

**SUPPLEMENT DATED AUGUST 9, 2011**  
**TO**  
**PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 1, 2011**  
**RELATING TO**  
**\$29,345,000\***  
**MONTGOMERY COUNTY, MARYLAND**  
**Taxable Limited Obligation Certificates**  
**(Facility and Residential Development Projects)**  
**Series 2011**

The Preliminary Official Statement dated August 1, 2011 (the "Preliminary Official Statement") relating to the \$29,345,000\* Montgomery County, Maryland Taxable Limited Obligation Certificates (Facility and Residential Development Projects) Series 2011 is hereby supplemented as follows:

Pages 26 and 27 of the Preliminary Official Statement are hereby amended by deleting the second paragraph under the heading "RATINGS" in its entirety and replacing it with the following:

"On August 4, 2011, Moody's announced that in conjunction with its assignment of a negative outlook to the rating of the U.S. government, Moody's has revised the outlooks for indirectly linked U.S. public finance issuers, including the County, to negative. The complete press release is available at:  
[http://www.moodys.com/research/Correction-to-Text-Aug-4-2011-Moodys-confirms-Aaa-ratings?lang=en&cy=global&docid=PR\\_224016](http://www.moodys.com/research/Correction-to-Text-Aug-4-2011-Moodys-confirms-Aaa-ratings?lang=en&cy=global&docid=PR_224016). The content of such release is maintained solely by Moody's and the County assumes no responsibility for the content or continued availability thereof."

**MONTGOMERY COUNTY, MARYLAND**

By Isiah Leggett  
County Executive

By Joseph F. Beach  
Director, Department of Finance

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\*Preliminary, subject to change

**PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 1, 2011**

**NEW ISSUE -- BOOK-ENTRY ONLY**

**Fitch Ratings: AA  
Moody's Investors Service: Aa1  
Standard and Poor's: AA+  
(See "Ratings")**

*The interest portion of the Contract Payments to be made by the County under the Funding Agreement and to be received by the holders of the Series 2011 Certificates is not excludable from gross income for Federal income tax purposes and is not exempt from income taxation by the State of Maryland or by any of its political subdivisions. See "Tax Matters" herein.*

**\$29,345,000\***

**MONTGOMERY COUNTY, MARYLAND  
Taxable Limited Obligation Certificates  
(Facility and Residential Development Projects)  
Series 2011**

**Dated: Date of Initial Delivery**

**Due: May 1, as shown on inside front cover**

The Taxable Limited Obligation Certificates (the "Series 2011 Certificates") are being issued to finance the Montgomery Housing Initiative program established to promote a broad range of housing opportunities in Montgomery County, Maryland (the "County") and a community and recreational facility. The Series 2011 Certificates represent proportionate interests in a Funding Agreement, as amended (the "Funding Agreement"), between the County and U.S. Bank National Association (the "Bank"), and are payable solely from and secured by (i) periodic payments to be made by the County to the Bank pursuant to the Funding Agreement (the "Contract Payments") and (ii) amounts realized pursuant to the exercise of certain remedies under the Funding Agreement upon the occurrence of nonappropriation or certain defaults by the County thereunder.

The Series 2011 Certificates are issued pursuant to a Taxable Limited Obligation Certificate Trust Agreement, as amended and supplemented (the "Trust Agreement"), between the County and the Bank, as trustee (the "Trustee") and as the Bank, pursuant to which the County and the Bank have agreed to assign to the Trustee for the benefit of the holders of the Series 2011 Certificates all of the County's and the Bank's right, title and interest under the Funding Agreement, including the Contract Payments to be made by the County, and all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement, as provided thereunder.

Interest on the Series 2011 Certificates is payable on November 1, 2011 and semi-annually on each May 1 and November 1 thereafter until maturity. The Series 2011 Certificates will be issued in registered form in denominations of \$5,000 or any integral multiple thereof. The Series 2011 Certificates initially will be maintained under a book-entry only system under which The Depository Trust Company, New York, New York ("DTC"), will act as securities depository. Purchases of the Series 2011 Certificates will be in book-entry only form. So long as the Series 2011 Certificates shall be maintained under a book-entry system, payments of the principal or redemption price of and interest on the Series 2011 Certificates will be made when due by the Trustee to DTC in accordance with the Trust Agreement, and the Trustee will have no obligation to make any payments to any beneficial owner of any Series 2011 Certificate. See "The Certificates -- Book-Entry Only System" herein.

**The Series 2011 Certificates, and the interest on them, are limited obligations of the County. The principal or redemption price of and the interest on the Series 2011 Certificates shall be payable solely from the Contract Payments and other funds pledged for the payment thereof under the Trust Agreement. All amounts payable by the County under the Funding Agreement, including the Contract Payments, are subject in each year to appropriation by the County Council. The County Council is under no obligation to make any appropriation with respect to the Funding Agreement. The Funding Agreement is not a general obligation of the County and shall never constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or a charge against the general credit or taxing power of the County.**

The Series 2011 Certificates are offered, when, as and if issued by the County and subject to the approval of legality of McKennon Shelton & Henn LLP, Special Counsel, and to certain other conditions. It is expected that the Series 2011 Certificates will be available for delivery on or about August 30, 2011.

\* Preliminary, subject to change.

## Maturity Schedule

**\$29,345,000\***

**MONTGOMERY COUNTY, MARYLAND  
Taxable Limited Obligation Certificates  
(Facility and Residential Development Projects)  
Series 2011**

<b>Maturing <u>May 1*</u></b>	<b>Principal <u>Amount*</u></b>	<b>Interest <u>Rate</u></b>	<b>Price or <u>Yield</u></b>	<b><u>CUSIP</u></b>
2012	\$1,090,000			
2013	1,045,000			
2014	1,060,000			
2015	1,080,000			
2016	1,105,000			
2017	1,140,000			
2018	1,180,000			
2019	1,225,000			
2020	1,275,000			
2021	1,330,000			
2022	1,390,000			
2023	1,460,000			
2024	1,535,000			
2025	1,615,000			
2026	1,700,000			
2027	1,795,000			
2028	1,900,000			
2029	2,015,000			
2030	2,135,000			
2031	2,270,000			

The rates shown above are the interest rates payable by the County resulting from the successful bid for the Series 2011 Certificates at public sale on August 10, 2011. The yields or prices shown above were furnished by the successful bidders. Any additional information concerning the reoffering of the Series 2011 Certificates should be obtained from the successful bidders and not from the County.

The CUSIP numbers listed above are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and the County does not take any responsibility for the accuracy thereof. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau information.

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\* Preliminary, subject to change.

**PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 1, 2011**

**\$29,345,000\***  
**MONTGOMERY COUNTY, MARYLAND**  
**Taxable Limited Obligation Certificates**  
**(Facility and Residential Development Projects)**  
**Series 2011**



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No dealer, broker, salesperson or other person has been authorized by the County to give any information or to make any representations concerning the County or its obligations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the County. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2011 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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\* Preliminary, subject to change.

**MONTGOMERY COUNTY, MARYLAND  
OFFICIAL ROSTER OF COUNTY OFFICIALS**

**COUNTY EXECUTIVE**

Isiah Leggett

**COUNTY COUNCIL**

Valerie Ervin	<i>President</i>
Roger Berliner	<i>Vice President</i>
Phil Andrews	
Nancy Floreen	
Marc Elrich	
Craig Rice	
George L. Leventhal	
Nancy Navarro	
Hans Riemer	

The terms of the County Executive and all County Council members expire in December 2014.

**APPOINTED OFFICIALS**

Timothy L. Firestine	<i>Chief Administrative Officer</i>
Joseph F. Beach	<i>Director, Department of Finance</i>
Jennifer A. Hughes	<i>Director, Office of Management and Budget</i>
Marc P. Hansen	<i>County Attorney</i>
Linda M. Lauer	<i>Clerk of the Council</i>

**SPECIAL COUNSEL**

McKennon Shelton & Henn LLP  
Baltimore, Maryland

**FINANCIAL ADVISORS**

Public Financial Management, Inc.  
Philadelphia, Pennsylvania

**INDEPENDENT PUBLIC ACCOUNTANTS**

Clifton Gunderson, LLP  
Timonium, Maryland

**TRUSTEE**

U.S. Bank National Association  
Richmond, VA 23219

**DEBT MANAGEMENT AND DISCLOSURE INFORMATION**

Montgomery County Department of Finance  
101 Monroe Street  
Rockville, MD 20850  
240-777-8860  
240-777-8857 (Fax)  
<http://bonds.montgomerycountymd.gov>

## OFFICIAL STATEMENT

Relating to

**\$29,345,000\***

**MONTGOMERY COUNTY, MARYLAND  
Taxable Limited Obligation Certificates  
(Facility and Residential Development Projects)  
Series 2011**

### INTRODUCTION

The purpose of this Official Statement, which includes the attached Appendices, is to provide certain information concerning the sale and delivery of the Montgomery County, Maryland Taxable Limited Obligation Certificates (Facility and Residential Development Projects), Series 2011 (the “Series 2011 Certificates”) in the aggregate principal amount of \$29,345,000\*. The Series 2011 Certificates are to be issued pursuant to a Taxable Limited Obligation Certificate Trust Agreement (the “Original Trust Agreement”), as amended and supplemented by the First Supplemental Taxable Limited Obligation Certificate Trust Agreement and Supplemental Funding Agreement (the “First Supplemental Trust and Agreement” and together with the Original Trust Agreement, the “Trust Agreement”) each between Montgomery County, Maryland (the “County”) and U.S. Bank National Association, as trustee (the “Trustee”) and the Bank (the “Bank”) under the Funding Agreement, as amended (as defined herein). The Series 2011 Certificates are being issued to finance the Montgomery Housing Initiative program established by the County to promote a broad range of housing opportunities in the County (the “Housing Initiative Project”) and a community and recreational facility (the “Community and Recreational Facility Project” and, together with the Housing Initiative Project, the “Projects”). For more information regarding the Projects see “Description of Projects.” Pursuant to the Trust Agreement the County previously issued its \$30,400,000 Montgomery County, Maryland Taxable Limited Obligation Certificates (Facility and Residential Development Projects), Series 2010A (the “Series 2010A Certificates”), in order to finance a portion of the Housing Initiative Project. For more information regarding the Series 2010A Certificates see “The Certificates – Additional Certificates.”

The Series 2011 Certificates represent proportionate interests in a Funding Agreement (as amended by the First Supplemental Trust and Agreement, the “Funding Agreement”) between the County and the Bank. The Funding Agreement requires the County to make periodic payments (the “Contract Payments”) in amounts sufficient to pay the scheduled debt service on the Series 2011 Certificates until the County shall pay the principal of and interest and premium, if any, on the Series 2011 Certificates. Payment by the County of amounts owed under the Funding Agreement, including the Contract Payments, is dependent on the appropriation in each year by the County Council of the County (the “County Council”) of funds sufficient for such purpose. The County expects that amounts owed under the Funding Agreement, including the Contract Payments, will be appropriated and paid by the County.

*The Series 2011 Certificates, and the interest on them, are limited obligations of the County. The principal or redemption price of and the interest on the Series 2011 Certificates shall be payable solely from the Contract Payments and all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement, as provided thereunder. All amounts payable by the County under the Funding Agreement, including the Contract Payments, are subject in each year to*

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\* Preliminary, subject to change.

*appropriation by the County Council. The County Council is under no obligation to make any appropriation with respect to the Funding Agreement. The Funding Agreement is not a general obligation of the County and shall never constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or a charge against the general credit or taxing power of the County.*

**ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds of the Series 2011 Certificates are expected to be applied as follows:

**SOURCES OF FUNDS:**

Principal amount of Series 2011 Certificates .....	\$ _____
Original issue premium .....	_____
Total sources of funds .....	_____

**USES OF FUNDS:**

Housing Initiative Project .....	_____
Community and Recreational Facility Project .....	_____
Underwriter’s discount.....	_____
Estimated costs of issuance .....	_____
Total uses of funds .....	\$ _____

**SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011 CERTIFICATES**

The Series 2011 Certificates are limited obligations of the County, the principal or redemption price of or interest on which are payable solely from and secured by (i) the Contract Payments and (ii) amounts realized pursuant to the exercise of certain remedies under the Funding Agreement upon the occurrence of nonappropriation or certain defaults by the County thereunder. Pursuant to the Trust Agreement, in order to provide for the payment of the Series 2011 Certificates and the interest with respect thereto according to their tenor, purport and effect, the County and the Bank have pledged and assigned to the Trustee for the benefit of the Holders, all rights, title and interest of the County and the Bank, respectively, under the Funding Agreement, the right to receive Revenues (as defined herein), and all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement. The “Revenues” include all payments to be made by the County to the Bank pursuant to the Funding Agreement, the proceeds of the Series 2011 Certificates and all amounts from time to time on deposit in the funds and accounts established under the Trust Agreement, and all other revenues derived from the Funding Agreement or from the exercise of remedies under the Trust Agreement. The pledge made under the Trust Agreement is, by its terms, for the equal and ratable benefit of the Holders of all the Certificates, without any priority of any one Certificate over any other, except as expressly provided in or permitted by the Trust Agreement. See “Summary of Principal Legal Documents -- Summary of Certain Provisions of the Trust Agreement” in Appendix E.

ALL AMOUNTS PAYABLE BY THE COUNTY UNDER THE FUNDING AGREEMENT, INCLUDING THE CONTRACT PAYMENTS, ARE SUBJECT IN EACH YEAR TO APPROPRIATION BY THE COUNTY COUNCIL. THE COUNTY COUNCIL IS UNDER NO OBLIGATION TO MAKE ANY APPROPRIATIONS WITH RESPECT TO THE FUNDING AGREEMENT. THE AMOUNTS PAYABLE BY THE COUNTY UNDER THE FUNDING

AGREEMENT ARE NOT GENERAL OBLIGATIONS OF THE COUNTY AND SHALL NEVER CONSTITUTE AN INDEBTEDNESS OF THE COUNTY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE COUNTY. THE COUNTY HAS NOT PLEDGED ITS FULL FAITH AND CREDIT OR ITS TAXING POWERS TO THE PAYMENT OF AMOUNTS DUE UNDER THE FUNDING AGREEMENT.

THE FUNDING AGREEMENT MAY BE TERMINATED UPON THE OCCURRENCE OF NONAPPROPRIATION OR AN EVENT OF DEFAULT. IN SUCH EVENT, ALL PAYMENT OBLIGATIONS UNDER THE FUNDING AGREEMENT WILL TERMINATE, AND THE SERIES 2011 CERTIFICATES AND THE INTEREST THEREON WILL BE PAYABLE ONLY FROM AMOUNTS PAYABLE UNDER THE FUNDING AGREEMENT THAT WERE PREVIOUSLY APPROPRIATED AND FROM UNEXPENDED PROCEEDS OF THE SERIES 2011 CERTIFICATES. THERE IS NO ASSURANCE THAT SUCH MONEYS WILL BE SUFFICIENT FOR THE PAYMENT OF THE SERIES 2011 CERTIFICATES OR THE INTEREST THEREON UPON THE OCCURRENCE OF A NONAPPROPRIATION OR AN EVENT OF DEFAULT UNDER THE FUNDING AGREEMENT.

THE FUNDS FROM WHICH AMOUNTS ARE APPROPRIATED TO PAY CONTRACT PAYMENTS ARE NOT LIMITED TO ANY PARTICULAR SOURCE OF COUNTY REVENUES. THE COUNTY EXPECTS THAT ALL CONTRACT PAYMENTS WILL BE APPROPRIATED AND PAID BY THE COUNTY FROM AMOUNTS HELD IN CERTAIN FUNDS OR ACCOUNTS ESTABLISHED AND MAINTAINED BY THE COUNTY.

### **Funding Agreement**

The Funding Agreement will remain in effect until the County has paid all Contract Payments required to be paid therein, unless terminated earlier in accordance with the Funding Agreement. The Contract Payments due under the Funding Agreement are sufficient to pay the scheduled debt service on the Series 2011 Certificates and the fees and expenses of the Trustee. The Contract Payments are due and payable on the second business day prior to each May 1 and November 1 of any year and shall be paid by the County in immediately available funds on the second business day prior to each May 1 and November 1.

The ability of the County to pay the Contract Payments is subject to annual appropriation of sufficient funds for such purpose by the County Council. See "General Financial Policies – Legal Framework for Budgeting" in Appendix A. Under the Funding Agreement, the County Executive of the County (the "County Executive") covenants, to the extent permitted by law and subject to applicable public policy, to use best efforts to obtain the authorization and appropriation of such funds, including, without limitation, the inclusion of such funds in the budget of the County to be submitted to the County Council and a request for adequate funds to meet the County's obligations under the Funding Agreement in full in its next fiscal year budget. Notwithstanding the foregoing, the Funding Agreement does not obligate the County Council to make any such appropriation.

In the event that sufficient funds are not appropriated for the payment of the Contract Payments, the County may terminate the Funding Agreement at the end of the last fiscal year or earlier date for which an appropriation is available and the County will not be obligated to make payment of the Contract Payments beyond the last date for which an appropriation is available. In the event the Funding Agreement is terminated for nonappropriation, the County will pay to the Trustee all proceeds of the Series 2011 Certificates not theretofore expended by the County, if any, or such lesser amount as shall be



required to pay the outstanding principal of and interest on the Series 2011 Certificates and all other amounts payable under the Funding Agreement after the application to the payment thereof of amounts on deposit in the funds and accounts created by the Trust Agreement. See “Summary of Principal Legal Documents -- Summary of Certain Provisions of the Funding Agreement” in Appendix E.

In the event of termination due to the occurrence of an Event of Default under the Funding Agreement, the County shall pay to the Bank all proceeds of the Series 2011 Certificates not theretofore expended by the County, if any, or such lesser amount as shall be required to pay the outstanding principal of and interest on the Series 2011 Certificates and all other amounts payable under the Funding Agreement after the application to the payment thereof of amounts on deposit in the funds and accounts created by the Trust Agreement. The County will be liable for any deficiency, if any, between (i) the amount actually appropriated for the payment of Contract Payments and other amounts payable under the Funding Agreement and unpaid by the County during the current fiscal year and which is therefore payable by the County to the end of the current fiscal year of the County and (ii) the sum of the amounts on deposit in the funds and accounts created by the Trust Agreement and the proceeds of the Series 2011 Certificates not theretofore expended by the County, if any, paid to the Bank, after deducting all the Bank’s costs and expenses, including (without limitation) reasonable attorneys’ fees and expenses incurred in the enforcement of the Funding Agreement. See “Summary of Principal Legal Documents -- Summary of Certain Provisions of the Funding Agreement” in Appendix E.

### **No Lien on Property**

The payment of the Contract Payments by the County is *not* secured by any lien on housing or other assets that may be constructed, acquired or renovated with proceeds of the Series 2011 Certificates.

## **DESCRIPTION OF PROJECTS**

### **Housing Initiative Project**

The County has a long-standing tradition of commitment and dedication toward meeting the housing needs of its citizens. Under the leadership of the County Executive, the County has implemented a number of programs and initiatives dedicated to the goal of providing affordable housing in the County. In May 1988, the County Council enacted Section 25B-9 of the Montgomery County Code establishing the Montgomery Housing Initiative program (the “MHI Program”) to help meet the County’s existing and growing affordable housing needs.

Section 25B-9 of the Montgomery County Code requires the County Executive to establish the MHI Program in order to promote a broad range of housing opportunities in the County. The County Executive utilizes the MHI Program to assist in alleviating the difficulties of many low and moderate income households in obtaining and maintaining housing at prices that they can afford. The MHI Program helps the County meet a number of its housing goals including constructing new affordable housing units, renovating distressed properties, preserving housing that might otherwise be removed from the supply of affordable housing, developing special needs housing, helping to create mixed-income communities, making sure that housing programs build neighborhoods and not just housing units and working toward an equitable distribution of affordable housing units.

The County’s Department of Housing and Community Affairs (DHCA) administers the MHI Program pursuant to regulations adopted by the County Executive. DHCA partners with various affordable housing organizations and developers to construct new properties and to acquire and rehabilitate existing properties. The County Executive is committed to continuing the tradition of creative

action to provide affordable housing in the County, and as the need for affordable housing has increased in the County, the County has taken new approaches to development of ideas that will meet the challenge. One such approach was the creation of the Housing Acquisition and Rehabilitation Fund to expand the MHI Program.

On February 28, 2007, the County Executive issued Executive Order No. 84-07 forming the Affordable Housing Task Force (the “Task Force”). The Task Force was instructed to develop strategies that would result in more affordable housing in Montgomery County. The first priority identified by the Task Force in their findings was to preserve the housing stock. Further, the Task Force recommended creating a property acquisition fund – the Housing Acquisition and Rehabilitation Fund – as a tool to enable experienced organizations to purchase-at-risk properties and increase the public and non-profit ownership of affordable rental housing.

The Housing Acquisition and Rehabilitation Fund includes County financial resources in addition to proceeds from the Series 2010A Certificates. Approximately \$25,000,000 of the proceeds of the Series 2011 Certificates will be used to acquire, construct, purchase and rehabilitate affordable housing units. DHCA’s partners for projects financed with the Series 2011 Certificates include various for-profit and non-profit agencies.

The following table provides information regarding actual results for FY2008 through FY2010, goals for FY2011 and projections for FY2012 to FY2013, of the total affordable housing unit preservation and production Program managed by the DHCA. As a result of increased demand for affordable housing in the County, the County Executive recommended and the County Council has approved, funding over the FY2009 to FY2012 period of approximately \$90 million for each of the MHI and Housing and Acquisition Rehabilitation Funds for a total of \$180 million.

The numbers of units listed below are funded by various sources including the proceeds of the Certificates, other County resources, as well as Federal and State aid.

**Total Affordable Housing Units Produced and Preserved**

Preservation	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Goal	FY2012 Projected	FY2013 Projected
County Funded Units Online	34	423	254	543	335	403
No-Cost Units Online	131	0	700	737	775	813
Preservation Pipeline	954	190	330	170	462	357
Total Preservation	1,119	613	1,284	1,450	1,571	1,573

Production	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Goal	FY2012 Projected	FY2013 Projected
County Funded Units Online	103	534	436	819	1040	212
No-Cost Units Online	116	242	114	182	191	201
Production Pipeline	336	200	949	237	219	97
Total Production	555	976	1,499	1,238	1450	510

Online unit	A unit that is ready for occupancy.
Preservation	Acquisition and/or rehabilitation of an existing unit with affordability restrictions.
Production	New construction or rehabilitation of a market unit added to the inventory.
Pipeline unit	A unit is considered in the pipeline as soon as the County commits to a project.
No-Cost Units	A unit either preserved or produced without County capital investment.

The County anticipates using a portion of the proceeds of the Series 2011 Certificates to reimburse itself for advances made to fund a portion of the cost to acquire, construct, purchase and rehabilitate units including:

- \$5.0 million for the acquisition and rehabilitation of a 96 unit condominium building in Silver Spring.
- \$3.2 million to acquire and renovate a formerly vacant 35-unit high-rise building.

The Series 2011 Certificates are anticipated to be used to fund projects including the following:

- \$5.0 million in mezzanine financing to assist in the development of a 486-unit mixed-income apartment high-rise with ground floor retail in Silver Spring.
- \$2.5 million for Critical Corridor Stabilization which will allow DHCA to address several problem properties in critical corridors throughout the County by providing flexible acquisition and rehabilitation financing. Approximately 50 units have been identified in this effort.
- \$4.5 million for the acquisition of three apartment properties by a local non-profit to be converted into mixed income/affordable housing.
- \$1.3 million to renovate a vacant 14-unit apartment building in Rockville to provide affordable housing.

The County is in the process of identifying additional properties to be financed with proceeds of a future financing for the Housing Acquisition and Rehabilitation Fund as part of the ongoing program.

### **Community and Recreational Facility Project**

In January 2008 the County entered into a public-private partnership with Lee Development Group, Inc. (“LDG”) and Live Nation Worldwide, Inc. (“Live Nation”) to redevelop a retail site located in Silver Spring, Maryland into a music hall that will serve as a music, entertainment and community use venue. Construction of this Community and Recreational Facility Project began in September 2010 and is currently on schedule for completion in September 2011. LDG will donate the land at the time of project completion to the County and is building the concert hall, which will be owned by the County and leased to Live Nation. Approximately \$3,850,000 of the proceeds of the Series 2011 Certificates will be used for costs related to the Community and Recreational Facility Project, which will cost approximately \$11,200,000. The State of Maryland is providing grants totaling \$4,000,000 for the Community and Recreational Facility Project, the County is applying \$2,811,000 in land sale proceeds and economic development funds, and Live Nation is applying prepaid rent monies of approximately \$539,000 to complete the funding.

The Community and Recreational Facility Project will be an important component of the downtown Silver Spring redevelopment project which will include over 800,000 square feet of retail, office, restaurant, hotel, and entertainment space, plus two County-funded parking garages, a civic building with a plaza, a transit center mixed-use development that is nearly complete, and a new 63,000 square foot library that will be constructed shortly.

Key terms of the lease agreement between the County and Live Nation include the following: (1) the County will own the venue and Live Nation will be the tenant; (2) the initial term of the lease is 20 years, and Live Nation has the option to renew the lease for two consecutive five year periods; (3) Live Nation will pay the County a fixed rent amount for the entire term of the lease, with increases in the rent amount adjusted after every fifth year; (4) the lease is a net lease, with Live Nation responsible for the payment for all operating costs, including cleaning, repairs, maintenance, security, insurance and taxes; and (5) all revenues generated from the operation of the venue are the property of Live Nation. In addition to the basic lease terms, the lease agreement provides for specific County and community uses of the venue each calendar year, including fee-free days and nights, reduced rate rentals and complimentary tickets for all events programmed by Live Nation.

## THE SERIES 2011 CERTIFICATES

The Series 2011 Certificates will be dated the date of delivery, and will be issued in serial form, mature (subject to the redemption provisions set forth below) on the dates and in the amounts and bear interest as set forth on the inside front cover hereof.

The Series 2011 Certificates will be executed and delivered in fully registered form, without coupons, in denominations of \$5,000 each or any integral multiple thereof. Interest will be payable on the Series 2011 Certificates on each May 1 and November 1 (each an "Interest Payment Date"), beginning November 1, 2011. Interest paid on November 1, 2011 will accrue from the date of delivery of the Series 2011 Certificates. The principal or redemption price of and interest on the Series 2011 Certificates will be paid as described below under Book-Entry Only System so long as the Book-Entry Only System is maintained. If the Book-Entry Only System is discontinued then the Series 2011 Certificates will be payable at the corporate trust office of the Trustee in Richmond, Virginia and interest will be payable by check mailed by the Trustee to the registered Holders of Series 2011 Certificates as their names and addresses appear in the registration books maintained by the Trustee as of (i) the fifteenth calendar day of the month next preceding each Interest Payment Date or (ii) in the case of the payment of any defaulted interest, the tenth (10<sup>th</sup>) day before such payment. At the request of a Holder of Series 2011 Certificates in the aggregate principal amount of at least \$100,000, any such payments may be made by wire transfer in accordance with written instructions filed by such Holder with the Trustee. Interest on the Series 2011 Certificates shall be calculated on the basis of a year consisting of 360 days divided into twelve 30-day months.

### **Authority for the Certificates**

The Series 2011 Certificates are issued pursuant to Article 25B-9 of the Montgomery County Code, Resolution No. 17-227 of the County Council adopted on July 26, 2011 and effective on July 26, 2011, and Executive Order No. \_\_\_ of the County Executive of the County executed and delivered as of \_\_\_\_\_, 2011.

### **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 The Depository Trust Company ("DTC") entitled "Sample Offering Document Language Describing Book-Entry-Only Issuance." The County makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.*

#### *General*

DTC will act as securities depository for the Series 2011 Certificates. The Series 2011 Certificates 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 Series 2011 Certificate will be issued for each maturity of the Series 2011 Certificates in principal amount equal to the aggregate principal amount of the Series 2011 Certificates of such maturity, and will be deposited with DTC.

DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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-only 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2011 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Certificates on DTC’s records. The ownership interest of each actual purchaser of each Series 2011 Certificate (“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 of ownership interests in the Series 2011 Certificates 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 the Series 2011 Certificates, except in the event that use of the book-entry system for the Series 2011 Certificates is discontinued.

To facilitate subsequent transfers, all Series 2011 Certificates 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 Series 2011 Certificates 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 Series 2011 Certificates; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2011 Certificates 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 DTC. If less than all of the Series 2011 Certificates 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 the Series 2011 Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Series 2011 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments and any premium on the Series 2011 Certificates 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 County or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect 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 Direct or Indirect Participant and not of DTC, DTC's nominee, the Trustee or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest or premium to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or its Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

#### *Book-Entry-Only System — Miscellaneous*

The information in the Section "Book-Entry-Only System -- General" has been obtained from DTC. The County takes no responsibility for the accuracy or completeness thereof. The County will have no responsibility or obligations to DTC Participants or the persons for whom they act as nominees with respect to the payments to or the providing of notice to the DTC Participants, or the Indirect Participants, or Beneficial Owners. The County cannot and does not give any assurance that DTC Participants or others will distribute principal and interest payments paid to DTC or its nominees, as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

#### *Discontinuation of Book-Entry-Only System*

DTC may discontinue providing its services as securities depository with respect to the Series 2011 Certificates at any time by giving reasonable notice to the County. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2011 Certificate certificates are required to be printed and delivered. The County may also decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2011 Certificate certificates will be printed and delivered.

In the event that the Book-Entry Only System is discontinued, the Series 2011 Certificates in fully certificated form will be issued as fully registered Series 2011 Certificates without coupons in the denomination of \$5,000 each or any integral multiple thereof. Such Series 2011 Certificates will be transferable only upon the registration books kept at the principal office of the Trustee, by the registered owner thereof in person, or by an attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer in the form attached thereto and satisfactory to the Trustee, and duly executed by the registered owner or a duly authorized attorney. Within a reasonable time of such surrender, the County shall cause to be issued in the name of the transferee a new registered Series 2011 Certificate or Series 2011 Certificates of any of the authorized denominations in an aggregate principal

amount equal to the principal amount of the Series 2011 Certificate surrendered and maturing on the same date and bearing interest at the same rate. The new Series 2011 Certificate or Series 2011 Certificates shall be delivered to the transferee only after due authentication by an authorized officer of the Trustee. The County may deem and treat the person in whose name a Series 2011 Certificate is registered as the absolute owner thereof for the purpose of receiving payment of or on account of the principal or redemption price thereof and interest due thereon and for all other purposes.

The Trustee shall not be required to transfer or exchange any Series 2011 Certificate after the mailing of notice calling such Series 2011 Certificate or portion thereof for redemption as previously described; provided, however, that the foregoing limitation shall not apply to that portion of a Series 2011 Certificate in excess of \$5,000 which is not being called for redemption.

Neither the County nor the Trustee will have any responsibility or obligation to Participants, to Indirect Participants or to any Beneficial Owner with respect to 1) the accuracy of any records maintained by DTC, any DTC Participant or any Indirect Participant; 2) the payment by DTC, any DTC Participant or any Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Series 2011 Certificates; 3) any notice which is permitted or required to be given to holders; 4) any consent given by DTC or other action taken by DTC as holder; or 5) the selection by DTC, any DTC Participant or any Indirect Participant of any Beneficial Owner to receive payment in the event of partial redemption of Series 2011 Certificates.

## **Redemption Provisions**

### *Optional Redemption*

Series 2011 Certificates that mature on or before May 1, 2021, are not subject to redemption prior to their respective maturities. Series 2011 Certificates that mature on or after May 1, 2022, are subject to redemption beginning May 1, 2021, as a whole or in part at any time thereafter, in any order of their maturities, at the option of the County, at a redemption price for each bond equal to the principal amount of the bond to be redeemed, together with interest accrued to the date fixed for redemption, without premium.

### *Selection of Series 2011 Certificates to be Redeemed*

If fewer than all of the outstanding Series 2011 Certificates are called for redemption, the Trustee shall redeem the Series 2011 Certificates of the maturities directed by the County and by lot in such manner as the Trustee shall determine within any maturity; provided however, that the portion of any Series 2011 Certificate to be redeemed shall be in the principal amount of \$5,000 or any integral multiple thereof and, in selecting Series 2011 Certificates for redemption, the Trustee shall treat each Series 2011 Certificate as representing that number of Series 2011 Certificates that is obtained by dividing the principal amount of such Series 2011 Certificate by \$5,000.

### *Notice of Redemption*

The Trustee will mail notice of redemption, by first class mail, not less than 30 days and not more than 60 days before the date of redemption to the registered Holders of the Series 2011 Certificates of the maturity or maturities to be redeemed at their addresses shown on the registration books maintained by the Trustee. Notice having been given and sufficient moneys having been delivered to the Trustee, interest will cease to accrue on the Series 2011 Certificates to be redeemed on and after the redemption date. Any notice of redemption may indicate that such redemption is conditioned upon the deposit of

sufficient moneys to effect such redemption on the redemption date. The failure by the Trustee to mail a notice of redemption, or any defect therein, shall not affect the validity of the proceedings for the redemption of the Series 2011 Certificates.

### **Additional Certificates**

The County may issue additional parity certificates (the “Additional Certificates”) under the Trust Agreement to provide additional funds to finance the objectives of the Projects and other projects permitted under the Trust Agreement.

The Series 2011 Certificates will be secured equally and ratably on parity with any Additional Certificates and the Contract Payments made pursuant to the Funding Agreement by the County shall be increased in the principal amount equal to such Additional Certificates issued.

The County has previously issued the Series 2010A Certificates, with an aggregate principal amount of \$29,470,000 currently outstanding. The Series 2010A Certificates were issued to finance and refinance costs associated with the Housing Initiative Project. The Series 2011 Certificates constitute Additional Certificates under the Trust Agreement and will be secured equally and ratably on parity with the outstanding Series 2010A Certificates.



## DEBT SERVICE REQUIREMENTS OF THE SERIES 2011 CERTIFICATES

The following table sets forth for each calendar year the amount required for the payment of principal due on the Series 2011 Certificates on May 1 and for the payment of interest on such Series 2011 Certificates on May 1 and November 1 and the total debt service requirements of the Series 2011 Certificates of principal of and interest on the Series 2011 Certificates for such period.

<u>Year*</u>	<u>Principal*</u>	<u>Interest</u>	<u>Total Debt Service Requirement</u>
2012	\$1,090,000		
2013	1,045,000		
2014	1,060,000		
2015	1,080,000		
2016	1,105,000		
2017	1,140,000		
2018	1,180,000		
2019	1,225,000		
2020	1,275,000		
2021	1,330,000		
2022	1,390,000		
2023	1,460,000		
2024	1,535,000		
2025	1,615,000		
2026	1,700,000		
2027	1,795,000		
2028	1,900,000		
2029	2,015,000		
2030	2,135,000		
2031	2,270,000		

\* Preliminary, subject to change.

## **THE COUNTY**

### **General**

Montgomery County, Maryland is a body politic and corporate and a political subdivision of the State of Maryland. For more information respecting the County, see Appendix A – “Information about the County as of January 18, 2011.”

### **Selected Debt and Financial Schedules**

The information (including Tables 1 through 7) presented on the following pages has been updated to provide current information on the County’s financial position, including the County’s general obligation bonds in the aggregate principal amount of \$579,410,000\* that the County anticipates issuing on August 16, 2011 (the “Proposed General Obligation Bonds”). For more information on the County, and a complete overview of the County’s debt, please see Appendix A, “INFORMATION ABOUT THE COUNTY AS OF JANUARY 18, 2011” and Appendix B “BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010.”

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\* Preliminary, subject to change.

**Table 1**  
**Statement of Direct and Overlapping Debt**  
**As of April 30, 2011**  
**And Including Proposed General Obligation Bonds**

Direct Debt:		
General Obligation Bonds Outstanding	\$1,895,850,000	
General Obligation Variable Rate Demand Obligations	100,000,000	
Proposed General Obligation Bonds	320,000,000	
Short-Term BANs/Commercial Paper Outstanding*	180,000,000	
Revenue Bonds Outstanding	<u>85,197,500</u>	
Total Direct Debt		\$2,581,047,500
Overlapping Debt (as of June 30, 2010):		
Gross Debt:		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	865,068,428	
Housing Opportunities Commission	807,730,036	
Montgomery County Revenue Authority	94,487,067	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	36,680,290	
Kingsview Village Center Development District	1,995,000	
West Germantown Development District	14,815,000	
Towns, Cities and Villages within Montgomery County	<u>44,958,509</u>	
Total Overlapping Debt		<u>1,865,734,330</u>
Total Direct and Overlapping Debt		4,446,781,830
Less Self-Supporting Debt:		
County Government Revenue Bonds	85,197,500	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County (as of June 30, 2010)	865,068,428	
Housing Opportunities Commission (as of June 30, 2010)	807,730,036	
Montgomery County Revenue Authority (as of June 30, 2010)	94,487,067	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County (as of June 30, 2010)	<u>3,393,262</u>	
Total Self-Supporting Debt		<u>(1,855,876,293)</u>
Net Direct and Overlapping Debt		<u>\$2,590,905,537</u>
Ratio of Debt to June 30, 2010 Assessed Valuation of (100% Assessment):		\$171,220,840,149
Direct Debt		1.51%
Net Direct Debt **		1.46%
Direct and Overlapping Debt		2.60%
Net Direct and Overlapping Debt		1.51%
Ratio of Debt to June 30, 2010 Market Value of:		\$179,220,840,655
Direct Debt		1.44%
Net Direct Debt **		1.39%
Direct and Overlapping Debt		2.48%
Net Direct and Overlapping Debt		1.45%

\*Net of amount retired with proceeds of Proposed General Obligation Bonds.

\*\*Net Direct Debt of \$2,495,850,000 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

**Table 2**  
**Statement of Legal Debt Margin**  
**As of April 30, 2011**  
**And Including Proposed General Obligation Bonds**

June 30, 2010 Assessed Valuation – Real Property		\$167,096,843,537
Debt Limit (% of Assessed Valuation)		<u>6%</u>
Subtotal Limitation – Real Property		<u>\$ 10,025,810,612</u>
June 30, 2010 Assessed Valuation – Personal Property		\$4,123,996,612
Debt Limit (% of Assessed Valuation)		<u>15%</u>
Subtotal Limitation – Personal Property		<u>\$ 618,599,492</u>
Total Assessed Valuation – Real and Personal Property		\$171,220,840,149
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds		\$10,644,410,104
Less Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds Outstanding	\$1,895,850,000	
General Obligation Variable Rate Demand Obligations	100,000,000	
Proposed General Obligation Bonds	320,000,000	
Short-Term BANs/Commercial Paper	180,000,000	
Net Direct Debt		<u>2,495,850,000</u>
Legal Debt Margin		<u>\$8,148,560,104</u>
Net Direct Debt as a Percentage of Assessed Valuation		<u>1.46%</u>

*(The remainder of this page has been left blank intentionally.)*

**Table 3**  
**General Obligation Debt of the County**  
**As of June 30, 2010**  
**And April 30, 2011**  
**And Including Proposed General Obligation Bonds**

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Original Interest Rates</u>	<u>TIC*</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2010</u>	<u>Principal Outstanding April 30, 2011</u>
GO Refunding Bonds	07/01/92	\$273,038,054	2.75-5.80%	5.7431%	1993-10	\$ 1,289,285	\$ --
GO Bonds	02/01/01	140,000,000	4.00-5.00	4.5447	2002-21	7,000,000	--
GO Refunding Bonds	11/15/01	146,375,000	3.60-5.25	4.5107	2003-19	114,200,000	102,010,000
GO Bonds	02/01/02	160,000,000	3.00-5.00	4.4619	2003-22	24,000,000	16,000,000
GO Refunding Bonds	11/15/02	93,595,000	2.75-5.25	3.2799	2005-13	44,355,000	33,580,000
GO Bonds	05/01/03	155,000,000	1.50-4.00	3.6304	2004-23	85,250,000	85,250,000
GO Refunding Bonds	05/01/03	49,505,000	2.00-5.00	2.2900	2004-11	10,195,000	3,515,000
GO Bonds	03/15/04	154,600,000	3.00-5.00	3.8290	2005-24	85,030,000	77,300,000
GO Refunding Bonds	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	87,210,000	87,070,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	110,000,000	110,000,000
GO Refunding Bonds	06/01/05	120,355,000	5.00	3.7817	2011-21	120,355,000	120,355,000
GO Bonds	05/01/06	100,000,000	4.25-5.00	3.8711	2007-16	60,000,000	60,000,000
GO VRDO**	06/07/06	100,000,000	variable	variable	2017-26	100,000,000	100,000,000
GO Bonds	05/01/07	250,000,000	5.00	4.0821	2008-27	162,500,000	162,500,000
GO Refunding Bonds	03/12/08	70,295,000	2.75-5.00	2.8965	2009-15	49,200,000	32,115,000
GO Bonds	07/15/08	250,000,000	3.00-5.00	4.1809	2009-28	237,500,000	225,000,000
GO Bonds***	11/03/09	232,000,000	3.75-5.50	4.8782	2015-29	232,000,000	232,000,000
GO Refunding Bonds	11/03/09	161,755,000	2.00-5.00	2.6487	2011-20	161,755,000	161,755,000
GO Bonds	11/17/09	78,000,000	2.00-5.00	1.1823	2010-14	78,000,000	62,400,000
GO Bonds	07/26/10	195,000,000	2.00-5.00	2.2596	2011-22	--	195,000,000
GO Bonds****	07/26/10	130,000,000	4.75-5.40	5.0708	2023-30	--	130,000,000
GO Bonds	07/xx/11	320,000,000	NA	NA	2012-31	--	320,000,000
<b>Total</b>						<u>\$1,769,839,285</u>	<u>\$2,315,850,000</u>

\* True Interest Cost

\*\* Variable Rate Demand Obligations

\*\*\* Federally Taxable – Build America Bonds – Direct Pay

\*\*\*\* Federally Taxable – Issuer Subsidy – Build America Bonds and Recovery Zone Economic Development Bonds

Note: The blended TIC (net of federal subsidy) for the GO Bonds dated November 3, 2009 and November 17, 2009 is 2.901%; the blended TIC (net of federal subsidy) for the GO Bonds dated July 26, 2010 is 2.809%.

*(The remainder of this page has been left blank intentionally.)*

**Table 4**  
**General Obligation Bonds Authorized – Unissued**  
**As of April 30, 2011**

<u>Purpose</u>	<u>Chapter</u>	<u>Act</u>	<u>Amount</u>	<u>Amount Unissued</u>
General County, Parks, and Consolidated Fire Tax District	43	2006	\$ 92,000,000	\$ 10,390,000
	12	2007	51,300,000	51,300,000
	36	2008	68,200,000	68,200,000
	22	2009	58,700,000	58,700,000
	54	2010	<u>341,600,000</u>	<u>341,600,000</u>
			<u>611,800,000</u>	<u>530,190,000</u>
Road & Storm Drainage	12	2007	45,800,000	20,940,000
	36	2008	36,000,000	36,000,000
	22	2009	64,600,000	64,600,000
	54	2010	<u>192,000,000</u>	<u>192,000,000</u>
			<u>338,400,000</u>	<u>313,540,000</u>
Public Schools and Community College	36	2008	222,500,000	95,768,000
	22	2009	272,500,000	272,500,000
	54	2010	<u>108,700,000</u>	<u>108,700,000</u>
			<u>603,700,000</u>	<u>476,968,000</u>
Mass Transit	22	2009	57,100,000	31,005,000
	54	2010	<u>32,600,000</u>	<u>32,600,000</u>
			<u>89,700,000</u>	<u>63,605,000</u>
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
	22	2009	1,000,000	1,000,000
	54	2010	<u>46,400,000</u>	<u>46,400,000</u>
			<u>53,030,000</u>	<u>52,970,000</u>
Parking Districts: Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	<u>1,220,000</u>	<u>1,220,000</u>
			<u>4,165,000</u>	<u>3,265,000</u>
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	<u>1,050,000</u>	<u>1,050,000</u>
			<u>9,150,000</u>	<u>4,865,000</u>
Total Parking Districts			<u>13,315,000</u>	<u>8,130,000</u>
Total General Obligation Bonds			<u>\$1,709,945,000</u>	<u>\$1,445,403,000</u>

In addition to the above noted authority, the County has authority under the provisions of section 56-13 of the Montgomery County Code, as amended, to issue County bonds, within statutory debt limits, to finance approved urban renewal projects.

