include (as suggested above) a few additional comparative tables. This would make the text easier to appreciate.
- 4.) P.98 in the "Statistical Section" of MD&A lists 15 major employers and promises the number of employees and percentage of City employment by each for FY2024 and FY2015. For 10 of the 15 for FY2024, however, the entries for employment are designated as “not applicable for the fiscal year presented.” What does this mean? Are these firms still in Rockville? In addition, the inclusion of FY2015 employment for 3 firms for which FY2024 data are “not applicable” muddies the attempted comparison of FY2024 vs. FY2015 employment by major employers. This table does show that employment has increased for the County/City governments and schools. But it really doesn’t show anything meaningful for large corporate employers. Corporate employment, however, seems an important topic and worth discussing in MD&A of “Economic Factors.” For future ACFRs, it would be

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useful if REDI could provide some meaningful and comparable multi-year data on major private-sector employment.

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Annex 2: FAB Review of the FY2024 Popular Annual Financial Report (PAFR)

Original FAB comments in plain text. Finance Department responses underlined. Any further comments from FAB in *italics*.

P.3: To orient non-financial expert resident readers, the discussion of “Financial Structure” could begin with a few introductory sentences on why municipal accounting is more complicated (e.g., 12 funds/sets of financial statements for the City of Rockville) than corporate accounting (usually 1 set of financial statements). E.g.: “In contrast to the corporate focus on profitability, municipalities must provide services, fairly allocating service costs, and maintain financial stability. This requires a mix of government, enterprise, and fiduciary funds.” Or something like that.

P.5: How much interest would the average non-financial expert resident reader have in this full 1-page discussion of City-wide statements of activities and net position? It might be appropriate to edit this down to $\frac{1}{4}$ or $\frac{1}{2}$ of a page – directing any reader seeking more info to the ACFR – and use the saved $\frac{3}{4}$ or $\frac{1}{2}$ page to talk more about the General Fund and Enterprise Funds, which might be of more practical interest to resident readers.

Pages 6-7 on General Fund revenues and expenditures: It might be worthwhile to note (on p.6) that income tax revenues are forwarded from the State and to specify (p.7) housing for whom in the summary of community development. Also, especially if $\frac{3}{4}$ or $\frac{1}{2}$ page is freed up as suggested above, this would provide space to address the following: (i) the reasons for >10% FY23-to-FY24 changes in GF expenditures; (ii) what “transfers and other uses/sources” consist of; (iii) the importance of GF reserve for the City’s AAA rating; and (iv) the City’s plan (e.g., from p.69 of the FY25 budget) to reduce the GF unassigned reserve closer to 20% of adopted budget revenue, and how the City does manages a reserve excess (i.e., one-off expenditures per budget amendments).

P.8, on capital investments: I didn’t see an indication of “CIP expense types” in the FY24 ACFR. So, I assume these amounts and percentages come from some FY24 budget document, perhaps an actual-to-amended budget. I assume the actual amounts are materially close to the amended budget amounts, in which case it would have been good to refer any interested reader to the FY24 budget on the City’s website for more details.

P.8, on city debt: It might be interesting to compare recent interest rates for AAA-rated vs. lower-rated bonds, and how much the City saved on interest expense during the fiscal year from its AAA rating.

P.10: For subsequent clarity, after citing the City’s property tax rate of \$0.292/100, it might be worth noting that the County and State also impose their own property tax rates. In addition, the PAFR might note how long the City’s \$0.292 rate has been in effect and management’s intent to retain this rate.

Pages 10-13: In the FY24 PAFR, these pages (i) explain property taxes, (ii) provide a sample tax bill that includes some utilities, (iii) discuss Rockville’s utilities, and (iv) provide a sample utility bill that includes some utilities. The samples of bills are clear. But it might be easier for a reader to follow the following

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sequence: (i) property tax explanation, (ii) utilities discussion, (iii) sample tax bill, and (iv) sample utilities bill.

P.12 on utilities: My main comment is that the two exhibits on targets wouldn't reassure a reader who might worry that their utility rates are too high. For example, although the fact that sewer revenues exceeded expenses for FY22-24 supports financial sustainability, might the revenues be more than needed? Similarly, might the reserve levels for sewer, refuse, and water be more than needed? To address these questions, the PAFR could usefully include (i) a summary statement of activities for each of these four utilities to show pre-contribution income or loss, and (ii) a table comparing the actual end-FY reserve with the reserve target for each utility. Two more questions: (1) why not parking (maybe at least mention it)? Also, (2) has water really shown operating losses? From p.81 of the FY24 ACFR, it appears to me that water showed an FY24 operating income of \$0.961 M. What am I missing?

The Parking Fund is an enterprise fund but is not considered a utility. The Water Fund had a FY24 loss of \$408,573 which is shown in the FY24 ACFR as a decrease in net position.

On parking: OK. It's not a utility. But it's nice that the City maintains parking lots at Downtown/Pike & Rose and allows 2 hours free parking (I guess to support retail development). The PAFR might want to claim credit for this in 1 sentence somewhere.

On water: Per the ACFR, water did indeed show a \$408,573 decrease in net position in FY24. But this was due to a net \$1,074,550 transfer to other funds. Income before contributions was \$665,977 and operating income was \$961,346. The latter seems most consistent with PAFR's assertion that "Target #1 analyzes revenues versus expenses. For each utility fund, total operating revenues must meet or exceed total operating expenses."

P. 3: Lastly, it's not a financial matter, but the demographics exhibit on p.3 ends a bit oddly. Why highlight 16% Hispanic or Latino? Showing instead our 54% non-white population would help highlight Rockville's diversity. Also, instead of the circle graph (which must add up to 100%), it might be clearer instead to show a table like the one on p.39 of the FY25 budget.

The Hispanic or Latino data point aligns with census data and allows us to more clearly distinguish ethnicity from race.

On the demographics exhibit: I don't get Kim's point. But this isn't a financial matter. No further comment