**Table 5**  
**Bond Anticipation Notes Outstanding**  
**As of April 30, 2011**  
**And After Effects of Proposed General Obligation Bonds**

<u>Issue</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>BANs Issued</u>	<u>BANs Retired</u>	<u>Proposed BANs</u> <u>to be Retired</u>	<u>Balance</u> <u>April 30, 2011</u>
BAN Series 2009-B	\$125,000,000	\$ --	\$ 125,000,000	\$ --	\$ --
BAN Series 2010-A	300,000,000	--	200,000,000	--	--
BAN Series 2009-C	--	75,000,000	--	--	--
BAN Series 2010-B	--	125,000,000	--	--	--
BAN Series 2009-D	--	125,000,000	--	--	--
BAN Series 2010-C	<u>--</u>	<u>75,000,000</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total	<u>\$425,000,000</u>	<u>\$400,000,000</u>	<u>\$325,000,000</u>	<u>\$320,000,000</u>	<u>\$180,000,000</u>

*(The remainder of this page has been left blank intentionally.)*

**Table 6**  
**Montgomery County, Maryland**  
**Schedule of General Fund Revenues, Expenditures, & Transfers In (Out)**  
**(Budgetary, Non-GAAP Basis)**

	Fiscal Year Actual <sup>(1)</sup>			Fiscal Year Budget 2011 <sup>(2)</sup>	Actual July 1 to March 31, 2011 (Unaudited)
	2008	2009	2010		
Revenues:					
Taxes:					
Property, including interest & penalty	\$ 796,770,740	\$ 962,319,307	\$ 1,045,604,890	\$1,086,261,226	\$1,061,313,220
Transfer tax and recordation tax	135,038,965	107,208,955	122,041,019	139,891,000	98,732,260
County income tax	1,291,339,613	1,291,716,935	1,042,098,527	1,060,680,000	570,905,488
Other taxes	<u>168,735,248</u>	<u>179,232,787</u>	<u>205,594,301</u>	<u>313,248,500</u>	<u>232,336,322</u>
Total Taxes	2,391,884,566	2,540,477,984	2,415,338,737	2,600,080,726	1,963,287,290
Licenses and permits	9,279,207	9,319,612	9,542,255	9,392,210	7,749,566
Intergovernmental revenue	132,669,827	90,521,958	50,521,703	68,544,270	38,849,746
Charges for services	12,220,040	14,631,624	9,757,107	10,890,510	6,341,924
Fines and forfeitures	20,335,482	27,604,483	23,107,769	25,734,240	13,116,925
Investment income	8,880,917	568,785	(144,976)	1,042,535	(60,703)
Miscellaneous	<u>10,418,813</u>	<u>17,801,203</u>	<u>13,767,949</u>	<u>12,125,860</u>	<u>5,477,535</u>
Total Revenues	<u>2,585,688,852</u>	<u>2,700,925,649</u>	<u>2,521,890,544</u>	<u>2,727,810,351</u>	<u>2,034,762,283</u>
Expenditures (including encumbrances):					
General County:					
General government	241,768,119	257,466,968	222,489,761	225,106,200	188,586,369
Public safety	343,516,856	355,854,194	344,427,956	339,877,646	256,370,127
Public works and transportation	56,432,172	56,329,154	98,647,800	46,261,203	55,174,907
Health and human services	232,979,224	201,771,333	198,470,632	190,102,448	152,545,219
Culture and recreation	55,872,703	51,710,097	46,478,007	34,011,090	26,429,906
Housing and community development	5,606,887	5,473,883	4,448,701	3,901,690	2,770,062
Environment	<u>4,473,884</u>	<u>5,224,553</u>	<u>4,102,641</u>	<u>2,828,468</u>	<u>2,129,340</u>
Total Expenditures	<u>940,649,845</u>	<u>933,830,182</u>	<u>919,065,498</u>	<u>842,088,745</u>	<u>684,005,930</u>
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	15,470,240	17,699,145	95,441,777	22,057,610	16,068,848
Enterprise Funds	27,734,670	38,601,750	39,859,930	32,671,940	18,524,228
Trust Funds	--	--	14,779,000	--	--
Internal Service Funds	--	--	499,847	2,500,000	1,875,000
Component Units	<u>598,645</u>	<u>591,084</u>	<u>255,150</u>	<u>247,610</u>	<u>247,613</u>
Total Transfers In	<u>43,803,555</u>	<u>56,891,979</u>	<u>150,835,704</u>	<u>57,477,160</u>	<u>36,715,689</u>
Transfers Out:					
Special Revenue Funds	(26,366,223)	(13,437,311)	(13,137,847)	(47,777,800)	(10,488,600)
Debt Service Fund	(215,900,200)	(204,596,878)	(210,865,864)	(226,908,900)	(145,628,760)
Capital Projects Fund	(43,259,243)	(28,736,385)	(18,625,802)	(17,171,000)	(16,851,799)
Enterprise Funds	(3,121,110)	(2,988,617)	(3,171,570)	(3,500,410)	(2,565,053)
Internal Service Funds	(1,551,516)	(1,214,928)	--	--	--
Component Units	<u>(1,570,726,627)</u>	<u>(1,650,994,360)</u>	<u>(1,568,829,854)</u>	<u>(1,538,318,984)</u>	<u>(1,379,668,074)</u>
Total Transfers Out	<u>(1,860,924,919)</u>	<u>(1,901,968,479)</u>	<u>(1,814,630,937)</u>	<u>(1,833,677,094)</u>	<u>(1,555,202,286)</u>
Net Transfers In (Out)	<u>(1,817,121,364)</u>	<u>(1,845,076,500)</u>	<u>(1,663,795,233)</u>	<u>(1,776,199,934)</u>	<u>(1,518,486,597)</u>
Excess of revenues and transfers in over (under) expenditures, encumbrances and transfers out	<u>(172,082,357)</u>	<u>(77,981,033)</u>	<u>(60,970,187)</u>	<u>109,521,672</u>	<u>(167,730,244)</u>
Fund Balances, July 1 as previously stated	295,785,593	146,932,820	86,905,675	39,657,640	39,657,640
Net Adjustment for previous year encumbrances	<u>23,229,584</u>	<u>17,953,888</u>	<u>13,722,152</u>	<u>4,931,467</u>	<u>4,931,467</u>
Fund Balances, July 1 restated	319,015,177	164,886,708	100,627,827	44,589,107	44,589,107
Equity transfers in (out)	--	--	--	--	--
Budgetary Fund Balance – Subtotal	<u>\$ 146,932,820</u>	<u>\$ 86,905,675</u>	<u>\$ 39,657,640</u>	<u>\$ 154,110,779</u>	<u>\$ (123,141,137)</u>
Projections through year end:					
Revenue/Transfers In Remaining				--	660,466,505
Expenditures/Transfers Out Remaining				--	(439,860,054)
Budgetary Fund Balance Projected to June 30				<u>\$ 154,110,779</u>	<u>\$ 97,465,314</u>

(1) Amounts for FY08-10 are audited.

(2) Updated for budget adjustments as of March 31, 2011.



**Table 7**  
**General Fund**  
**Schedule of Budgetary Fund Balance to**  
**GAAP Fund Balance Reconciliation**

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Projected July 1, 2010 to June 30, 2011 (Unaudited)
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above	\$146,932,820	\$ 86,905,675	\$ 39,657,640	\$ 97,465,314
Plus encumbrances outstanding	24,158,117	18,630,308	4,959,728	4,900,000
Adjustment for prior year encumbrances	(1,373,849)	(6,204,232)	(4,908,160)	(3,596,813)
Unrealized cumulative investment gain (loss)	(641,355)	(338,014)	(300,511)	(300,511)
Net differences between beginning fund balances	<u>3,737,073</u>	<u>9,112,325</u>	<u>7,853,759</u>	<u>2,942,412</u>
GAAP Fund Balance as Reported	<u>\$172,812,806</u>	<u>\$108,106,062</u>	<u>\$47,262,456</u>	<u>\$ 101,410,402</u>
Elements of GAAP Fund Balance <sup>(1)</sup>				
Nonspendable <sup>(2)</sup>	\$ 5,944,560	\$ 5,923,618	\$ 7,596,839	\$ 5,900,000
Committed <sup>(3)</sup>	2,520,540	2,698,310	--	--
Assigned <sup>(4)</sup>	80,767,147	70,630,138	39,665,617	30,816,740
Unassigned <sup>(5)</sup>	<u>83,580,559</u>	<u>28,853,996</u>	<u>--</u>	<u>64,693,662</u>
	<u>\$172,812,806</u>	<u>\$108,106,062</u>	<u>\$47,262,456</u>	<u>\$ 101,410,402</u>

Notes:

- (1) GAAP fund balance amounts presented for FY10 and prior years have been restated to conform to the FY11 presentation under GASB54.
- (2) Nonspendable amounts in FY10 and prior years were classified as Reservations.
- (3) Committed amounts in FY10 and prior years were classified as Reservations.
- (4) Assigned amounts in FY10 and prior years were classified as Unreserved Designations, primarily for encumbrances and General Fund transfers to the Capital Projects Fund.
- (5) Unassigned amounts in FY10 and prior years were classified as Unreserved.

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## **TAX MATTERS**

Pursuant to the regulations governing practice before the Internal Revenue Service, prospective investors are thereby informed that: (i) any advice regarding federal income tax matters pertaining to the Series 2011 Certificates contained herein is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer; (ii) any such advice is written to support the promotion or marketing of the Series 2011 Certificates and the transactions described herein; and (iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

### **State of Maryland Taxation**

Under existing law of the State of Maryland, the interest portion of the Contract Payments to be made by the County under the Funding Agreement and to be received by the holders of the Series 2011 Certificates is not exempt from income taxation by the State of Maryland or by any of its political subdivisions.

Interest on the Series 2011 Certificates may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Holders or prospective purchasers of the Series 2011 Certificates should consult their tax advisors regarding the taxable status of the Series 2011 Certificates in a particular state or local jurisdiction other than the State of Maryland.

### **United States Federal Income Taxation**

A holder or prospective purchaser of the Series 2011 Certificates should seek advice based on the holder's or prospective purchaser's particular circumstances from an independent tax advisor.

#### *General*

The interest on the Series 2011 Certificates will be includable in gross income for United States federal income tax purposes.

Many factors may impact the application of federal income tax laws pertaining to the Series 2011 Certificates and the receipt of interest on the Series 2011 Certificates, including the status of the beneficial owner of the Series 2011 Certificates as a United States holder or non-United States holder under applicable rules, whether the Series 2011 Certificates are held as capital assets or in some other context, and whether the status of the beneficial owner and/or the financial context in which it is operating represents a special tax situation, such as S corporations, insurance companies, tax-exempt organizations, financial institutions, regulated investment companies, real estate investment trusts, certain broker-dealers and traders in securities. Persons considering the purchase of the Series 2011 Certificates should consult their own tax advisors concerning the application of federal income tax laws to their particular situations as well as any consequences arising from the federal alternative minimum tax or the federal estate tax or under the laws of any other taxing jurisdiction.

The following is a summary of certain United States federal income tax consequences of the ownership of the Series 2011 Certificates held as capital assets by United States holders. The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations, rulings and judicial decisions as of the date of this Official Statement. Those authorities may

be changed, in some cases retroactively, so as to result in United States federal income tax consequences different from those discussed below.

As used herein, “United States holder” means a beneficial owner of a Series 2011 Certificate who or that, for United States federal income tax purposes, is (i) a citizen or resident of the United States, (ii) an entity taxable as a corporation created or organized in or under the laws of the United States or any political subdivision of the United States, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust if it is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or if it has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership, or other entity classified as a partnership for federal income tax purposes, holds Series 2011 Certificates, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership holding Series 2011 Certificates should consult its tax advisor.

*Payment of Interest.* Interest on a Series 2011 Certificate will be taxable to a United States holder as ordinary interest income at the time it is accrued or is paid in accordance with the United States holder’s method of accounting for tax purposes.

*Purchase, Sale and Retirement of Certificates.* Except as noted below in the case of market discount, the sale or other disposition of a Series 2011 Certificate will normally result in capital gain or loss. A United States holder’s initial tax basis in a Series 2011 Certificate will be its cost. Upon the sale, redemption or retirement of a Series 2011 Certificate, for federal income tax purposes, a United States holder will recognize capital gain or loss upon the disposition of such security (including sale, early redemption or payment at maturity) in an amount equal to the difference between (a) the amount received upon such disposition (less an amount equal to any accrued qualified stated interest, which will be treated as a payment of interest) and (b) the tax basis in such Series 2011 Certificate, determined by adding to the original cost basis in such Series 2011 Certificate the amount of any original issue discount and any market discount previously included in such holder’s income, and by subtracting any amortized premium and any cash payments on the Series 2011 Certificate other than qualified stated interest, as more fully described below under “Tax Accounting Treatment of Discount Certificates”. Such gain or loss will be long-term capital gain or loss if at the time of the sale, redemption or retirement the Series 2011 Certificate has been held for more than one year. Under present law, both long and short-term capital gains of corporations are taxed at the rates applicable to ordinary income. For noncorporate taxpayers, however, net capital gains will be taxed at a maximum rate of 15%, while short-term capital gains and other ordinary income will be taxed at a maximum rate of 35%. Net capital gains are the excess of net long-term capital gains (gains on capital assets held for more than one year) over net short-term capital losses. Because of the limitation on itemized deductions and the deduction for personal exemptions applicable to higher income taxpayers, the effective rate of tax may be higher in certain circumstances. The operation of sunset, effective date and similar provisions in current law could result in a change in the tax rates in certain future periods.

*Tax Accounting Treatment of Discount Certificates.* Certain maturities of the Series 2011 Certificates may be issued at an initial public offering price which is less than the stated redemption price at maturity of such Series 2011 Certificates (the “Discount Certificates”). If the stated redemption price at maturity of Discount Certificates of a particular maturity exceeds the first price at which a substantial amount of such Discount Certificates was sold for money (excluding sales to bond houses, brokers or similar persons acting as underwriters, placement agents or wholesalers) by more than a *de minimis*

amount, the Discount Certificates will be treated as having original issue discount. A holder of Discount Certificates (whether a cash or accrual method taxpayer) is required to include in gross income as interest the amount of such original issue discount which is treated as having accrued during a taxable year with respect to such Discount Certificates, in advance of the receipt of some or all of the related cash payments. Accrued original issue discount is added to the original cost basis of the holder in determining, for federal income tax purpose, gain or loss upon disposition (including sale, early redemption or repayment at maturity).

Original issue discount on Discount Certificates will be attributed to permissible compounding periods during the life of any Discount Certificates in accordance with a constant rate of interest accrual method. The yield to maturity of the Discount Certificates of each maturity is determined using permissible compounding periods. In general, the length of a permissible compounding period cannot exceed the length of the interval between debt service payments on the Discount Certificates and must begin or end on the date of such payments. The amount of original issue discount allocable to any compounding period is equal to the excess, if any, of (a) the Discount Certificate's adjusted issue price at the beginning of the compounding period multiplied by its yield to maturity, determined on the basis of compounding at the close of each compounding period and properly adjusted for the length of the compounding period, over (b) the aggregate of all qualified stated interest allocable to the compounding period. Original issue discount allocable to a final compounding period is the difference between the amount payable at maturity, other than a payment of qualified stated interest, and the adjusted issue price at the beginning of the final compounding period. Special rules apply for calculating original issue discount for an initial short compounding period. The "adjusted issue price" of a Discount Certificate at the beginning of any compounding period is equal to its issue price increased by the accrued original issue discount for each prior compounding period (determined without regard to the amortization of any acquisition or Series 2011 Certificate premium, as described below) and reduced by any payments made on the Discount Certificate (other than qualified stated interest) on or before the first day of the compounding period. Under these rules, a holder of a Discount Certificate will have to include in income increasingly greater amounts of original issue discount in successive compounding periods. The amount of original issue discount accrued on Discount Certificates held of record by persons other than corporations and other exempt holders will be reported to the Internal Revenue Service. If a Discount Certificate is sold or otherwise disposed of between compounding dates, then interest which would have accrued for that compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property, other than debt instruments of the issuer, if the interest to be paid is payable at least once per year, is payable over the entire term of the Discount Certificate and is payable at a single fixed rate or, subject to certain conditions, based on one or more interest indices.

Holders of Discount Certificates should note that, under applicable regulations, the yield and maturity of a Discount Certificate is determined without regard to commercially reasonable sinking fund payments and any original issue discount remaining unaccrued at the time that a Discount Certificate is redeemed in advance of stated maturity will be treated as taxable gain. Moreover, tax regulations prescribe special conventions for determining the yield and maturity of certain debt instruments that provide for alternative payment schedules applicable upon the occurrence of certain contingencies.

The prices or yields furnished by the successful bidder for the Series 2011 Certificates as shown on the inside cover of this Official Statement may not reflect the initial issue price for the purposes of determining the original issue discount for federal income tax purposes.

The foregoing summarizes certain federal income tax consequences of original issue discount with respect to the Discount Certificates but does not purport to deal with all aspects of federal income taxation that may be relevant to particular investors or circumstances, including those set out above. Prospective purchasers of Discount Certificates should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on Discount Certificates. In addition, prospective foreign corporate purchasers should consider possible federal tax consequences arising from original issue discount on such Discount Certificates under the branch profits tax. The amount of original issue discount considered to have accrued may be reportable in the year of accrual for state and local tax purposes or for purposes of the branch profits tax without a corresponding receipt of cash with which to pay any tax liability attributable to such discount. Purchasers with questions concerning the detailed tax consequences of transactions in the Discount Certificates should consult their tax advisors.

*Market Discount.* If a United States holder acquires a Series 2011 Certificate after its original issuance at a cost which is less than its stated redemption price at maturity (or, in the case of a Series 2011 Certificate having original issue discount, its revised issue price) by more than a certain *de minimis* amount, such holder will be deemed to have acquired the Series 2011 Certificate at “market discount.” The amount of market discount treated as having accrued will be determined either on a ratable basis, or, if the holder so elects, on a constant interest method. Upon any subsequent disposition (including a gift, redemption or payment at maturity) of such Series 2011 Certificate (other than in connection with certain nonrecognition transactions), the lesser of any gain on such disposition (or appreciation, in the case of a gift) or the portion of the market discount that accrued while the Series 2011 Certificate was held by such holder will be treated as ordinary income at the time of the disposition. In lieu of including accrued market discount in income at the time of disposition, a holder may elect to include market discount in income currently. Unless a holder so elects, a holder may be required to defer deductions for a portion of such holder’s interest expenses with respect to any indebtedness incurred or maintained to purchase or carry such Series 2011 Certificate until the holder disposes of the Series 2011 Certificate. The election to include market discount in income currently, once made, is irrevocable and applies to all market discount obligations acquired on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the Internal Revenue Service.

*Acquisition Premium.* A subsequent United States holder of a Series 2011 Certificate is generally subject to rules for accruing original issue discount described above. However, if such holder’s purchase price for the Series 2011 Certificate exceeds the adjusted issue price (the sum of the issue price of the Series 2011 Certificate and the aggregate amount of the original issue discount includable in the gross income of all holders for periods before the acquisition of the Series 2011 Certificate by such holder and reduced by any payment previously made on the Series 2011 Certificate other than a payment of qualified stated interest) the excess (referred to as “acquisition premium”) is offset ratably against the amount of original issue discount otherwise includable in such holder’s taxable income (*i.e.*, such holder may reduce the daily portions of original issue discount by a fraction, the numerator of which is the excess of such holder’s purchase price for the Series 2011 Certificate over the adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Series 2011 Certificate after the purchase date other than qualified stated interest over the Series 2011 Certificates’ adjusted price).

*Amortizable Certificate Premium.* If the United States holder’s basis in a Series 2011 Certificate exceeds the sum of all amounts payable on the Series 2011 Certificate after the date on which the holder acquires it other than qualified stated interest, such excess will constitute amortizable premium with respect to the Series 2011 Certificate and, in the case of a Discount Certificate, such holder will not have to account for original issue discount with respect to such Series 2011 Certificate. The holder of a Series 2011 Certificate having amortizable premium generally may elect to amortize the premium over the remaining term of the Series 2011 Certificate on a constant yield method as an offset to interest when

includable in income under its regular accounting method. In the case of instruments that provide for alternative payment schedules, premium is calculated by assuming that (a) the holder will exercise or not exercise options in a manner that maximizes its yield and (b) the issuer will exercise or not exercise options in a manner that minimizes its yield (except that the issuer will be assumed to exercise call options in a manner that maximizes the holder's yield). If the holder does not elect to amortize premium, that premium will decrease the gain or increase the loss that would otherwise be recognized on disposition of the Series 2011 Certificate. An election to amortize premium on a constant yield method will also apply to all debt obligations held or subsequently acquired by the holder on or after the first day of the first taxable year to which the election applies. The holder may not revoke the election without the consent of the Internal Revenue Service. Holders of Series 2011 Series 2011 Certificates having amortizable premium should consult with their own tax advisors before making this election.

*Election to Use Original Discount Method with Respect to a Certificate.* The holder of a Series 2011 Certificate may elect to treat all interest on the Series 2011 Certificate as original issue discount and calculate the amount includable in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable premium or acquisition premium. The holder must make this election for the taxable year in which the Series 2011 Certificate is acquired and may not revoke the election without the consent of the Internal Revenue Service. Holders of Series 2011 Certificates should consult with their own tax advisors about this election.

*Consequences of Defeasance.* The Series 2011 Certificates may be defeased prior to maturity at the option of the County. Holders of the Series 2011 Certificates should be aware that under applicable Treasury Regulations, any such defeasance may be treated as a sale or retirement and subsequent reissuance of the Series 2011 Certificates for tax purposes with the result that such holders would be required to recognize capital gain or loss for federal income tax purposes at the time of such defeasance.

*U.S. Federal Information Reporting and Backup Withholding.* Under current United States federal income tax law, a 28% backup withholding tax requirement may apply to certain payments of interest and original issue discount on, and the proceeds of the sale, exchange or redemption of, the Series 2011 Certificates. In addition, certain persons making such payments are required to submit information returns (i.e., IRS Forms 1099) to the IRS with regard to those payments. Backup withholding and information reporting will generally not apply with respect to payments made to certain exempt recipients such as corporations or certain exempt entities.

*Foreign Investors.* Payments on the Series 2011 Certificates to a non-United States holder that has no connection with the United States other than holding its Series 2011 Certificate generally will be made free of withholding tax, as long as that holder has complied with certain tax identification and certification requirements.

The foregoing discussion does not discuss all aspects of federal income taxation that may be relevant to a particular holder of Series 2011 Certificates in light of his or her particular circumstances and income tax situation. Each holder of Series 2011 Certificates should consult such holder's tax advisor as to the specific tax consequences to such holder of the ownership and disposition of the Series 2011 Certificates, including the application of State, local, foreign and other tax laws.

## **LITIGATION**

The County is currently processing numerous claims for damages and is also a defendant in a number of lawsuits which are expected to be paid, when applicable, through its self-insurance program. Management and legal counsel believe that the self-insurance program is adequately funded to cover such claims and lawsuits to be paid out of the program. In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation and other suits and actions arising in the normal course of business. In the opinion of the County Attorney, the possible liability of the County in the resolution of these cases will not exceed \$2,117,772, and it appears that, of this amount, the County will probably not incur any liability. In any event, in the opinion of management and legal counsel, none of such claims and suits will materially affect the County's ability to perform its obligations to the Holders of the Series 2011 Certificates.

## **INDEPENDENT PUBLIC ACCOUNTANTS**

The audited basic financial statements of the County included in Appendix B to this Official Statement have been audited by Clifton Gunderson LLP (Clifton Gunderson), independent public accountants, as indicated in their report with respect thereto. In that report, Clifton Gunderson states that with respect to certain of the County's component units, its opinion is based on the reports of other auditors. The report of Clifton Gunderson also contains an explanatory paragraph which states that Clifton Gunderson did not audit certain identified supplementary information and expressed no opinion thereon. Such audited basic financial statements have been included in reliance upon the qualification of said firm to issue said report.

## **FINANCIAL ADVISOR**

Public Financial Management, Inc., Philadelphia, Pennsylvania, has acted as Financial Advisor to the County for the sale and issuance of the Series 2011 Certificates and on certain other financial matters.

## **RATINGS**

Fitch Ratings, Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Rating Group have given the Series 2011 Certificates the respective ratings indicated on the cover page of this Official Statement. A rating reflects only the view of the rating organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2011 Certificates.

On July 28, 2011, Moody's placed under review for possible downgrade the Aaa ratings of 177 public finance credits, including the County's securities. Moody's stated that its actions relate to the rating agency's July 13, 2011 decision to place the Aaa government bond rating of the United States under review for downgrade and reflect the rating agency's assessment that some Aaa public finance ratings would likely be indirectly affected by potential credit deterioration of the sovereign. In the event Moody's downgrades the U.S. government's Aaa rating, Moody's will determine the outcome of each review by evaluating the strength of the sovereign linkages to each affected credit, including direct and indirect reliance on federal spending, sensitivity to deteriorating macroeconomic conditions and

vulnerability to disruptions in the financial markets. Moody's press release is available at [http://www.moodys.com/research/MOODYS-PLACES-Aaa-RATINGS-OF-177-US-PUBLIC-FINANCE-ISSUERS?lang=en&cy=global&docid=PR\\_223648](http://www.moodys.com/research/MOODYS-PLACES-Aaa-RATINGS-OF-177-US-PUBLIC-FINANCE-ISSUERS?lang=en&cy=global&docid=PR_223648).

## **CERTIFICATE OF COUNTY OFFICIALS**

The Chief Administrative Officer and the Director of Finance of the County will furnish a certificate to the successful bidders for the Series 2011 Certificates to the effect that, to the best of their knowledge and belief, this Official Statement, as of the date of sale and the date of delivery of the Series 2011 Certificates, is true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact, required to be stated or necessary to be stated, to make such statements, in the light of the circumstances under which they were made, not misleading.

## **CONTINUING DISCLOSURE UNDERTAKING**

In order to enable participating underwriters, as defined in Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") to comply with the requirements of paragraph (b)(5) of Rule 15c2-12, the County will execute and deliver a continuing disclosure agreement (the "Continuing Disclosure Agreement") on or before the date of issuance and delivery of the Series 2011 Certificates, the form of which is attached to this Official Statement as Appendix D. Potential purchasers of the Series 2011 Certificates should note that the definition of Reportable Events in Appendix D is intended to completely restate the events specified in Rule 15c2-12. It is noted that certain Reportable Events are expected to have no applicability to the Series 2011 Certificates, such as the possibility of unscheduled draws on debt service reserves and matters affecting collateral for the Series 2011 Certificates.

The County has not failed to comply with any prior continuing disclosure undertaking made pursuant to Rule 15c2-12.

## **LEGALITY OF THE CERTIFICATES**

The authorization, sale, issuance and delivery of the Series 2011 Certificates will be subject to legal approval by McKennon Shelton & Henn LLP, Baltimore, Maryland, Special Counsel, and a copy of their unqualified approving legal opinion with respect to the Series 2011 Certificates will be delivered upon request, without charge, to the successful bidders for the Series 2011 Certificates. The opinion is expected to be substantially in the form of the draft opinion attached to this Official Statement as Appendix C.

## **INFORMATION IN OFFICIAL STATEMENT**

All quotations, summaries and explanations in this Official Statement of State and County laws and the Montgomery County Charter do not purport to be complete and reference is made to pertinent provisions of the same for complete statements. Any estimates or opinions herein, whether or not expressly so stated, are intended as such and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date as of which such information is stated or the date hereof. This Official Statement shall not be construed as part of any contract between the County and the purchasers or holders of its Series 2011 Certificates. The County has been advised by McKennon Shelton & Henn LLP, Special Counsel, in connection with legal statements contained in this Official



Statement; however, Special Counsel has not passed upon or assumed responsibility for the accuracy of the statistical data, financial statements and economic data contained herein.

Any questions regarding this Official Statement or the Series 2011 Certificates should be directed to Mr. Joseph F. Beach, Director, Department of Finance, Montgomery County, Maryland, 101 Monroe Street, 15th floor, Rockville, Maryland 20850, Telephone: (240) 777-8860.

### **AUTHORIZATION OF OFFICIAL STATEMENT**

The execution and delivery of this Official Statement have been duly authorized by the County. This Official Statement is hereby deemed final for the purposes of Rule 15c2-12 of the Securities and Exchange Commission.

### **MONTGOMERY COUNTY, MARYLAND**

By: \_\_\_\_\_  
Isiah Leggett  
County Executive

By: \_\_\_\_\_  
Joseph F. Beach  
Director, Department of Finance

**APPENDIX A**

**INFORMATION ABOUT THE COUNTY AS OF JANUARY 18, 2011**

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**ANNUAL INFORMATION STATEMENT  
IN CONNECTION WITH BONDS AND OTHER OBLIGATIONS**

This Annual Information Statement (“the AIS”), dated January 18, 2011, is prepared by Montgomery County, Maryland (“the County”), to provide, as of its date, certain general information concerning the County and its operations. Included is information on the County 1) government, organizational structure and services, 2) financial information, 3) annual budgets, 4) results of fiscal years 2006-2010, 5) retirement system, 6) revenue sources, and 7) selected demographic and economic statistics, and information including population, employment and income.

The information presented in this AIS is as of the date indicated above, and is based upon the best available information as of that date. This information was obtained from the County and other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and the publication of this Statement shall not, under any circumstances, create any implication that there is no change in the affairs of the County or in any other information contained herein, since the date hereof. The distribution of this AIS by the County does not in any way imply that the County has obligated itself to update the information herein.

The presentation of information is intended to show recent historical information, and is not intended to indicate future or continuing trends in the financial position or operations of the County. No representation is made that past experiences, as might be shown by such financial and other information, will necessarily continue or be repeated in the future. Any statements in this document 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.

Questions regarding information in the AIS should be directed to Jennifer E. Barrett, Director of Finance, Montgomery County, Maryland, 101 Monroe Street, EOB 15<sup>th</sup> Floor, Rockville, Maryland 20850. Telephone: 240-777-8860; fax: 240-777-8857. E-mail: [bondquestions@montgomerycountymd.gov](mailto:bondquestions@montgomerycountymd.gov).

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## STATISTICAL HIGHLIGHTS

### Debt

General Obligation Bonds and Notes Outstanding	\$1,769,839,285
Total Assessed Value	\$171,220,840,149
Direct Debt (incl. Revenue Bonds)	\$2,281,864,285
Ratio of Direct Debt to Assessed Value	1.33%
Net Direct Debt	\$2,194,839,285
Ratio of Net Direct Debt to Assessed Value	1.28%

### Budgets

Approved FY11 Operating Budget	\$4.3 billion
Approved FY11 General Fund Undesignated Surplus	\$124.8 million
FY10 General Fund Unreserved Undesignated Balance	None
FY10 Revenue Stabilization Fund Balance	\$74.9 million
FY11-16 Approved Capital Budget	\$4.0 billion

### FY10 Major Revenues

Income Tax	\$1,042.1 million
Property Tax (General Fund)	\$1,045.6 million
Transfer and Recordation Tax	\$122.0 million
Other Taxes	\$205.6 million

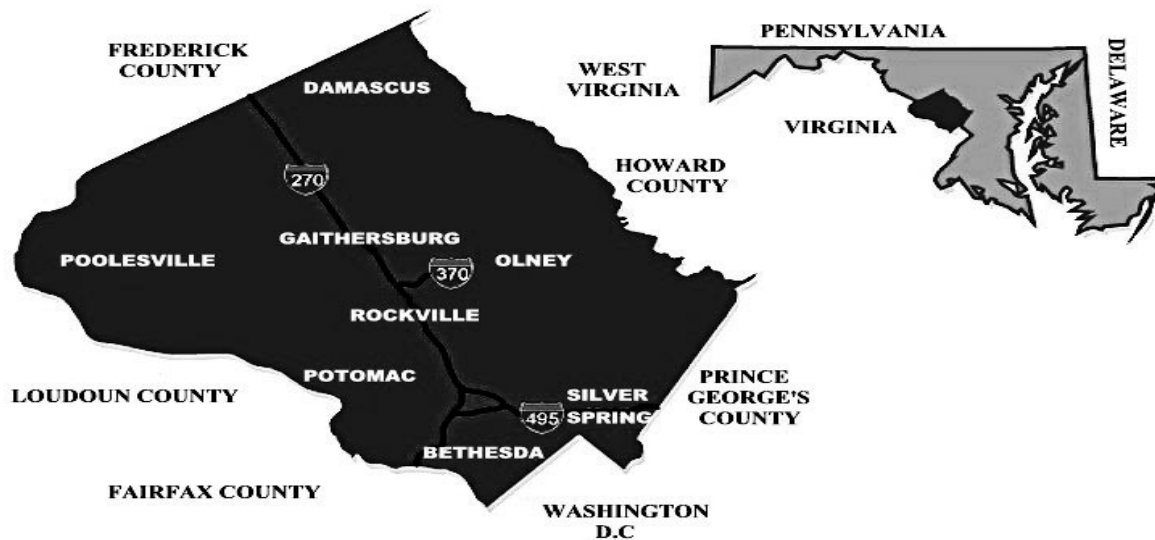
### Demographics

Population 2010	964,100
Households 2010	360,500
Median Age 2000	36.8 years

### Employment

Private Sector 2009	361,284
Public Sector 2009	82,021
Unemployment Rate (Jan – Sept. 2010)	5.7%
Personal Income 2010 (est.)	\$67.7 billion
Per Capita Income 2010 (est.)	\$ 70,190
Average Household Income 2010 (est.)	\$187,710
MCPS K-12 Projected FY11 Enrollment	143,309
MCPS Per Pupil Operating Expenditures (FY11)	\$13,862
Montgomery College Enrollment (Fall 2009)	26,147





## **MONTGOMERY COUNTY - HISTORY AND GOVERNMENT**

### ***Location***

Montgomery County is located adjacent to the nation's capital, Washington, D.C., and includes 496 square miles of land area. The topography is rolling with small hills. Elevations range from 52 feet above sea level at the junction of the Potomac River and the District Line, to 850 feet in the northern portion of the County near Damascus. Bordering the County are Howard County to the northeast, Prince George's County to the southeast, Frederick County to the northwest, the District of Columbia to the south, and Virginia to the southwest.

### ***History***

Montgomery County was established by the State Convention in 1776, and from its establishment until 1948, the Montgomery County Government functioned under the County Commission system. In 1948, the voters adopted a charter giving the County home rule and a council-manager form of government. In 1968, the voters approved a new charter providing for separate legislative and executive branches of government, with the legislative power vested in an elected County Council and executive power in an elected County Executive. The new charter became fully implemented with the election of the County Executive and the County Council in November 1970.

### ***Government***

The County Council is comprised of nine members, four of whom are elected by the qualified voters of the entire County. Each of the five other members of the Council must, at the time of their election, reside in a different one of five Councilmanic districts of the County and each of these five members shall be nominated and elected by the qualified voters in their respective districts. Populations of the Councilmanic districts are substantially equal.

The County Executive, who must be a qualified voter of the County for the five years preceding his or her election and who may not be less than thirty years of age, is elected by the qualified voters of the entire County at the same time as the Council. Both the County Executive and the County Council members serve a four-year term.

## ***County Officials***

### **County Executive – Isiah Leggett**

Isiah Leggett was elected Montgomery County's sixth County Executive on November 7, 2006, and sworn in on December 4, 2006. In November 2010, he was reelected to another four year term by County voters. Mr. Leggett served as an infantry captain in the United States Army in Vietnam, earning the Bronze Star, Vietnam Service, and Vietnam Campaign medals. He worked as a legislative assistant on small business issues for Congressman Parren Mitchell of Baltimore and as a staff attorney for the Department of the Navy. In 1977, Mr. Leggett was selected as a White House Fellow in the Carter Administration. He worked as a member of the Montgomery County Human Rights Commission from 1979 to 1986 and was its chair from 1983 to 1986.

Mr. Leggett served as an at-large member of the Montgomery County Council for 16 years beginning in 1986. He won four terms and was elected Council President three times by his colleagues. He chaired the Council's Transportation and Environment Committee and served on the Education Committee. After leaving the Council in 2002, Mr. Leggett chaired the Maryland State Democratic Party for two years and continued his work as a Professor of Law at Howard University, where he taught from 1975 to 2006. He served as the law school's assistant dean from 1979 to 1986.

### **President, County Council – Valerie Ervin**

Valerie Ervin was elected to her second term on the County Council in November 2010, and was recently elected Council President by her colleagues. She chairs the Council's Education Committee and is also a member of the Government Operations and Fiscal Policy Committee. Ms. Ervin was elected to the Montgomery County Board of Education in 2004, where she chaired the Research and Evaluation Committee. She also served as NAACP Parents' Council representative and was a founding member of Blacks United for Excellence in Education.

Prior to her service on the Council, Ms. Ervin was the Dean of Students at the National Labor College in Silver Spring. She also served as Councilmember George Leventhal's chief of staff.

### **Chief Administrative Officer - Timothy L. Firestine**

Timothy L. Firestine was appointed Chief Administrative Officer on November 30, 2006 and confirmed on December 12, 2006. Prior to his appointment as CAO, Mr. Firestine was the County's Director of Finance for 15 years. He previously served in various management positions in the County's Office of Management and Budget. Before coming to the County, Mr. Firestine was the Budget Officer for the Allegheny County, Pennsylvania, Controller's Office.

Mr. Firestine is currently a member of the Executive Board of the National Government Finance Officers Association and, in the past, served as vice chair of its Committee on Debt Management. He is also a member of the District of Columbia Water and Sewer Authority, where he currently serves as Chair of the Budget and Finance Committee. In the past, Mr. Firestine also served as President of the Maryland Government Finance Officers Association, President of the Board of Trustees for Suburban Hospital Health Care System, Inc., in Bethesda, Maryland, and President of the Board of Investment Trustees for the Employee Retirement System for Montgomery County. Mr. Firestine was an adjunct professor at the University of Maryland, Graduate School of Public Policy, where he taught Public Finance.

### **Director of Finance – Jennifer E. Barrett**

Jennifer E. Barrett was appointed Director, Department of Finance on January 8, 2007 and confirmed on January 30, 2007. Prior to her appointment, Ms. Barrett served as the Finance Department's Chief Operating Officer for four years. From 1982 to 2002, she served in various management positions in the County's Department of Finance and Office of Management and Budget.

Ms. Barrett is a member of the Board of Investment Trustees for the Employees' Retirement System of Montgomery County, and Chairperson of the Montgomery County Conference Center Management Committee. Ms. Barrett is also a member of the Government Finance Officers Association and serves on GFOA's Committee on Governmental Debt Management, and is Past-President of the Maryland Government Finance Officers Association.

### **Director, Office of Management and Budget – Joseph F. Beach**

Joseph F. Beach was appointed Director of the Office of Management and Budget on April 24, 2007 and confirmed on May 8, 2007. Prior to his appointment, he served in a variety of senior level positions with Montgomery County Government including as Assistant Chief Administrative Officer, Operating Budget Coordinator, and Senior Budget Analyst. Mr. Beach's service for the County included extensive work in the areas of collective bargaining, criminal justice, multi-year budgeting, and contract review.

Mr. Beach was admitted to the State Bar of Maryland in December 1995. He serves on the Board of Investment Trustees for the Employees' Retirement System of Montgomery County and the Board of Directors for the Strathmore Hall Arts Foundation.

### **County Attorney – Marc P. Hansen**

Marc P. Hansen was appointed to the position of County Attorney in December 2010, after having served as Acting County Attorney since January 2010. Beginning in 1984, he served in various positions in the Office of the County Attorney. His prior areas of concentration are government operations, procurement, legislation, and ethics. He is agency counsel to the County Council, Office of Management and Budget, Charter Review Commission, and Office of Intergovernmental Relations.

Mr. Hansen is a former mayor of Washington Grove, Maryland (1987-90), and Chair, Board of Zoning Appeals of Washington Grove. He is vice-chair of the General Government Section, International Municipal Lawyer's Association. He was previously in private practice (1975-1984). He is admitted to the Maryland Bar (1975), and is also admitted to practice in the U.S. District Court for Maryland (1976), the Fourth Circuit Court of Appeals (1977), and the U.S. Supreme Court (1980). Mr. Hansen is a member of the Maryland and Montgomery County Bar Associations.

## **DEBT SUMMARY**

### ***Overview***

The County Government, four of its agencies, and municipalities are authorized by State law and/or County Charter to issue debt to finance capital projects. Consistent with County fiscal policy, the County issues debt to finance a major portion of the construction of long-lived additions or improvements to the County's publicly-owned infrastructure. The County's budget and fiscal plan for these improvements is known as the Capital Improvements Program (CIP). Bonds are repaid to bondholders with a series of principal and interest payments over a period of years, known as debt service. In this manner, the initial high cost of capital improvements is absorbed over time and assigned to current and future citizens benefiting from the facilities. Due to various Federal, State, and local tax policies, interest rates are lower than in the private sector.

In addition to the issuance of general obligation or revenue bonds, the County initially finances the cost of long-term capital assets with short-term paper known as Bond Anticipation Notes (BANs)/Commercial Paper, which the County intends to retire with the proceeds of long-term bonds. Additionally, the County from time to time enters into other long-term obligations, such as long-term loans, which are classified as long-term notes payable.

The various components of the County's debt described above are categorized as either direct or overlapping. Direct debt is the total bonded debt of the County, and constitutes the direct obligations of the County that impact its taxpayers. Components of Montgomery County direct debt are its general obligation bonds, BANs/commercial paper, long-term notes payable, and revenue bonds issued by the County.

Overlapping debt includes all borrowings of other County agencies, incorporated municipalities, and special taxing or development districts, which may impact those County tax- or rate-payers who are residents of those municipalities or

special districts. More broadly, overlapping debt can help reveal the degree to which the total economy is being asked to support long-term fixed commitments for governmental facilities.

Certain direct and overlapping debt is additionally classified as Self-Supporting Debt. Such obligations are issued for projects that produce sufficient revenues to retire the debt. The bonds are not supported by the taxing power of the governmental entity issuing them.

The County's Net Direct and Overlapping Debt is derived by subtracting Direct Self-Supporting Debt from the Total Direct and Overlapping Debt.

A summary statement of direct and overlapping debt for Montgomery County is provided in Table 1 on the following page. For additional discussion of particular elements of the County's debt, see the sections that follow.

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**Table 1**  
**Statement of Direct and Overlapping Debt**  
**As of June 30, 2010**

Direct Debt:	
General Obligation Bonds Outstanding	\$1,669,839,285
General Obligation Variable Rate Demand Obligations	100,000,000
Short-Term BANs/Commercial Paper Outstanding	425,000,000
Revenue Bonds Outstanding	<u>87,025,000</u>
Total Direct Debt	\$2,281,864,285
Overlapping Debt:	
Gross Debt:	
Washington Suburban Sanitary Commission	
Applicable to Montgomery County	865,068,428
Housing Opportunities Commission	807,730,036
Montgomery County Revenue Authority	94,487,067
Maryland-National Capital Park and Planning Commission	
Applicable to Montgomery County	36,680,290
Kingsview Village Center Development District	1,995,000
West Germantown Development District	14,815,000
Towns, Cities and Villages within Montgomery County	<u>44,958,509</u>
Total Overlapping Debt	<u>1,865,734,330</u>
Total Direct and Overlapping Debt	4,147,598,615
Less Self-Supporting Debt:	
County Government Revenue Bonds	87,025,000
Washington Suburban Sanitary Commission	
Applicable to Montgomery County	865,068,428
Housing Opportunities Commission	807,730,036
Montgomery County Revenue Authority	94,487,067
Maryland-National Capital Park and Planning Commission	
Applicable to Montgomery County	<u>3,393,262</u>
Total Self-Supporting Debt	<u>(1,857,703,793)</u>
Net Direct and Overlapping Debt	<u>\$2,289,894,822</u>
Ratio of Debt to June 30, 2010 Assessed Valuation of (100% Assessment):	\$171,220,840,149
Direct Debt	1.33%
Net Direct Debt *	1.28%
Direct and Overlapping Debt	2.42%
Net Direct and Overlapping Debt	1.34%
Ratio of Debt to June 30, 2010 Market Value of:	\$179,277,920,655
Direct Debt	1.27%
Net Direct Debt *	1.22%
Direct and Overlapping Debt	2.31%
Net Direct and Overlapping Debt	1.28%

\*Net Direct Debt of \$2,194,839,285 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

## ***Debt Affordability***

Once committed, debt service represents a major continuing claim on County resources that must be kept to affordable levels within the annual operating requirements of the County in order to avoid excessive pressures on operating budgets. To assure such affordable levels, the County's general obligation debt is subject to the following tests: 1) the self-imposed, but Charter-required, spending affordability guidelines and 2) the State Law-mandated Legal Debt Limit.

The County Council annually adopts spending affordability guidelines for the capital budget. The guidelines provide for the total amount of general obligation debt issued by the County and by the Maryland-National Capital Park and Planning Commission that may be planned for expenditure in the subsequent two fiscal years and for the six-year Capital Improvements Program. Consideration of the guidelines is based on a number of economic and financial factors or criteria for debt affordability. These criteria are described in the County's Fiscal Policy and provide a foundation for judgments about the County's capacity to issue debt and its ability to retire the debt over time.

The Annotated Code of Maryland, Article 25A, Section 5(P), authorizes borrowing of funds and issuance of bonds up to a maximum of the sum of six percent of the assessed valuation of all real property and 15 percent of the assessed valuation of all personal property within the County. Article 25A, Section 5(P) provides that obligations having a maturity not in excess of 12 months shall not be subject to, or be included in, computing the County's legal debt limitation. However, the County includes its BANs/commercial paper in such calculation because it intends to repay such notes with the proceeds of long-term debt to be issued in the near future. The results of the County's legal debt limit computation are displayed in Table 2 below.

**Table 2**  
**Statement of Legal Debt Margin**  
**As of June 30, 2010**

June 30, 2010 Assessed Valuation – Real Property	\$167,096,843,537
Debt Limit (% of Assessed Valuation)	<u>6%</u>
Subtotal Limitation – Real Property	<u>\$ 10,025,810,612</u>
June 30, 2010 Assessed Valuation – Personal Property	\$4,123,996,612
Debt Limit (% of Assessed Valuation)	<u>15%</u>
Subtotal Limitation – Personal Property	<u>\$ 618,599,492</u>
Total Assessed Valuation – Real and Personal Property	\$171,220,840,149
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	\$10,644,410,104
Less Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds Outstanding	\$1,669,839,285
General Obligation Variable Rate Demand Obligations	100,000,000
Short-Term BANs/Commercial Paper	<u>425,000,000</u>
Net Direct Debt	<u>2,194,839,285</u>
Legal Debt Margin	<u>\$8,449,570,819</u>
Net Direct Debt as a Percentage of Assessed Valuation	<u>1.28%</u>

## Direct Debt

### General Obligation Bonds

County general obligation bonds are secured by the full faith, credit and taxing powers of the County. Bonds are normally issued in serial maturities from one to 20 years, with five percent of the principal retired each year. This practice produces equal annual payments of principal over the life of the bond issue and declining annual payments of interest on the outstanding bonds. The Charter limits the term of any bond to 30 years.

Over the past three decades the composition of County general obligation debt has changed. As more general County bonding was shifted towards schools and roads, a related shift occurred away from general County facilities, parks, and mass transit. In addition, in recent years general obligation debt was not issued to finance parking lot district or solid waste projects. Such projects are financed with revenue bonds or current revenues.

The General Obligation Bonded Debt Ratios displayed below measure the burden of the County's net direct debt, which consists primarily of general obligation bonds and outstanding BANs/commercial paper, and debt service payments on such. As with the calculation of the Legal Debt Limit, the County includes its BANs/commercial paper in these ratio calculations because it intends to repay such notes with the proceeds of general obligation debt to be issued in the near future. The ratios are as follows: 1) net direct debt as a percentage of full (market) value of taxable property; 2) debt service on outstanding general obligation bonds as a percentage of General Fund expenditures and transfers out; 3) net direct debt per capita; 4) net direct debt per capita as a percentage of per capita income; and 5) rate of replacement of general obligation bond principal (payout ratio) in ten years. The results of these indicators are displayed in Table 3 below.

**Table 3**  
**General Obligation Bonded Debt Ratios**  
**2001 – 2010**

<u>Fiscal Year</u>	<u>Net Direct Debt to Market Value</u>	<u>GO Bond Debt Service to General Fund Expenditures</u>	<u>Net Direct Debt Per Capita*</u>	<u>Net Direct Debt Per Capita to Per Capita Income**</u>	<u>GO Bond Payout Ratio</u>
2001	1.57	8.72	1,459	2.97	71.83
2002	1.55	8.32	1,508	3.03	71.32
2003	1.45	8.47	1,543	2.90	71.10
2004	1.45	7.98	1,608	2.88	70.94
2005	1.30	7.74	1,527	2.61	70.20
2006	1.30	7.77	1,701	2.71	69.75
2007	1.30	7.83	1,861	2.81	68.92
2008	1.18	7.95	1,848	2.70	71.39
2009	1.13	7.31	1,997	2.83	70.63
2010	1.22	7.92	2,277	3.24	69.37

\* Amounts restated due to restatement of population data.

\*\* Figures restated due to restatement of actual income in May 2001.

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The County's general obligation indebtedness by issue is presented in Table 4. Annual debt service payments for the County's debt is displayed in Table 5. Table 6 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2010.

**Table 4  
General Obligation Debt of the County  
As of June 30, 2010**

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Original Coupon Rates</u>	<u>TIC*</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2010</u>
GO Refunding Bonds	07/01/92	\$273,038,054	2.75-5.80%	5.7431%	1993-10	\$ 1,289,285
GO Bonds	02/01/01	140,000,000	4.00-5.00	4.5447	2002-21	7,000,000
GO Refunding Bonds	11/15/01	146,375,000	3.60-5.25	4.5107	2003-19	114,200,000
GO Bonds	02/01/02	160,000,000	3.50-5.00	4.4619	2003-22	24,000,000
GO Refunding Bonds	11/15/02	93,595,000	2.75-5.25	3.2799	2005-13	44,355,000
GO Bonds	05/01/03	155,000,000	1.50-4.00	3.6304	2004-23	85,250,000
GO Refunding Bonds	05/01/03	49,505,000	2.00-5.00	2.2900	2004-11	10,195,000
GO Bonds	03/15/04	154,600,000	3.00-5.00	3.8290	2005-24	85,030,000
GO Refunding Bonds	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	87,210,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	110,000,000
GO Refunding Bonds	06/01/05	120,355,000	5.00	3.7817	2011-21	120,355,000
GO Bonds	05/01/06	100,000,000	4.25-5.00	3.8711	2007-16	60,000,000
GO VRDO**	06/07/06	100,000,000	variable	variable	2017-26	100,000,000
GO Bonds	05/01/07	250,000,000	5.00	4.0821	2008-27	162,500,000
GO Refunding Bonds	03/12/08	70,295,000	2.75-5.00	2.8965	2009-15	49,200,000
GO Bonds	07/15/08	250,000,000	3.00-5.00	4.1809	2009-28	237,500,000
GO Bonds***	11/03/09	232,000,000	3.75-5.00	4.8782	2015-29	232,000,000
GO Refunding Bonds	11/03/09	161,755,000	2.00-5.00	2.6487	2011-20	161,755,000
GO Bonds	11/17/09	78,000,000	2.00-5.00	1.1823	2010-14	78,000,000
Total						<u>\$1,769,839,285</u>

\* True Interest Cost

\*\* Variable Rate Demand Obligations

\*\*\* Federally Taxable – Build America Bonds – Direct Pay

*(The remainder of this page has been left blank intentionally.)*



**Table 5**  
**Summary of General Obligation Bonds**  
**Debt Service Requirements by Fiscal Year**  
**As of June 30, 2010**

General Obligation Bonds and Notes			
Fiscal Year	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2011	\$ 139,239,285	\$ 80,102,369	\$ 219,341,654
2012	141,015,000	71,070,073	212,085,073
2013	137,785,000	64,695,416	202,480,416
2014	131,830,000	57,637,798	189,467,798
2015	127,165,000	50,906,054	178,071,054
2016	121,970,000	44,786,866	166,756,866
2017	116,025,000	38,989,399	155,014,399
2018	110,255,000	34,057,931	144,312,931
2019	104,180,000	29,745,297	133,925,297
2020	98,285,000	25,321,163	123,606,163
2021	91,490,000	21,493,009	112,983,009
2022	83,645,000	18,592,078	102,237,078
2023	75,945,000	15,372,481	91,317,481
2024	68,195,000	12,339,412	80,534,412
2025	60,465,000	9,549,850	70,014,850
2026	50,470,000	7,060,556	57,530,556
2027	40,470,000	5,045,550	45,515,550
2028	27,970,000	3,008,081	30,978,081
2029	27,970,000	1,573,150	29,543,150
2030	<u>15,470,000</u>	<u>425,425</u>	<u>15,895,425</u>
Total	<u>\$1,769,839,285</u>	<u>\$591,771,958</u>	<u>\$2,361,611,243</u>

\* For budget and bond authority purposes, variable rate demand obligations are reported with general obligation bonds. Future interest payments for the variable rate demand obligations are not included on this schedule. The interest rate is re-set daily and the rate is established by the marketing agents.

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**Table 6**  
**General Obligation Bonds Authorized – Unissued**  
**As of June 30, 2010**

<u>Purpose</u>	<u>Chapter</u>	<u>Act</u>	<u>Amount</u>	<u>Amount Unissued</u>
General County, Parks, and Consolidated Fire Tax District	19	2005	\$ 44,100,000	15,390,000
	43	2006	92,000,000	92,000,000
	12	2007	51,300,000	51,300,000
	36	2008	68,200,000	68,200,000
	29	2009	<u>58,700,000</u>	<u>58,700,000</u>
			<u>314,300,000</u>	<u>285,590,000</u>
Road & Storm Drainage	43	2006	66,700,000	47,140,000
	12	2007	45,800,000	45,800,000
	36	2008	36,000,000	36,000,000
	29	2009	<u>64,600,000</u>	<u>64,600,000</u>
			<u>213,100,000</u>	<u>193,540,000</u>
Public Schools and Community College	12	2007	118,900,000	27,268,000
	36	2008	222,500,000	222,500,000
	29	2009	<u>272,500,000</u>	<u>272,500,000</u>
			<u>613,900,000</u>	<u>522,268,000</u>
Mass Transit	29	2009	<u>57,100,000</u>	<u>33,005,000</u>
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
	29	2009	<u>1,000,000</u>	<u>1,000,000</u>
			<u>6,630,000</u>	<u>6,570,000</u>
Parking Districts: Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	<u>1,220,000</u>	<u>1,220,000</u>
			<u>4,165,000</u>	<u>3,265,000</u>
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	<u>1,050,000</u>	<u>1,050,000</u>
			<u>9,150,000</u>	<u>4,865,000</u>
Total Parking Districts			<u>13,315,000</u>	<u>8,130,000</u>
Total General Obligation Bonds			<u>\$1,218,345,000</u>	<u>\$1,049,103,000</u>

In addition to the above noted authority, the County has authority under the provisions of section 56-13 of the Montgomery County Code 1994, as amended, to issue County bonds, within statutory debt limits, to finance approved urban renewal projects.

**Current Revenue Substitution for General Obligation Bonds (PAYGO)**

The County follows a practice of budgeting significant current revenue substitution for general obligation bonds over the six-year Capital Improvements Program. This “pay-as-you-go” approach to funding debt-eligible capital improvement projects, known as PAYGO, helps manage the County’s debt burden and retain funding flexibility. The significant amounts of PAYGO substitutions over the past 14 years, and planned for substitution over the six years beginning FY11, are displayed below.

**Table 7  
PAYGO Substitutions  
(Actual FY97-10, Budgeted FY11-16)**

Fiscal Year	PAYGO Amount	Fiscal Year	PAYGO Amount
1997	\$ 3,925,000	2007	\$ 27,500,000
1998	13,000,000	2008	27,500,000
1999	13,400,000	2009	5,406,000
2000	24,600,000	2010	1,316,000
2001	40,705,000	2011	--
2002	40,155,000	2012	32,500,000
2003	17,374,000	2013	32,500,000
2004	6,240,000	2014	32,500,000
2005	7,275,000	2015	32,500,000
2006	11,737,000	2016	32,500,000

**Short-Term Bond Anticipation Notes/Commercial Paper**

The County utilizes Bond Anticipation Notes (BANs)/commercial paper for short-term capital financing of capital expenditures with the expectation that the principal amount will be refinanced with the proceeds of long-term general obligation bonds. Interest costs incurred are usually at lower rates than with long-term financing. The County has BANs/commercial paper authorized, issued, and outstanding as financing sources for capital construction and improvements. BANs/commercial paper are issued at varying maturities to a maximum of 270 days, under a note program that matures on June 30, 2022. The County reissues the notes upon maturity until they are refinanced with long-term bonds. Changes in BANs/commercial paper during the period July 1, 2009 through June 30, 2010 are presented in Table 8 below.

**Table 8  
Bond Anticipation Notes Outstanding  
As of June 30, 2010**

<u>Issue</u>	<u>Balance July 1, 2009</u>	<u>BANs Issued</u>	<u>BANs Retired</u>	<u>Balance June 30, 2010</u>
BAN Series 2002-L	50,000,000	--	50,000,000	--
BAN Series 2002-M	150,000,000	--	150,000,000	--
BAN Series 2002-N	100,000,000	--	100,000,000	--
BAN Series 2002-O	--	115,000,000	115,000,000	--
BAN Series 2009-A	--	200,000,000	200,000,000	--
BAN Series 2009-B	--	125,000,000	--	125,000,000
BAN Series 2010-A	--	300,000,000	--	300,000,000
<b>Total</b>	<b><u>\$300,000,000</u></b>	<b><u>\$740,000,000</u></b>	<b><u>\$615,000,000</u></b>	<b><u>\$425,000,000</u></b>

## Revenue Bonds

County revenue bonds are authorized by the County to finance specific projects such as parking garages and solid waste facilities, with debt service to be paid from pledged revenues received in connection with the projects. Proceeds from revenue bonds may be applied only to the costs of projects for which they are authorized. They are considered separate from general obligation debt and do not constitute a pledge of the full faith and credit or unlimited taxing power of the County.

County revenue bonds are used in the Bethesda Parking District, supported by parking fees and fines, together with parking district property taxes. County revenue bonds were also issued for County Solid Waste Management facilities, supported with the revenues of the Solid Waste Disposal System. During FY09, revenue bonds were issued for liquor control facilities and transportation projects, supported by revenues generated by the Department of Liquor Control. County revenue bond indebtedness by issue is presented in Table 9. Annual debt service payments for the County's revenue bond debt are displayed in Table 10. Table 11 sets forth the amount of revenue bonds authorized to be issued by the County as of June 30, 2010.

**Table 9**  
**Revenue Bond Debt of the County**  
**As of June 30, 2010**

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Original Coupon Rates</u>	<u>TIC*</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2010</u>
Parking Revenue Bonds (Bethesda PLD)	06/01/02	\$ 26,000,000	3.00%-4.75%	4.4231%	2003-21	\$ 17,415,000
Solid Waste Refunding Revenue Bonds	04/03/03	31,075,000	3.00%-5.00%	3.5982%	2004-13	9,925,000
Parking Revenue Bonds (Bethesda PLD)	08/01/05	16,495,000	3.625%-5.00%	4.0471%	2007-25	14,665,000
Liquor Control Revenue Bonds	05/12/09	46,765,000	3.00%-5.00%	4.1196%	2010-29	<u>45,020,000</u>
<b>Total</b>						<u>\$ 87,025,000</u>

\* True Interest Cost.

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**Table 10**  
**Summary of Revenue Bond Debt Service Requirements by Fiscal Year**  
**As of June 30, 2010**

<u>Fiscal Year</u>	<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 7,015,000	\$ 3,924,235	\$10,939,235
2012	7,290,000	3,648,635	10,938,635
2013	6,440,000	3,315,810	9,755,810
2014	3,915,000	3,025,775	6,940,775
2015	4,095,000	2,849,663	6,944,663
2016	4,290,000	2,663,003	6,953,003
2017	4,495,000	2,467,904	6,962,904
2018	4,705,000	2,260,891	6,965,891
2019	4,925,000	2,051,601	6,976,601
2020	5,135,000	1,841,301	6,976,301
2021	5,365,000	1,620,926	6,985,926
2022	3,535,000	1,366,789	4,901,789
2023	3,705,000	1,198,949	4,903,949
2024	3,885,000	1,022,356	4,907,356
2025	4,040,000	864,621	4,904,621
2026	4,230,000	671,370	4,901,370
2027	3,160,000	495,250	3,655,250
2028	3,315,000	340,000	3,655,000
2029	<u>3,485,000</u>	<u>174,250</u>	<u>3,659,250</u>
Total	<u>\$ 87,025,000</u>	<u>\$ 35,803,329</u>	<u>\$ 122,828,329</u>

**Table 11**  
**Revenue Bonds Authorized – Unissued**  
**As of June 30, 2010**

<u>Purpose</u>	<u>Resolution No.</u>	<u>Year</u>	<u>Amount</u>	<u>Amount Unissued</u>
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 42,088,000
	14-921	2001	35,000,000	9,000,000
	15-931	2005	<u>18,000,000</u>	<u>1,505,000</u>
			<u>104,163,000</u>	<u>52,593,000</u>
Solid Waste Disposal	12-1010	1993	<u>56,935,000</u>	<u>6,255,000</u>
Liquor Control	16-676	2009*	<u>138,000,000</u>	<u>91,235,000</u>
Total Revenue Bonds			<u>\$299,098,000</u>	<u>\$150,083,000</u>

\* Resolution was originally passed in July 2008 and amended in February 2009.

### ***Conduit Debt of the County***

Montgomery County's conduit issuers issue bonds on the County's behalf and loan the proceeds to the County. This results in lease payments from the County to the conduit issuers, which in turn pays the debt service on the bonds. Table 12 below displays the principal amounts owed to these conduit issuers as of June 30, 2010.

**Table 12**  
**Conduit Debt of the County**  
**As of June 30, 2010**

<u>Purpose</u>	<u>Issuer</u>	<u>Principal Outstanding June 30, 2010</u>
Parking Garages	Maryland Economic Development Corp.	\$ 34,545,000
Conference Center	Montgomery County Revenue Authority	8,935,000
Human Services Headquarters	Montgomery County Revenue Authority	3,695,000
Swim Centers	Montgomery County Revenue Authority	16,465,000
Solid Waste Disposal System	Northeast Maryland Waste Disposal Authority	<u>153,025,000</u>
TOTAL		<u>\$ 216,665,000</u>

***Overlapping Debt***

In addition to the direct debt described above, certain portions of the debt of other governmental entities in the County are payable in whole or in part by the taxpayers of the County. The debt includes general obligation bonds, revenue bonds, mortgages payable, notes payable, BANs/commercial paper, certificates of participation, and bank loans.

**Washington Suburban Sanitary Commission**

The Washington Suburban Sanitary Commission (WSSC) issues general construction bonds to finance construction of small diameter water distribution and sewage collection lines, and required support facilities in Montgomery and Prince George's Counties. Generally, these are considered general obligation bonds because they are payable from unlimited ad valorem taxes upon all the assessable property in the WSSC district. They are actually paid through assessments on properties being provided service and are considered to be overlapping debt rather than direct debt of the County. WSSC Water Supply and Sewage Disposal Bonds, which finance major system improvements, including large diameter water distribution and sewage collection lines, are paid from non-tax sources including user charges collected through water and sewer rates, which also cover all system operating costs. They are backed by unlimited ad valorem taxes upon all the assessable property within the WSSC district in addition to mandated rates, fees, and charges sufficient to cover debt service. Pursuant to Section 22-104 of the Public Utilities Article of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on WSSC bonds, unless the WSSC waives such guarantee requirement in accordance with Section 22-104. WSSC has waived such guarantee requirement with respect to each outstanding bond issue.

**Housing Opportunities Commission**

The Montgomery County Housing Opportunities Commission (HOC) issues revenue bonds for its Multi-Family Mortgage Purchase Program and its Single-Family Mortgage Purchase Program which are paid through mortgages and rents. A portion of this revenue bond debt is guaranteed by Montgomery County pursuant to the Housing and Community Article, Title 16-201 to 204 of the Annotated Code of Maryland. The County may by local law provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Title 16-205 of the Housing and Community Article in the Code provides the method by which the County implemented the guarantee.

## **Montgomery County Revenue Authority**

The Montgomery County Revenue Authority (MCRA) has authority to issue revenue bonds and to otherwise finance projects through notes and mortgages with land and improvements serving as collateral. These are paid through revenues of MCRA's several enterprises, which include golf courses and the Montgomery County Airpark.

The County also uses MCRA as a conduit for alternative capital project funding arrangements. These include financing for several County aquatic facilities and the Montgomery County Conference Center. For these projects, the MCRA issues the bonds and the debt service is paid through revenues from long-term lease agreements with the County. See "County Facility Lease Obligations" below.

## **Maryland-National Capital Park and Planning Commission**

The Maryland-National Capital Park and Planning Commission (M-NCPPC) issues general obligation debt for the acquisition and development of local parks and certain special parks and advance land acquisition, with debt limited to that supportable within mandatory tax rates. The Commission also issues revenue bonds funded by its enterprise operations. Pursuant to Section 6-101 of Article 28 of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on the debt of M-NCPPC that is not self-supporting.

## **Special Taxing Districts**

The County created three development districts: Kingsview Village Center, West Germantown, and Clarksburg Town Center. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County with high priority for new development or redevelopment. Pursuant to Chapter 14, special taxes and/or special assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective district. Any bond issued under Chapter 14 is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County, and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements.

In December 1999, the County issued \$2.4 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessments were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds for the West Germantown Development District. The County issued \$11.6 million of Senior Series 2002A bonds and \$4.3 million of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt.

The County Council terminated the Clarksburg Town Center development district in October 2010, therefore, no bonds were issued and no special taxes or assessments were levied for the Clarksburg Town Center Development District.

In March 2010, the County adopted a new sector plan for the White Flint area of north Bethesda. This smart-growth master plan attempts to transform the area into a pedestrian-friendly, transit-oriented, urban setting that is expected to be a leading economic engine for the County. To successfully implement the sector plan, the County adopted legislation (Bill 50-10, December 2010) to create a new special taxing district in the White Flint area, along with an implementation strategy and a list of the infrastructure necessary to successfully implement that strategy (Resolution No16-1570, December 2010).

Bill 50-10 creates the White Flint Taxing District (Chapter 68C of the County Code) in order to collect ad valorem tax revenue that will provide a stable, reliable and consistent revenue stream. The revenue collected will fund the transportation infrastructure improvements identified in the implementation and strategy resolution by facilitating repayment of bonds authorized by the legislation.

**Towns and Cities**

The towns of Brookeville, Poolesville, and Garrett Park, and the cities of Rockville and Takoma Park are located wholly within Montgomery County and issued long-term obligations to fund various public amenities such as road and sewer improvements.

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## ***County Facility Lease Obligations***

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately \$27,425,000 for FY10. Long-term leases with the Maryland Economic Development Corporation (MEDCO) and the Montgomery County Revenue Authority are subject to annual appropriations, but are related to the debt service on bonds that MEDCO and the Revenue Authority issued on the County's behalf.

Following is a listing of significant lease agreements for FY11:

<u>Payee</u>	<u>Location</u>	<u>Use</u>	<u>Total Rent For FY11</u>
Eldridge, Inc.	255 Rockville Pike, Rockville	Various Agencies	\$5,022,770
GXS, Inc.	100 Edison Park Drive, Gaithersburg	Public Safety Headquarters	4,459,897
Maryland Economic Development Corp.	921 Wayne Avenue, Silver Spring	Parking Garage	3,093,769
Maryland Economic Development Corp.	801 Ellsworth Drive, Silver Spring	Parking Garage	2,486,598
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	2,325,820
F.S. Peoples Realty Co.	14935 Southlawn Lane, Rockville	Fire & Rescue/Liquor Control	2,180,791
Montgomery County Revenue Authority	5701 Marinelli Drive, Rockville	Conference Center	1,901,650
FP Gude LLC	7300 Calhoun Drive, Derwood	Juvenile Assessment Center	1,391,000
Alexandria Real Estate	1300 Quince Orchard Blvd., Gaithersburg	Emergency Communications Center	1,072,875
Seneca Center II, LLC	18753 N. Frederick Ave.	Board of Elections	975,420
Felland Limited Partnership	4901-43 Nicholson Ct., Kensington	DOT/Transit Services	849,807
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	814,008
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public Facilities/Family Justice Center	725,300
Investment Properties, Inc.	701-C Dover Road, Rockville	Fire & Rescue Warehouse	715,149
1335 Piccard LLC, c/o Wellstone Corp.	1335 Piccard Drive, Rockville	Health Center	666,503
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	632,480
The Gudelsky Comp.	8630 Fenton Street, Silver Spring	Health Center	525,000
Williamson, Harry E. and Helga R.	12500 Ardennes Avenue, Rockville	Corrections	525,000
Rockville Metro Plaza I, LLP	111 Rockville Pike, Rockville	Economic Development	483,875
IGPF Shady Grove LLC	9210 Corporate Boulevard, Rockville	Police/S.I.D.	332,543
Betty B. Casey Trust	8516-40 Anniversary Circle, Rockville	Records Center/Warehouse	294,300
McShea Gaither Road Ltd. Partnership	9121-25 Gaither Road, Rockville	Police/S.O.D.	292,181
Halcyon Associates	800-8434 Helgerman Court, Gaithersburg	Police	266,006
Halcyon Associates	8641-63 Grovemont Circle, Gaithersburg	Police/Fire & Rescue	152,743

## ***Other Operating Payment Agreements***

### **Lease Revenue Bonds – Metrorail Garage Projects**

The County entered into a Trust Agreement dated June 1, 2002 with Wachovia Bank, N.A. related to the issuance of \$37,880,000 in Lease Revenue Bonds to finance the costs of parking structures and related facilities at the Shady Grove Metrorail Station and the Grosvenor Metrorail Station in Montgomery County. The County leased the garages to the Washington Metropolitan Area Transit Authority (“WMATA”), an interstate compact agency and instrumentality of the District of Columbia, the State of Maryland and the Commonwealth of Virginia.

Pursuant to the Trust Agreement, and a First Supplemental Trust Agreement dated September 1, 2004, additional bonds in the amount of \$4,745,000 were issued by the County on September 28, 2004 to complete construction of the Shady Grove and Grosvenor parking structures and related facilities. The final maturity of the Series 2002 and Series 2004 bonds is in 2024.

The Bonds are limited obligations of the County payable solely from and secured by a pledge of (1) the revenues and receipts to be derived from the lease of the garages to WMATA and (2) certain funds and accounts established pursuant to the Trust Agreement, including a debt service reserve. The County covenanted to budget, appropriate and pay to the Trustee for deposit in the debt service reserve, at any time in any fiscal year when the amount to the credit thereof is less than required by the Trust Agreement, an amount equal to the deficiency; however, the obligation of the County to make any such payment in any fiscal year is contingent upon the appropriation for such fiscal year by the Montgomery County Council of funds from which such payment can be made. The obligation of the County under the agreement does not constitute a pledge of the full faith and credit or of the taxing powers of the County.

### **Certificates of Participation (COPs) and Taxable Limited Obligation Certificates**

The County entered into a conditional purchase agreement (COPs) dated October 1, 2007 with U.S. Bank National Association for the purpose of borrowing \$33.6 million to acquire equipment for use in the County’s fire and rescue program. The COPs mature in 10 years. In April 2010, the County entered into a conditional purchase agreement with U.S. Bank, for the purpose of borrowing \$23 million to acquire buses. That issuance of COPs matures in seven years.

Also in April 2010, the County issued \$30.4 million of Taxable Limited Obligation Certificates. The proceeds of this sale are being used to fund, in part, the County’s Facility and Residential Development Projects (primarily projects associated with affordable housing). The Certificates fully amortize over 20 years.

The County’s obligation to make payment under these agreements in any fiscal year is contingent upon the County Council making an appropriation for such purpose in such year. In the event that the Council does not appropriate money to make such payments, the County is required to return the financed asset to the trustee without any additional financial liability. The obligation of the County under the agreements does not constitute a pledge of the full faith and credit or of the taxing powers of the County.

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## GENERAL FINANCIAL POLICIES

### ***Financial Reporting Standard***

Montgomery County seeks to continually maintain best practices in its financial reporting operation. The County received the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report (CAFR) more times than any other county in the nation. Since 1951, the County received the award 40 times and in 38 consecutive years since 1972. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The County believes the FY10 CAFR continues to meet the Certificate of Achievement Program's requirements and submitted it to the GFOA to determine its eligibility for another certificate.

### ***Reporting Entity***

The County reporting entity is determined by criteria set forth in promulgations of the Governmental Accounting Standards Board. The reporting entity includes the fiscal activities of Montgomery County Government, as the primary government, and Montgomery County Public Schools (MCPS), Montgomery Community College ("the College"), Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, and the Bethesda Urban Partnership, Inc., as component units. Not included within the reporting entity are the Montgomery County portion of Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Washington Suburban Transit Commission, Washington Metropolitan Area Transit Authority, Metropolitan Washington Council of Governments, and the Northeast Maryland Waste Disposal Authority. These entities are considered joint ventures and disclosure of the County's participation in these joint ventures is presented as a footnote to the County's financial statements included in its Basic Financial Statements (refer to Appendix A for statements as of June 30, 2010).

### ***Basis of Accounting***

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The basis of accounting for both types of statements is presented below.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and certain fiduciary fund (pension and other employee benefit trusts, investment trust, and private-purpose trusts) financial statements. The agency funds also use the accrual basis of accounting to recognize assets and liabilities. 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 revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements.

Governmental fund (i.e., General, Debt Service, Capital Projects, Special Revenue, and Permanent) financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded as soon as they are both measurable and available. 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and

judgments, and compensated absences, are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County's enterprise funds. The County has three major enterprise funds – liquor control, solid waste activities, and parking lot districts – and two non-major funds. The internal service funds, which are presented in a single, aggregated column in the proprietary fund financial statements, are used to account for the provision of liability and property insurance coverage, employee health benefits, motor pool services, and central duplicating services, to County departments on a cost reimbursement basis. Although both the fund and government-wide financial statements provide a long-term and short-term focus, reconciliations between these two sets of statements are still required. This is due to the fact that the excess income/loss for the internal service funds has been redistributed to the customers, including business-type activities; such reconciliations are reflected on the bottom of the proprietary fund financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's programs. The County's fiduciary funds consist of pension and other employee benefit trusts, an investment trust, private purpose trusts, and agency funds.

### ***Basis of Budgeting***

At the direction of the County Executive, the Office of Management and Budget, with the CountyStat Office and County operating departments is transitioning the County's budget process to a focus on results. Results-Based Budgeting ensures that resource allocation is based on County priority objectives to make government more responsive, that programs and initiatives are operating effectively and efficiently, and that tax dollars are spent wisely through the use of performance data as a primary basis for review and analysis of budgetary requests.

When fully implemented, Results-Based Budgeting will (1) rely on historical and projected performance data and other reliable and relevant evidentiary data to justify budget allocations through the demonstration of performance results, (2) document the "return on investment" expected from budget expenditures by assessing the impact of those expenditures on the customers of County services ("customer results"), the quality of life in Montgomery County, and the Montgomery County Results; (3) enhance opportunities for cross departmental/agency coordination and resource allocation decisions, since the corresponding impact of resource changes on performance can be evaluated in a timely and objective manner, (4) use data systematically and transparently to drive the decision-making processes by which finite resources are allocated to achieve both customer results and the Montgomery County Results, (5) provide a better basis for decision making and administration of annual budgets, including additional investments or budgetary reductions, since these decisions would be based on alignment with priority objectives and performance data. This includes changes of the use of base funding if such changes will improve results, as opposed to limiting such decisions to only new or incremental funding; (6) routinely seek improvements to productivity and no-cost or low-cost solutions to problems; and (7) be used for the annual budget development and review process, as well as any mid-year decisions.

### ***The Montgomery County Results***

The Montgomery County Results refer to qualities of life that matter most to County residents and as such have become Montgomery County priority objectives. These qualities are: A Responsive and Accountable County Government, Affordable Housing in an Inclusive Community, An Effective and Efficient Transportation Network, A Strong and Vibrant Economy, Children Prepared to Live and Learn, Healthy and Sustainable Communities, Safe Streets and Secure Neighborhoods, and Vital Living for All of Our Residents.

## ***CountyStat***

County Stat is a component of the County's results-based accountability system, and a mechanism for performance management in Montgomery County government. Its goal is to improve government performance through greater accountability, better transparency into County challenges and successes, ultimately moving forward towards a culture of "managing results", and a more effective and efficient County government. CountyStat is guided by four simple principles: require data driven performance; promote strategic governance; increase government transparency; and foster a culture of accountability. CountyStat meetings, led by the County Executive and the Chief Administrative Officer, are held on a routine basis as a tool with which to examine the results of its activities.

## ***Legal Framework for Budgeting***

As required by the County Charter, the County Executive submits to the County Council, not later than January 15, a comprehensive six-year Capital Improvements Program (CIP) in each even numbered year, and a Capital Budget each year. In addition, the County Executive, not later than March 15 of each year, submit its annual Operating Budget, a six-year Public Services Program (PSP), and Fiscal Policy.

The Capital Improvements Program includes a statement of the objectives of capital programs and the relationships of capital programs to the County's long-range development plans; recommends capital projects and a construction schedule; and provides an estimate of costs, a statement of anticipated revenue sources, and an estimate of the impact of the program on County revenues and the operating budget. The Capital Improvements Program, to the extent authorized by law, includes all capital projects and programs of all agencies for which the County sets tax rates or approves budgets or programs.

The fiscal program shows projections of revenues and expenditures for all functions, recommends revenue and expenditure policies for the program, and analyzes the impact of tax and expenditure patterns on public programs and the economy of the County.

As part of the six-year CIP and PSP programs, the County Executive includes the proposed capital and operating budgets containing recommended levels of expenditures and sources of revenue for the ensuing fiscal year. In addition, a summary is submitted containing an analysis of the fiscal implications for the County of all available budgets of all agencies for which the County Council sets tax rates, makes levies, and approves programs or budgets. These other agencies include the Montgomery County Public Schools, Montgomery College, the Maryland-National Capital Park and Planning Commission, the Housing Opportunities Commission of Montgomery County, the Montgomery County Revenue Authority, the Washington Suburban Sanitary Commission (a bi-county agency), the Washington Suburban Transit Commission (a bi-county agency), and the 19 independent Fire and Rescue Corporations.

The County Council must hold public hearings on the proposed budgets and six-year programs commencing not earlier than 21 days following their receipt. The County Council may add to, delete from, increase or decrease any appropriation item in the operating or capital budget. The Council also approves the budget, as amended, and appropriates the funds not later than June 1 of the year in which it is submitted. By June 30 of each year the County Council makes the tax levies deemed necessary to finance the budgets for the ensuing fiscal year beginning July 1. Pursuant to a Charter amendment adopted in the November 2008 general election, the County Council may not levy an ad valorem tax on real property to finance the budgets that will produce total revenue that exceeds the total revenue produced by the tax on real property in the preceding fiscal year plus a percentage of the previous year's real property tax revenues that equals an increase in the Consumer Price Index unless approved by the affirmative vote of all nine Council members. This limit does not apply to revenue from 1) newly constructed property, 2) newly rezoned property, 3) property that, because of a change in State law, is assessed differently than it was assessed in the previous tax year, 4) property that has undergone a change in use, and 5) any development district tax used to fund capital improvement projects.

The Charter requires that County capital improvement projects which are estimated to cost in excess of an amount established by law, or which the County Council determines to possess unusual characteristics or to be of sufficient public importance, must be individually authorized by local law, which would be subject to referendum upon timely

petition of five percent of the County's registered voters. The cost criterion for projects in the FY11 Capital Budget and the Approved FY11-16 CIP is \$12.9 million. The Charter also requires approval of the aggregate operating budget by the affirmative vote of six Council members, as opposed to a simple majority, when it exceeds the budget for the preceding year by a percentage which is greater than the percentage increase in the Consumer Price Index for all urban consumers for the Washington-Baltimore combined metropolitan statistical area (CMSA) for the 12 months preceding December 1 of each year, as published by the U.S. Department of Labor. In addition, a Charter amendment adopted at the November 1990 general election requires the County Council to annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and operating budgets. Any aggregate capital budget or aggregate operating budget that exceeds the guidelines then in effect requires the affirmative vote of seven of the nine council members for approval.

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## **ANNUAL BUDGETS**

### ***Operating Budget and Tax Rates***

On May 27, 2010 the County Council approved the FY11 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating \$4.271 billion. This budgetary level represents a decrease of 4.5 percent over the adopted budget for FY10.

The FY11 operating budget provides the greatest share (52.5 percent) of total tax supported resources to Montgomery County Public Schools. The budget for Montgomery College includes funding to accommodate growth in enrollment and funding to open the Rockville Science Center. In addition, funding is included to support important affordable housing, public safety and health and human services programs.

The approved FY11 budget provided for an undesignated surplus of \$124.8 million in the General Fund and \$136.8 million across all tax supported funds. For FY11, the estimated effective real property tax rate for the County remains constant at \$0.904 per \$100 of assessed valuation compared to FY10.

### ***Capital Budget/Capital Improvements Program***

The County Council approved the FY11 Capital Budget and FY11-16 Capital Improvements Program (CIP) for the County government and the required agencies, except for WSSC, aggregating \$4.008 billion for FY11-16. The FY11-16 approved program provided for County bond funding aggregating \$1.950 billion over the FY11-16 six-year period. The Council approved a Capital Improvements Program for WSSC totaling \$1.660 billion for FY11-16. (WSSC is governed by State Law and is the only agency for which the County Council adopts an annual CIP).

## **SELECTED FINANCIAL INFORMATION**

### ***General Fund***

#### **Summary Financial Results**

Montgomery County concluded the fiscal year ending June 30, 2010, without an unreserved undesignated balance in the General Fund. The County's governmental funds reported combined ending fund balances of \$406.1 million; a decrease of \$17.6 million over the prior year's ending fund balances. The Revenue Stabilization Fund (RSF), including related investment income, was \$119.6 million at the close of FY09. Following the mandatory contribution requirement, half of actual General Fund receipts from the (i) income tax, (ii) transfer tax, (iii) recordation tax, and (iv) investment income above the budget estimate must be transferred to the RSF. Since actual revenues fell below estimated revenues in FY10, there was no mandatory contribution made to the RSF; instead \$44.8 million was transferred from the RSF to the General Fund. Therefore, the amount in the fund was \$74.9 million at the end of FY10.

#### ***General Fund Revenues***

Actual revenues for the General Fund totaled \$2,521.9 million and were 7.2 percent below the budget estimate for the fiscal year and 6.6 percent below actual revenues for FY09. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the income tax which was \$172.7 million below the budget estimate, followed by State intergovernmental revenue down \$16.4 million below the budget, and finally, intergovernmental revenue down \$20.8 million below the estimate. Revenues from consumption/excise taxes which

include fuel/energy, telephone, hotel/motel, and admissions taxes, were \$205.6 million in FY10. That amount was \$20.3 million or 10.9 percent above the budget estimate. Investment income was approximately \$0.7 million below the budget estimate. Licenses and permits came in 4.5 percent above budget estimates, but charges for services came in 4.9 percent below budget estimates. Intergovernmental revenues were 29.2 percent below the budget estimate. Such a decrease was attributed to State and federal reimbursements, which came in 32.2 percent and 24.5 percent below budget estimates, respectively. Other intergovernmental revenue was 15.9 percent above the budget estimate.

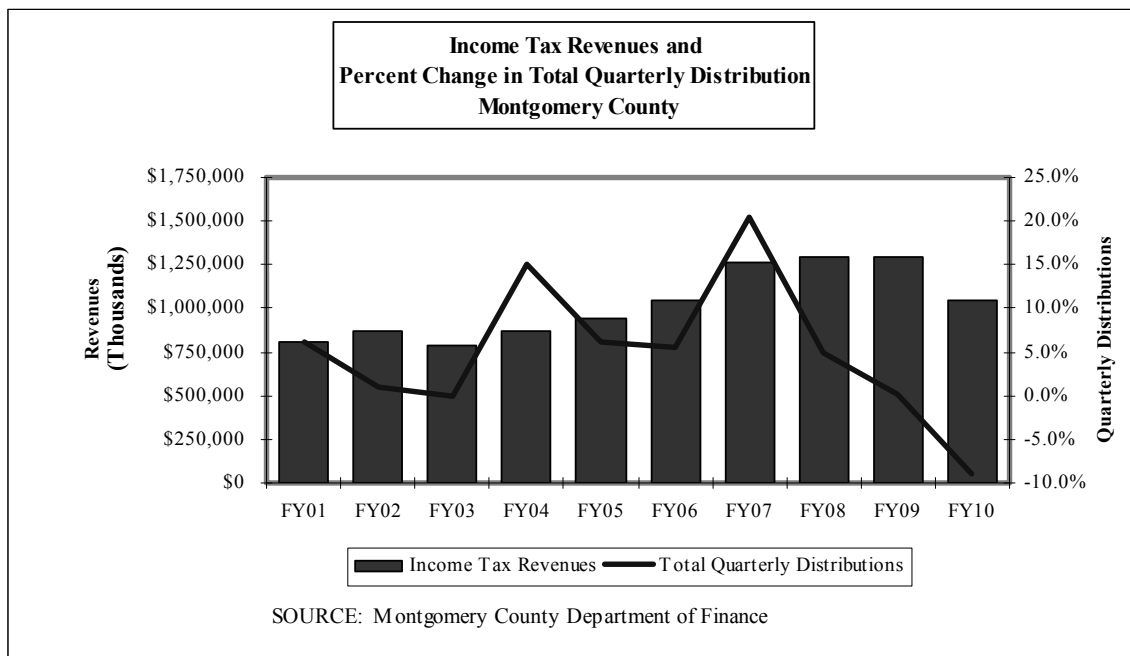
**Major Sources of General Fund Revenue**

*Income Tax*

One of the major revenue sources for the General Fund is the County income tax. Revenues from the income tax were \$1,042.1 million and represented 43.1 percent of actual tax revenues and 41.3 percent of total actual revenues in FY10. Until FY10, income tax receipts were the largest source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: the expansion of the employment base in the County, the growth in capital gains, and significant property tax relief that reduced otherwise strong property tax revenue growth.

With the Standard & Poor’s 500 index increasing 23.5 percent in calendar year 2009 (CY09) following a decrease of 38.5 percent in CY08 and increases of 3.5 percent in CY07, 13.6 percent in CY06, and 3.0 percent in CY05, and an average annual growth rate of only 0.7 percent in the County’s resident employment during the CY05-CY08 period and a decrease of 3.3 percent in CY09, income tax revenues increased 8.2 percent in FY05, 11 percent in FY06, 21.1 percent in FY07, 2.1 percent in FY08, and no increase in FY09. However, with little change in total resident employment in CY07 and CY08, and a decline in CY09, coupled with a decline in the S&P 500 index in CY08 thus affecting capital gains in FY10, income tax revenues declined 19.3 percent in FY10.

As the chart below illustrates, total quarterly distributions for withholding and estimated payments decreased 9 percent in FY10, which followed increases of 0.2 percent in FY09, 4.9 percent in FY08, 20.5 percent in FY07, 5.6 percent in FY06, and 6.1 percent in FY05.





## *Property Tax*

Property tax collections, which represent another major contributor to the General Fund and the largest in FY10, amounted to \$1,045.6 million, which were \$5.2 million or 0.5 percent below the budget estimate, but 8.7 percent above actual revenues in FY09. Actual property taxes, excluding penalties and interest and other items, were \$1,043.5 million in FY10, an increase of 8.6 percent over last year. Collections from penalties and interest were \$2.2 million, a 57.1 percent increase when compared to FY09. The increase in actual property tax collections for the General Fund compared to FY09 was attributed to actions by the County. One such action by the County included an increase in the General Fund tax rate from \$0.661 to \$0.683 per \$100 of assessed value.

The taxable assessments for real property increased 5.7 percent from FY09 to FY10. This was the smallest increase in eight years. New construction, which added \$1.380 billion to the base in FY10, was 2.4 percent lower than in FY09. The real estate market, particularly the annual double-digit price increases during fiscal years (FY02-FY06), fueled the increase in the reassessment rate from 21.8 percent to 65.0 percent for Group Two reassessments of the County's real property with the three-year phase-in starting in Levy Year (LY) 2005, that preceded an increase in the rate from 36.3 percent to 63.3 percent for Group Three reassessments in LY06, but declined from 51.8 percent to 43.4 percent for Group One in LY07 indicating a significant deceleration in the growth of average sales prices during FY07 (2.0%) and FY08 (0.4%). With the average sales price for an existing home declining 15.8 percent in FY09 and 5.1 percent in FY10, the reassessment rate for Group Two declined from 65.0 percent for LY05 to 16.2 percent for LY08 and the rate for Group Three declined from 63.3 percent for LY06 to 10.6 percent for LY09. However, the homestead tax credit limits annual increases in homeowners' taxable assessments to 10.0 percent per year although other taxable assessments such as commercial and investment residential properties are not limited by this credit. While there was a decrease in the reassessment rate for Group Three in LY09, the remaining amount of the credit added over \$8.8 billion to the assessable base in FY10.

Assessments of personal property increased 5.1 percent in FY01, 3.0 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland Department of Assessments and Taxation. Due to a rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. However, because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09, but rebounded in FY10; increasing 5.2 percent attributed to increases in corporate and public utility assessments. For the previous four fiscal years (FY06-FY09), taxable assessments for personal property averaged \$3.918 billion ranging from a low of \$3.832 billion in FY06 to a high of \$3.971 billion in FY08. In FY10, taxable assessments were \$4.124 billion, the highest level since FY03.

## *Transfer and Recordation Taxes*

Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY10 were \$122 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions), and 1.1 percent below the budget estimate but 13.8 percent above actual revenues in FY09. The FY10 increase in actual collections above FY09 from transfer and recordation taxes was the first increase since FY06. The increase in the sales of existing homes (27.4%) during FY10 was the major factor in the increase. The total amount collected from these taxes increased from \$104.2 million in FY01 to a peak of \$241.7 million in FY06, before declining to \$107.2 in FY09. In FY10, taxes from the combined transfer and recordation taxes rebounded to \$122 million.

General Fund revenues from the transfer tax experienced an increase of 19 percent in FY10 compared to a 5.9 percent increase from the recordation tax. Because of the rebound attributed to a 27.4 % increase in home sales in FY10, revenues from the residential sector for both taxes were \$95.3 million, an increase of 22.1 percent over FY09, the first such double-digit increase since FY05. The number of residential transfers increased to approximately 16,500, or by 30.8%, the highest level since FY07 and reflecting a sharp increase in housing sales during FY10.

Based on the amount of revenues, the commercial market improved slightly in FY10 with revenues reaching \$8.5 million, an increase of 12.9 percent over FY09. However, that amount of revenues was the lowest since FY02. The number of commercial transfers (111) in FY10 remained unchanged since FY09 and was the lowest number in over 20 years.

#### *Other Taxes*

The remaining tax sources consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes totaled \$205.6 million and were approximately \$20.3 million, or 10.9 percent, above the budget estimate. Revenues from the telephone tax were 9.4 percent below the budget estimate. That decrease was attributed to the declining use of wireless communications. Revenues from the hotel/motel industry of \$17.1 million in FY10 were 14.7 percent below the budget estimate, and the admissions tax was 10.4 percent below the budget estimate. Actual fuel/energy tax revenues were up 21.3 percent compared to FY09 reflecting higher tax rates on fuel oil, electricity, and natural gas enacted by the County Council for the May 20, 2010 through June 30, 2010 period, and 20.3 percent above the budget estimate.

#### *Investment Income*

Investment income in the General Fund, for FY10 was significantly below the budget estimate. The decrease was the result of a continued accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to December 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to a range of between 0.00 and 0.25 percent, a decline of 500-525 basis points and remained at that historic low level throughout FY10. The justification for such a decrease was the significant global credit crisis that began in August 2007 and the subsequent economic recession that ended in June 2009. Because of this low level of interest rates during FY10, short-term or money market rates remained at historic low levels as well, hence the average yield on cash equity for the County decreased from 1.71 percent in FY09 to 0.22 percent in FY10. Lower cash balances necessitated a much shorter average daily maturity in the portfolio. Because of liquidity needs, the County made fewer investments and total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$1.2 million or 905.2 percent below last fiscal year. With the decrease in investment income coupled with a lesser rate of increase in spending, the average daily portfolio balance decreased from \$695.7 million in FY09 to \$530.3 million in FY10.

#### **General Fund Expenditures and Transfers**

Expenditure savings in FY10 amount to \$60.3 million. Savings occurred predominantly in departmental expenditures (\$55.9 million) compared to non-departmental expenditures (\$4.4 million). Even though all departmental and non-departmental units recognized some savings this year, the majority of the savings occurred in lower than projected operating costs for Police (\$22.0 million), and Health and Human Services (\$12.2 million). County law requires that half of General Fund receipts from the income tax, transfer and recordation taxes, and investment income above the budget estimate, must be transferred to the Revenue Stabilization Fund. Because of lower than expected receipts, there were no mandatory contributions to the Revenue Stabilization Fund in FY10.

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**Table 13**  
**Montgomery County, Maryland**  
**Schedule of General Fund Revenues, Expenditures, & Transfers In (Out)**  
**(Budgetary, Non-GAAP Basis)**

	Fiscal Year Actual(1)				Fiscal Year
	2007	2008	2009	2010	Budget 2011
Revenues:					
Taxes:					
Property, including interest & penalty	\$ 791,299,455	\$ 796,770,740	\$ 962,319,307	1,045,604,890	\$1,086,261,226
Transfer tax and recordation tax	179,575,410	135,038,965	107,208,955	122,041,019	139,891,000
County income tax	1,265,377,139	1,291,339,613	1,291,716,935	1,042,098,527	1,060,680,000
Other taxes	<u>168,113,476</u>	<u>168,735,248</u>	<u>179,232,787</u>	<u>205,594,301</u>	<u>313,248,500</u>
Total Taxes	2,404,365,480	2,391,884,566	2,540,477,984	2,415,338,737	2,600,080,726
Licenses and permits	10,496,148	9,279,207	9,319,612	9,542,255	9,392,210
Intergovernmental revenue	138,069,464	132,669,827	90,521,958	50,521,703	68,544,270
Charges for services	11,979,461	12,220,040	14,631,624	9,757,107	10,890,510
Fines and forfeitures	10,216,457	20,335,482	27,604,483	23,107,769	25,734,240
Investment income	13,236,271	8,880,917	568,785	(144,976)	1,042,535
Miscellaneous	<u>10,125,190</u>	<u>10,418,813</u>	<u>17,801,203</u>	<u>13,767,949</u>	<u>12,125,860</u>
Total Revenues	<u>2,598,488,471</u>	<u>2,585,688,852</u>	<u>2,700,925,649</u>	<u>2,521,890,544</u>	<u>2,727,810,351</u>
Expenditures (including encumbrances):					
General County:					
General government	223,391,051	241,768,119	257,466,968	222,489,761	226,345,721
Public safety	313,532,989	343,516,856	355,854,194	344,427,956	341,040,052
Transportation and public works	58,265,269	56,432,172	56,329,154	98,647,800	42,302,740
Health and human services	208,632,008	232,979,224	201,771,333	198,470,632	190,361,468
Culture and recreation	53,032,039	55,872,703	51,710,097	46,478,007	35,223,611
Housing and community development	5,284,806	5,606,887	5,473,883	4,448,701	4,466,650
Environment	<u>3,795,318</u>	<u>4,473,884</u>	<u>5,224,553</u>	<u>4,102,641</u>	<u>2,326,966</u>
Total Expenditures	<u>865,933,480</u>	<u>940,649,845</u>	<u>933,830,182</u>	<u>919,065,498</u>	<u>842,067,208</u>
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	13,915,724	15,470,240	17,699,145	95,441,777	22,057,610
Enterprise Funds	27,585,780	27,734,670	38,601,750	39,859,930	32,671,940
Internal Service Funds	--	--	--	14,779,000	2,500,000
Capital Projects Fund	--	--	--	499,847	--
Component Units	<u>606,183</u>	<u>598,645</u>	<u>591,084</u>	<u>255,150</u>	<u>247,610</u>
Total Transfers In	<u>42,107,687</u>	<u>43,803,555</u>	<u>56,891,979</u>	<u>150,835,704</u>	<u>57,477,160</u>
Transfers Out:					
Special Revenue Funds	(27,614,179)	(26,366,223)	(13,437,311)	(13,137,847)	(48,027,800)
Debt Service Fund	(203,384,307)	(215,900,200)	(204,596,878)	(210,865,864)	(226,908,900)
Capital Projects Fund	(36,435,691)	(43,259,243)	(28,736,385)	(18,625,802)	(17,171,000)
Enterprise Funds	(4,270,955)	(3,121,110)	(2,988,617)	(3,171,570)	(3,500,410)
Internal Service Funds	(1,171,249)	(1,551,516)	(1,214,928)	--	--
Component Units	<u>(1,497,615,804)</u>	<u>(1,570,726,627)</u>	<u>(1,650,994,360)</u>	<u>(1,568,829,854)</u>	<u>(1,538,318,985)</u>
Total Transfers Out	<u>(1,770,492,185)</u>	<u>(1,860,924,919)</u>	<u>(1,901,968,479)</u>	<u>(1,814,630,937)</u>	<u>(1,833,927,095)</u>
Net Transfers In (Out)	<u>(1,728,384,498)</u>	<u>(1,817,121,364)</u>	<u>(1,845,076,500)</u>	<u>(1,663,795,233)</u>	<u>(1,776,449,935)</u>
Excess of revenues and operating transfers in over/ (under) expenditures, encumbrances and operating transfers out	<u>4,170,493</u>	<u>(172,082,357)</u>	<u>(77,981,033)</u>	<u>(60,970,187)</u>	<u>109,293,208</u>
Fund Balances, July 1 as previously stated	273,333,694	295,785,593	146,932,820	86,905,675	39,657,640
Adjustment for previous year encumbrances(2)	<u>18,281,406</u>	<u>23,229,584</u>	<u>17,953,888</u>	<u>13,722,152</u>	<u>4,959,728</u>
Fund Balances, July 1 restated	291,615,100	319,015,177	164,886,708	100,627,827	44,617,368
Equity transfers in (out)	--	--	--	--	--
Budgetary Fund Balance, June 30	<u>\$ 295,785,593</u>	<u>\$ 146,932,820</u>	<u>\$ 86,905,675</u>	<u>\$ 39,657,640</u>	<u>\$ 153,910,576</u>

(1) Audited amounts.

(2) Prior year encumbrances are net of write-offs.

Note: Actual and budget amounts are for fiscal years ended June 30.

**Table 14**  
**General Fund**  
**Schedule of Budgetary Fund Balance to**  
**GAAP Fund Balance Reconciliation**

	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above	\$295,785,593	\$146,932,820	\$ 86,905,675	\$ 39,657,640
Plus encumbrances outstanding	24,603,431	24,158,117	18,630,308	4,959,728
Adjustment for prior year encumbrances	(902,723)	(1,373,849)	(6,204,232)	(4,908,160)
Unrealized investment gain (loss)	(5,473,442)	(641,355)	(338,014)	(300,511)
Net differences between beginning fund balances	<u>2,738,749</u>	<u>3,737,073</u>	<u>9,112,325</u>	<u>7,853,759</u>
GAAP Fund Balance as Reported	<u>\$316,751,608</u>	<u>\$172,812,806</u>	<u>\$108,106,062</u>	<u>\$ 47,262,456</u>
Elements of GAAP Fund Balance:				
Reservations	\$ 7,774,404	\$ 8,465,100	\$ 8,621,928	\$ 7,596,839
Designated for CIP Transfers	--	--	--	--
Designated for General Fund	143,723,513	56,609,030	51,999,830	34,705,889
Unreserved - Designated for Encumbrances	24,603,431	24,158,117	18,630,308	4,959,728
Designated for subsequent years expenditures	--	--	--	--
Unreserved / Undesignated	<u>140,650,260</u>	<u>83,580,559</u>	<u>28,853,996</u>	<u>--</u>
	<u>\$316,751,608</u>	<u>\$172,812,806</u>	<u>\$108,106,062</u>	<u>\$ 47,262,456</u>

Note: All amounts are audited, and are for fiscal years ended June 30.

### ***Revenue Stabilization Fund***

The State of Maryland enacted legislation in 1992 authorizing political subdivisions in Maryland to establish “rainy day” or reserve funds to accommodate future funding shortfalls. Pursuant to this State law, the County established a Revenue Stabilization Fund effective July 1, 1994.

The Revenue Stabilization Fund (the “Fund”) supplements the reserve or operating margin the County annually sets aside. The County’s Charter, Section 310, sets a five percent annual limit on General Fund surplus. The State law authorizing counties to set up rainy day funds expressly prevails over any contrary County charter provision. Revenues in the Fund are allowed to go as high as 10 percent of the aggregate revenue from certain sources in the preceding three fiscal years. The Revenue Stabilization Fund provides a mechanism to level out the revenue stream and adjusts for year-to-year fluctuations beyond a certain baseline level. County law requires that 50 percent of the growth above the average of the six preceding fiscal years in certain taxes (income, property transfer, recordation, but not the property tax) and General Fund investment income be set aside in a restricted fund. Also, 50 percent of the annual revenue from these sources in excess of the Council’s original projection in the budget resolution goes to the Fund.

At the close of FY10, there were no mandatory contributions made to the Fund due to weaker than expected revenue growth from the income tax, recordation tax, and investment income. However, \$44.8 million (less than half the balance) was transferred from the Revenue Stabilization Fund to the General Fund. Therefore, the amount in the fund was reduced to approximately \$74.9 million, while \$250,804 in interest earned was transferred to the Debt Service Fund. There were no mandatory contributions made to the Fund due to weaker than expected revenue growth in FY08 and FY09. With earned interest, the Revenue Stabilization Fund reached its maximum allowable size of \$119.6 million at the close of FY07 and has remained at that level through FY09. Since the Fund reached more than half of its then maximum size, according to the County law that established the Fund, interest earned from the fund was transferred to debt service. The table below indicates mandatory and discretionary transfers made to the fund since its inception in 1997.

**Table 15**  
**Revenue Stabilization Fund**  
**Transfers and Fund Balance**

Fiscal <u>Year</u>	Transfers <u>(millions)</u>	Fund Balance <u>(millions)</u>
2010	(\$44.8)	\$74.9
2009	--	119.6
2008	--	119.6
2007	11.9	119.6
2006	6.6	107.8
2005	5.2	101.2
2004	8.8	95.9
2003	--	87.2
2002	7.7	87.2
2001	8.9	79.5
2000	8.4	70.6
1999	5.5	62.2
1998	21.4	56.8
1997	18.7	29.4

**Note:** Fund Balances include transfers in/out and investment income.

Formalized policies regarding reserves and other fiscal matters to ensure budget flexibility and structural stability were adopted by the County in June 2010. The stipulated goals were that the County should have a structurally balanced budget displayed in a fiscal plan, achieve reserve targets for General Fund and Revenue Stabilization Fund balances, apply one-time revenues in excess of projections to restoring reserves, and allocate PAYGO of at least ten percent of the general obligation bonds planned for issue each year.

The Council also enacted Bill No. 36-10 amending the Montgomery County Code (Sections 20-65 through 20-72) relative to the Revenue Stabilization Fund (Fund) to:

- (1) Repeal the limit on the size of the Fund, allowing additional unlimited contributions to the Fund.
- (2) Require mandatory annual contribution to the Fund to obtain a total reserve of 10 percent of Adjusted Governmental Revenues.

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***Enterprise Funds***

The County has three major enterprise funds, liquor control, solid waste activities, and parking lot districts, which are accounted for and operated in a manner similar to private business enterprises. The results of operations for Fiscal Years 2006 – 2010 are shown in the table below.

**Table 16  
Enterprise Funds Paying Debt Service  
Results of Operations**

<u>Funds</u>	<u>Fiscal Year</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Liquor Control</u>					
Operating Revenues	\$ 191,349,465	\$ 201,736,589	\$ 213,669,534	\$ 220,736,650	\$ 229,212,948
Operating Expenses	<u>168,661,329</u>	<u>180,189,462</u>	<u>189,496,069</u>	<u>194,787,124</u>	<u>203,062,862</u>
Operating Income (Loss)	<u>\$ 22,688,136</u>	<u>\$ 21,547,127</u>	<u>\$ 24,173,465</u>	<u>\$ 25,949,526</u>	<u>\$ 26,150,086</u>
<u>Solid Waste Activities</u>					
Operating Revenues	\$ 102,156,917	\$ 99,939,115	\$ 101,920,730	\$ 100,040,196	\$ 103,254,833
Operating Expenses	<u>98,870,671</u>	<u>102,475,929</u>	<u>97,268,843</u>	<u>96,140,996</u>	<u>100,018,519</u>
Operating Income (Loss)	<u>\$ 3,286,246</u>	<u>\$ (2,536,814)</u>	<u>\$ 4,651,887</u>	<u>\$ 3,899,200</u>	<u>\$ 3,236,314</u>
<u>Bethesda Parking Lot District</u>					
Operating Revenues	\$ 12,633,804	\$ 13,406,919	\$ 14,117,392	\$ 14,502,594	\$ 16,104,060
Operating Expenses	<u>9,518,147</u>	<u>10,597,146</u>	<u>11,193,848</u>	<u>11,796,219</u>	<u>12,806,038</u>
Operating Income (Loss)	<u>\$ 3,115,657</u>	<u>\$ 2,809,773</u>	<u>\$ 2,923,544</u>	<u>2,706,375</u>	<u>\$ 3,298,022</u>

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## ***Self-Insurance Funds***

On July 1, 1978, County Code Section 20-37 was enacted to establish the Montgomery County Self-Insurance Program. The County self-insures such exposures as workers' compensation, commercial general liability, automobile liability, professional/public official liability, certain property, and other selected risks which require mitigation.

An Inter-Agency Insurance Panel comprised of the County and member agencies, and chaired by the County's Finance Director, provides overall direction, formulates insurance policy, reviews claims, and evaluates the effectiveness of the loss control program. Claims against the agencies are handled under a contract with a third party claims administrator. Legal services are provided by the Office of the County Attorney.

The County Finance Department, Division of Risk Management operates the Self-Insurance Program for the County and other participating agencies: MCPS, Montgomery College, M-NCPPC, various independent fire Corporations, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, Rockville Housing Enterprises, Town of Somerset, Villages of Martin's Additions, Drummond, and Friendship Heights, and the Bethesda Urban Partnership. The City of Gaithersburg participates for workers' compensation coverage only.

In addition to the self-insured coverage, Risk Management coordinates the purchase of commercial insurance for such coverage as All Risk Property Insurance, Boiler and Machinery, Public Official and Employee Bonds, Electronic Data Processing, Fiduciary Liability, and others. Beginning March 15, 2007, Commercial Excess Liability insurance was purchased, and is effective through June 30, 2011. It is expected this coverage will be maintained, but is dependent on market conditions and price at the time of the policy renewal.

A summary of FY10 operations of the program is outlined below:

	<u>(\$000's)</u>
Revenues:	
Contributions from participating agencies	\$39,666
Interest on investments	218
Recovered losses	623
Other income	<u>223</u>
Total Revenues	<u>40,730</u>
Expenses:	
Claims expense	35,826
Claims administration, loss control, external insurance, and other administrative expenses	<u>12,666</u>
Total Expenses	<u>48,492</u>
Net loss	(7,762)
Retained earnings, July 1, 2009	<u>771</u>
Equity balance, June 30, 2010	<u><u>\$(6,991)</u></u>

By State law effective July 1, 1987, local government employees are protected by the Local Government Tort Claims Act. Under this legislation, the liability of the employees of local governments for common law torts, such as negligence, is limited to \$200,000 for an individual claim, and \$500,000 for all claims arising from one occurrence. This act, combined with the law limiting the public school system's liability to \$100,000, significantly decreases the exposure of the program to large losses.

The County is also self-insured for unemployment benefits and maintains a minimum premium funding arrangement for employee health insurance. The FY10 operations for these two elements of the insurance program are not reflected above.

## ***County Employee Retirement Plans***

### **Employees' Retirement System**

The Employees' Retirement System (System) is a cost-sharing multiple-employer defined benefit pension plan established in 1965. Nine other agencies and political subdivisions elected to participate, including the: Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, independent fire/rescue corporations, Town of Chevy Chase, Strathmore Hall Foundation, Inc., Washington Suburban Transit Commission, Montgomery County Employees Federal Credit Union, and certain employees of the State Department of Assessments and Taxation and the District Court of Maryland. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and participants in the Guaranteed Retirement Income Plan (GRIP). All covered full-time employees of the County and participating agencies must become members of the System as a condition of employment. The System is a contributory plan with employees contributing a percentage of their base annual salary depending on their group classification which also determines retirement eligibility. The payroll for employees covered by the System for the years ended June 30, 2010 and 2009 was approximately \$431.2 million and \$376.9 million, respectively. The total payroll for Montgomery County Government in FY10 and FY09 was \$714.7 million and \$706.5 million, respectively.

Deferred Retirement Option Plans (DROP), established in FY00, allow any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP, and receive the value of the DROP payoff. At June 30, 2010 there were 93 participants in the DROP.

The County Council passed legislation in FY09 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the System, for employees. During FY10 eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP.

The Board of Investment Trustees is responsible for managing the investment programs of the Montgomery County Employee Retirement Plans. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The Board has also established a risk budgeting system to evaluate the System's overall risk exposure on an ongoing basis. The System's assets are invested in a diversified portfolio of equities, fixed income, and real assets.

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**Table 17**  
**Employees' Retirement System**

	<u>Fiscal Year End</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Net Assets (billions)	\$2.619	\$2.146	\$2.443
Actuarial Value (billions)	\$2.701	\$2.736	\$2.791
Actuarial Liabilities (billions)	\$3.342	\$3.489	\$3.646
Funded Ratio	80.8%	78.4%	76.6%
Participants:			
Active	5,060	5,012	5,786 *
Retired	5,811	5,831	5,967

\* The increase reflects the employees who transferred from the RSP under the new GRIP to the System.

### **Retirement Savings Plan**

The Retirement Savings Plan (RSP) is a cost-sharing multiple-employer defined contribution plan established in 1994. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994 are covered by the Plan unless they elect to participate in the GRIP. All covered full-time employees of the County and participating agencies must become members as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis.

The County Code authorizes the Board to establish a diversified slate of investment options from which participants may select. As of June 30, 2010, the defined contribution plan had 4,751 participants with net assets totaling \$133.5 million. As of June 30, 2009, the plan had 5,829 participants and assets of \$129.7 million.

### **Deferred Compensation Plan**

Employees of the County may participate in the Montgomery County Deferred Compensation Plan (DCP), which was established pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. The County Code authorizes the Board to establish a diversified slate of investment options from which participants may select. Under the DCP, contributions are sent to the provider for the different types of investments as selected by participants. Legislation enacted in December 2004 allows the County to sponsor one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. At June 30, 2010 there were 3,897 participants in the County's DCP with \$230 million in net assets.

Additional information on the County's retirement plans is available in the Montgomery County Comprehensive Annual Financial Report for FY10 Appendix A, "Notes to Financial Statements" Note IV-F, Pension Plan Obligations; or the Comprehensive Annual Financial Report prepared by the Board of Investment Trustees for the Montgomery County Employee Retirement Plans for FY10.

### ***Other Post Employment Benefits***

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other than Pensions* (GASB 45), which addresses how state and local governments should account for and report their costs and obligations related to other post employment benefits (OPEB). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for

pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The County implemented GASB 45 as required in FY08.

Recently, the County obtained actuarial valuation information addressing the extent of the County's liability to its retirees for OPEB as of July 1, 2010. The OPEB report is subject to a number of actuarial and economic assumptions; these assumptions were generally similar to the assumptions used in evaluating the County's pension fund liabilities.

Based on the assumptions and qualifications stated therein, the OPEB report concluded that, assuming full prefunding, the FY11 annual required contribution (ARC) for the County and its tax supported agencies is \$322 million, and the related actuarial accrued liability (AAL) is \$3.5 billion. In May 2008, the County Council passed resolution number 16-555, calling for an eight-year phase-in to the ARC. Consistent with this approach and based on the current economic situation, the County appropriated \$7.3 million in its FY11 operating budget for the tax-supported agencies. This is in addition to the \$15.3 million, \$40.6 million and \$38.6 million appropriated and funded in FY10, FY09 and FY08, respectively.

### ***Property Tax Information***

The County levies real and personal property taxes on all taxable property within its boundaries. Annual payments of taxes are due in full on July 1 and become delinquent on the following October 1. Semi-annual payments are made in Maryland for owner - occupied residential property only, with the semi-annual payments becoming delinquent after September 30 and December 31. In 2010, the Maryland General Assembly passed House Bill 48 (Chapter 680), which extended the ability to pay semiannually to small businesses with real property tax bills that are \$50,000 or less. This House Bill becomes effective in FY12. All other property owners pay taxes on an annual basis. Tax sales to recover real property taxes are held on the second Monday in June in the fiscal year that taxes are due and payable. Legal action may be taken to enforce payment of both real and personal property taxes.

### **Property Tax Assessments**

The assessment of all real and tangible personal property for purposes of property taxation by State and local governmental units is the responsibility of the State Department of Assessments and Taxation (SDAT). Assessment rolls are maintained in each County seat and in Baltimore City. Real property is valued at market value (full cash value) and assessed in each year at a percentage of market value. One-third of the real property base is reassessed every three years. An increase in full cash value arising from such reassessment is phased in over the ensuing three tax years in equal annual amounts. A decline in assessed valuation becomes fully effective in the first year.

Because of growth in new construction of over \$1.5 billion per year between FY04-FY09, and improved valuation of properties, the total property taxable base increased at an average annual growth rate of 11.7 percent over the last five years, measured through FY09. Due to a slight decline in business investment in personal property from FY04 to FY06 attributed to an adjustment by the SDAT to assessments of individual personal property, the personal property base decreased at an average annual rate of only 0.2 percent during six fiscal years (FY04-FY09). Because of the dramatic growth in the real property assessable base attributed to real estate price appreciation from the exceptionally strong housing market, the real property assessed values increased at an average annual rate of 12.1 percent during the six-year period.

However, FY10 experienced a significant deceleration in total assessed value (5.7%) primarily attributed to the slow growth in real property assessments. That slowdown in real property assessments was due to the decline in the reassessments of residential properties (16.3%) for Group Three properties.

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**Table 18**  
**Assessed Value of All Taxable Property**  
**by Class and Fiscal Year**

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Assessed Value</u>	<u>Percent Change From Prior Year</u>	<u>Ratio of Assessment to Full Market Value</u>
2010	\$167,096,843,537	\$4,123,996,612	\$171,220,840,149	5.66%	95.51%
2009	158,133,491,472	3,920,171,020	162,053,662,492	10.79	96.48
2008	142,306,435,593	3,970,547,370	146,276,982,963	12.82	98.05
2007	125,710,776,118	3,948,949,550	129,659,725,668	13.38	95.63
2006	110,529,249,116	3,831,629,230	114,360,878,346	11.92	93.41
2005	98,281,724,723	3,902,612,110	102,184,336,833	9.61	93.54

Sources: Montgomery County Department of Finance, Comprehensive Annual Financial Reports.

Tax-exempt properties are excluded from the above figures. In FY10, such exemptions for real property owned by Federal, State, County, and other governmental units, and certain non-profit organizations totaled \$18.3 billion at the beginning of the fiscal year based on data from the State Department of Assessments and Taxation. Tax-exempt real property constitutes 9.1 percent of the total assessable base. The SDAT grants exemptions from property taxes, pursuant to State law. The ratio of total assessed value to total full market value is based on studies conducted by the SDAT.

**Table 19**  
**Tax Levies and Revenue**

<u>Fiscal Year</u>	<u>General County Tax Levy (including Education)</u>	<u>Revenue From Current Year Assessment</u>	<u>Ratio of Current Yr Revenue to Tax Levy</u>	<u>Revenue From Prior Year Assessment</u>	<u>Total Revenue</u>	<u>Ratio Of Total Revenue to Tax Levy</u>	<u>Accumulated Delinquent Taxes</u>	<u>Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy</u>
2010	\$1,082,224,889	\$1,064,870,559	98.40%	(\$16,618,444)	\$1,048,252,115	96.86%	\$24,752,779	2.29%
2009	1,003,679,078	984,378,292	98.08	(20,121,191)	964,257,101	96.07	20,570,727	2.05
2008	848,638,685	822,982,107	96.98	(22,930,874)	800,051,233	94.27	12,156,570	1.43
2007	808,175,965	801,178,612	99.13	(8,146,428)	793,032,184	98.13	14,118,766	1.75
2006	784,435,018	788,440,342	100.51	1,053,372	789,493,714	100.64	16,757,606	2.14

**Table 20**  
**Tax Rates and Tax Levies, by Purpose**

<u>Fiscal Year</u>	<u>General County (including Education)</u>		<u>Transit</u>		<u>State</u>		<u>Total</u>	
	<u>Rate</u>	<u>Levy</u>	<u>Rate</u>	<u>Levy</u>	<u>Rate</u>	<u>Levy</u>	<u>Rate</u>	<u>Levy</u>
2010	\$0.683	\$1,082,224,889	\$0.037	\$58,460,427	\$0.112	\$187,999,760	\$0.832	\$1,328,685,076
2009	0.661	1,003,679,078	0.040	60,562,706	0.112	177,929,853	0.813	1,242,171,637
2008	0.627	848,638,685	0.058	78,263,664	0.112	160,027,167	0.797	1,086,929,516
2007	0.624	808,175,965	0.053	68,439,347	0.112	141,503,123	0.789	1,018,118,435
2006	0.679	784,435,018	0.042	50,359,821	0.132	146,071,317	0.853	980,866,156

Note: Rates are per \$100 of assessed value. Tax rates shown are for real property only, and tax levies are based upon a 100% of full cash value assessment. The personal property rate for General County was \$1.707 in FY2010, \$1.652 in FY09, \$1.567 in FY08, \$1.560 in FY07, \$1.698 in FY06, and \$1.835 in FY05; the personal property rate for Transit was \$0.092 in FY10, \$0.100 in FY09, \$0.145 in FY08, \$0.133 in FY07, \$0.105 in FY06, and \$0.110 in FY05 (the State does not tax personal property).

**Table 21**  
**Ten Highest Commercial Property Taxpayers' Assessable Base**  
**As of June 30, 2010**

<u>Taxpayer</u>	<u>Total</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Ratio: Taxpayer Base to Total Assessable Base</u>
Verizon - Maryland	\$ 762,804,022	\$34,133,332	\$ 728,670,690	0.45%
Potomac Electric Power Co	676,189,850	6,099,000	670,090,850	0.39
Westfield Shoppingtown Montgomery	404,053,458	403,612,698	440,760	0.24
Washington Gas Light Co.	252,714,250	--	252,714,250	0.15
7501 Wisconsin Ave. LLC	220,920,832	220,920,832	--	0.13
Camalier, Anne D et al, Trustee	219,422,703	219,422,703	--	0.13
Federal Realty Investment Trust	210,320,090	208,164,430	2,155,660	0.12
Chevy Chase Land Co.	209,028,264	209,028,264	--	0.12
Democracy Associates	203,221,000	203,221,000	--	0.12
Mirant Mid-Atlantic, LLC	<u>200,467,380</u>	<u>75,951,600</u>	<u>124,515,780</u>	<u>0.12</u>
Total	<u>\$ 3,359,141,849</u>	<u>\$1,580,553,859</u>	<u>\$1,778,587,990</u>	<u>1.96%</u>
Assessable Base (June 30, 2010)	<u>\$171,220,840,150</u>			

Sources: State of Maryland, Department of Assessments and Taxation, and Montgomery County Department of Finance, Division of Treasury.

### ***Impact Tax***

Development is occurring throughout Montgomery County, placing great demands on the County to provide for transportation improvements, public schools and other public facilities. Effective March 1, 2004, and pursuant to Articles VII and XII of Chapter 52 of the Montgomery County Code (“Development Impact Tax for Transportation Improvements,” and “Development Impact Tax for Public School Improvements,” respectively), nearly all new residential development within Montgomery County is required to pay impact taxes. These impact taxes are a means of transferring a share of the costs of additional transportation improvements and additional classrooms in public schools to the new development that is primarily responsible for creating these needs. The tax is imposed prior to the issuance of a building permit.

The original impact tax law was enacted in 1990, and was applied for transportation improvements only, and affected two outlying geographic areas of the County: Germantown, in the northern section of the County, and an eastern section of the County. The law was amended in 2001 to add another northern section of the County (Clarksburg), and again in 2002 to extend the impact tax for transportation improvements to the remainder of the County. Amendments in 2004 added the schools impact tax, and 2007 amendments (effective during FY08) substantially increased tax rates, and require the County to increase rates by the rate of construction inflation (for the two previous years) in every odd year, for a two year period.

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The following table illustrates impact tax collections over the last 10 years.

**Table 22**  
**Impact Tax Collections**

Fiscal <u>Year</u>	Transportation <u>Impact Tax</u>	Schools <u>Impact Tax</u>
2010	\$3,812,000	\$11,473,000
2009	2,398,000	7,925,000
2008	9,744,000	6,767,000
2007	11,501,000	9,563,000
2006	6,252,000	6,960,000
2005	8,471,000	7,695,000
2004 (1)	5,245,000	435,000
2003 (2)	1,790,000	--
2002 (3)	1,990,000	--
2001	3,100,000	--

(1) added Schools Impact tax  
(2) added County area  
(3) added Clarksburg area

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## DEMOGRAPHIC INFORMATION

### *Population*

The population of the County, according to the 2000 Census, was 878,683, an increase of 15.7 percent since the 1990 Census. The Metropolitan Washington Council of Governments' (WMCOG) population estimate shows 964,100 for the County on July 1, 2010 and over 1 million by 2015.

**Table 23**  
**Households and Population**

	<u>Households</u>	<u>Population</u>	<u>Population Percent Change from Prior Census</u>
2015	377,000	1,001,000	13.9%
2010	360,500	964,100	9.7
2009	357,860	960,800	9.3
2008	355,250	953,685	8.5
2007	352,650	941,491	7.1
2006	350,060	935,168	6.5
2005	347,500	928,916	5.7
2004	337,838	920,965	4.8
2003	336,613	914,893	4.1
2002	334,500	906,145	3.1
2001	329,000	893,275	1.7
2000 (U.S. Census)	324,565	878,683	15.7
1990 (U.S. Census)	283,400	759,600	31.2
1980 (U.S. Census)	207,195	579,053	10.8
1970 (U.S. Census)	156,674	522,809	53.3
1960 (U.S. Census)	92,433	340,928	107.4
1950 (U.S. Census)	45,264	164,401	--

Note: Data for total population for 2001 to 2008 from the Bureau of Economic Analysis, U.S. Department of Commerce. Data for 2009 from the American Community Survey, U.S. Census Bureau, and 2010 and 2015 from the Metropolitan Washington Council of Governments (MWCOC), Round 8.0 Cooperative Estimates (July 2010). Data for households for 2001 and 2002 from *Sales and Marketing Management* issues of "Survey of Buying Power." Data for households in 2003 to 2004 from the American Community Survey, U.S. Census Bureau, and household data for 2005 through 2015 derived from the Demographic Forecast Model from MWCOC (Round 8).

**Table 24**  
**Median Age**

	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
Median Age	29.5	28.1	27.9	32.1	33.9	36.8

Sources: U.S. Bureau of the Census and M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center, revised May 2001.

## Employment

The County's economic structure reveals a diversified economy with a strong service sector. The total private sector (trade, information services, financial activities, professional services, education and health, and hospitality) employed 81.5 percent of the total workforce in 2009, the latest available annual data. The following tables present the County's employment by industrial sector.

**Table 25**  
**Payroll Employment**

	<u>1990</u>	<u>2000</u>	<u>2009</u>
TOTAL PRIVATE SECTOR	307,490	365,022	361,284
PUBLIC SECTOR EMPLOYMENT:			
Federal	42,713	39,615	43,158
State	1,634	1,100	1,029
Local	<u>27,011</u>	<u>33,084</u>	<u>37,834</u>
TOTAL PUBLIC SECTOR	<u>71,358</u>	<u>73,799</u>	<u>82,021</u>
GRAND TOTAL	<u>378,848</u>	<u>438,821</u>	<u>443,305</u>

Notes: The following groups are excluded from the payroll count: federal military, self-employed, railroad workers, and domestic employees.

Payroll employment represents the total number of jobs covered by the Maryland Unemployment Insurance Program.

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

**Table 26**  
**Payroll Employment Shares by Industry**

	<u>1990</u>	<u>2000</u>	<u>2009</u>
TOTAL PRIVATE SECTOR	81.2%	83.2%	81.5%
PUBLIC SECTOR EMPLOYMENT:			
Federal	11.3	9.0	9.8
State	0.4	0.3	0.2
Local	<u>7.1</u>	<u>7.5</u>	<u>8.5</u>
TOTAL PUBLIC SECTOR	<u>18.8</u>	<u>16.8</u>	<u>18.5</u>
GRAND TOTAL	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

Due to reclassification by the Bureau of Labor Statistics, U.S. Department of Commerce, of private-sector industrial categories from the U.S. Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS) beginning with the 2001 employment statistics, there is no longer a historical comparison available within the private sector employment categories for years prior to 2001. The table below provides a comparison of the payroll employment data for 2008 and 2009 based on the new classification system which shows that, with the exception of federal government and education and health services, every industrial sector in the County lost employment in 2009.

**Table 27**  
**Payroll Employment**  
**(NAICS Series)\***

	<u>2008</u>	<u>2009</u>	<u>Difference</u>	<u>Percent Change</u>
TOTAL PRIVATE SECTOR	377,035	361,284	(15,751)	-4.2%
GOODS-PRODUCING	43,835	38,373	(5,462)	-12.5%
Natural Resources and Mining	873	719	(154)	-17.6%
Construction	28,503	24,223	(4,280)	-15.0%
Manufacturing	14,459	13,431	(1,028)	-7.1%
SERVICE PROVIDING	332,608	322,738	(9,870)	-3.0%
Trade, Transportation, and Utilities	61,075	56,566	(4,509)	-7.4%
Information	14,335	14,117	(218)	-1.5%
Financial Activities	34,312	31,908	(2,404)	-7.0%
Professional and Business Services	102,413	99,577	(2,836)	-2.8%
Education and Health Services	60,422	61,977	1,555	2.6%
Leisure and Hospitality	38,133	37,133	(1,000)	-2.6%
Other Services	21,918	21,460	(458)	-2.1%
UNCLASSIFIED	592	173	(419)	-70.8%
PUBLIC SECTOR EMPLOYMENT	80,483	82,021	1,538	1.9%
Federal Government	41,543	43,158	1,615	3.9%
State Government	1,080	1,029	(51)	-4.7%
Local Government	37,860	37,834	(26)	-0.1%
GRAND TOTAL	457,518	443,305	(14,213)	-3.1%

\* North American Industrial Classification System.

During the first nine months of 2010 the County's unemployment rate averaged 5.7 percent. The following table presents the County's labor force, employment and unemployment for the calendar years 1998 through 2009, and annualized data based on the first nine months of 2010.

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**Table 28**  
**Montgomery County's Resident Labor Force**  
**Employment & Unemployment\***

	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
2010**	509,520	480,644	28,875	5.7%
2009	513,689	486,329	27,360	5.3%
2008	519,944	502,940	17,004	3.3%
2007	516,790	502,904	13,886	2.7%
2006	517,532	502,959	14,573	2.8%
2005	508,250	492,431	15,820	3.1%
2004	497,203	481,248	15,956	3.2%
2003	496,222	479,675	16,548	3.3%
2002	496,101	478,782	17,319	3.5%
2001	490,213	475,049	15,164	3.1%
2000	489,050	476,197	12,853	2.6%
1999	478,946	470,018	8,928	1.9%
1998	472,944	462,620	10,324	2.2%

Source: State of Maryland, Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics (BLS).

\* Data for 2005 through 2009 were revised by DLLR and BLS to incorporate intercensal population controls for 2000.

\*\* Based on the rate of change in the averages of the first nine months of 2009 and 2010.

### ***Federal Government Employment***

The County is home to 23 Federal agencies in which nearly 69,000 civilians are employed, including a significant number of non-Federal employees working as consultants or researchers. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation's centers of medical research. The following is a partial list of Federal agencies in the County and their estimated employment in 2008.

Department of Health and Human Services	39,979
National Institutes of Health	
Food and Drug Administration	
Other	
Department of Defense	14,709
Naval Medical Command	
National Geospatial Intelligence Agency	
Walter Reed Army Medical Center/Institute of Research	
Naval Surface Warfare Center	
Army Laboratory Center	
Other	
Department of Commerce	8,749
National Oceanic & Atmospheric Administration	
National Institute of Standards & Technology	
Nuclear Regulatory Commission	2,972
Department of Energy	2,070
Consumer Product Safety Commission	338

Source: M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center (2008 data).

## ***Private Sector Employment***

There are several thousand private sector employers in Montgomery County. Below is a listing of some of the County's largest employers.

<b><u>Name of Firm</u></b>	<b><u>Est. No. of Employees</u></b>
Adventist Healthcare*	6,911
Lockheed Martin	5,025
Marriott International, Inc. (Headquarters)	3,957
Giant Food Corporation	3,890
Holy Cross Hospital	2,649
Clark Enterprises	2,450
Government Employees Insurance Company (GEICO)	2,300
Westat, Inc.	1,900
Discovery Communications, Inc.	1,669
MedImmune/Astra Zeneca	1,658
International Business Machines (IBM)	1,642
Capital One (Headquarters) (formerly Chevy Chase Bank)	1,600
Suburban Hospital	1,400

\*Includes Shady Grove and Washington Adventist Hospitals

Note: The employee numbers listed are best estimates taken during the Spring of 2010 from various sources, including first-hand research by the County's Department of Economic Development, and Dun & Bradstreet's online database.

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## *Personal Income*

Actual personal income of County residents reached \$64.4 billion in calendar year 2008 and is estimated to total approximately \$65.3 billion in 2009 and \$67.7 billion in 2010. The County's total personal income experienced a growth rate of 2.4 percent in 2008, less than the nation's growth rate of 4 percent, and lower than the State's rate of 3.6 percent. The County's total personal income is estimated to increase a modest 1.3 percent in 2009 then accelerate to 3.7 percent in 2010, which is well below the eight-year (2000-2007) annual average growth rate of 5.4 percent.

The County, which accounted for 16.9 percent of the State's population in 2008, is expected to account for 23.8 percent of the State's total personal income in 2010, which is the same percentage as the previous ten-year average.

**Table 29**  
**Total Personal Income**  
**(\$ millions)**

<u>Calendar Year</u>	<u>Montgomery County</u>	<u>Maryland</u>	<u>U.S.</u>	<u>Montgomery County as Percent of Maryland</u>
2010 (est.)	\$67,670	\$283,948	\$12,300,500	23.8%
2009 (est.)	65,250	275,143	12,165,474	23.7
2008	64,404	273,934	12,379,745	23.5
2007	62,902	264,375	11,899,853	23.8
2006	60,473	245,879	11,268,100	24.6
2005	55,807	232,950	10,485,900	24.0
2004	51,907	220,127	9,937,200	23.6
2003	48,534	205,737	9,378,100	23.6
2002	47,042	198,823	9,060,100	23.7
2001	45,538	191,657	8,883,300	23.8
2000	43,575	181,957	8,559,400	23.9

Notes: Actual data from U.S. Department of Commerce, Bureau of Economic Analysis, revised May 2009 (County, State, U.S.).  
Estimates for Montgomery County (2009-2010) by Montgomery County Department of Finance.  
Estimates for Maryland (2010) by State of Maryland, Bureau of Revenue Estimates, and the United States (2010) by the Montgomery Department of Finance based on 2007-2009 annual data .

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## *Average Household and Per Capita Personal Income*

The County's total personal income reached \$64.4 billion in calendar year 2008, up from \$62.9 billion in 2007, and per capita income is expected to reach \$70,190 in 2010, up from \$67,531 in 2008. Average household income is expected to increase from \$181,290 in 2008 to approximately \$187,710 in 2010.

**Table 30**  
**Per Capita and Average Household Income, 2008**

<u>County</u>	<u>Per Capita Income</u>	<u>County</u>	<u>Average Household Income</u>
Marin, CA	\$93,159	Marin, CA	\$226,493
Fairfield, CT	79,108	Fairfield, CT	218,386
Westchester, NY	77,192	Westchester, NY	215,408
San Mateo, CA	73,839	Somerset, NJ	209,672
Arlington, VA	72,317	San Mateo, CA	205,372
Somerset, NJ	72,201	Nassau, NY	204,239
Morris, NJ	71,812	Morris, NJ	198,591
Fairfax, VA	69,885	Fairfax, VA	198,475
<b>Montgomery, MD</b>	<b>67,531</b>	<b>Montgomery, MD</b>	<b>181,290</b>
Nassau, NY	65,668	Rockland, NY	177,669
Norfolk, MA	63,935	Santa Clara, CA	176,874
Montgomery, PA	63,002	Douglas, CO	174,746
Collier, FL	62,559	Howard, MD	172,705
Howard, MD	62,098	Collier, FL	168,219
Douglas, CO	60,361	Norfolk, MA	166,159
Middlesex, MA	60,093	Lake, IL	166,058
Santa Clara, CA	59,227	Arlington, VA	164,595
Palm Beach, FL	58,358	Montgomery, PA	162,752
Contra Costa, CA	57,874	Contra Costa, CA	161,279
Rockland, NY	56,312	Middlesex, MA	157,876

Notes: A major affluent suburban county is defined as a county in either a Metropolitan Statistical Area (MSA) or a Primary Metropolitan Statistical Area (PMSA) with a population of at least 200,000 where income levels are considerably higher than in the central city and other jurisdictions in the area. These counties are primarily suburban in nature; no city or town accounts for 40 percent or more of the total population.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business", May 2009, for total personal income and per capita data; the Department of Finance used data from the U.S. Department of Commerce, Bureau of the Census, *American Community Survey* for 2007, for the number of households in each county.

## **ECONOMY**

### ***Agriculture***

Agriculture in Montgomery County is a diverse industry that occupies about one-quarter of the County land area. The County's agriculture industry contributes over \$243 million to the local economy. Over \$84 million comes from the County's thriving equine industry, about \$126 million from horticulture, and \$33 million from traditional agriculture. There are more than 561 farms and 350 horticultural enterprises in the County. The majority of farms are family-run operations, most having been in the same family for several generations. The industry as a whole employs more than 10,000 residents.

Preservation of rural land for agricultural use is a high priority in the County. Farmland preservation efforts consist of a variety of strategic programs offered by the County and State. The County received a total of \$19.3 million in Rural Legacy Program grant awards.

Since its creation in 1980, the 93,000 acre Agricultural Reserve controlled farmland development in the County. There are approximately 70,000 acres of farmland in the Reserve, and another 20,000 acres within the Reserve are publicly owned (parkland) or previously developed land (rural villages). Currently, Montgomery County is ranked second nationally in acres of farmland protected through easements (71,622 acres), and has the highest percentage of land in farms preserved in the nation (94 percent).

In 1980, sixty (60) percent of the farmland in the Agricultural Reserve was owned by speculators. Through farmland preservation programs, this trend was significantly reduced as more farms are now owned and operated by farmers. Farmers and landowners can choose from seven separate agricultural land preservation programs. Each of these programs places an easement on the property that prevents future commercial, residential or industrial development of the land.

The Department of Economic Development-Agricultural Services Division supports retail and wholesale agricultural marketing programs, such as the County-sponsored farmer's markets and annual farm tour, and promotion of wholesale and cooperative marketing. The Division also provides programs and technical assistance for farmers; these initiatives include Fuel-Energy Tax Relief, Deer Donation Program, Weed Control Services, Agricultural Product and Farm Logo Program, and many more.

Major capital asset events during the current fiscal year included \$1.1 million to purchase preservation easements on farmland in agricultural zones to preserve farmland not protected by Transferable Development Rights (TDRs).

### ***Federal Spending***

Federal spending remains an important contributor to the Washington area's economy. According to a George Mason University study, total Federal spending accounts for nearly a third of the metropolitan Washington gross regional product. The success of the region's economy is closely linked to the Federal economy, and the Federal government remains, either directly as an employer or indirectly through Federal spending, the primary source of regional economic growth.

The importance of Federal spending in the Washington metropolitan region, and particularly in Montgomery County, is exhibited in the percent of total Federal spending targeted to the Washington Metropolitan Statistical Area (MSA). While total Federal spending in Federal fiscal year (FFY) 2009 amounted to \$3,238 billion nationwide, the Washington MSA received \$181.8 billion, a 5.6 percent share. Montgomery County received \$27.9 billion, a 0.9 percent share of the total Federal spending and 15.4 percent of the region's share. While growth in total Federal spending is robust for all categories, by far the strongest growth is in procurement. As the table below shows, this category consistently grew for the nation and the Washington metropolitan area every year since 2000 and nine of the past ten years for Montgomery County. These data also show that Federal procurement spending in

Montgomery County achieved significant gains in that period, closely tracking growth in the region as a whole. Approximately \$27.9 billion in total Federal spending in Montgomery County is estimated to represent approximately 42.2 percent of total personal income for the County as the Federal government boosts economic activity through salaries and wages, transfer payments, and purchases of goods and services with the County's private sector industries. Federal procurement for the County reached \$17.5 billion in FFY09, an increase of 118.8 percent over FFY08, which, based on available data, was the highest level for the County to date.

**Table 31**  
**Federal Procurement Trends**  
**2000 – 2009\***  
**(\$ billions)\*\***

<u>Federal Fiscal Year</u>	<u>Montgomery County</u>	<u>Washington MSA</u>	<u>U.S.</u>
2009	17.5	96.9	550.8
2008	8.0	69.3	514.2
2007	6.6	59.5	440.4
2006	7.8	57.4	408.7
2005	7.7	54.6	381.0
2004	7.5	52.8	339.7
2003	5.7	44.2	327.4
2002	5.0	37.3	271.0
2001	3.9	32.3	246.2
2000	3.8	29.2	223.3

\* Federal fiscal year (October 1 through September 30).

\*\* Amounts shown in current dollars (not adjusted for inflation).

Source: U.S. Bureau of the Census, Consolidated Federal Funds Report, FY 2000-2009.

### ***New Construction***

Between FY01 and FY02, the number of new construction projects increased 5.5 percent. At the same time, the value of new construction added to the real property tax base increased nearly 16 percent. However, between FY02 and FY05, the number of construction starts decreased 56.8 percent. Conversely, the value of new construction between FY02 and FY05 increased from \$1.5 billion in FY02 to nearly \$1.7 billion in FY05, an increase of 10.6 percent. Since that time, the value of new construction declined from \$1.7 billion in FY05 to less than \$1.4 billion in FY10, a decrease of 20.8 percent. While each category within the tax base exhibited volatility from year to year, such volatility did not affect the growth in new construction between FY00-FY05. Because of the decline in the construction of apartments and commercial/industrial properties beginning in FY06 and ending in FY09, the combined total non-inflation adjusted value of all new construction during those fiscal years were at their lowest levels since FY02. Because of the depressed housing market beginning in late 2005, the value of new residential construction declined 42.4 percent between the peak in 2007 and 2010.

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**Table 32**  
**New Construction Added to Real Property Tax Base**  
**Montgomery County**  
**(\$ millions)**

<u>Fiscal Year</u>	<u>Construction Starts</u>	<u>Residential</u>	<u>Apartments</u>	<u>Condominiums</u>	<u>Commercial/Industrial</u>	<u>All Other</u>	<u>Total</u>
2010	849	\$ 599.4	\$ 19.7	\$ 180.3	\$ 354.7	\$ 226.6	\$ 1,380.7
2009	738	724.1	5.8	455.4	229.5	0.0	1,414.8
2008	952	882.7	25.8	318.5	256.6	0.0	1,483.6
2007	985	1,040.1	22.9	211.4	312.6	19.5	1,606.5
2006	1,580	978.3	41.2	132.9	384.6	4.8	1,541.8
2005	2,077	874.2	82.5	121.2	588.4	1.7	1,668.0
2004	2,758	892.4	21.0	176.4	559.1	3.0	1,651.9
2003	4,062	1,023.5	49.9	133.2	426.9	1.2	1,634.7
2002	4,807	896.1	19.4	70.8	520.7	1.3	1,508.3
2001	4,555	<u>878.5</u>	<u>53.7</u>	<u>88.2</u>	<u>276.0</u>	<u>4.4</u>	<u>1,300.8</u>
10-Year Summary		\$8,789.3	\$341.9	\$1,888.3	\$3,909.1	\$262.5	\$15,191.1
Categories as Percent of Total		57.9%	2.3%	12.4%	25.7%	1.7%	100.0%

Notes: Property assessed at full cash value effective in FY2002 with prior years adjusted to full cash value.  
Construction starts for fiscal year 2006 are revised.

Source: Dodge Analytics, McGraw-Hill Construction, and Maryland State Department of Assessments and Taxation.

### ***Development Districts***

In 1994, the County Council enacted the Development District Act, which allows the County to create development districts and to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County of high priority for new development or redevelopment. Special assessments and/or special taxes may be levied to fund the issuance of bonds or other obligations created from the construction or acquisition of infrastructure improvements. The proceeds of development district bonds are used to fund certain road, park, and sewer infrastructure improvements supporting development within the districts.

As a result of a petition by property owners and the subsequent review and analysis of the feasibility of the proposed development district, the County Council, in January 1998, created the County's first development district, West Germantown. A second district, Kingsview Village Center, was created on July 28, 1998.

In separate actions in September 2000 and October 2001, the County Council approved resolutions initiating evaluation of three proposed new development districts located in Clarksburg: Clarksburg Town Center, Clarksburg Village and Clarksburg Skylark (currently marketed as Arora Hills). The Clarksburg Town Center development district was created on March 4, 2003. However, in October 2010, the Council adopted Resolution 16-1544 which effectively terminated the Clarksburg Town Center development district.

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## ***Economic Development Initiatives***

In an effort to stimulate employment growth and new investment, the County initiates programs and promotes the strengths of each of its local employment centers.

### **Technology Corridors**

The I-270 Technology Corridor is an internationally recognized life sciences and advanced technology center. It is home to over 1,000 biotechnology and advanced technology companies, including Human Genome Sciences, Lockheed Martin, MedImmune/Astra-Zeneca, IBM and Hughes Communications. The corridor continues to grow with over 18 million square feet of additional commercial and industrial development in the pipeline.

The Montgomery County Council voted to approve the Great Seneca Science Corridor Master Plan in May 2010. The long-term plan will allow the area near Shady Grove Road and Darnestown Road to develop into one of the nation's premier areas for scientific research and development. According to the approved plan, the Great Seneca Science Corridor calls for 17.5 million square feet of development anchored by Johns Hopkins University and would allow a maximum of 9,000 dwelling units and approximately 52,500 jobs. The U.S. General Services Administration selected the Montgomery County campus of Johns Hopkins University as the site for the National Cancer Institute's consolidated headquarters.

The Council also approved the White Flint Sector Plan in March 2010. The plan targets future growth along Rockville Pike with development clustered around about 430 acres near the White Flint Metro Station. It will allow replacement of aging low-rise commercial properties in the area with mixed-use buildings as tall as 30 stories. The revitalized new urban neighborhood would include residences, offices, service-oriented businesses, restaurants and entertainment venues. Plans for almost six million square feet of new development were submitted for approval in White Flint. Federal Realty Investment Trust (FRIT) proposed 3.44 million square feet of mixed-use development for Mid-Pike Plaza, a retail center located at the corner of Rockville Pike and Old Georgetown Road. FRIT's development plan is comprised of 1.14 million square feet of office space, 1,725 dwelling units, a 125-room hotel and 304,200 square feet of retail. For its part, the JBG Companies submitted plans for the next phase of development at North Bethesda Market. The plans include over 700,000 square feet of new residential and commercial space. A sketch plan for North Bethesda Gateway proposed 1.7 million square feet, half office and half residential, in the southeast quadrant of Rockville Pike and Nicholson Lane.

Ground broke for the 14-story, 362,000 square-foot building located steps from the White Flint Metro Station in North Bethesda. The U.S. Nuclear Regulatory Commission will occupy the space in the largest new office lease signed in Maryland so far this year. Choice Hotels International, Inc. recently announced its decision to relocate its headquarters from Silver Spring to downtown Rockville. The company will invest \$65 million to construct a 125,000 square foot Class A office building at the corner of Hungerford Drive (MD 355) and East Middle Lane. Choice Hotel also proposed a 100,000 square foot building in the vicinity to open a Cambria Suites hotel.

The City of Gaithersburg partnered with Scheer Partners to establish a life sciences accelerator facility at 21 Firstfield Road in Gaithersburg. The 53,000 square-foot building received more than \$6 million in laboratory-related renovations and features shared services such as an autoclave and glass wash system. The City of Gaithersburg is waiving all interior commercial-renovation permit fees and is providing a tenant fit-up grant of up to \$3 per square foot on a reimbursement basis. Zyngenia, Inc., a biotherapeutics company, is the first tenant in this building, occupying 14,000 square feet. Integrated BioTherapeutics, a biotech company specializing in anti-infective vaccines and drugs, is scheduled to relocate its headquarters from Germantown to the accelerator facility.

The U.S. Route 29 Corridor in eastern Montgomery County continues its steady transformation into the County's other major technology and business center, with more than 100 major employers. The \$900 million FDA Headquarters Consolidation project is continuing its long-term buildout, occupying 130 acres of the 660-acre Federal Research Center in White Oak. The new FDA campus will include over 2.1 million square feet of office,



lab and support facilities. There are already over 5,500 FDA employees located on the campus, which will house up to 8,889 total employees by project completion in 2014.

Recognizing the economic importance of such a large Federal user like the FDA, the County is planning a new Science and Technology Center on a 115-acre site just northeast of the FDA campus. The East County Center for Science and Technology will feature over 800,000 square feet of development. Percontee Inc. proposed redeveloping a 300-acre development near the East County Center for Science and Technology into a mixed-use community called LifeSci Village. Current plans for LifeSci Village outline roughly two million square feet of life science and tech uses, including educational and clinical facilities, research labs and regular office space; two million square feet of retail space, hotel rooms and a conference center; and three to four thousand residencies. In addition, Washington Adventist Hospital will be moving and updating this facility to a parcel adjacent to the East County Center for Science and Technology.

### **Central Business Districts**

The County is committed to promoting new investment in its Central Business Districts (CBD). The County's four CBDs are Silver Spring, Wheaton, Bethesda, and Friendship Heights, and are served by the region's longest extensions of the Metrorail system. The CBDs are centers for major business activity and medium- to high-density residential development in close proximity to the Metro stations.

#### *Downtown Silver Spring*

Since 1998, the State and Montgomery County invested a total of over \$186 million in the redevelopment of downtown Silver Spring. Downtown Silver Spring transformed into a vibrant business, retail and entertainment hub with the American Film Institute (AFI) and Discovery Communications leading the way.

Through a public-private partnership with developer Foulger Pratt, the downtown Silver Spring project has over 800,000 square feet of retail, office, restaurant, hotel, and entertainment space, plus two new parking garages. The first phase was completed in 2000, and features 100,000 square feet of retail space, including Whole Foods Market and Strosniders Hardware. In 2001, the project was expanded to include additional services and retail centers serving the neighborhood.

Since 2004, an array of new restaurants and shops were added as new sections were completed, including but not limited to, Borders Books and Music, Red Lobster, Panera Bread, Austin Grill, Pier 1, Men's Wearhouse, Ann Taylor Loft, Starbucks, Washington Sports Club, and the Maryland Youth Ballet. The Regal Majestic 20 movie theater with its 20 screens and 4,500 seats has, along with the American Film Institute (AFI), made downtown Silver Spring a significant entertainment destination. Each year the AFI Silver Theatre and Discovery Communications co-sponsor the Silverdocs international documentary film festival which attracts an estimated 20,000 people. Additionally, Downtown Silver Spring has over 190 free diverse and multicultural events per year within the development including festivals, concerts, movies and fashion shows.

United Therapeutics, an innovative locally grown biotech company, began construction on the third phase of its headquarters/research/laboratory campus in downtown Silver Spring. The third phase includes an eight-story building with an integrated public use space and stand alone circular retail building. The first level will be comprised of retail space and the remaining seven stories will consist of office and laboratory space associated with the biotechnology company. United Therapeutics will total 213,000 square feet on both corners of Spring and Cameron streets in downtown Silver Spring when it is completed around 2012. This is a massive outgrowth from its 8,000 square foot dwelling on Spring Street just 11 years ago.

The new Paul S. Sarbanes Silver Spring Transit Center is designed for integrated private transit oriented development. The private transit oriented development, which will be paid for with private funds, is a mixed use project comprised of two residential towers with 450 apartments and condominiums and a 200 room hotel. The private transit oriented development will generate over 4,200 additional daily bus and rail trips for a 7 percent increase in baseline transit ridership at the Transit Center. The \$193.6 million Transit Center mixed-use development project, including retail, residential, hotel and restaurants alongside an inter-modal transportation hub

linking bus, rail, and other transportation services, is currently under construction. This expanded gateway to downtown Silver Spring is scheduled to be completed in the fall of 2011.

The Fillmore broke ground in September 2010, and is slated to open in September 2011. Live Nation will provide a variety of programming including rock, jazz and blues for the venue, which will cater to the culturally diverse community. This much-anticipated music venue will be operated as a standing room only venue and is being designed to accommodate 2,000 people. The Fillmore project is a unique public-private partnership between Montgomery County, Lee Development Group and Live Nation. The Fillmore project will bring revitalization to the north side of Colesville Road generating foot traffic on the street before and after shows. Moreover, the Fillmore will also reinforce Silver Spring's growing reputation as a destination for arts and entertainment complementing existing venues including the AFI Silver Theatre, the Round House Theater, the Regal Majestic 20 movie theater, the Maryland Youth Ballet, Pyramid Atlantic, and the Montgomery County Performing Arts Center at the Montgomery College Takoma Park / Silver Spring Campus.

Also in the downtown core, the Silver Spring Civic Building and Veterans Plaza opened in July 2010, providing a 42,000 square foot building with six community use rooms and a 5,200 square foot Great Hall. The facility houses the Silver Spring Regional Services Center and the administrative offices of the Round House Theatre Company. In addition, the facility has a large pedestrian plaza (Veterans Plaza) which includes a pavilion. The Plaza is home to the annual Silver Spring Jazz festival, held the second Saturday of each September. The pavilion also houses three artistic panels dedicated to Veterans, featuring letters to and from home, created by Toby Mendez Studios.

In the southern part of downtown, the 20,000 square foot Silver Spring Innovation Center, the second of five business incubators in the County's Innovation Network, opened in 2004, along with the State's new \$18.4 million District Courthouse. A new \$13.3 million fire station, which includes a satellite police station and the Silver Spring Urban District office, opened in 2006.

The new 65,000 square foot Silver Spring Library broke ground in August 2010. The seven-story building will be multi-purpose, with the first two floors designed as an art center with a combination of functions such as classes, offices and an art gallery. Pyramid Atlantic will be an anchor arts/non-profit tenant for the activation of the street at ground level. Floors 3, 4, and 5 will hold the library, and the 6th floor is set aside for the Department of Health and Human Services. The top floor will hold meeting rooms for the library. This building is being designed to achieve LEED Silver certification and will have green vegetated roofs. The State of Maryland expressed an interest in incorporating a Purple Line station into this project. Montgomery County issued a request for qualifications for developers interested in forming a public-private partnership to build housing on a County-owned 120,000 square-foot property abutting the site of the proposed library. The property has the capacity for 120 units of which 30% will be designated as moderately priced housing units, 30 percent as workforce housing and 40 percent as market rate units.

In addition to being a destination for work, entertainment, and shopping, downtown Silver Spring is established as a place where people are attracted to live. More than 5,000 units of rental housing provide a solid residential base for downtown Silver Spring. Ground broke for the 17-story building on 1150 Ripley Street just off Georgia Avenue on August 30, 2010. This 417,000 square-foot, 286-unit apartment complex is being developed by Bethesda-based Washington Property Company. It is the first major construction project within the Ripley District in almost 20 years. This apartment building will have an array of studios and one and two bedrooms units and feature 7,000 square feet of service retail on the ground floor. The County's Department of Housing and Community Affairs provided \$5 million in short-term financing to Washington Property Company through its Housing Initiative Fund to spur residential development in downtown Silver Spring. The first units are scheduled to be delivered in 18 months with full delivery expected in the summer of 2012.

Construction began for the Galaxy at 8025 13<sup>th</sup> Street in Silver Spring in August 2010. The building will have 195 rental units with 113 market rate units and 82 subsidized units for occupants making less than 60 percent of the Area Median Income. The project received a \$5 million loan from the County's Housing Initiative Fund.

Home Properties has proposed developing 9.7 acres of land at the corner of 16<sup>th</sup> Street and East-West Highway. The proposed development project calls for constructing a multi-building complex totaling some 1,250 rental

apartments upon completion. Four separate buildings connected by pedestrian pathways will surround pockets of green space and landscaped courtyards featuring a swimming pool, pond and water fountain. Over 150 units will be designated as moderately priced while at least another 59 will be reserved as workforce housing. Also divided among the four buildings is the proposed 70,000 square feet of retail space, with an anchor space set to become a major grocery store. Foulger-Pratt is also in design for another 200 unit residential building, The Ellsworth, in “Downtown,” off Colesville Road.

### *Wheaton*

The limited size of Wheaton’s Central Business District (76 acres), combined with the number of small commercial property parcels and multiple property owners presents a challenge in redeveloping Wheaton, given the cost of land aggregation necessary for larger-scale development.

The County recognized that it, and other public entities, held enough real estate assets in Wheaton that were capable of accommodating larger development projects. The County determined that some of these assets might be used to stimulate redevelopment in Wheaton.

In January 2010, the County, in association with two other public entities, Washington Metropolitan Area Transit Authority (WMATA) and Maryland-National Capital Park and Planning Commission (M-NCPPC), issued a “Request for Qualifications (RFQ) for Public-Private Partnership for the Design, Construction and Financing of Transit-Oriented Development for the Wheaton Central Business District.” The purpose of this RFQ was to select a private real estate development partner with the experience, capability and financial capacity to complete viable, sustainable redevelopment projects in downtown Wheaton. The public partners leveraged ten public properties throughout Downtown Wheaton to induce private development, with the expectation that a selected developer would aggregate private property in addition to public sites.

In July 2010, the public partners announced B.F. Saul Companies (Saul) as the developer selected through the RFQ process. Saul will address the development of five of the public properties (7.6 acres) identified in the RFQ and the potential aggregation of additional privately-owned, adjacent properties. It is anticipated that this partnership will result in some one million square feet of redevelopment. Situated in Wheaton’s downtown core, these sites are immediately proximate to the Metro Red Line station and bus depot. The first phase of the project, concept development, is expected to be completed mid-2011.

The Wheaton CBD and Vicinity Sector Plan is currently under revision and its review and adoption by the County Council is anticipated by the end of 2011. The sector plan will promote new transit-oriented, “smart growth” development in downtown Wheaton. Such development will enhance Wheaton’s strong retail base, which includes a newly renovated regional shopping mall (Westfield Wheaton), and over 300 locally owned and operated small businesses, including more than 80 restaurants.

Planning for a 2012 opening, Costco partnered with Westfield Wheaton to occupy approximately 148,000 square feet, which will enhance the Mall’s regional draw. The addition of Costco is expected to bring additional national and regional retail chains to the Mall as well. Capitalizing on Wheaton’s retail strength, the County seeks to enhance Wheaton’s urban character and improve it further by attracting more arts/entertainment-related entities, and encouraging more mixed-use development. It will continue to use its designations as both an Enterprise Zone and an Arts and Entertainment District to move this type of development forward.

Safeway will demolish its existing 23,000 square foot store on Georgia Avenue and, in partnership with Patriot Realty Co, develop a mixed-use residential/retail project on site. The project will include a new 59,500 square foot Safeway with a 17-story, 486- unit apartment building constructed above it. The project will be built to LEED - Silver standards. It sits directly across the street from the Metro Red Line subway entrance.

Washington Property Co. is planning to develop a six-story, 221-unit apartment complex on Georgia Avenue at the site of the First Baptist Church of Wheaton. The Church is relocating to Olney Md. The project will be one block south of the Metro Red Line station. Avalon Bay Properties is reviving its project on Georgia Avenue, approximately 1/3 mile north of the Metro subway line. Originally planed as a mixed-use residential/street-level retail project, plans were changed to an exclusively residential project.

Centex Homes, now owned by Pulte, continues to build and sell townhouse units at its "Leesborough" project on Georgia Avenue, recently receiving approvals to build another 20 townhouses in addition to the 100 units already on the site. Bozzuto Development Corp. and the Housing Opportunities Commission of Montgomery County completed Metro-Pointe, a mixed-use residential/retail project situated near the existing Wheaton Metro Station Kiss-and-Ride lot. The 173 residential units (30 percent affordable housing) are fully leased. The project also includes retail space totaling 3,500 square feet.

Georgia Crossing, situated at the intersection of Georgia Avenue and University Boulevard, is a 32,000 square foot multi-use project with street-level retail and mezzanine-level office space. The second phase of Georgia Crossing was completed in early 2009.

### *Bethesda*

Downtown Bethesda is one of the County's major urban business and entertainment centers, with nearly 200 restaurants along with the density of both high-rise office and residential buildings. Downtown Bethesda is a thriving, day and night destination offering residents, visitors and its workforce multi-cultural dining, live theater, cinema, unique shops and numerous special events and festivals. In the past several years, Bethesda opened Round House Theatre, Imagination Stage, and Bethesda Row Landmark Theatre as marquee entertainment organizations that highlight classical plays, children's theatre, and independent and foreign films.

Bethesda has a workforce of over 46,000 and includes employees who work for some of the region's most notable employers, including Capital One (formerly Chevy Chase Bank), Clark Construction Group, Development Alternatives and American Capital Strategies. In February 2010, the International Baccalaureate Organization signed a lease for 33,000 square feet of real estate at 7501 Wisconsin Avenue to relocate its American headquarters from New York to Montgomery County. This facility will eventually accommodate 250 relocated and new employees. C.W. Capital is consolidating its offices in Washington, D.C. and Montgomery County and is scheduled to move into 48,000 square foot space at 7501 Wisconsin Avenue in December 2010.

The Hilton Garden Inn, Bethesda opened its doors in January 2010. This hotel created 216 additional guestrooms to serve the National Institutes of Health, National Naval Medical Center, and the Bethesda community. The hotel is part of the Air Rights Center, a 700,000 square foot office and retail located on Wisconsin Avenue in the heart of Bethesda. Donohoe Construction plans to construct 80,792 square feet of office space at Battery Lane and Wisconsin Avenue. The company also submitted plans for 150,000 square feet of office space adjacent to the Air Rights Center at 7300 Pearl Street. Bernstein Management proposed a 270,000 square foot office complex as part of a redevelopment of the Bethesda Court Hotel and adjoining properties between Woodmont and Wisconsin Avenues.

Several new planned apartment buildings are expected to add 1,497 new housing units in downtown Bethesda. Bainbridge Companies closed on the Monty site at 4918 St. Elmo Avenue in July 2010. The Monty is a mixed-used project with 200 dwelling units (including 30 moderately priced dwelling units) and 7,200 square feet of retail space and four levels of underground parking. The entire project plans to seek LEED silver certification and should be delivered in October 2012. The Christ Evangelical Lutheran Church received approval for its plan to build a 107-unit residential building combined with a six-story church and community center. The complex will feature an indoor athletic field for community use, public green space, and affordable residences for the elderly and transitional housing for the homeless.

### *Friendship Heights*

The Friendship Heights CBD is located at the Montgomery County-Washington, D.C. border with the Metrorail station at Wisconsin and Western Avenues at its center. Adjacent to the Friendship Heights CBD are multiple smaller jurisdictions and developments, including the Village of Friendship Heights special taxing district, the Town of Somerset, the Brookdale neighborhood, and the Somerset House complex.

The Friendship Heights area has the first top-tier luxury shopping center on the east coast outside of New York City. The Collection at Chevy Chase, part of the Chevy Chase Center mixed-used development, is a 112,000 square foot project facing Wisconsin Avenue developed and managed by The Chevy Chase Land Company of Montgomery County, Maryland. The Collection brought retailers such as Christian Dior, Jimmy Choo and Barney's New York Co-Op to this area for the first time. Tiffany & Company, Georgette Klinger and Cartier were in Chevy Chase for many years and moved down the street to join Collection tenants such as Bulgari, Ralph Lauren, Gucci, Max Mara, and Louis Vuitton.

The second component of Chevy Chase Center is 100,000 square feet of neighborhood-oriented retail, anchored by Giant Food and Pharmacy, which was an original tenant of the Center when it was first developed in the 1950s. Other tenants include Clyde's Restaurant, Sushi Ko Restaurant, Lacoste, Potomac Pizza, Giffords Ice Cream, and many other familiar area and national retailers.

The third component of the project is the 200,000 square foot office tower, which was originally leased in its entirety by The Mills Corporation in 2006. Mills subsequently filed for bankruptcy and put the entire building on the market for sublease, and the space was immediately backfilled by such tenants as New Enterprise Associates, Columbia Partners and The Travel Channel. DHR International moved into the building in 2010.

The latest project in Friendship Heights is Wisconsin Place, a one million square foot mixed-used development on Wisconsin Avenue. Wisconsin Place consists of 305,000 square feet of retail (Bloomingdale's and Whole Foods are the anchor tenants), 432 luxury apartments, 295,000 square feet of office space, a 20,500 square foot community center and a 1,765 space underground parking garage. EDF, Inc. opened its new North American headquarters at Wisconsin Place in October 2010. EDF is a wholly-owned subsidiary of EDF International S.A. of France and an international low carbon energy leader. Wisconsin Place accounts for a significant portion of the development allowed in Friendship Heights under the Friendship Heights Sector Plan. The Plan originally allowed for a total of over 1.4 million additional square feet of office and retail space, and an estimated 635 dwelling units on the former Hecht's and adjacent GEICO properties. One of the first major projects constructed in this Plan was the Chase Tower, a 240,000 square foot retail and office building delivered in November 2001. This luxury Class A tower is now home to the corporate headquarters for Ritz Carlton. Other tenants include Capital Trust and the JBG Companies.

### **Existing Office/R&D/Commercial Space**

As of October 2010, Montgomery County has over 139 million square feet of commercial real estate space (office, flex, R&D, industrial and retail). The weighted direct vacancy rate for the County decreased since December 2009 to 8.4 percent from 8.8 percent.

Most of Montgomery County's office space is located along two "Technology Corridors", the I-270 corridor and the Route 29 corridor. The I-270 corridor includes the Bethesda, Rockville, Gaithersburg and Germantown markets and features over 105 million square feet of commercial space. Notable buildings along the I-270 corridor include the 700,000 square foot Capital One Bank headquarters in Bethesda, and the 260,000 square foot Tower Building in Rockville. The Route 29 corridor connects Silver Spring to Burtonsville and includes over 14 million square feet of commercial space. Discovery Communications' 550,000 square foot corporate headquarters in downtown Silver Spring is the signature building in the corridor. Also featured along Route 29 is the Westech Business Park, which includes over three million square feet of office, R&D, light industrial and retail development.

**Table 33**  
**Office/Flex/Industrial/Retail Space Availability by Major Submarkets**  
**As of October 2010**

<u>Montgomery County Market</u>	<u>Total Inventory (Square Feet)</u>	<u>Direct Vacant (Square Feet)</u>	<u>Direct Vacancy Rate</u>	<u>Vacancy Rate w/ Sublet</u>
Bethesda/Chevy Chase	16,721,776	960,761	5.7%	7.7%
Gaithersburg	21,493,610	2,012,544	9.4	9.8
Germantown	7,576,790	513,593	6.8	7.4
Kensington/Wheaton	7,700,348	420,671	5.5	5.8
North Bethesda/Potomac	17,050,237	1,712,922	10.0	11.4
North Rockville	22,731,057	2,399,872	10.6	12.2
North Silver Spring/Rt 29	8,690,702	397,549	4.6	5.0
Rockville	18,559,750	1,990,962	10.7	11.5
Silver Spring	13,391,605	973,368	7.3	7.8
Others	5,103,369	237,886	4.7	8.4
Total County	<u>139,019,244</u>	<u>11,620,128</u>	8.4%	9.5%

Note: These figures are provided by CoStar Property, the County's source for commercial real estate information.

\*Others include I-270 North, Outlying Montgomery County East, and Outlying Montgomery County West submarkets.

## ***Office/Industrial Projects***

### **Summary**

Despite the depressed economy, a few large commercial projects began in Montgomery County in 2010. Construction began for the Fillmore in Silver Spring, and the new headquarters of the Nuclear Regulatory Commission in Bethesda, and the National Cancer Institute in Shady Grove. Additionally, Montgomery County continued to make significant progress developing two strategic Science and Technology Centers. Details on many of these projects appear below.

### **Public/Private Projects**

#### *The Fillmore in Silver Spring*

The Fillmore broke ground in September 2010 and is slated to open in September 2011. The Fillmore will be a dynamic new music, entertainment and community use venue in downtown Silver Spring. Live Nation will provide a variety of programming for the venue, which will cater to the culturally diverse community. This much-anticipated music venue will be operated as a standing room only venue and is being designed to accommodate 2,000 people.

The Fillmore project is a unique public-private partnership between Montgomery County and Lee Development Group (LDG). The State of Maryland will contribute \$4 million and Montgomery County will contribute \$6.7 million, for a total of \$10.7 million, toward the cost of building the facility, which will be owned by the County. LDG is contributing the value of the land estimated at \$3.5 million, as well as developing the project. In addition, Live Nation will contribute up to \$2 million in tenant improvements.

### *East County Center for Science and Technology (ECCST)*

The proposed 115-acre Site II development, also known as the East County Center for Science and Technology, is envisioned as a public-private partnership between the County and a yet-to-be selected private developer. The goal is to create a world-class life sciences, education and research campus that will be an economic engine in the eastern portion of the County, and complement nearby Federal agencies, including the consolidated Food and Drug Administration (FDA) headquarters. Currently, the County is taking the property through the State's Voluntary Clean-Up Program, which will determine the type of environmental remediation that will need to occur prior to developing the site.

### *Montgomery College-Germantown Science and Technology Park*

In early 2003, Montgomery College settled on the purchase of a 20-acre site adjacent to the College's Germantown campus. This property was combined with 20 acres of existing undeveloped land on the campus to form a 40-acre site on which a one million square foot Science and Technology Park will be constructed. The purchase of the 20-acre site was made possible by a total of \$6.1 million in funding appropriations to the College from the State and County. The preliminary plan for the Science and Technology Park calls for primarily high technology research and development space, with a focus on the life sciences, which will complement the biotechnology programs and curriculum already offered at the Germantown Campus. Once built out, the Science and Technology Park would be home to nearly 4,000 employees. Currently, 25 acres is leased to an anchor tenant. To complement the Science and Technology Park, the College provided space for a 35,000 square foot County-operated business incubator on campus, which is fully occupied with science and technology early stage companies. To complete this three part science and technology project, the 127,000 square foot Bioscience Education Center will soon begin construction and open to students in 2013.

### **Montgomery County Business Innovation Network**

The Montgomery County Business Innovation Network is a program of business incubator facilities that has successfully assisted start-up technology and professional services companies to grow and expand in the County since the first facility, The Maryland Technology Development Center (MTDC), opened its doors in 1998 and was renamed the Shady Grove Innovation Center in September 2009. To date, nearly 125 companies have graduated from the County's incubators. The County opened a second incubator in 2004, called the Silver Spring Innovation Center (SSIC). The SSIC is nearly fully leased to start-up information technology facilities. The success of and demand for the incubator program spurred the County to develop three additional incubators since the opening of the SSIC. The Wheaton Business Innovation Center (WBIC) opened in 2006, and the Rockville Innovation Center (RIC) opened in 2007. The latest addition to the incubator program is the Germantown Innovation Center (GIC), which opened in October 2008.

### **Private Real Estate Project Delivered in 2010**

#### *1040 Spring Street, Silver Spring*

United Therapeutics, a biotherapeutics company headquartered in Silver Spring, delivered an eight-story 90,000 square foot building in the summer of 2010. The building features retail space on the first floor and United Therapeutics' laboratory and office space on the remaining floors. The company entered into a partnership with the American Film Institute to program screenings of scientific material on its 12 by 9 foot state-of-the-art video screen. The building received a LEED Gold certification from the U.S. Green Building Council.

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## **Commercial Projects Started in 2010**

### *North Bethesda Center I, North Bethesda*

This 14-story, 362,000 square-foot building is located near the White Flint Metro Station in North Bethesda. The U.S. Nuclear Regulatory Commission will occupy the space in the largest new office lease signed in Maryland. The main-street style, pedestrian-friendly development links all the new buildings to Metro and will include 930,000 square feet of office space, 202,000 square feet of retail space, four apartment buildings and a hotel. The entire North Bethesda Center development is expected to generate approximately 5,400 jobs.

### *National Cancer Institute*

A \$200 million new satellite campus of the National Cancer Institute broke ground in September on the Montgomery County campus of Johns Hopkins University. This 575,000 square foot facility will house 2,100 employees of the National Cancer Institute at the Shady Grove Life Sciences Center. This project was made possible through the cooperative efforts of the National Cancer Institute, Johns Hopkins University, the U.S. General Services Administration and The JBG Companies. JBG was selected to develop the complex as twin, seven-story buildings with a parking garage and shops on nine acres overlooking a large pond. JBG will register with the U.S. Green Building Council, and will pursue a LEED Gold certification. A transit stop on the future Corridor Cities Transitway will connect to the Shady Grove Metro station, which will be critical to the success of this transit-oriented project. JBG signed a long-term ground lease with Johns Hopkins, which owns the land, to build the facility, which is scheduled to be delivered in early 2013. It was designed by Washington architect HOK.

### *Qiagen Sciences, LLC*

Qiagen Sciences, a molecular diagnostics company in Germantown, began its North American headquarters and manufacturing facility project in September 2010. This \$52 million, 117,000 square-foot expansion on the Germantown campus will enable the company to consolidate several key manufacturing operations and accommodate an expected 90 new jobs. The expansion project will bring the Germantown campus from 181,800 square feet to 300,000 square feet to accommodate office, lab and manufacturing operations. It will feature the addition of a manufacturing wing, a five-story office tower, parking deck and an expanded employee cafeteria.

## ***New Business Additions and Expansions***

Montgomery County's Department of Economic Development worked with 208 companies during the first three quarters of 2010 that were interested in expanding in or relocating to the County. The companies that signed commitments to locate or expand in Montgomery County in 2010 are projected to retain and create over 4,758 jobs, lease or construct over 1.2 million square feet of office space, and generate over \$195 million in capital investment over the next three to five years. Some highlights of the Department's efforts in 2010 include:

### *Choice Hotels International, Inc.*

Choice Hotels International, Inc., one of the world's largest lodging companies currently headquartered in Silver Spring, announced its decision to move its headquarters to Rockville in October 2010. Since mid-2008, the company was looking for a new headquarters of 130,000 square feet or more in the Washington, DC region to accommodate a growing number of employees and is in negotiations to lease office space in Rockville Town Center. Once at its new location, the company plans to add 75 new employees, adding to its current base of approximately 375 employees in Montgomery County. Also under consideration is a Cambria Suites hotel near the proposed headquarters site to accommodate an estimated 10,000 stays per year generated by employee and franchisee training programs, as well as other community, vendor and hotel developer events.



### *Zyngenia, Inc.*

Zyngenia, a privately held biotherapeutics company, relocated its headquarters from California to Montgomery County in January 2010. The company has over 20 employees and occupies 14,000 square feet at Firstfield Road in Gaithersburg. The formation and planned growth of Zyngenia was spurred by significant venture capital investments, led by a \$10 million Series A investment from New Enterprise Associates. Zyngenia uses proprietary technology to enable the development of singular molecular entities that address two or more targets, by combining the activity of two or more biologic therapies into one protein. The company is focusing its early research and development on creating therapies for patients who have unmet medical needs in cancer and autoimmune diseases.

### *EDF, Inc.*

EDF, Inc. opened its new North American headquarters in Chevy Chase in October 2010. EDF is a wholly-owned subsidiary of EDF International S.A. of France and an international low carbon energy leader. The company signed a 10-year lease for 16,000 square feet at 5404 Wisconsin Place. EDF's selection of Montgomery County for its North American headquarters followed the completion of its previously announced investment in Constellation Energy Nuclear Group, LLC, which is structured as a new joint venture.

### *Wegmans*

Wegmans Food Markets, Inc. signed a lease for 150,000 square feet in Germantown to open a grocery store at the Shops at Seneca Meadows. The store is scheduled to open in 2012. Wegmans will anchor a new mixed-use development at Seneca Meadows Corporate Center that currently contains more than 700,000 square feet of flex, office, high tech and biotech space in 11 buildings with room for an additional 800,000 square feet of mixed-use development.

### *Kaiser Permanente*

Kaiser Permanente purchased a 200,000 square foot office building at 655 Watkins Mill Road in Gaithersburg and plans to convert the building into a medical office site. Kaiser anticipates a summer 2012 opening for the building, which will serve members who are area residents and nearby workers.

## ***Retail Sales***

Retail sales, measured by sales tax data collected for the first eight months of 2010, increased in Maryland, but declined in Montgomery County based on adjusted data for the rate increase. Compared to the prior year, when retail sales in the County declined 7.1 percent, sales declined a modest 0.2 percent during the first eight months of 2010 compared to the same period in 2009, showing the effect of the slowdown in housing sales. The declines in purchases of furniture and appliances (down 1.2%) and hardware, machinery, and equipment (down 5.4%) offset the increase in purchases of building and industrial supplies (up 4.1%). Purchases of nondurable goods decreased 4.5 percent during the first eight months of 2010 compared to the same period in 2009. Consumer confidence during this eight-month period was up 21.4 percent for the region compared to the same eight-month period in 2009. Retail sales are traditionally one of the first indicators to reflect changes in consumer behavior. However, the employment situation and housing market in the County may offset the increase in consumer confidence thereby dampening any significant increase in retail sales.

Retail sales in the County improved during the period 2004-2006 compared to the previous two years by growing a robust 6.7 percent in 2004, then moderating to 5 percent in 2005 and moderating further to 3.5 percent in 2006, but increasing 0.1 percent by 2007. During the next two calendar years, retail sales experienced a decline of 4.1 percent and 7.1 percent in 2008 and 2009, respectively. The slowdowns were attributed largely to decreases in furniture and appliances, and building and industrial supplies.

**Table 34**  
**Sales & Use Tax Receipts**  
**by Principal Business Activity**

	Montgomery County				Maryland			
	2008	2009		Jan.-Aug. 2010	Jan.-Aug. 2010			
	Pct. Chg.(1)	Share of Total	Pct. Chg.(2)	Share of Total	Pct. Chg.(3)	Share of Total	Pct. Chg.(3)	Share of Total
Food and Beverages	0.3%	26.1%	0.2%	28.2%	3.8%	30.0%	3.4%	23.7%
Apparel	-3.0	6.4	-6.7	6.5	-2.9	6.0	-2.2	4.6
General Merchandise	-0.6	18.3	-8.1	18.1	-8.2	15.5	-0.9	17.0
Automotive	-7.1	7.3	2.2	8.0	23.6	9.8	-1.5	6.6
Furniture & Appliances	-18.5	6.9	-22.3	5.7	-1.2	5.7	-7.0	8.3
Building & Industrial Supplies	-11.4	9.1	-17.1	8.1	4.1	8.9	1.3	12.2
Utilities & Transportation	7.3	9.5	-7.9	9.4	-22.8	7.8	-3.7	9.9
Hardware, Machinery & Equipment	-8.1	1.3	-8.2	1.3	-5.4	1.3	-0.1	2.5
Miscellaneous	-6.2	14.4	-9.3	14.1	4.4	14.7	16.2	14.9
Other	-23.6	<u>0.7</u>	-12.5	<u>0.6</u>	-31.6	<u>0.3</u>	-23.2	<u>0.3</u>
Total Retail Sales Tax	-4.1%	<u>100.0%</u>	-7.1%	<u>100.0%</u>	-0.2%	<u>100.0%</u>	1.6%	<u>100.0%</u>

(1) Percent change between 2007 and 2008.

(2) Percent change between 2008 and 2009 adjusted for rate change.

(3) Percent change between the period January through August 2009, and the same period in 2010 adjusted for rate change.

Source: Maryland Comptroller of the Treasury, Revenue Administration Division.

### ***Major Retail Centers***

Montgomery County is served by four regional shopping malls. They are Lakeforest Mall in Gaithersburg, Westfield Shoppingtown Montgomery in Bethesda, Westfield Shoppingtown Wheaton in Silver Spring, and White Flint Mall in North Bethesda.

Lakeforest Mall, located along Maryland Route 355 and Montgomery Village Avenue near I-270, opened in 1978. This 1.1 million square foot mall features over 160 stores, including four major department stores: Macy's, JC Penney, Lord & Taylor, and Sears Roebuck & Co.

Westfield Shoppingtown Montgomery, formerly known as Montgomery Mall, opened in 1968, and covers 1.6 million square feet of space. It features Nordstrom, Macy's, Macy's Home Store, Sears Roebuck & Co., 190 other stores, three parking garages, and is served by the Montgomery County Transit Center.

Westfield Shoppingtown Wheaton, formerly known as Wheaton Plaza, is located adjacent to the Wheaton Metro Center at the intersection of Georgia Avenue and Veirs Mill Road in the Wheaton CBD. This was the County's first shopping mall (opened in 1960) and was enclosed and remodeled in 1987. JC Penney, Macy's, and Target anchor the mall, which includes 206 other stores, with an expansion to include Costco coming in early 2012.

White Flint Mall, which is located east of Rockville Pike in North Bethesda close to the White Flint Metro Station, opened in 1977 and features three enclosed levels with luxury department stores such as Lord & Taylor and Bloomingdale's, plus 94 other stores. The 900,672 square foot mall also features a five-auditorium cinema, an office center with professional space, numerous kiosks and specialty pushcarts, and a Border's Bookstore.

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## COUNTY GOVERNMENT SERVICES

### *Human Resources*

The County government employs approximately 8,827 full- and part-time employees. Approximately 6,454 employees are in bargaining unit positions and represented by one of the three labor organizations that are certified under County law to bargain over the wages, fringe benefits, and working conditions of bargaining unit employees. The table below summarizes the current status of County labor agreements.

**Table 35**  
**County Bargaining Units**

<u>Bargaining Unit</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Service, Labor & Trades (MCGEO)	1,283	June 30, 2011
Office, Professional & Technical (MCGEO)	2,931	June 30, 2011
Police officers (FOP)	1,135	June 30, 2012
Firefighters/Rescuers (IAFF)	1,105	June 30, 2011

Public school teachers in the County are not County government employees, but are employed by the Montgomery County Board of Education (the "Board"). The Board employs approximately 20,744 full-time equivalent (FTE) employees. This number includes 76 non-represented employees and 20,668 employees in bargaining units. The Board bargains collectively with employees on matters concerning wages, hours and other conditions of employment. There are four bargaining units, which are comprised of teachers, professional/administrative, non-certified supervisors, and support/maintenance employees, as presented in the table below.

**Table 36**  
**Board of Education Bargaining Units**

<u>Bargaining Unit</u>	<u>Number of FTE Employees</u>	<u>Contract Expiration Date</u>
Teachers (MCEA)	11,734	June 30, 2014
Professional/Administrative (MCAASP)	668	June 30, 2014
Noncertified Supervisors (MCBOA)	94	June 30, 2014
Support Services (SEIU Local 500)	8,172	June 30, 2014

### *Arts and Leisure*

The County Department of Recreation provides a wide range of programs including: aquatics, camps, classes, youth and adult sports, summer fun centers, special events, teen, senior citizen and therapeutic programs. The Department operates 20 community centers that facilitate leisure activity, social interaction, family participation, and neighborhood civic involvement. Its newest community center, the Mid County Recreation Center, is slated to open in late Spring of 2011. An additional ten program sites serve select senior populations, offering adults aged 55 and above classes, sports and fitness, trips, neighborhood programs, and special programs for frail and isolated seniors. The Department of Recreation operates the Charles W. Gilchrist Center for Cultural Diversity, a unique facility that serves as a cultural and community focal point. The Department also administers contracted grants for the Takoma Park Community Center, the Arts and Humanities Council and the Public Arts Trust. It also provides specialized recreational programming for at-risk teens, and works cooperatively with the Montgomery County Public Schools to provide a wide range of recreation and leisure opportunities for middle school and high school students throughout the County.

There are seven large public outdoor swimming pools and four indoor aquatic complexes that provide for a variety of instructional, recreational, and competitive aquatic programs. The Germantown Indoor Aquatic Center, the newest of the four indoor aquatic complexes, opened in January 2006.

The Music Center at Strathmore was originally located in the historic Corby Mansion, which also housed the Strathmore Hall Foundation. The Center's original structure underwent a \$3 million addition and renovation, and is used for art shows and dramatic readings. Significant improvements were made at the Center with the construction of a multi-disciplinary education and performance center on a five-acre site adjacent to the Center. The Music Center at Strathmore facility houses a full range of complementary arts education classes for children and adults. It combines studio, classroom, rehearsal, and performance space for students. The performance hall is capable of supporting large-scale (2,000-seat) musical presentations including major choral, orchestral, and popular entertainments.

As part of the Silver Spring Redevelopment project, the historic Silver Theatre, operated by the American Film Institute, was restored. Two additional theatres were constructed on the same site. Located on an adjacent site is the Round House Theatre School, which provides both theatrical and educational programs. Round House also operates a 400-seat theatre in Bethesda. Additional cultural opportunities are available at Montgomery College. The College operates a Summer Dinner Theatre and its Performing Arts Series features theatre, dance, and music performances.

## ***Economic Development***

### *Department of Economic Development*

The economic development vision for Montgomery County is a globally competitive and highly diversified knowledge-based economy that provides for the retention and growth of existing companies, stimulates job creation, and enhances entrepreneurial opportunities.

To realize this vision, the Department of Economic Development (DED) retains and grows existing businesses and strategically attracts new businesses to the County. DED cultivates a climate to ensure the ongoing growth and viability of small and minority-owned businesses. The department facilitates international business opportunities for County companies and proactively attracts foreign direct investment to the County. It preserves farmland and enhances the viability of the agricultural industry. DED also fosters creative and strong partnerships with academia, the federal research community, and various levels of government to pursue innovative projects. Furthermore, it engages in public-private partnership projects to revitalize the County's town centers and provide for strategic redevelopment opportunities.

### *Economic Development Services and Programs*

Existing and prospective new businesses receive an array of professional assistance from DED. This assistance can take the form of site searches (DED maintains an inventory listing of available office, R&D and industrial space in the County), direct financial assistance, socioeconomic statistics, permit expediting, training and employment assistance and targeted programs and services to meet the unique needs of small and minority-owned businesses. DED also operates the County's business incubator program with 164 early-stage technology companies currently in the program. DED oversees the County's training and employment programs through its Division of Workforce Services, and tourism promotion programs operated by the Montgomery County Conference and Visitor's Bureau.

### *Economic Development Fund and Other Financial Incentives*

Businesses seeking to either establish a presence or expand facilities in the County may qualify for assistance through the County's Economic Development Fund. Established in 1995, the Economic Development Fund provides assistance to private employers who will either retain jobs in the County, or create new jobs through the expansion of current businesses or location of new businesses to the County. The Economic Development Fund is administered by the County's Department of Finance.

As of October 12, 2010, 152 offers for grants and loans totaling \$23.9 million were accepted under the Economic Development Fund Grant and Loan Program. The economic impact of these transactions is estimated to include: over 29,000 jobs retained, attracted and to be created, over \$1.13 billion in private investment, and an annual net revenue return of over \$34 million.

In addition to the original Economic Development Fund Grant and Loan Program, four other financial incentive programs were added. The Technology Growth Program (TGP) was developed to facilitate the growth of early-stage technology-based companies located or desiring to locate in the County. TGP is aimed at leveraging private sector financing and State Challenge and Enterprise Investment funds. Since the beginning of the TGP in 1999, 71 companies have received funding for a total of \$3.96 million.

The Small Business Revolving Loan Program was created to help small business concerns in the County and to finance economic development projects that cannot be financed through traditional private and public sources. Since the beginning of this Program in FY2000, 37 small businesses have received loans totaling \$2.08 million. The Micro-enterprise Loan Program (MLP) which was established in 2008 is now part of the Small Business Revolving Loan Program.

The Impact Assistance Program was created in FY2005 to help mitigate any adverse impact small businesses might experience due to County initiated and funded development, redevelopment, or renovation projects. So far, 27 companies have received funding totaling \$477,521 from this program since its inception.

## ***Education***

Montgomery County Public Schools (MCPS) is governed by an elected Board of Education comprised of eight members, including one student member. The Board, which was created by State law, appoints the Superintendent and all other employees. The system operates 200 elementary and secondary schools. The operating budget is \$2.104 billion for FY11, a 4.3 percent decrease from the prior year, and the FY11-16 capital improvement budget is \$1.386 billion. The emphasis that County residents place on education is reflected in budgeted per pupil operating expenditures of \$13,862 in FY11, and in the high percentage of high school graduates who continue formal education. In FY11, projected enrollment is 143,309 students.

## ***Finance***

The Department of Finance is responsible for the financial administration of the County government, including accounting, debt and cash management, revenue collection, and risk management. The Controller's Division is responsible for the analysis, interpretation, and presentation of the County's financial position and results of operations through timely, accurate, and professional financial reports, and for timely and accurate payments to vendors for goods and services provided to the County. The Treasury Division is responsible for the collection of property taxes and for the collection and processing of transfer and recordation taxes.

The County maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet County financial obligations, and maximization of the investment yield on the County's short-term working capital.

Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's short-term investment policy, as approved by the County Council. The average maturity of the working capital portfolio is generally less than six months.

At June 30, 2010, the County managed \$318 million in its pooled consolidated investment portfolio. During FY10 the County earned investment income of \$1.9 million, with an average rate of return of 0.22%.

## ***Libraries***

County public libraries offer free and equal access to services and resources to assist residents in finding ideas and information to sustain and enrich their lives. During FY10 total circulation was 12.11 million. Per capita circulation of 12.6 books is among the highest in Maryland and nationally.

The County library system provides an array of services to the community, including computers with Internet access; books on tapes and CDs; numerous special collections such as business, children's, and disability resource centers; and quiet study rooms and public meeting rooms.

## ***Liquor Control***

State legislation established a Liquor Control Board in Montgomery County on December 5, 1933, shortly after the end of nationwide prohibition, giving the Board monopoly power for the issuance of liquor, wine, and beer licenses in the County; the distribution of beverage alcohol at the wholesale level to County licensees; and the retail sale of liquor package goods for off-premise consumption. The Department of Liquor Control was created by Article 2B of the Annotated Code of Maryland, effective July 1, 1951. This newly-created Department assumed wholesale and retail control powers, and the Montgomery County Board of License Commissioners retained the authority to issue licenses for the retail sale of liquor, wine, and beer within the County. In 1997, the unification of Takoma Park gained Montgomery County four additional establishments, with one that is allowed to sell liquor package goods for off-premise consumption. On August 8, 2006, the Office of the Board of License Commissioners was reorganized into a new division of the Department of Liquor Control entitled, "Licensure, Regulation and Education". The Board remains an independent body.

The Department of Liquor Control's responsibilities include the operation of 24 County retail stores and a warehouse that distributes beverage alcohol to the County stores and to approximately 963 licensed establishments (including beer and wine stores, restaurants, country clubs, etc.); inspections of licensed premises, training and education programs and community partnering. The Department is a self-supporting business enterprise with all operating requirements included in the Department's annual budget. Income in excess of departmental needs is transferred to the County's General Fund to pay for general governmental services. In the last five fiscal years (FY06 through FY10) the Department transferred over \$125.6 million to the General Fund.

## ***Parks***

The Maryland-National Capital Park and Planning Commission administers 34,288 acres of parkland in the County. This includes 13 developed and three undeveloped regional and recreational parks, many consisting of over 200 acres, and featuring more than 640 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake and Pine Lake. Of the 409 parks in the Montgomery Parks system, 310 smaller park and open space areas serve as local and neighborhood parks. Additionally, Seneca Creek State Park is located in the heart of the County, and Patuxent River State Park is located along the County's northeastern border. The National Park Service provides additional park facilities including the C & O Canal National Historic Park, Great Falls National Park, and Glen Echo Park. Several municipalities within the County, including Rockville, Takoma Park, Kensington, Gaithersburg, Poolesville, and Washington Grove, among others, maintain local parks.

## ***Public Safety***

### **Fire and Rescue Service**

The Montgomery County Fire and Rescue Service (MCFRS) is an all-hazard fire and rescue service. MCFRS is one of the largest combination career/volunteer fire and rescue departments in the nation. MCFRS manages all components of the County's fire suppression, Emergency Medical Services, Emergency Communications, apparatus management, Fire Code Enforcement, Fire/Explosive Investigations, Community Outreach, Wellness, Safety and Training, and

administration. MCFRS is comprised of approximately 2,143 personnel, including 1,155 career uniformed employees, 127 civilian employees, 861 call active volunteers and 19 Local Fire and Rescue Departments. MCFRS operates 35 fire and rescue stations and 13 satellite offices.

An extensive Capital Improvements Program (CIP) is in place to ensure that the MCFRS operates and maintains a sufficient complement of facilities to provide response capability and an appropriate level of readiness. In response to increasing calls for service and population growth, MCFRS is adding four additional stations to serve the UpCounty area: Germantown-Milestone, Germantown-Kingsview, Travilah, and Clarksburg. An interim fire station to serve the Clarksburg area was opened in November 2005. Construction of the Germantown-Kingsview Station was completed in calendar year 2009, and Germantown-Milestone was completed in 2010. In addition, MCFRS must rebuild or extensively renovate several older stations. The Takoma Park Station was rebuilt in its current location and reopened in October 2010. Also, the existing station in Wheaton is scheduled to be replaced. Stations in Rockville, Cabin John, and Glen Echo are scheduled to be renovated; an addition to the Burtonsville Station is scheduled as well. Finally, there are several on-going projects to replace and/or update major building systems (roof, HVAC, fire alarm, generators) at other fire/rescue facilities to ensure that these facilities are properly maintained and meet current standards.

### **Police Department**

The Montgomery County Police Department (MCPD) is a highly-trained merit system force of 1,152 sworn officers and 634 civilian staff for a total complement of 1,786 personnel. MCPD operates over 34 facilities, including six district police stations, and is accredited by the Commission for the Accreditation of Law Enforcement Agencies (CALEA).

Renovations, replacements, and/or upgrades at several facilities are planned for the Department. There are approved projects for three of the six district stations. The 1st, 3rd, and 6th police districts are scheduled to be replaced. Other capital projects include a renovation and addition to the 5th District Police Station and the Outdoor Firearms Training Center. There is also an approved project to replace the current County Animal Shelter with a state-of-the-art facility to be located in Gaithersburg. In conjunction with the County Executive's Smart Growth Initiative, a new Public Safety Training Academy (PSTA) and a new Montgomery County Public Safety Headquarters, which incorporates a new 1st District Police Station within the Headquarters facility, are being planned to replace existing aging facilities. The Smart Growth Initiative is designed to achieve significant savings and cost avoidance in replacing the various aging facilities.

### **Correction and Rehabilitation**

The Department of Correction and Rehabilitation (DOCR) personnel complement (FY11) includes 519 approved positions consisting of Correctional Officers, program staff, and other professionals who provide progressive and comprehensive correctional services through a wide variety of detention and community supervision programs. The Department operates facilities for incarceration and intensive community re-entry planning: the Montgomery County Detention Center (MCDC), the Montgomery County Correctional Facility (MCCF), and the Pre-Release and Reentry Services (PRRS). In addition, the Pre-Trial Services Unit (PTSU) supervises over 2,500 defendants in the community on a daily basis.

The County is currently engaged in the planning and design of a new Criminal Justice Complex (CJC) to replace the existing Detention Center, and to construct a dedicated DOCR training facility at the Montgomery County Correctional Facility in Clarksburg. The County is also engaged in planning and design for the renovation and addition of the kitchen and expansion of the dining area at the Pre-Release Center.

### ***Solid Waste Management***

The County maintains a comprehensive program to manage solid waste generated within the County. The elements of the program include an integrated system of methods and technologies, including source reduction, recycling, waste-to-energy; contractual out-of-County landfilling, maintenance of closed landfills, and a reserve permitted landfill within its borders.

The County continues to strive to meet its aggressive goal of achieving a source reduction and recycling rate of 50 percent. As of July 1, 2010, the program included County-provided separate curbside collection from 210,595 single-family households of yard trim, glass bottles and jars, metal and plastic containers, and all types of clean, unsoiled paper. Under a contract with the County, the Maryland Environmental Service (MES) constructed and operates two facilities for the processing and marketing of the materials. The first is a 42-acre composting facility located in the northwest part of the County which processes yard trimming materials collected in conjunction with a ban prohibiting disposal of yard waste. The second is a Materials Recovery Facility (MRF), located mid-County and capable of processing 100 tons of recyclable containers per eight-hour shift (current operations require only one shift). During FY10, the County collected \$2.7 million in MRF material sales revenue, plus \$1 million in other recycled metal sales revenue. To assure the processing and marketing of all County residential mixed paper collected, the County utilizes a long-term agreement with Office Paper Systems (OPS), which began in July 2002. The County also enacted mandatory multi-family and commercial recycling regulations, and conducts technical outreach and enforcement in this connection.

A large percentage of the County's non-recycled waste is accepted at the County's Shady Grove Transfer Station and transported by rail to the County's mass burn Resource Recovery Facility (RRF) adjacent to the Mirant Corporation power plant near Dickerson, Maryland. The RRF, with a permitted capacity of 657,000 tons per calendar year, is operated by Covanta Montgomery Inc., and began commercial operations in August 1995. The RRF generates electricity which is sold under a long term contract to Constellation Energy. In October 1997, the County began the export of RRF residue and non-processible waste under a long-term disposal contract utilizing committed capacity at a landfill outside the County. A new landfill, within the County (known as Site 2) and located approximately two miles from the RRF, was permitted (refuse disposal permit) with adequate capacity for the disposal of all ash, by-pass, and non-processible waste. Under a County Council resolution adopted in May 1996, the County will not develop the Site 2 landfill unless economic conditions or changes in law render out-of-County waste disposal infeasible. The Oaks Landfill discontinued accepting solid waste in October 1997, and all capping and closure activities are complete. The Solid Waste Enterprise Fund maintains restricted cash sufficient to complete 30-year post-closure requirements.

## ***Transportation***

The Department of Transportation ensures the safe and convenient movement of pedestrians and vehicles on County roads, operates the traffic system in a safe and efficient manner, and maintains the County's road system, bridges, storm drains, sidewalks, curbs, gutters, alleys, bikeways, streetlights, traffic signals, facilities and related equipment. The Department's services include bridge maintenance, road resurfacing, roadway and related maintenance, snow removal and storm services, trail maintenance, tree maintenance, urban streetscaping, facility engineering, facility maintenance and operations, parking, street lighting, traffic planning, traffic and pedestrian safety, traffic signs and marking, traffic signals and the Advanced Transportation Management System, and transportation management and operations.

### **Ride-On Bus System**

The County Ride-On bus system operates on 76 routes and is designed to complement the service provided by other transit operators in the County. All but two of those routes serve one or more of the 12 Metrorail Red Line or MARC Rail Stations in the County. In FY10, approximately 27.9 million passenger trips took place on the County system. The entire fleet consists of 352 buses owned and operated by the County, which travel approximately 14 million miles per year.

### **Parking Districts**

There are four parking lot districts in the major urbanized areas of the County. Prior to 1987, general obligation bonds were issued by the County to finance the construction of parking facilities in these areas. In 1987, the County began using parking revenue bonds. A special ad valorem tax is levied on certain commercial and residential property located within each district to pay debt used to finance parking facilities within the district, the maintenance and operation of such facilities, and capital construction projects within each district. Other significant sources of revenue used to finance the parking program are meter collections, fees from off-street lots and parking garages, and parking fines. The



County issued parking revenue bonds in the amount of \$97.6 million for land acquisition, construction, repair and renovation of parking facilities. During FY10, the four districts collectively had in service 18 garages with approximately 17,030 parking spaces, 22 surface lots with 1,837 spaces, and 2,302 on-street metered spaces.

## **OTHER SERVICES**

### ***Transportation***

#### **Airports**

The County is served by three major airports located within 35 miles of Rockville. These airports provide high levels of short, long, and international flight services.

Ronald Reagan Washington National Airport is located in Arlington County, Virginia, across the Potomac River from Washington, D.C. Reagan National is accessible to Montgomery County by Metrorail. In 2009, the airport served approximately 17.6 million passengers on commercial, general aviation and commuter flights, a 2 percent decrease from 2008.

Dulles International Airport is located in adjacent Fairfax/Loudoun counties in Virginia and offers commercial, general aviation and commuter service. Dulles served 23.2 million passengers in 2009, a 2.8 percent decrease from 2008. The 16-mile Dulles Access Highway provides two dedicated lanes in each direction and a direct connection to Interstate 66 and the Capital Beltway.

Baltimore-Washington International Thurgood Marshall Airport (BWI) is located in Anne Arundel County, Maryland. Approximately 20.95 million passengers used the airport in 2009, an increase of 2.3 percent over 2008. As part of a recently completed five-year expansion program, BWI added a new terminal facility, parking garages, multiple skywalks, and a new rental car facility.

#### **Metrorail Transit System**

Services of the Washington Metropolitan Area Transit Authority (Metro) are the backbone of the County transit system. Providing service to the County are 12 rapid rail stations with 13,368 parking spaces and additional service by 150 Metrobuses. With the opening of the final Metrorail station in the County (Glenmont) in July 1998, the system includes 18.4 miles of rail service operating in the County. Each weekday approximately 160,000 trips are made on Metrorail in Montgomery County.

Metrorail is a 106-mile regional network connecting Washington, D.C. with the expanding Maryland and Virginia suburbs. It includes 38.3 miles of rapid transit services in the District of Columbia, 38.3 miles in Maryland and 29.4 miles in Virginia.

#### **Metrobus**

Another significant element in the mass transit system is Metrobus, which carries 15 million passengers annually on major trunk lines such as East-West Highway, Georgia Avenue, Viers Mill Road, and Colesville Road. Approximately 150 Metrobuses operate on 39 routes in the County.

#### **MARC Rail**

The Maryland Mass Transit Administration operates MARC commuter rail service with 10 stations in the County. County residents make approximately 2,500 trips on MARC each weekday. There are also privately operated commuter bus services into Montgomery County from Hagerstown, Frederick, and Columbia, Maryland, subsidized by the Maryland Department of Transportation, connecting to Metrorail stations in the County.

## ***Water and Sewer Service***

Operation and maintenance of the public water and sewer systems in the County (exclusive of those for the City of Rockville and for the Town of Poolesville) are the responsibilities of a State-chartered agency, the Washington Suburban Sanitary Commission (WSSC) that serves both Montgomery and Prince George's Counties. 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 2011 approved operating budget for WSSC totals \$605.6 million; the FY 11-16 approved capital improvement budget is \$1.7 billion.

The Potomac and Patuxent Rivers are WSSC's two major sources of raw water supply, with filtration plants located in Potomac and Laurel, respectively. WSSC has 14 billion gallons of water supply storage and an effective filtration capacity of 320 million gallons per day (MGD). The Jennings Randolph Reservoir near Bloomington on the North Branch Potomac River and Little Seneca Lake near Boyds on Little Seneca Creek can supplement flows to Potomac River water users, including WSSC and Rockville. These reservoirs can provide approximately 17 billion gallons of raw water, if needed during low flow periods. An approved expansion of the Patuxent Filtration Plant will increase normal capacity there from 56 MGD to 72 MGD, and emergency capacity from 72 MGD to 110 MGD.

Most of the sewage collected by WSSC's systems is conveyed for treatment at the Blue Plains Wastewater Treatment Plant ("Blue Plains") in Washington, D.C. Blue Plains, owned and operated by the District of Columbia Water and Sewer Authority (DC Water), has a treatment capacity of 370 MGD, of which WSSC's allocated capacity totals approximately 170 MGD. The County maintains membership on the DC Water Board. WSSC's Seneca Creek Wastewater Treatment Plant provides 20 MGD of treatment capacity in the Seneca basin, serving the communities of Gaithersburg, Germantown, and Clarksburg. An approved expansion will increase treatment at the Seneca Plant to its planned capacity of 26 MGD, with completion expected in 2013. WSSC also operates two smaller treatment plants in the County which serve the communities of Damascus and Hyattstown. DC Water and WSSC have planned significant improvements to the Blue Plains, Seneca, and Damascus Wastewater Plants to meet Chesapeake Bay environmental quality goals.

The City of Rockville operates its own water and wastewater system, which serves approximately 75 percent of the City's residential population. The remainder of the population is served by WSSC. Rockville's Water Treatment Plant, located on Sandy Landing Road in Potomac, draws raw water from the Potomac River. The plant is currently rated at 8.0 MGD. Rockville has 12 MG of water supply storage in the following tanks: Hunting Hill, Carr Avenue and Talbott Street. Wastewater treatment for Rockville's sewerage system is provided at Blue Plains via WSSC's and DC WASA's transmission facilities. Rockville is allocated 9.31 MGD of treatment capacity of WSSC's 170 MGD capacity at Blue Plains. The approved FY 2011 Operating Budget for Rockville totals \$11.1 million for the water fund and \$8.5 million for the sewer fund. The approved FY 2011 Capital Budget for Rockville totals \$14.0 million for the water fund and \$8.1 million for the sewer fund.

## ***Utilities***

Potomac Electric Power Company (PEPCO) serves the major portion of the County, with additional service from the Baltimore Gas and Electric Company (BGE), and Allegheny Power Company. Three natural gas transmission pipeline companies (Columbia Gas Transmission, Dominion Transmission, and Transcontinental Gas Pipeline Corporation) traverse the County, supplying it with Appalachian and Southwest natural gas. Washington Gas and Baltimore Gas and Electric distribute this natural gas. There are 54 companies that sell gas in the County, of which only 20 serve residential customers, with only four seeking new customers as of November 2010.

In early 1999, the Maryland General Assembly enacted The Electric Customer Choice and Competition Act of 1999 that effectively deregulates the market for electric power generation. Under a companion act (Senate Bill 344 / House Bill 366), the General Assembly restructured the tax laws affecting the electric industry to ensure that Maryland companies are not put at a competitive disadvantage in relation to out-of-state electric generators. The tax law

restructuring accounted for potential revenue losses at both the State and local level, and effectively mitigated any adverse tax impact to county and municipal governments.

PEPCO took advantage of the Customer Choice and Competition Act regarding the disposition of its generation assets by selling these assets in 2000 to the Mirant Corporation, which now runs the generating units in the Dickerson area of the County. PEPCO continues to own and operate its transmission and distribution system. Baltimore Gas and Electric restructured in 1996 under the name Constellation Energy Group (CEG), with BGE owning and operating the transmission and distribution system and various other CEG entities owning the generation assets. Potomac Edison, which does business as Allegheny Power, is the regulated transmission and distribution utility for Allegheny Energy Supply Company, LLC, which owns the company's generation assets. As of November 2010, there were 64 companies licensed as electricity suppliers to Montgomery County residents, but only nine of them were actively seeking new customers.

### ***Financial Institutions***

The State of Maryland is home to 134 FDIC insured financial institutions, which in turn operate 1,804 branch banking locations with an estimated \$112 billion in deposits. Montgomery County dominates the majority market share of these deposits with an estimated \$29 billion in deposits or 26 percent of the market. The County's financial institutions are comprised of 39 commercial banks, with 326 branch locations and eight savings institutions with 16 branch locations. In addition to these FDIC institutions, the County has 20 national credit unions with an estimated \$2.2 billion in share deposits and a membership base of over 288,900.

**Table 37**  
**Summary of Market Share by Location**  
**As of June 30, 2010**

<u>City/County</u>	<u>Number of Branch Offices</u>	<u>Deposits (000)</u>	<u>Market Share</u>
Montgomery	326	\$29,248,322	26 %
Baltimore City	114	20,558,121	18
Baltimore	285	16,386,486	16
Anne Arundel	179	9,554,972	8
Prince George's	176	7,813,400	7
Howard	91	4,655,815	4
Frederick	87	3,591,861	3
Carroll	60	3,034,876	3

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**Table 38**  
**FDIC Institutions Market Share**  
**Montgomery County**  
**As of June 30, 2010**

<u>Institution Name</u>	<u>Number of Branch Offices</u>	<u>Deposits (000)</u>	<u>Market Share</u>
Capital One Bank	62	\$7,334,265	25%
Bank of America, NA	33	4,213,733	14
SunTrust Bank	37	3,764,988	13
Wachovia Bank, NA	15	3,451,770	12
Sandy Spring Bank	21	1,824,567	6
Citibank	9	1,276,320	4
M & T Company	37	1,162,624	4
Eagle Bank	7	940,674	3
PNC Bank, NA	25	902,270	3
BB & T Company	18	884,134	3

Source: FDIC Summary of Deposit Market Share Report for the State of Maryland, NCUA Credit Union Data Report.

### ***Healthcare***

There are five accredited hospitals located within the County: Holy Cross Hospital in Silver Spring, Suburban Hospital in Bethesda, Washington Adventist Hospital in Takoma Park, Shady Grove Adventist Hospital, in Gaithersburg, and Montgomery General Hospital in Olney. A military hospital, Bethesda Naval Hospital, is located in the County and the National Institutes of Health in Bethesda operates one of the world's foremost centers of medical research. Accessible to the County are Frederick Memorial Hospital in Frederick County; Laurel Regional Hospital and Prince George's Hospital Center in Prince George's County; and various hospitals in the District of Columbia and Northern Virginia. In January 2010, Holy Cross Hospital was granted permission by the State of Maryland to build a new hospital in Germantown.

### ***Higher Education***

The 2005 Census Update Survey indicated that County residents, on average, are highly educated. The proportion of County residents 25 years old or over completing four or more years of college increased from 33.2 percent in 1970 to 63.6 percent in 2005. Advanced degrees are held by 35 percent of the adult population. High school graduates account for 92.2 percent of the County population aged 25 and over, above the 79.5 percent proportion in 1970, the 87.3 percent in 1980, and the 90.3 percent in 2000.

Within a 40-mile radius of Montgomery County, there are 32 colleges and universities offering degrees in various disciplines. Many of those institutions also offer advanced degree programs in engineering, medicine, business, and computer sciences. The following table lists selected schools within or near the County and shows the student enrollment.

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**Table 39  
Post - Secondary Education**

<u>College</u>	<u>Student Enrollment</u>
American University, Washington, DC	12,241
Catholic University, Washington, DC	6,768
Hood College, Frederick, MD	2,448
Howard University, Washington, DC	10,491
Johns Hopkins University, Baltimore, MD	6,754
Montgomery College, Rockville, MD (2-year)*	26,147**
University of Maryland, College Park, MD	37,000

\* Articulation agreements with 4-year institutions are available.

\*\* Excludes enrollment in workforce development and continuing education classes.

Note: Most current data available for each institution.

### ***Travel and Tourism***

According to the most recent statistics available by Global Insight in partnership with D.K. Shifflet & Associates, Ltd., travel and tourism in Montgomery County from the accommodations, entertainment, food, retail and transportation hospitality industry sectors generate over \$2.171 billion in expenditures annually. Local room rental transient tax collections generated \$17.32 million in FY10, up slightly from \$17.31 in FY09. Lodging demand for the first nine months of 2010 has increased 13.9 percent from the previous period. Montgomery County Room Rental Transient Tax collections for the first three months of FY 2011 increased 14.3 percent from the previous year.

The Conference and Visitors Bureau of Montgomery County, Maryland, Inc. (CVB) is a public-private non-profit membership organization dedicated to the promotion of travel and tourism to the County. The CVB serves as a subcontractor to the Montgomery County Department of Economic Development. On behalf of its membership, the Bureau participates in travel industry trade shows across the country, sponsors familiarization tours for tour operators, travel agents and travel writers, implements a \$200,000 advertising campaign annually, manages a direct sales initiative for the meetings, group tour and sports markets, implements marketing programs specifically targeting large groups that could meet in the Montgomery County Conference Center, markets all of the County's assets, including the Music Center at Strathmore and the American Film Institute. The CVB also provides marketing and sales support to the numerous sporting events hosted annually at signature facilities like the Maryland SoccerPlex and Discovery Sports Center, Congressional Country Club, and other Maryland National Capital Park and Planning facilities located in Montgomery County.

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**APPENDIX B**

**BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010**

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## Independent Auditor's Report

The Honorable County Council  
of Montgomery County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County) as of and for the year ended June 30, 2010 and the budgetary comparison for the general, revenue stabilization, housing initiative and grants funds for the year ended June 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., which represent 18% of the assets and 7% of the revenues of the non-major component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the above mentioned component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general, revenue stabilization, housing initiative, and grants funds for the year then ended conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and schedule of funding progress, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clifton Henderson LLP*

Baltimore, Maryland  
December 20, 2010

## Management's Discussion and Analysis

### INTRODUCTION

This discussion and analysis (MD&A) is designed to a) assist readers in understanding Montgomery County, Maryland's (the County's) basic financial statements, the relationship of different types of statements, and the significant differences in the information they provide; b) assist the reader in focusing on significant financial issues; c) provide an overview of the County's current financial activity; d) identify changes in the County's financial position, i.e., its ability to address the next and subsequent years' financial needs, based on currently known facts; e) identify any material deviations from the approved budget for the fiscal year, and f) identify individual fund issues or concerns. The MD&A is best understood if read in conjunction with the Transmittal Letter and the County's basic financial statements.

### FINANCIAL HIGHLIGHTS

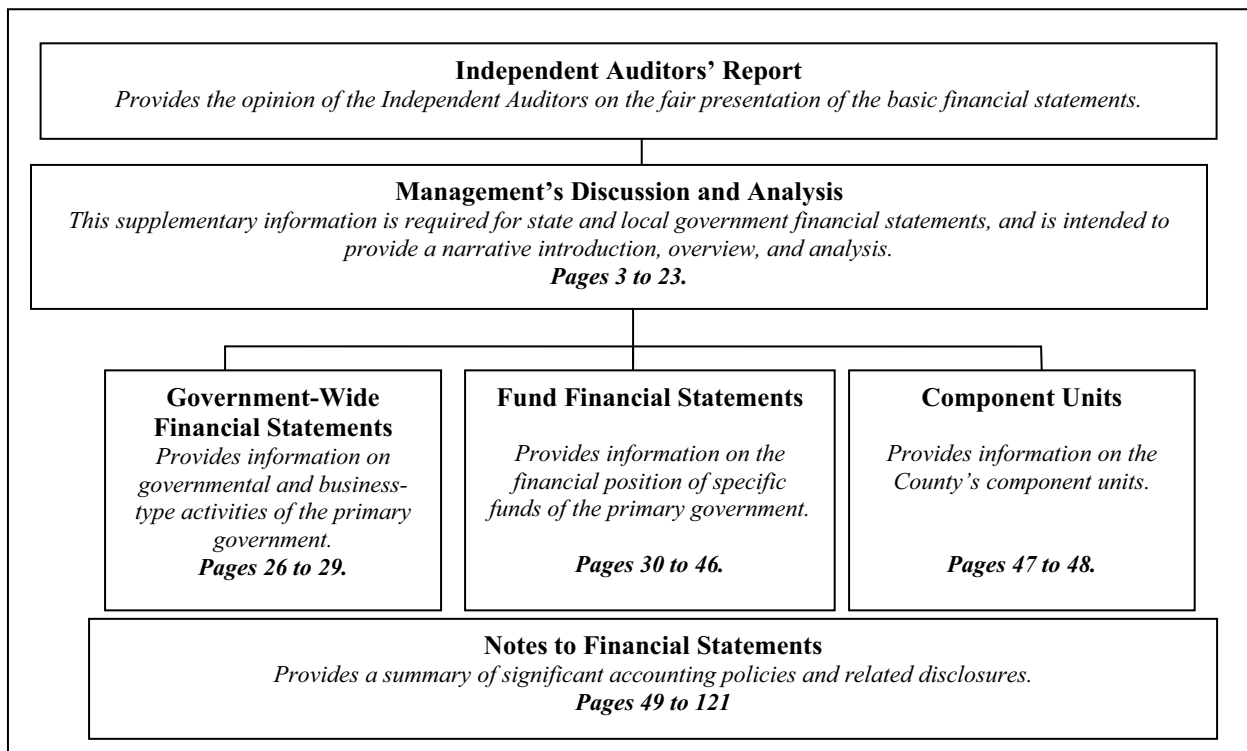
- The government-wide assets of the County exceeded its liabilities at the close of FY10 by \$1,222.3 million. That amount is net of a \$1,325.5 million unrestricted deficit. The deficit occurs mainly because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to \$1,252.3 million at June 30, 2010. Absent the effect of this relationship, the County would have reported negative government-wide unrestricted net assets of \$73.2 million.
- The County's total government-wide net assets decreased by \$333.3 million.
- As of the close of FY10, the County's governmental funds reported combined ending fund balances of \$406.1 million, a decrease of \$17.6 million over the prior year's ending fund balances. Of the total ending fund balances, \$113.3 million is available for spending at the County's discretion.
- At the end of FY10, unreserved fund balance for the General Fund was \$39.7 million, or 1.6 percent of total General Fund expenditures.
- The County's government-wide long-term debt increased by \$429.3 million during FY10. The key factors in this increase are:
  - The issuance of \$472 million in general obligation (GO) bonds, used to refund \$315 million in bond anticipation notes (BANS) and \$165 million in GO bonds, and the issuance of an additional \$440 million in BANS
  - Net increase in Other Postemployment Benefits obligation of \$67.2 million
  - The retirement of \$133 million in GO bond principal.
  - Taxable Limited Obligation Certificates were issued in the amount of \$30.4 million for CIP projects; and
  - Certificates of Participation were issued in the amount of \$23 million for CIP projects

### OVERVIEW OF THE FINANCIAL STATEMENTS

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The structure of the financial statements is presented below. This MD&A is intended to be an introduction to

Montgomery County’s basic financial statements. Montgomery County’s basic financial statements comprise three components, including government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### **Organization and Flow of Financial Section Information**



### **Government-Wide Financial Statements**

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are reported in columns which add to a total for the primary government. The focus of the statement of net assets is designed to provide bottom line results for the County’s governmental and business-type activities. This statement reports governmental funds’ current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the County, and infrastructure dedicated by developers since 1970, are included in the accompanying government-wide financial statements. The difference between the County’s assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Additionally, nonfinancial factors, such as a change in the County’s property tax base or the condition of County facilities and infrastructure, should be considered to assess the overall health of the County.

The statement of activities is focused on both the gross and net cost of various functions, including governmental and business-type activities. This is intended to summarize and simplify the users’ analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities included reflect the County’s basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and permit fees, intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations, including: liquor control, solid waste activities, four parking lot districts, permitting services, and community use of public facilities, where fees for services or products are required or designed to recover the cost of operation, including depreciation.

The government-wide financial statements include not only the County itself (known as the Primary Government), but also legally separate entities known as Component Units. Component units, which are other governmental units over which the County Council can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as individual activities in the basic and fund financial statements. The County has five component units – Montgomery County Public Schools (MCPS), Housing Opportunities Commission (HOC), Montgomery College (MCC), Montgomery County Revenue Authority (MCRA), and Bethesda Urban Partnership, Inc. (BUPI).

## **Fund Financial Statements**

Traditional users of governmental financial statements may find the fund financial statement presentation more familiar. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the fund financial statements, the focus is on major funds rather than the County as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The County has the following three types of funds:

Governmental Funds – Most of the County’s basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash and how they flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources, as well as capital expenditures and bond principal payments as expenditures. The reconciliation will reflect the elimination of these transactions and will incorporate the capital assets and long-term obligations (bonds and others) that are presented in the governmental activities column (in the government-wide statements). The County has six major governmental funds – General, Debt Service, Revenue Stabilization, Housing Initiative, Grants and Capital Projects – and 12 non-major special revenue funds.

Proprietary Funds – Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County’s enterprise funds. The County has three major enterprise funds – liquor control, solid waste activities, and parking lot districts – and two nonmajor funds. The internal service funds, which are presented in a single, aggregated column in the proprietary fund financial statements, are used to account for the provision of liability and property insurance coverage, employee health benefits, motor pool services, and central duplicating services, to County departments on a cost reimbursement basis. Although both the fund and government-wide financial statements provide a long-term and short-term focus, reconciliations between these two sets of statements are still required. This is due to the fact that the excess income/loss for the internal service funds has been redistributed to the customers, including business-type activities; such reconciliations are reflected on the bottom of the proprietary fund financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County’s programs. The County’s fiduciary funds consist of pension and other employee benefit trusts, an investment trust, private purpose trusts, and agency funds.

**FINANCIAL ANALYSIS OF MONTGOMERY COUNTY, MARYLAND:  
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

A comparative analysis of government-wide financial information is presented below.

**Statement of Net Assets**

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2010 and 2009:

Summary of Net Assets *						
June 30, 2010 and 2009						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Assets:</b>						
Current and other assets	\$ 1,077,567,178	\$ 1,146,293,058	\$ 135,014,403	\$ 154,304,120	\$ 1,212,581,581	\$ 1,300,597,178
Capital assets, net	3,049,076,279	2,823,763,425	254,007,887	258,246,679	3,303,084,166	3,082,010,104
<b>Total Assets</b>	<b>4,126,643,457</b>	<b>3,970,056,483</b>	<b>389,022,290</b>	<b>412,550,799</b>	<b>4,515,665,747</b>	<b>4,382,607,282</b>
<b>Liabilities:</b>						
Long-term liabilities outstanding	2,721,895,955	2,290,268,265	102,083,874	108,023,280	\$ 2,823,979,829	2,398,291,545
Other liabilities	431,986,222	392,859,692	\$ 37,344,963	35,774,474	469,331,185	428,634,166
<b>Total Liabilities</b>	<b>3,153,882,177</b>	<b>2,683,127,957</b>	<b>139,428,837</b>	<b>143,797,754</b>	<b>3,293,311,014</b>	<b>2,826,925,711</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	1,965,289,080	1,937,493,317	178,781,693	177,697,087	\$ 2,112,966,502	2,080,125,833
Restricted	380,181,540	393,404,279	54,684,729	66,606,205	434,866,269	460,010,484
Unrestricted (deficit)	(1,372,709,340)	(1,043,969,070)	16,127,031	24,449,753	(1,325,478,038)	(984,454,746)
<b>Total Net Assets</b>	<b>\$ 972,761,280</b>	<b>\$ 1,286,928,526</b>	<b>\$ 249,593,453</b>	<b>\$ 268,753,045</b>	<b>\$ 1,222,354,733</b>	<b>\$ 1,555,681,571</b>
* Primary Government						

The County's current and other assets decreased by \$88.0 million or 6.8 percent from FY09. The County's assets exceeded its liabilities at the close of FY10 by \$1,222.3 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Governmental capital lease obligations of \$31.1 million, related to business-type activity capital assets, are classified as a component of unrestricted net assets for governmental activities purposes, but reclassified to invested in capital, net of related debt, for total primary government purposes.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to \$1,252 million at June 30, 2010. Absent the effect of this relationship, the County would have reported government-wide negative unrestricted net assets of \$73.2 million. An additional portion of the County's net assets (\$380 million or 31.2 percent) represents resources that are subject to restrictions on how they may be used. This amount includes \$74.9 million in net assets restricted for revenue stabilization for periods of economic downturn.

The County's total net assets decreased by \$333.3 million for FY10 or 21.4 percent under FY09. This decline is due to an economic downturn that caused a net operating loss for the year of \$333.3 million.

### Statement of Activities

The following table summarizes the County's change in net assets for the years ended June 30, 2010 and 2009:

Summary of Changes in Net Assets *						
For the Fiscal Years Ended June 30, 2010 and 2009						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>REVENUES</b>						
Program Revenues:						
Charges for services**	\$ 157,758,240	\$ 166,581,628	\$ 397,188,893	\$ 379,812,860	\$ 554,947,133	\$ 546,394,488
Operating grants and contributions	180,427,674	228,958,679	30,000	8,700	180,457,674	228,967,379
Capital grants and contributions	55,170,347	34,528,889	-	-	55,170,347	34,528,889
General revenues:						
Property taxes	1,371,964,491	1,296,974,051	9,931,045	11,854,882	1,381,895,536	1,308,828,933
Income taxes	1,010,874,757	1,169,568,981	-	-	1,010,874,757	1,169,568,981
Other taxes	328,977,765	292,977,015	-	-	328,977,765	292,977,015
Investment income	8,299,709	14,173,076	569,792	2,599,459	8,869,501	16,772,535
Gain on sale of capital assets	(1,366,889)	1,604,285	-	-	(1,366,889)	1,604,285
Total Revenues	3,112,106,094	3,205,366,604	407,719,730	394,275,901	3,519,825,824	3,599,642,505
<b>EXPENSES</b>						
Governmental Activities:						
General government	293,349,395	337,557,085	-	-	293,349,395	337,557,085
Public safety	611,714,420	626,855,553	-	-	611,714,420	626,855,553
Public works and transportation	297,864,026	257,041,963	-	-	297,864,026	257,041,963
Health and human services	287,883,637	288,519,635	-	-	287,883,637	288,519,635
Culture and recreation	108,490,460	116,186,268	-	-	108,490,460	116,186,268
Community development and housing	40,627,603	21,365,597	-	-	40,627,603	21,365,597
Environment	16,446,934	13,618,312	-	-	16,446,934	13,618,312
Education	1,738,633,028	1,842,962,933	-	-	1,738,633,028	1,842,962,933
Interest on long-term debt	86,352,825	92,511,000	-	-	86,352,825	92,511,000
Business-type Activities:						
Liquor control	-	-	204,677,766	197,044,956	204,677,766	197,044,956
Solid waste activities	-	-	100,709,914	96,857,869	100,709,914	96,857,869
Parking lot districts	-	-	30,698,606	29,003,485	30,698,606	29,003,485
Permitting services	-	-	27,306,059	27,878,868	27,306,059	27,878,868
Community use of public facilities	-	-	8,397,989	8,744,741	8,397,989	8,744,741
Total Expenses	3,481,362,328	3,596,618,346	371,790,334	359,529,919	3,853,152,662	3,956,148,265
Increase in Net Assets Before Transfers	(369,256,234)	(391,251,742)	35,929,396	34,745,982	(333,326,838)	(356,505,760)
Transfers	55,088,988	44,971,675	(55,088,988)	(44,971,675)	-	-
Increase in Net Assets	(314,167,246)	(346,280,067)	(19,159,592)	(10,225,693)	(333,326,838)	(356,505,760)
Net Assets, beginning of year	1,286,928,526	1,633,208,593	268,753,045	278,978,738	1,555,681,571	1,912,187,331
Net Assets, end of year	\$ 972,761,280	\$ 1,286,928,526	\$ 249,593,453	\$ 268,753,045	\$ 1,222,354,733	\$ 1,555,681,571

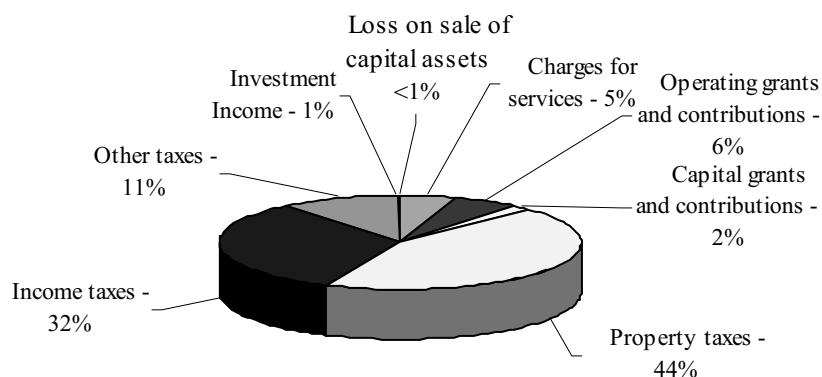
\* Primary Government



## Governmental Activities

Revenues for the County's governmental activities were \$3,112 million for FY10. Sources of revenue are comprised of the following items:

**Revenues by Source - Governmental Activities  
For the Fiscal Year Ended June 30, 2010**

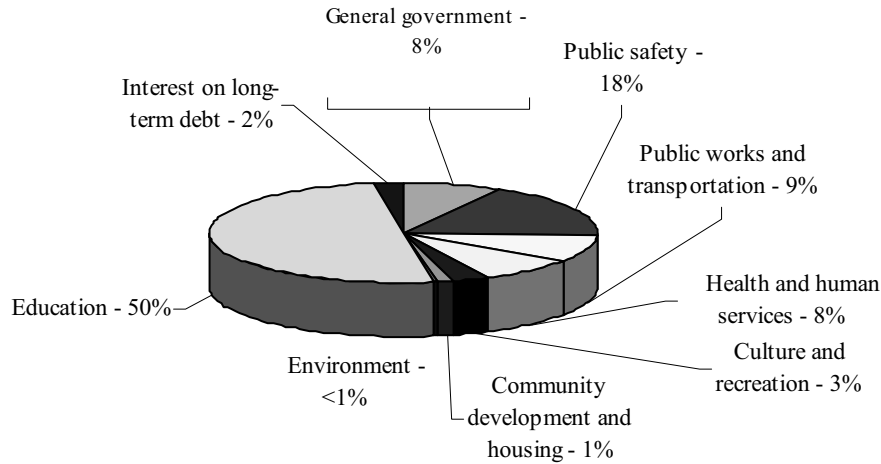


- Taxes constitute the largest source of County revenues, amounting to \$2,711.8 million for FY10. Property and local income tax combined comprise 76.6 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2010 and 2009. There is no local sales tax in the State of Maryland.
- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: health and human services (\$95.1 million or 52.7 percent), public works and transportation (\$30.1 million or 16.7 percent) and public safety (\$30.4 million or 16.8 percent).

A more detailed discussion of the County's revenue results for FY10 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY10 was \$3,481 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1,738.6 million. Public safety expenses totaled \$611.7 million, general government services totaled \$293.3 million, and Public Works and Transportation, the fourth largest expense for the County, totaled \$297.9 million.

**Expenses by Function - Governmental Activities  
For the Fiscal Year Ended June 30, 2010**



The following table presents the cost and program revenues of the County as a whole and each of the County's six largest programs – education, public safety, general government, health and human services, public works and transportation, and culture and recreation – as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

Net Cost of County's Governmental Activities For the Fiscal Years Ended June 30, 2010 and 2009						
	Expenses		Revenues		Net Cost of Services	
	2010	2009	2010	2009	2010	2009
Education	\$ 1,738,633,028	\$ 1,842,962,933	\$ -	\$ -	\$ 1,738,633,028	\$ 1,842,962,933
Public safety	611,714,420	626,855,553	65,329,306	79,610,411	546,385,114	547,245,142
General government	293,349,395	337,557,085	64,004,062	63,864,253	229,345,333	273,692,832
Public works and transportation	297,864,026	257,041,963	95,545,887	107,411,399	202,318,139	149,630,564
Health and human services	287,883,637	288,519,635	96,634,099	115,177,823	191,249,538	173,341,812
Culture and recreation	108,490,460	116,186,268	38,396,575	42,604,734	70,093,885	73,581,534
Other	143,427,362	127,494,909	33,446,332	21,400,576	109,981,030	106,094,333
<b>Total</b>	<b>\$ 3,481,362,328</b>	<b>\$ 3,596,618,346</b>	<b>\$ 393,356,261</b>	<b>\$ 430,069,196</b>	<b>\$ 3,088,006,067</b>	<b>\$ 3,166,549,150</b>

Of the total cost of governmental activities of \$3,481 million, \$393.4 million was paid by those who directly benefited from the programs (\$157.8 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$235.6 million). Of the \$3,088 million net cost of services, our taxpayers paid for these activities through County taxes which totaled \$2,711.8 million; also available to contribute towards such net costs were investment income and other contributions not restricted to a specific program.

Highlights of significant changes in governmental activities revenue and expenses compared to last year are:

- General Government includes:
  - \$249.6 million decrease in revenue from County income taxes due to a drop in resident employment and income from capital gains

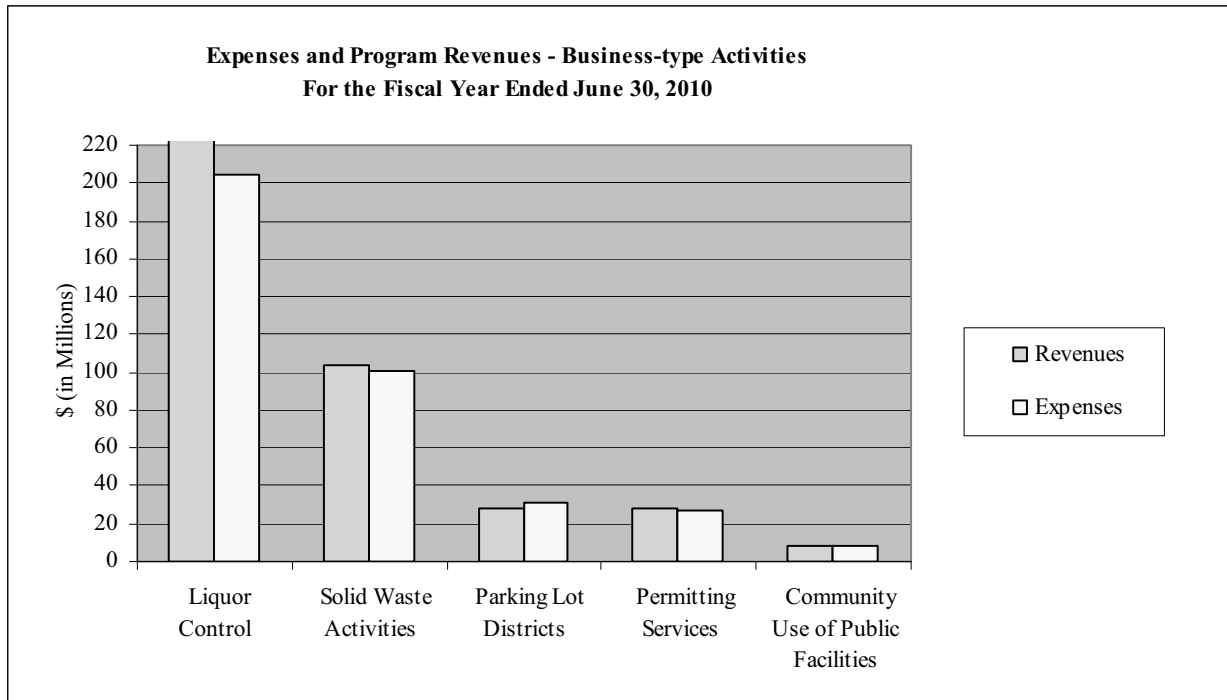
- Decrease in revenue for permitting services of 22% or about \$5 million primarily due to the downturn in the construction industry
  - \$59.7 million increase in expenses for snow removal operations and wind and rain storm clean-up; and
  - Total General Government expenses decreased by \$43 million due to major savings initiatives recommended by the County executive branch and approved by the Council.
- Public Safety includes:
    - Fire Tax District revenues decreased \$6 million mainly due to declining property tax receipts
    - \$1 million increase in grants from the U.S. Department of Homeland Security;
    - \$1.1 million increase in grants for Fire and Rescue Services ; and
    - \$4.3 million decrease in Speed Camera revenues for Police due to the State of Maryland legislature making changes to the law governing localities use of speed cameras
- Public Works and Transportation includes:
    - Mass Transit revenues increased by \$42.3 million due to the receipt of an FY09 annual State of Maryland payment for special bus services being received in FY10 along with the FY10 annual payment ; and
    - Expenses decreased by \$3.8 million mainly due to a reduction in maintenance and lease expenses
- Culture and Recreation includes:
    - \$3.3 million decrease in revenues received by the Department of Recreation due to decreased property tax receipts, a reduction in the number of sites for its Rec Extra program and other program reductions
    - The Department of Recreation decreased expenditures by approximately \$2.9 million mainly by the downsizing of its personnel.

### **Business-type Activities**

Highlights of the County's business-type activities for FY10 are as follows:

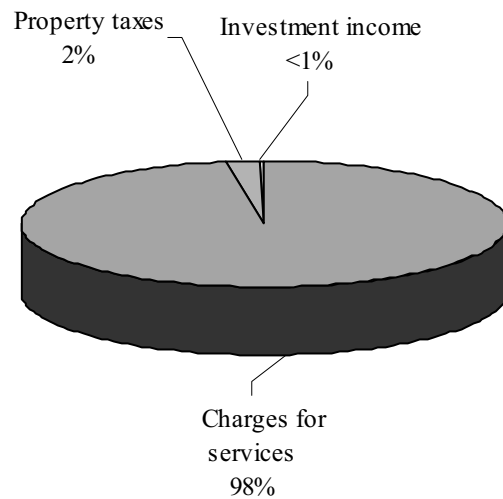
- Business-type activities experienced a decrease in net assets of \$19.2 million for FY10. However, this amount is reported after total net transfers out of \$55 million. The most significant components of this amount include:
  - \$18.5 million in transfers of parking fees from the Parking Lot Districts to the Mass Transit, Urban Districts, and General Funds; and
  - \$30.2 million in FY10 Liquor Enterprise Fund profits transferred to the General Fund. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.
- Charges for services to users comprise 97.4 percent of revenues, with \$229.3 million (57.7 percent of charges for services revenue) attributable to liquor control operations and \$103.4 million (26 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.
- Parking lot district property taxes of \$9.9 million is the second largest source of revenue at only 2.4 percent of total revenues.
- Investment income of \$0.6 million reflects a decrease of \$2 million or 78.1 percent under FY09, primarily because of the decrease in pooled cash and investments during the year.

Business-type activities are shown below comparing costs to revenues generated by related services:



Business-type revenues by source are comprised of the following:

**Revenues by Source - Business-type Activities  
For the Fiscal Year Ended June 30, 2010**



## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the County's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of FY10, the County's governmental funds reported combined ending fund balances of \$406.1 million, a decrease of \$17.6 million from the end of FY09. Of the total ending fund balances, \$113.3 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$292.7 million is unavailable for new spending because it has been reserved for prior period commitments and legal restrictions.

**The General Fund** is the primary operating fund of the County. At the end of FY10, the General Fund had no unreserved and undesignated fund balance, while total fund balance was \$47.3 million. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 1.9 percent of total General Fund expenditures.

The fund balance of the County's General Fund decreased by \$60.8 million during FY10, primarily due to reduced income tax revenues.

**The Revenue Stabilization Fund (RSF)** is used to account for the accumulation of resources during periods of economic growth and prosperity. Funds may be drawn upon during periods of economic slowdown. At the end of FY10, RSF had a fund balance of \$74.9 million. This represents a decrease of \$44.8 million or 37.4 percent under FY09. This decrease is due to a \$45 million transfer to the General Fund.

**The Housing Initiative Fund (HI)** is used to account for the fiscal activity of financing, supplementing, and constructing affordable residential facilities for eligible participants. At the end of FY10, HI had a fund balance of \$197.2 million. Of this amount, \$190.8 million, or 96.7 percent, is restricted for legal reasons. The HI fund balance represents an increase of \$8.6 million over FY09. Mortgage Receivables for this fund, which is a measure of its financing activities, increased \$12.9 million, or 9.6 percent, over FY09.

**The Grant Fund** is used to account for Federal and State grant-funded activities of the tax-supported General and special revenue funds. The Grants fund by design has no fund balance at the end of each fiscal year as revenues equal expenditures- That is, expenditures of this fund are either billable to one or more federal or state agencies or paid via a transfer from another County fund. The Grants fund received \$112.9 million in revenues for FY10. This is a \$2.6 million increase over FY09.

**The Debt Service Fund** accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain an unreserved fund balance; the reserved fund balance of \$3.3 million represents a debt service reserve account.

**The Capital Projects Fund** has a total fund balance of \$47.6 million, an increase of \$93.9 million from the end of FY09. The increase was primarily due new debt issued in FY10 to fund capital projects.

A more detailed discussion of General Fund revenues can be found in the General Fund Budgetary Highlights section of MD&A. Other factors concerning the finances of the governmental funds are addressed in the discussion of the County's governmental activities.

### **Proprietary Funds**

The County's proprietary funds provide the same type of information found in the government-wide statements, but include more detail.

Unrestricted net assets of the Liquor Fund at the end of FY10 amounted to \$23 million, and operating income was \$26.1 million. After a subsidy transfer to the General Fund of \$30.2 million, the fund ended FY10 with a decrease in net assets of \$5.2 million.

The Solid Waste Activities Fund total net assets amounted to \$68.8 million, of which the unrestricted net assets were a negative \$0.6 million. Restricted net assets of \$34.9 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund decrease in net assets amounted to \$10.8 million in FY10, resulting in total ending net assets of \$158.9 million. Of this amount, \$138.5 million (87.2 percent) is invested in capital net of related debt; \$8 million (6.5 percent) is restricted for debt service on revenue bonds; and \$12.4 million (7.8 percent) is unrestricted.

A discussion of enterprise fund long-term debt can be found in the Long-Term Debt section presented later in this MD&A. Other factors concerning the finances of the enterprise funds are addressed in the discussion of the County's business-type activities.

### **General Fund Budgetary Highlights**

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to \$56.4 million, which included County Council approved supplemental and special appropriations and the year-end County Council transfer and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- \$5.7 million increase in operating costs for the Department of General Services; and
- \$53.9 million increase for the Department of Transportation largely due to snow removal operations and wind and rain storm clean up.

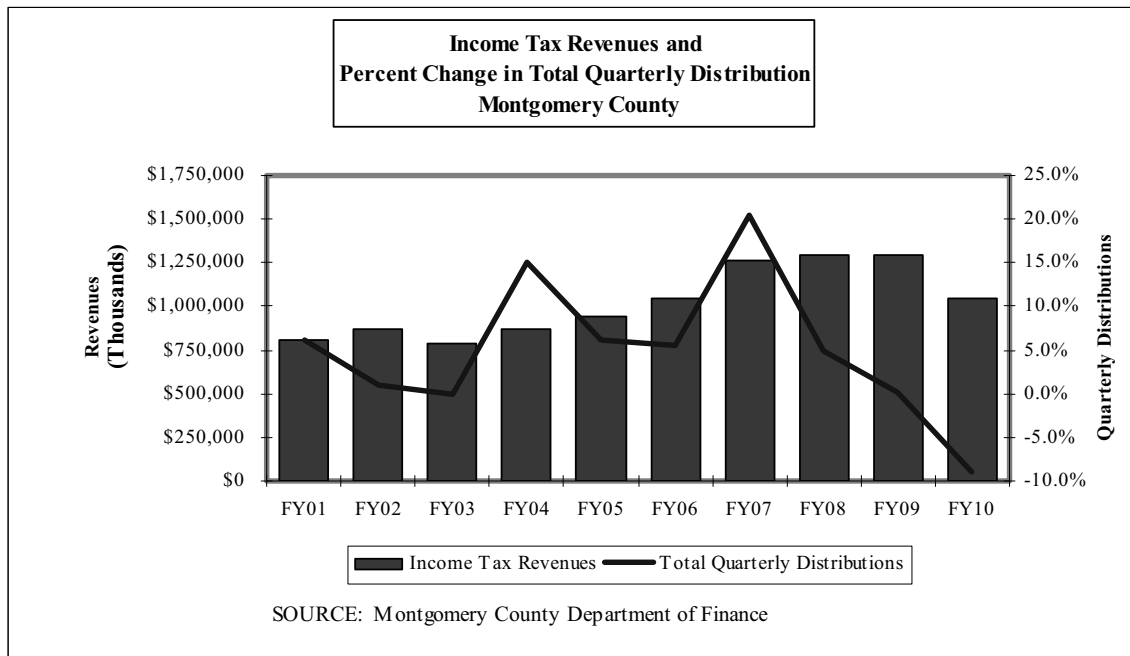
Actual revenues were less than budget amounts by \$195.6 million, while actual expenditures and net transfers out were less than final budget by \$60.3 million and \$88.8 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2010, include the following:

- Actual expenditures of \$919 million were \$60.3 million less than the final budget, which represents 6.2 percent of the final budget, and is attributable to savings achieved across numerous departments.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by \$30.4 million. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

A more detailed comparison of final budget to actual figures for revenues is presented below:

Overview - Actual revenues for the General Fund totaled \$2,521.9 million and were 7.2 percent below the budget estimate for the fiscal year and 6.6 percent below actual revenues for FY09. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the income tax (↓\$172.7 million below the budget estimate), followed by State intergovernmental revenue (↓\$16.4 million below the budget), and finally, intergovernmental revenue (↓\$20.8 million below the estimate). Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were \$205.6 million in FY10. That amount was \$20.3 million or 10.9 percent above the budget estimate. Investment income was approximately \$0.7 million below the budget estimate. Licenses and permits (↑4.5%) came in above budget estimates, but charges for services (↓4.9%) came in below budget estimates. Intergovernmental revenues were 29.2 percent below the budget estimate. Such a decrease was attributed to State and federal reimbursements, which came in 32.2 percent and 24.5 percent below budget estimates, respectively. Other intergovernmental revenue was 15.9 percent above the budget estimate.

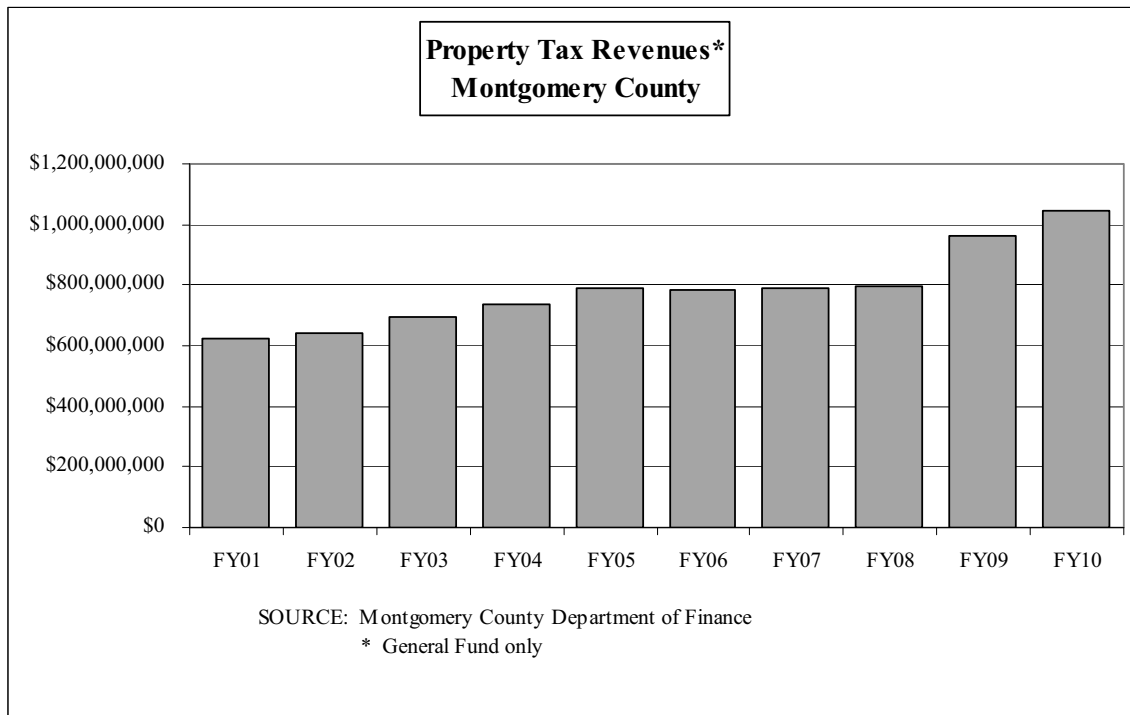
Income Taxes - One of the major, and until this fiscal year, the largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$1,042.1 million and represented 43.1 percent of actual tax revenues and 41.3 percent of total actual revenues in FY10. Until FY10, income tax receipts was the largest source of tax revenues in the General Fund since surpassing property tax receipts in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: the expansion of the employment base in the County, the growth in capital gains, and significant property tax relief that reduced otherwise strong property tax revenue growth. With a Standard & Poor's 500 index increasing 23.5 percent in calendar year (CY) 2009 following a decrease of 38.5 percent in calendar year CY2008 and increases of 3.5 percent in calendar year CY2007, 13.6 percent in CY2006, and 3.0 percent in CY2005, and an average annual growth rate of only 0.7 percent in the County's resident employment during the CY2005-CY2008 period and a decrease of 3.3 percent in CY2009, income tax revenues increased 8.2 percent in FY05, 11.0 percent in FY06, 21.1 percent in FY07, 2.1 percent in FY08, and no increase in FY09. However, with little change in total resident employment in CY2007 and CY2008 and a decline in CY2009 coupled with the dramatic decline in the S&P 500 index in CY2009 affecting capital gains in FY10, income tax revenues declined 19.3 percent in FY10. As the chart below illustrates, total quarterly distributions for withholding and estimated payments decreased 9.0 percent in FY10, which followed increases of 0.2 percent in FY09, 4.9 percent in FY08, 20.5 percent (FY07), 5.6 percent (FY06), and 6.1 percent (FY05).



**Property Taxes** - Property tax collections, which represent another major contributor to the General Fund and the largest in FY10, amounted to \$1,045.6 million in FY10, which were \$5.2 million (↓0.5%) below the budget estimate but 8.7 percent above actual revenues in FY09. Actual property taxes, excluding penalties and interest and other items, were \$1,043.4 million in FY10 – an increase of 8.6 percent over last year. Collections from penalties and interest were \$2.2 million – a 57.1 percent increase when compared to FY09. The increase in actual property tax collections for the General Fund compared to FY09 was attributed to actions by the County. One such action by the County included an increase in the General Fund tax rate from \$0.661 to \$0.683 per \$100 of assessed value.

The taxable assessments for real property increased 5.7 percent from FY09 to FY10. This was the smallest increase in eight years. New construction, which added \$1.380 billion to the base in FY10, was 2.4 percent lower than in FY09. The real estate market, particularly the annual double-digit price increases during fiscal years (FY02-FY06), fueled the dramatic increase in the reassessment rate from 21.8 percent to 65.0 percent for Cycle Two reassessments of the County’s real property with the three-year phase in starting in Levy Year (LY) 2005, that preceded an increase in the rate from 36.3 percent to 63.3 percent for Cycle Three reassessments in LY06, but declined from 51.8 percent to 43.4 percent for Cycle One in LY07 indicating a significant deceleration in the growth of average sales prices during FY07 (↑2.0%) and FY08 (↑0.4%). With the average sales price for an existing home declining 15.8 percent in FY09 and 5.1 percent in FY10, the reassessment rate for Group Two declined from 65.0 percent for LY05 to 16.2 percent for LY08 and the rate for Group Three declined from 63.3 percent for LY06 to -10.6 percent for LY09. However, the homestead tax credit limits annual increases in homeowners’ taxable assessments to 10 percent per year although other taxable assessments such as commercial and investment residential properties are not limited by this credit. While there was a dramatic decrease in the reassessment rate for Cycle Three in LY09, the remaining amount of the credit added over \$8.8 billion to the assessable base in FY10.

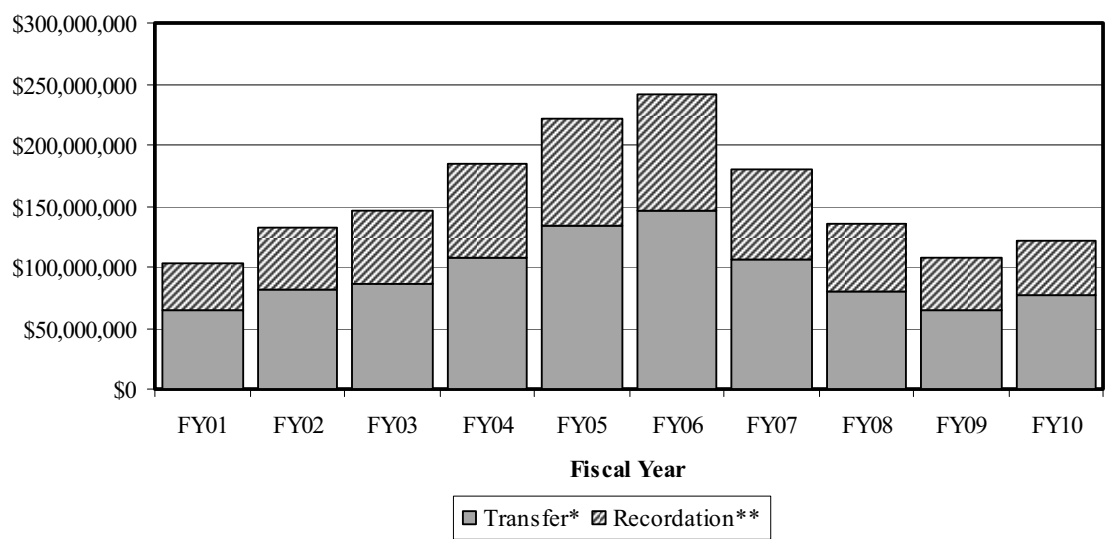




Assessments of personal property increased 5.1 percent in FY01, 3.0 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland Department of Assessments and Taxation. Due to a rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. However, because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09 but rebounded in FY10 - increasing 5.2 percent attributed to increases in corporate and public utility assessments. For the previous four fiscal years (FY06-FY09), taxable assessments for personal property averaged \$3.918 billion ranging from a low of \$3.832 billion in FY06 to a high of \$3.971 billion in FY08. In FY10, taxable assessments were \$4.124 billion – the highest level since FY2003.

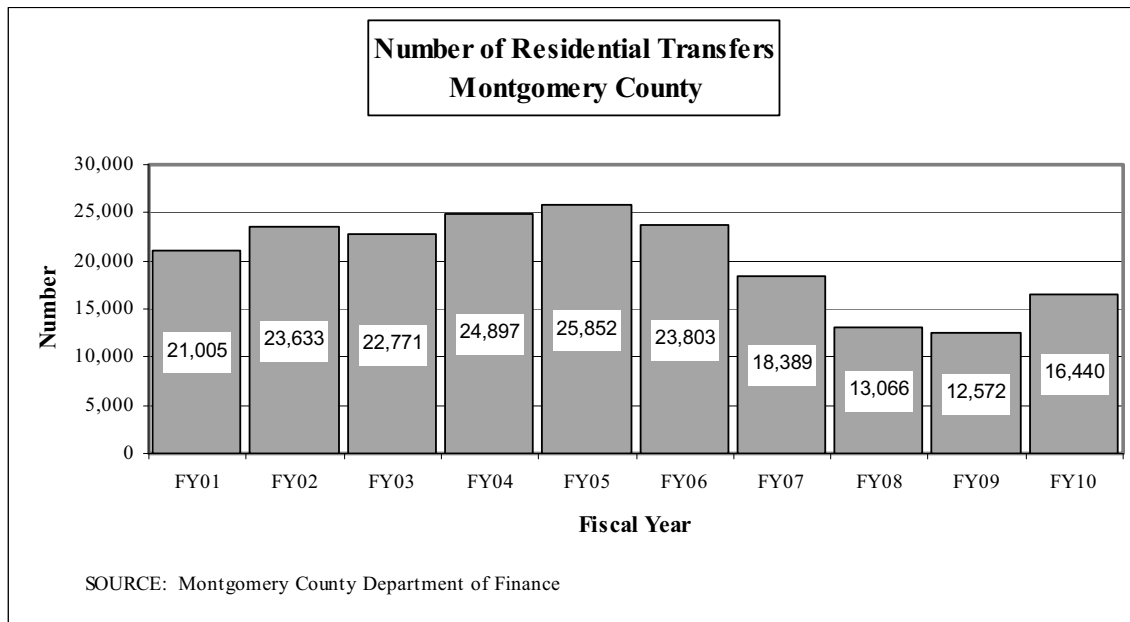
Transfer and Recordation Taxes - Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY10 were \$122.0 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions), and 1.1 percent below the budget estimate but 13.8 percent above actual revenues in FY09. The FY10 increase in actual collections above FY09 from transfer and recordation taxes was the first increase since FY06. The dramatic increase in the sales of existing homes (↑27.4%) during FY10 was the major factor in the increase. As the accompanying chart illustrates, the total amount collected from these taxes increased from \$104.2 million in FY01 to a peak of \$241.7 million in FY06, before declining to \$107.2 in FY09. In FY10, taxes from the combined transfer and recordation taxes rebounded to \$122.0 million

**Collections from the Transfer\* and Recordation Taxes\*\*  
Montgomery County**

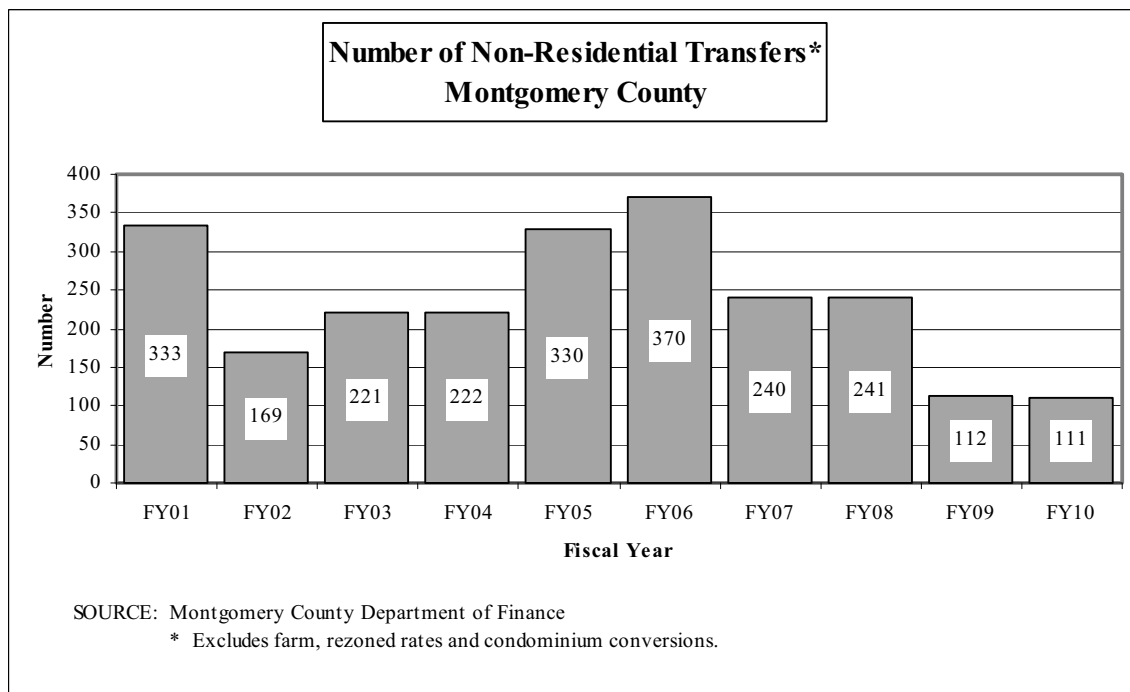


SOURCE: Montgomery County Department of Finance  
 \* Excludes condominium conversions  
 \*\* Excludes School CIP

General Fund revenues from the transfer tax experienced an increase of 19.0 percent in FY10 compared to a 5.9 percent increase from the recordation tax. Because of the rebound attributed to a dramatic increase in home sales in FY10 (↑27.4%), revenues from the residential sector for both taxes were \$95.3 million, an increase of 22.1 percent over FY09 – the first such double-digit increase since FY05. The number of residential transfers increased to approximately 16,500 (↑30.8%) – the highest level since FY07 and reflecting a sharp increase in housing sales during FY10.



Based on the amount of revenues, the commercial market improved slightly in FY10 with revenues reaching \$8.455 million – an increase of 12.9 percent over FY09. However, that amount of revenues was the lowest since FY02. The number of commercial transfers (111) in FY10 remained unchanged since FY09 and was the lowest number in over twenty years.



The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled \$205.6 million and were approximately \$20.3 million, or 10.9 percent, above the budget estimate.

Revenues from the telephone tax were 9.4 percent below the budget estimate. That decrease was attributed to the declining use of wireless communications. Revenues from the hotel/motel industry of \$17.1 million in FY10 were 14.7 percent below the budget estimate, and the admissions tax was 10.4 percent below the budget estimate. Actual fuel/energy tax revenues were up 21.3 percent compared to FY09 reflecting higher tax rates on fuel oil, electricity, and natural gas enacted by the County Council during FY10, and 20.3 percent above the budget estimate.

In the General Fund, investment income decreased from \$0.6 million in FY09 to a deficit of -\$0.1 million and was 124.2 percent below the budget estimate. The dramatic decrease in FY10 was the result of the General Fund absorbing negative cash balances from other funds at the end of the fiscal year and a continued accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to December 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to a range of between 0.00 and 0.25 percent — a decline of 500-525 basis points and remained at that historic low level throughout FY10. The justification for such a decrease was the significant global credit crisis that began in August 2007 and the subsequent economic recession that ended in June 2009. Because of this low level of interest rates during FY10 short-term or money market rates remained at historic low levels as well, hence the average yield on cash equity for the County decreased from 1.71 percent in FY09 to 0.22 percent in FY10. In addition, investments were sold before maturity to meet the need for cash. Because of that need, the County made fewer investments and total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$1.2 million or 905.2 percent below last fiscal year. With the decrease in investment income coupled with a lesser rate of increase in spending, the average daily portfolio balance decreased from \$695.7 million in FY09 to \$530.3 million in FY10.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The County's investment in capital assets as of June 30, 2010, amounted to \$3,303 million (net of accumulated depreciation and amortization), as summarized below:

<b>Capital Assets, Net of Depreciation</b>				
<b>June 30, 2010</b>				
	<b>Governmental</b>	<b>Business-type</b>	<b>Total</b>	<b>Total</b>
	<b>Activities</b>	<b>Activities</b>	<b>FY10</b>	<b>FY09</b>
Land	\$ 755,440,694	\$ 60,204,889	815,645,583	\$ 704,877,757
Buildings	453,837,334	144,450,191	598,287,525	616,631,969
Improvements other than buildings	29,447,690	38,726,394	68,174,084	57,033,733
Furniture, fixtures, equipment and machinery	67,021,987	7,162,689	74,184,676	92,418,995
Leasehold improvements	8,269,419	-	8,269,419	9,080,164
Automobiles and trucks	139,150,131	1,354,100	140,504,231	129,071,201
Infrastructure	1,129,540,548	12,199	1,129,552,747	1,111,005,023
Other assets	13,955	-	13,955	172,207
Construction in progress	466,354,521	2,097,425	468,451,946	361,719,054
Total	<u>\$ 3,049,076,279</u>	<u>\$ 254,007,887</u>	<u>\$ 3,303,084,166</u>	<u>\$ 3,082,010,103</u>

\*Certain amounts have been reclassified to conform with the current year presentation.

Changes in the County's capital assets for FY10 are summarized as follows:

<b>Change in Capital Assets</b>				
<b>For the Fiscal Year Ended June 30, 2010</b>				
	<b>Governmental</b>	<b>Business-type</b>	<b>Total</b>	<b>Total</b>
	<b>Activities</b>	<b>Activities</b>	<b>FY10</b>	<b>FY09</b>
Beginning Balance**	\$ 2,823,763,425	\$ 258,246,679	\$ 3,082,010,104	\$ 2,937,606,888
Additions*	325,498,157	9,597,653	335,095,810	252,679,779
Retirements, net*	3,277,558	5,751	3,283,309	285,975
Depreciation expense	96,907,745	13,830,694	110,738,439	107,990,589
Ending Balance	<u>\$ 3,049,076,279</u>	<u>\$ 254,007,887</u>	<u>\$ 3,303,084,166</u>	<u>\$ 3,082,010,103</u>

\* Presented net of transfers from construction in progress; retirements are also net of related accumulated depreciation.

\*\* Beginning Balance has been adjusted a \$1 due to rounding in current year presentation.

Major capital asset events during the current fiscal year included the following:

- Roads, including underlying land, valued at \$15.9 million were transferred to the County by various developers.
- In order to transform the way Montgomery County serves its residents and customers, the tech mod project provided for replacement, upgrade and implementation of major IT systems. In FY10 \$21.1 million was spent for the project.
- To meet training needs of user agencies that operates from the existing Public Safety Training Academy (PSTA) building and its aged systems and site constraints, \$46.4 million was spent to relocate and improve a new academic building with various classrooms and training rooms. The new facility will allow the County to meet current and future training standards and requirements.
- To replace rural and residential roadways due to deterioration combined with daily traffic, the County spent \$10.5 million in permanent patching and resurfacing of roadways, this resurfacing will restore long term structural integrity of aging rural and residential roadway infrastructure.
- The County incurred \$28.2 million in costs for the acquisition of replacement buses in the Ride On fleet in accordance with the Division of Transit Services bus replacement plan.
- To replace an insufficient capacity to house and maintain its existing buses as well as projected growth in transit, highway and fleet services, the County incurred cost of \$30.5 million to build a new Equipment Maintenance and Operations Center (EMOC) that will support a doubling of transit ridership services for now and in the future.
- \$16 million was spent in order to complete part of the Silver Spring revitalizing initiative; this project replaced an existing transit facility with a new 3-story, multi-modal transit center that consist of a pedestrian friendly complex supporting rail, bus traffic and automobile traffic.

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements, Notes I-D5 and III-C.

**Long-Term Debt:**

The following is a summary of the County’s gross outstanding long-term debt as of June 30, 2010:

<b>Long-Term Debt</b>				
<b>June 30, 2010</b>				
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total FY10</b>	<b>Total FY09</b>
General obligation bonds	\$ 1,669,839,285	\$ -	\$ 1,669,839,285	\$ 1,496,561,371
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	425,000,000	-	425,000,000	300,000,000
Revenue bonds	13,923,324	73,101,676	87,025,000	94,030,000
Lease revenue bonds	33,320,000	-	33,320,000	35,025,000
Notes payable *	13,897,942	252,610	14,150,552	16,232,142
Certificates of participation	50,255,000	-	50,255,000	30,475,000
Capital leases	81,564,283	-	81,564,283	67,929,435
Taxable Ltd. Obligation Certificates	30,400,000	-	30,400,000	-
Compensated absences	72,573,420	5,117,578	77,690,998	75,299,637
Other Postemployment Benefits	177,853,409	2,859,180	180,712,589	113,534,939
Claims and judgements	600,000	-	600,000	1,550,000
Landfill closure costs	-	18,880,923	18,880,923	20,675,923
<b>Total</b>	<b>\$ 2,669,226,663</b>	<b>\$ 100,211,967</b>	<b>\$ 2,769,438,630</b>	<b>\$ 2,351,313,447</b>

\* Notes payable include equipment notes, taxable term loans, HUD loan and WSSC note.

At June 30, 2010, the County had outstanding general obligation (GO) bonds of \$1,669.8 million, with outstanding variable rate demand obligations (VRDOs) of \$100 million and bond anticipation notes (BANs) of \$425 million. Over the last ten years, the County issued its GO bonds once a year, with the exception of FY08, when no GO “new money” bonds were issued. The County adopted a policy in 1988 of initially financing capital construction with BANs, which are subsequently paid off by the issuance of the County’s GO bonds. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY00, the County sold general obligation bond issues, exclusive of refundings, of up to \$250 million. Over the last ten fiscal years, the County’s annual issues (including the June 2006 issue of \$100 million of VRDOs) averaged \$182 million.

The County continues to maintain its status as a top rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its GO bonds, the County is a ‘Triple AAA’ rated County, and received ratings of Aaa from Moody’s Investors Service, Inc., AAA from Standard and Poor’s, and AAA from Fitch, Inc. County GO bonds have been consistently awarded the highest credit rating from Moody’s and Standard and Poor’s since 1973 and 1976, respectively, and from Fitch since 1991.

As of June 30, 2010, Montgomery County is one of only twelve ‘Triple AAA’ rated counties in the nation with a population greater than 900,000. In July 2010, rating agencies noted that the county had a considerable economic base that was anchored by the extensive presence of the U.S. government and an expanding biotechnology sector. They further noted that the County had positive wealth and unemployment indicators.

The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, ‘AAA’ rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

Continuing Disclosure - For purposes of complying with the County’s continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information

repository and to the state information depository, if any, established for Maryland. Through the end of FY09, the County satisfied its disclosure requirements via electronic filings with the Municipal Advisory Council of Texas at <http://www.disclosureusa.org>. Beginning in FY10, the County will submit disclosure filings to the Electronic Municipal Market Access (EMMA) system. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 4, 8, 9, 11, 17-21.

Significant bond-related debt activities during FY10 were:

- General Obligation Bonds – The County’s annual GO issue was bifurcated in FY10 between a \$78 million new money tax-exempt issue and a \$232 million taxable Build America Bond (BABs) issue. The Federal government subsidizes interest payable on the taxable BAB bonds. The proceeds of this bond issue were used to pay off an equivalent amount of the County’s BANs.
- General Obligation Refunding Bonds - In FY10, the County issued \$162 million of general obligation refunding bonds. Those bonds defeased outstanding County bonds in the amount of \$165.2 million. The refunding resulted in cash flow savings to the County of \$8.2 million.
- Taxable Limited Obligation Certificates – Facility and Residential Development Projects – In April 2010, the County issued \$30.4 million of serial maturity certificates that will fully amortize in 20 years. The proceeds are being used to fund projects primarily associated with affordable housing.
- Certificates of Participation (COPs) – Public Transportation Equipment Acquisition Program – In April 2010 the County issued \$23 million of COPs that fully mature in seven years. The proceeds of that issue were used to purchase buses.
- Bond Anticipation Notes (BANs) – Over the course of FY10, the County issued more than \$400 million in BANs. Early in the year, the County expanded the size of its total program from \$300 million to \$500 million. It also replaced the liquidity provider, Fortis Bank, on the original BAN program with two new banks – PNC and State Street.

Additional information pertaining to the County’s long-term debt can be found in Notes to Financial Statements, Notes I-D7, III-E3, and III-F.

## **ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The following economic factors are reflected in the County’s FY11 budget:

- The County’s economic projections in the FY11 budget assume continued weak economic activity in FY11 with the County experiencing higher than usual unemployment and a modest increase (↑0.3% in calendar year 2010) in total payroll employment.
- On a calendar year basis, total payroll employment decreased 0.2 percent in CY09, the latest year for which complete annual data are available. That rate followed zero percent change in CY08 and an average annual increase of slightly more than 0.6 percent between CY00 and CY07. Following a decline in payroll employment during CY09, the County anticipates increases in payroll employment of 0.3 percent and 1.4 percent for CY10 and CY11, respectively.
- The payroll employment projection in the FY11 budget assumes that personal income will increase 3.8 percent in CY11 and 4.9 percent in CY12. Those rates are above the 2.4 percent increase in CY08, the latest

date for which annual data are available, but well below the seven-year average annual growth rate of 5.2 percent between CY00-CY07.

- On a calendar year basis, employment in Montgomery County, based on the labor force series as opposed to payroll employment, is also expected to increase 0.3 percent in CY10 and increase 1.7 percent in CY11. The rate of growth in resident employment is estimated to remain reasonably steady with an average annual rate of 1.7 percent between CY11 and CY16. That estimate is above the projected growth in County population of 1.1 percent per year through CY16.
- The slight decrease in employment in CY09 and a below average increase of 2.4 percent in personal income reflects the estimated slowdown in the County's and region's economy and the weak national economic recovery. That weak recovery is reflected in the efforts of the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System (Federal Reserve) to maintain the current federal funds rate within the target range of 0.00-0.25 percent for the foreseeable future.
- Inflation, as measured by the Consumer Price Index, is expected to increase 2.1 percent in FY11. Because of the interest rate policy maintained by the FOMC of the Federal Reserve, the County's economic projections include a decrease in the yield on its investments from 4.41 percent in FY09 to 0.85 percent in FY11.

#### **OTHER SIGNIFICANT MATTERS**

The Maryland General Assembly 2009 Session passed House Bill 101 "Budget Reconciliation and Financing Act of 2009". A key provision of this bill requires the State Comptroller to distribute \$366,778,631 from the local reserve account to the State's general fund by June 30, 2009. From fiscal 2013 through 2022, the State Comptroller is required to distribute \$36,677,863 annually in income tax revenues to the local reserve account; and reduce the total amount of income tax revenues distributed to local jurisdictions by a corresponding amount. The effect on the County may be a decrease in income tax revenues in the aforementioned years. The impact of this bill will not result in changes for local governments until FY13.

#### **REQUESTS FOR INFORMATION**

The financial report is designed to provide a general overview of Montgomery County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Montgomery County Government, Department of Finance, 101 Monroe Street, Rockville, Maryland, 20850. This report can also be found on the County's website, <http://www.montgomerycountymd.gov> (see Departments, Finance, Financial Reports).



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## **BASIC FINANCIAL STATEMENTS**

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 325,319,530	\$ 56,139,584	\$ 381,459,114	\$ 29,477,518
Cash with fiscal agents	32,497,743	1,371,052	33,868,795	36,935,602
Cash	392,120	200,306	592,426	11,468,892
Investments-cash equivalents	-	-	-	119,687,408
Investments	-	-	-	36,565,932
Receivables (net of allowances for uncollectibles):				
Income taxes	234,693,525	-	234,693,525	-
Property taxes	27,297,616	761,039	28,058,655	-
Capital leases	33,320,000	-	33,320,000	27,870,691
Accounts	77,417,175	4,007,546	81,424,721	24,557,043
Notes	1,436,033	-	1,436,033	47,110,000
Parking violations	451,674	2,076,532	2,528,206	-
Mortgages receivable	186,482,272	-	186,482,272	362,957,652
Interest	-	-	-	5,449,722
Other	211,436	-	211,436	1,843,356
Internal balances	2,448,527	(2,448,527)	-	-
Due from primary government	-	-	-	98,227,879
Due from component units	72,038,018	440,815	72,478,833	-
Due from other governments	61,160,992	399,131	61,560,123	35,089,206
Inventory of supplies	12,470,247	26,627,325	39,097,572	10,851,327
Prepays	2,426,055	1,301,120	3,727,175	6,023,566
Deferred charges	7,302,267	919,851	8,222,118	468,514
Other assets	-	273,534	273,534	64,711,314
Restricted Assets:				
Equity in pooled cash and investments	-	37,030,278	37,030,278	7,140,737
Cash	-	-	-	717,741
Cash non pooled	201,948	-	201,948	18,649,763
Investments - cash equivalents	-	-	-	84,485,598
Investments	-	5,914,817	5,914,817	218,382,399
Capital Assets:				
Nondepreciable assets	1,221,795,215	62,302,314	1,284,097,529	418,710,785
Depreciable assets, net	1,827,281,064	191,705,573	2,018,986,637	2,475,536,225
Total Assets	<u>\$ 4,126,643,457</u>	<u>\$ 389,022,290</u>	<u>\$ 4,515,665,747</u>	<u>\$ 4,142,918,870</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS, CONCLUDED  
JUNE 30, 2010

Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
<b>LIABILITIES</b>				
Accounts payable	\$ 68,920,830	\$ 15,898,229	\$ 84,819,059	\$ 97,343,841
Interest payable	24,957,660	354,109	25,311,769	27,712,099
Retainage payable	9,093,158	115,866	9,209,024	6,339,783
Accrued liabilities	70,122,702	16,146,661	86,269,363	86,663,361
Claims payable	102,048,669	-	102,048,669	18,380,085
Deposits	163,750	244,124	407,874	10,619,908
Due to primary government	-	-	-	72,615,811
Due to component units	97,543,234	684,645	98,227,879	-
Due to other governments	12,026,479	1,439,593	13,466,072	13,700
Unearned revenue	47,109,740	2,031,968	49,141,708	29,186,167
Other liabilities	-	429,768	429,768	17,731,110
Noncurrent Liabilities:				
Due within one year	640,570,056	11,650,644	652,220,700	151,894,283
Due in more than one year	2,081,325,899	90,433,230	2,171,759,129	1,331,339,812
Total Liabilities	<u>3,153,882,177</u>	<u>139,428,837</u>	<u>3,293,311,014</u>	<u>1,849,839,960</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,965,289,080	178,781,693	2,112,966,502	2,320,757,277
Restricted for:				
Capital projects	64,004,395	-	64,004,395	327,924
General government	85,506,697	-	85,506,697	-
Public safety	6,889,033	-	6,889,033	-
Public works and transportation	16,111	54,684,729	54,700,840	-
Recreation	13,153,143	-	13,153,143	-
Community development and housing	201,635,182	-	201,635,182	-
Environment	5,632,808	-	5,632,808	-
Debt service	3,344,171	-	3,344,171	50,924,363
Other purposes	-	-	-	38,077,579
Unrestricted (deficit)	(1,372,709,340)	16,127,031	(1,325,478,038)	(117,008,233)
Total Net Assets	<u>\$ 972,761,280</u>	<u>\$ 249,593,453</u>	<u>\$ 1,222,354,733</u>	<u>\$ 2,293,078,910</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
 STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
 Exhibit A-2

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Government Activities:				
General government	\$ 293,349,395	\$ 53,793,781	\$ 8,425,267	\$ 1,785,014
Public safety	611,714,420	33,115,674	30,382,733	1,830,899
Public works and transportation	297,864,026	22,214,073	30,127,888	43,203,926
Health and human services	287,883,637	1,497,239	95,136,860	-
Culture and recreation	108,490,460	31,559,913	5,270,729	1,565,933
Community development and housing	40,627,603	4,745,237	10,997,335	1,760,429
Environment	16,446,934	10,832,323	86,862	5,024,146
Education	1,738,633,028	-	-	-
Interest on long-term debt	86,352,825	-	-	-
Total Governmental Activities	<u>3,481,362,328</u>	<u>157,758,240</u>	<u>180,427,674</u>	<u>55,170,347</u>
Business-type Activities:				
Liquor control	204,677,766	229,317,194	-	-
Solid waste disposal and collection	100,709,914	103,373,586	30,000	-
Parking lot districts	30,698,606	28,252,122	-	-
Permitting services	27,306,059	27,840,904	-	-
Community use of public facilities	8,397,989	8,405,087	-	-
Total Business-type Activities	<u>371,790,334</u>	<u>397,188,893</u>	<u>30,000</u>	<u>-</u>
Total Primary Government	<u>\$ 3,853,152,662</u>	<u>\$ 554,947,133</u>	<u>\$ 180,457,674</u>	<u>\$ 55,170,347</u>
<b>Component Units:</b>				
General government (BUPI)	\$ 4,482,166	\$ 4,247,612	\$ 180,456	\$ -
Culture and recreation (MCRA)	19,135,971	17,163,179	-	172,670
Community development and housing (HOC)	214,831,030	106,625,182	103,531,616	5,429,701
Education:				
Elementary and secondary education (MCPS)	2,432,813,858	29,298,967	152,218,307	44,899,066
Higher education (MCC)	281,461,880	77,858,885	34,849,711	321,431
Total Component Units	<u>\$ 2,952,724,905</u>	<u>\$ 235,193,825</u>	<u>\$ 290,780,090</u>	<u>\$ 50,822,868</u>
General Revenues:				
Property taxes				
County income taxes				
Real property transfer taxes				
Recordation taxes				
Fuel energy taxes				
Hotel-motel taxes				
Telephone taxes				
Other taxes				
Grants and contributions not restricted to specific programs				
Investment income				
Gain/(Loss) on sale of capital assets				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

Notes to Financial Statements are an integral part of this statement.

<b>Net (Expense) Revenue and Changes in Net Assets</b>			
<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$ (229,345,333)	\$ -	\$ (229,345,333)	\$ -
(546,385,114)	-	(546,385,114)	-
(202,318,139)	-	(202,318,139)	-
(191,249,538)	-	(191,249,538)	-
(70,093,885)	-	(70,093,885)	-
(23,124,602)	-	(23,124,602)	-
(503,603)	-	(503,603)	-
(1,738,633,028)	-	(1,738,633,028)	-
(86,352,825)	-	(86,352,825)	-
<u>(3,088,006,067)</u>	<u>-</u>	<u>(3,088,006,067)</u>	<u>-</u>
-	24,639,428	24,639,428	-
-	2,693,672	2,693,672	-
-	(2,446,484)	(2,446,484)	-
-	534,845	534,845	-
-	7,098	7,098	-
<u>-</u>	<u>25,428,559</u>	<u>25,428,559</u>	<u>-</u>
<u>(3,088,006,067)</u>	<u>25,428,559</u>	<u>(3,062,577,508)</u>	<u>-</u>
-	-	-	(54,098)
-	-	-	(1,800,122)
-	-	-	755,469
-	-	-	(2,206,397,518)
-	-	-	(168,431,853)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,375,928,122)</u>
1,371,964,491	9,931,045	1,381,895,536	-
1,010,874,757	-	1,010,874,757	-
77,106,332	-	77,106,332	-
44,934,687	-	44,934,687	-
156,880,330	-	156,880,330	-
17,064,493	-	17,064,493	-
29,741,879	-	29,741,879	-
3,250,044	-	3,250,044	-
-	-	-	2,385,839,365
8,299,709	569,792	8,869,501	5,956,131
(1,366,889)	-	(1,366,889)	114,083
55,088,988	(55,088,988)	-	-
<u>2,773,838,821</u>	<u>(44,588,151)</u>	<u>2,729,250,670</u>	<u>2,391,909,579</u>
<u>(314,167,246)</u>	<u>(19,159,592)</u>	<u>(333,326,838)</u>	<u>15,981,457</u>
<u>1,286,928,526</u>	<u>268,753,045</u>	<u>1,555,681,571</u>	<u>2,277,097,453</u>
<u>\$ 972,761,280</u>	<u>\$ 249,593,453</u>	<u>\$ 1,222,354,733</u>	<u>\$ 2,293,078,910</u>

MONTGOMERY COUNTY, MARYLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010  
Exhibit A-3

	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>								
Equity in pooled cash and investments	\$ 3,390,563	\$ 74,875,041	\$ 7,777,541	\$ -	\$ 260,648	\$ 86,615,208	\$ 37,752,572	\$ 210,671,573
Cash with fiscal agents	1,989,251	-	-	-	7,227,245	23,281,247	-	32,497,743
Cash	146,570	-	212,450	-	-	-	32,800	391,820
Cash restricted non pooled	201,948	-	-	-	-	-	-	201,948
Receivables (net of allowances for uncollectibles):								
Income taxes	234,693,525	-	-	-	-	-	-	234,693,525
Property taxes	24,752,779	-	-	-	-	-	2,544,837	27,297,616
Capital leases	-	-	-	-	33,320,000	-	-	33,320,000
Accounts	69,248,373	-	-	-	-	380,306	4,716,522	74,345,201
Notes	-	-	-	-	-	12,068	1,423,965	1,436,033
Parking violations	451,674	-	-	-	-	-	-	451,674
Mortgages receivable	158,610	-	147,166,649	34,662,402	-	300,000	4,194,611	186,482,272
Other	-	-	-	8,066	-	75	198,319	206,460
Due from other funds	30,527,853	-	-	-	-	-	8,510,593	39,038,446
Due from component units	686,272	-	45,891,426	9,965,086	-	14,915,379	-	71,458,163
Due from other governments	7,566,146	-	-	20,127,538	-	31,466,065	1,739,800	60,899,549
Inventory of supplies	5,675,023	-	-	-	-	2,946,024	-	8,621,047
Prepays	1,921,816	-	-	355	-	2,500	296,684	2,221,355
Total Assets	<u>\$ 381,410,403</u>	<u>\$ 74,875,041</u>	<u>\$ 201,048,066</u>	<u>\$ 64,763,447</u>	<u>\$ 40,807,893</u>	<u>\$ 159,918,872</u>	<u>\$ 61,410,703</u>	<u>\$ 984,234,425</u>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable	\$ 20,024,540	\$ -	\$ 858,352	\$ 5,806,866	\$ 260,648	\$ 31,424,236	\$ 3,687,256	\$ 62,061,898
Retainage payable	20,517	-	-	-	-	9,072,641	-	9,093,158
Accrued liabilities	34,235,459	-	64,666	3,586,295	-	1,518,454	12,777,032	52,181,906
Deposits	-	-	-	-	-	-	163,750	163,750
Due to other funds	12,044,312	-	17,501	4,413,218	3,880,000	26,896,271	5,215,632	52,466,934
Due to component units	69,788,929	-	654,535	1,089,104	-	25,934,161	76,505	97,543,234
Due to other governments	1,814,211	-	-	5,073,476	-	4,616,227	522,565	12,026,479
Deferred revenue	196,219,979	-	2,213,398	44,794,488	33,323,074	12,844,589	3,201,133	292,596,661
Total Liabilities	<u>334,147,947</u>	<u>-</u>	<u>3,808,452</u>	<u>64,763,447</u>	<u>37,463,722</u>	<u>112,306,579</u>	<u>25,643,873</u>	<u>578,134,020</u>
Fund Balances:								
Reserved for:								
Legal debt restrictions	-	-	-	-	3,344,171	54,113,029	-	57,457,200
Long-term receivables	-	-	190,844,677	-	-	14,915,379	5,982,608	211,742,664
Inventory	5,675,023	-	-	-	-	2,946,024	-	8,621,047
Prepays	1,921,816	-	-	-	-	2,500	284,342	2,208,658
Fire-Rescue Grant	-	-	-	-	-	-	1,295,525	1,295,525
Donor-specified purposes	-	-	-	-	-	-	1,543,052	1,543,052
Other purposes	-	-	-	-	-	9,891,366	-	9,891,366
Total Reserved	<u>7,596,839</u>	<u>-</u>	<u>190,844,677</u>	<u>-</u>	<u>3,344,171</u>	<u>81,868,298</u>	<u>9,105,527</u>	<u>292,759,512</u>
Unreserved, designated for, reported in:								
Encumbrances - Major Funds	4,959,728	-	2,806,878	-	-	-	-	7,766,606
Encumbrances - Nonmajor Special Revenue Funds	-	-	-	-	-	-	2,730,455	2,730,455
General Fund	34,705,889	-	-	-	-	-	-	34,705,889
Special Revenue Funds	-	-	3,588,059	-	-	-	17,319,764	20,907,823
Unreserved, undesignated (deficit), reported in:								
Capital Projects Fund	-	-	-	-	-	(34,256,005)	-	(34,256,005)
Special Revenue Funds	-	74,875,041	-	-	-	-	6,611,084	81,486,125
Total Unreserved (Deficit)	<u>39,665,617</u>	<u>74,875,041</u>	<u>6,394,937</u>	<u>-</u>	<u>-</u>	<u>(34,256,005)</u>	<u>26,661,303</u>	<u>113,340,893</u>
Total Fund Balances	<u>47,262,456</u>	<u>74,875,041</u>	<u>197,239,614</u>	<u>-</u>	<u>3,344,171</u>	<u>47,612,293</u>	<u>35,766,830</u>	<u>406,100,405</u>
Total Liabilities and Fund Balances	<u>\$ 381,410,403</u>	<u>\$ 74,875,041</u>	<u>\$ 201,048,066</u>	<u>\$ 64,763,447</u>	<u>\$ 40,807,893</u>	<u>\$ 159,918,872</u>	<u>\$ 61,410,703</u>	<u>\$ 984,234,425</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010  
**Exhibit A-4**

Total fund balance - governmental funds (see Exhibit A-3)		\$ 406,100,405
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	\$ 755,418,188	
Construction in progress	465,663,219	
Depreciable capital assets:		
Buildings	757,883,641	
Improvements other than buildings	48,671,074	
Furniture, fixtures, equipment and machinery	250,462,220	
Automobiles and trucks	182,076,638	
Infrastructure	1,641,680,480	
Other capital assets	<u>2,079,731</u>	
Total capital assets	4,103,935,191	
Less accumulated depreciation	<u>(1,086,325,340)</u>	3,017,609,851
Long-term liabilities related to governmental fund activities are not due and payable in the current period and therefore not reported in the funds:		
General obligation bonds payable	(1,669,839,285)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(425,000,000)	
Lease revenue bonds payable	(33,320,000)	
Accrued interest payable	(24,955,429)	
Capital leases payable	(81,564,283)	
Certificates of participation	(50,255,000)	
Notes payable	(44,068,699)	
Revenue bonds	(13,923,324)	
Other postemployment benefits	(177,853,409)	
Claims and judgements	(600,000)	
Compensated absences	<u>(70,446,568)</u>	(2,691,825,997)
Costs incurred from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements:		
Unamortized premiums	(79,387,077)	
Deferred amount on refunding	26,717,785	
Deferred issuance costs	<u>6,835,381</u>	(45,833,911)
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net assets:		
Assets:		
Current and noncurrent assets	131,012,793	
Capital assets	79,690,581	
Less accumulated depreciation	(48,224,153)	
Liabilities	(122,884,916)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	<u>-</u>	39,594,305
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	166,927,731	
Property taxes	26,800,989	
Intergovernmental revenue	14,766,591	
Other revenue	<u>38,621,317</u>	<u>247,116,628</u>
Net assets of governmental activities (see Exhibit A-1)		<u>\$ 972,761,280</u>

Notes to Financial Statements are an integral part of this statement.



MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
Exhibit A-5

	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>								
Taxes	\$2,415,338,737	\$ -	\$ 4,903,426	\$ -	\$ -	\$ 36,791,443	\$ 285,513,428	\$2,742,547,034
Licenses and permits	9,542,255	-	-	-	-	-	2,321,859	11,864,114
Intergovernmental	50,521,703	-	-	111,811,759	1,757,719	34,821,570	48,874,508	247,787,259
Charges for services	26,094,061	-	-	-	-	261,374	61,758,620	88,114,055
Fines and forfeitures	23,107,769	-	-	-	-	-	903,107	24,010,876
Investment income	(107,473)	250,804	944,496	137,558	6,644,191	9,442	288,857	8,167,875
Miscellaneous	9,114,939	-	1,626,459	337,388	-	967,169	1,140,479	13,186,434
Total Revenues	<u>2,533,611,991</u>	<u>250,804</u>	<u>7,474,381</u>	<u>112,286,705</u>	<u>8,401,910</u>	<u>72,850,998</u>	<u>400,800,858</u>	<u>3,135,677,647</u>
<b>EXPENDITURES</b>								
Current:								
General government	236,116,301	-	-	6,659,103	-	-	9,023,691	251,799,095
Public safety	344,166,102	-	-	13,230,082	-	-	194,465,172	551,861,356
Public works and transportation	99,435,995	-	-	4,688,365	-	-	105,610,445	209,734,805
Health and human services	197,876,114	-	-	76,935,216	-	-	-	274,811,330
Culture and recreation	45,982,886	-	-	143,587	-	-	41,007,949	87,134,422
Community development and housing	11,032,922	-	16,460,972	11,101,401	-	-	-	38,595,295
Environment	4,015,842	-	-	112,058	-	-	8,540,003	12,667,903
Education	1,562,095,633	-	-	-	-	-	-	1,562,095,633
Debt Service:								
Principal retirement	-	-	-	-	136,317,844	-	-	136,317,844
Interest	-	-	-	-	85,337,817	-	-	85,337,817
Leases and other obligations	-	-	-	-	20,921,170	-	-	20,921,170
Issuing costs	-	-	-	-	5,544,495	-	-	5,544,495
Capital projects	-	-	-	-	-	511,372,430	-	511,372,430
Total Expenditures	<u>2,500,721,795</u>	<u>-</u>	<u>16,460,972</u>	<u>112,869,812</u>	<u>248,121,326</u>	<u>511,372,430</u>	<u>358,647,260</u>	<u>3,748,193,595</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>32,890,196</u>	<u>250,804</u>	<u>(8,986,591)</u>	<u>(583,107)</u>	<u>(239,719,416)</u>	<u>(438,521,432)</u>	<u>42,153,598</u>	<u>(612,515,948)</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	148,503,394	-	16,223,660	1,218,243	234,189,181	22,487,337	17,796,771	440,418,586
Transfers (out)	(242,654,513)	(45,023,366)	(277,206)	(635,136)	(250,804)	(7,253,037)	(74,441,836)	(370,535,898)
Sale of property	-	-	1,596,976	-	-	-	-	1,596,976
Financing under notes and leases payable	402,617	-	-	-	-	22,566,383	-	22,969,000
Payment to refunded bond escrow agent	-	-	-	-	(183,217,861)	-	-	(183,217,861)
Debt Issued:								
General obligation bonds	-	-	-	-	310,000,000	-	-	310,000,000
Premium on original issue LT debt	-	-	-	-	9,630,703	306,427	-	9,937,130
Bond anticipation notes	-	-	-	-	(315,000,000)	440,000,000	-	125,000,000
Lease revenue bonds	14,700	-	-	-	-	-	-	14,700
Certificates of participation	-	-	-	-	246,762	24,236,922	-	24,483,684
Taxable LTD obligation certificate	-	-	-	-	309,968	30,090,032	-	30,400,000
General obligation refunding bonds	-	-	-	-	161,755,000	-	-	161,755,000
Premium on general obligation refunding bonds	-	-	-	-	22,055,598	-	-	22,055,598
Capital lease financing	-	-	-	-	-	11,985	-	11,985
Total Other Financing Sources (Uses)	<u>(93,733,802)</u>	<u>(45,023,366)</u>	<u>17,543,430</u>	<u>583,107</u>	<u>239,718,547</u>	<u>532,446,049</u>	<u>(56,645,065)</u>	<u>594,888,900</u>
Net Change in Fund Balances	<u>(60,843,606)</u>	<u>(44,772,562)</u>	<u>8,556,839</u>	<u>-</u>	<u>(869)</u>	<u>93,924,617</u>	<u>(14,491,467)</u>	<u>(17,627,048)</u>
Fund Balances - Beginning of Year	<u>108,106,062</u>	<u>119,647,603</u>	<u>188,682,775</u>	<u>-</u>	<u>3,345,040</u>	<u>(46,312,324)</u>	<u>50,258,297</u>	<u>423,727,453</u>
Fund Balances - End of Year	<u>\$ 47,262,456</u>	<u>\$ 74,875,041</u>	<u>\$ 197,239,614</u>	<u>\$ -</u>	<u>\$ 3,344,171</u>	<u>\$ 47,612,293</u>	<u>\$ 35,766,830</u>	<u>\$ 406,100,405</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**Exhibit A-6**

Net change in fund balances - total governmental funds (see Exhibit A-5) (\$17,627,048)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	\$305,784,908	
Depreciation expense	(89,630,582)	216,154,326

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold. (2,963,865)

Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources. 15,092,497

Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds.

Deferred revenues increased (decreased) this year, as follows:

Income taxes	(31,223,769)	
Property taxes	1,998,050	
Intergovernmental revenues	(33,904,072)	
Other revenues	(5,844,570)	(68,974,361)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Debt issued or incurred:

General obligation bonds	(503,441,301)	
Bond anticipation notes	(440,000,000)	
Taxable Limited Obligation Certificates	(30,706,427)	
Notes payable	(1,753,063)	
Capital lease financing	(22,566,382)	
Lease revenue bonds	(26,685)	
Certificates of participation	(23,000,000)	
Less issuance costs	5,544,495	

Principal repayments:

General obligation bonds	298,477,086	
Bond anticipation notes	315,000,000	
Leases payable	1,748,000	
Capital leases	8,958,219	
Certificates of participation	3,220,000	
Notes payable	4,116,062	(384,429,996)

Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest payable	5,053,453	
Compensated absences	(2,362,082)	
Other postemployment benefits	(64,318,470)	
Amortization	5,690,704	(55,936,395)

The current year loss for certain activities of internal service funds is reported with governmental activities. (15,482,404)

Change in net assets of governmental activities (see Exhibit A-2) (\$314,167,246)

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Revenues:							
Taxes:							
Property	\$ -	\$ 1,049,323,065	\$ 1,049,323,065	\$ -	\$ 1,049,323,065	\$ 1,043,452,874	\$ (5,870,191)
Property - penalty and interest	-	1,479,356	1,479,356	-	1,479,356	2,151,944	672,588
Other	-	-	-	-	-	72	72
Total Property Tax	-	1,050,802,421	1,050,802,421	-	1,050,802,421	1,045,604,890	(5,197,531)
County Income Tax	-	1,214,770,000	1,214,770,000	-	1,214,770,000	1,042,098,527	(172,671,473)
Other Local Taxes:							
Real property transfer	-	64,970,000	64,970,000	-	64,970,000	77,106,332	12,136,332
Recordation	-	58,389,000	58,389,000	-	58,389,000	44,934,687	(13,454,313)
Fuel energy	-	130,360,000	130,360,000	-	130,360,000	156,880,330	26,520,330
Hotel - motel	-	20,014,000	20,014,000	-	20,014,000	17,064,493	(2,949,507)
Telephone	-	32,840,000	32,840,000	-	32,840,000	29,741,879	(3,098,121)
Other	-	2,130,000	2,130,000	-	2,130,000	1,907,599	(222,401)
Total Other Local Taxes	-	308,703,000	308,703,000	-	308,703,000	327,635,320	18,932,320
Total Taxes	-	2,574,275,421	2,574,275,421	-	2,574,275,421	2,415,338,737	(158,936,684)
Licenses and Permits:							
Business	-	4,215,380	4,215,380	15,000	4,230,380	4,463,293	232,913
Non business	-	4,902,000	4,902,000	-	4,902,000	5,078,962	176,962
Total Licenses and Permits	-	9,117,380	9,117,380	15,000	9,132,380	9,542,255	409,875
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement	-	7,122,500	7,122,500	-	7,122,500	4,112,126	(3,010,374)
Highway user revenue	-	10,252,900	10,252,900	-	10,252,900	3,132,031	(7,120,869)
Police protection	-	13,494,105	13,494,105	-	13,494,105	8,682,015	(4,812,090)
Health and human services programs	-	6,160,760	6,160,760	-	6,160,760	4,655,006	(1,505,754)
Public libraries	-	5,419,710	5,419,710	-	5,419,710	5,228,488	(191,222)
911 Emergency	-	6,849,290	6,849,290	-	6,849,290	7,185,201	335,911
Other	-	1,650,710	1,650,710	-	1,650,710	1,555,949	(94,761)
Total State Aid and Reimbursements	-	50,949,975	50,949,975	-	50,949,975	34,550,816	(16,399,159)
Federal Reimbursements:							
Federal financial participation	-	17,120,130	17,120,130	-	17,120,130	12,715,214	(4,404,916)
Other	-	1,944,680	1,944,680	-	1,944,680	1,683,784	(260,896)
Total Federal Reimbursements	-	19,064,810	19,064,810	-	19,064,810	14,398,998	(4,665,812)
Other Intergovernmental	-	1,305,890	1,305,890	50,000	1,355,890	1,571,889	215,999
Total Intergovernmental Revenue	-	71,320,675	71,320,675	50,000	71,370,675	50,521,703	(20,848,972)
Charges for Services:							
General government	-	1,390,510	1,390,510	(13,990)	1,376,520	1,062,006	(314,514)
Public safety	-	6,932,900	6,932,900	-	6,932,900	6,155,884	(777,016)
Health and human services	-	1,646,460	1,646,460	-	1,646,460	1,443,567	(202,893)
Culture and recreation	-	600	600	-	600	2,583	1,983
Environment	-	238,000	238,000	-	238,000	973,070	735,070
Public works and transportation	-	65,000	65,000	-	65,000	119,997	54,997
Total Charges for Services	-	10,273,470	10,273,470	(13,990)	10,259,480	9,757,107	(502,373)
Fines and forfeitures	-	37,523,790	37,523,790	18,990	37,542,780	23,107,769	(14,435,011)
Investment Income:							
Pooled investment income	-	600,160	600,160	-	600,160	(166,268)	(766,428)
Other interest income	-	-	-	-	-	21,292	21,292
Total Investment Income	-	600,160	600,160	-	600,160	(144,976)	(745,136)
Miscellaneous Revenue:							
Property rentals	-	5,275,170	5,275,170	-	5,275,170	5,339,612	64,442
Sundry	-	9,178,095	9,178,095	(125,712)	9,052,383	8,428,337	(624,046)
Total Miscellaneous Revenue	-	14,453,265	14,453,265	(125,712)	14,327,553	13,767,949	(585,316)
Total Revenues	-	2,717,564,161	2,717,564,161	(55,712)	2,717,508,449	2,521,890,544	(195,617,905)
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	8,325,224	8,325,224	83,780	8,409,004	8,409,000	4
Operating	107,048	731,870	838,918	(74,899)	764,019	764,016	3
Totals	107,048	9,057,094	9,164,142	8,881	9,173,023	9,173,016	7
Board of Appeals:							
Personnel	-	566,401	566,401	-	566,401	553,458	12,943
Operating	1,384	51,120	52,504	(1,384)	51,120	44,090	7,030
Totals	1,384	617,521	618,905	(1,384)	617,521	597,548	19,973
Legislative Oversight:							
Personnel	-	1,270,660	1,270,660	-	1,270,660	1,184,837	85,823
Operating	-	70,410	70,410	-	70,410	15,125	55,285
Totals	-	1,341,070	1,341,070	-	1,341,070	1,199,962	141,108
Merit System Protection Board:							
Personnel	-	141,650	141,650	-	141,650	138,037	3,613
Operating	123	18,310	18,433	-	18,433	12,368	6,065
Totals	123	159,960	160,083	-	160,083	150,405	9,678
Zoning and Administrative Hearings:							
Personnel	-	456,051	456,051	-	456,051	444,790	11,261
Operating	-	68,390	68,390	-	68,390	49,937	18,453
Totals	-	524,441	524,441	-	524,441	494,727	29,714

(Continued)

MONTGOMERY COUNTY, MARYLAND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED  
 GENERAL FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
 Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Inspector General:							
Personnel	\$ -	\$ 475,708	\$ 475,708	\$ -	\$ 475,708	\$ 470,330	\$ 5,378
Operating	70,207	159,020	229,227	(22,412)	206,815	189,690	17,125
Totals	70,207	634,728	704,935	(22,412)	682,523	660,020	22,503
People's Counsel:							
Personnel	-	233,799	233,799	6,650	240,449	240,445	4
Operating	-	12,720	12,720	(1,270)	11,450	4,716	6,734
Totals	-	246,519	246,519	5,380	251,899	245,161	6,738
Circuit Court:							
Personnel	-	8,149,974	8,149,974	(23,650)	8,126,324	7,678,224	448,100
Operating	333,277	2,261,010	2,594,287	(102,797)	2,491,490	2,491,482	8
Capital outlay	-	-	-	116,950	116,950	116,945	5
Totals	333,277	10,410,984	10,744,261	(9,497)	10,734,764	10,286,651	448,113
State's Attorney:							
Personnel	-	11,638,201	11,638,201	254,550	11,892,751	11,892,747	4
Operating	14,104	510,146	524,250	63,713	587,963	587,956	7
Totals	14,104	12,148,347	12,162,451	318,263	12,480,714	12,480,703	11
County Executive:							
Personnel	-	5,518,269	5,518,269	(29,140)	5,489,129	5,354,267	134,862
Operating	82,423	881,690	964,113	(37,770)	926,343	618,150	308,193
Totals	82,423	6,399,959	6,482,382	(66,910)	6,415,472	5,972,417	443,055
Commission for Women:							
Personnel	-	1,050,281	1,050,281	-	1,050,281	1,023,080	27,201
Operating	1,177	147,390	148,567	(359)	148,208	92,218	55,990
Totals	1,177	1,197,671	1,198,848	(359)	1,198,489	1,115,298	83,191
Regional Service Centers:							
Personnel	-	3,141,853	3,141,853	(20,000)	3,121,853	2,701,446	420,407
Operating	176,201	998,511	1,174,712	(34,034)	1,140,678	785,109	355,569
Totals	176,201	4,140,364	4,316,565	(54,034)	4,262,531	3,486,555	775,976
Ethics Commission:							
Personnel	-	242,031	242,031	41,220	283,251	283,246	5
Operating	-	30,360	30,360	(340)	30,020	9,637	20,383
Totals	-	272,391	272,391	40,880	313,271	292,883	20,388
Intergovernmental Relations:							
Personnel	-	735,229	735,229	-	735,229	694,322	40,907
Operating	1,682	142,170	143,852	(1,339)	142,513	78,613	63,900
Totals	1,682	877,399	879,081	(1,339)	877,742	772,935	104,807
Public Information:							
Personnel	-	1,053,792	1,053,792	1,430	1,055,222	1,055,219	3
Operating	27,211	161,420	188,631	(3,975)	184,656	123,838	60,818
Totals	27,211	1,215,212	1,242,423	(2,545)	1,239,878	1,179,057	60,821
Board of Elections:							
Personnel	-	2,377,469	2,377,469	-	2,377,469	2,361,586	15,883
Operating	490,618	2,091,300	2,581,918	(322,011)	2,259,907	1,183,682	1,076,225
Totals	490,618	4,468,769	4,959,387	(322,011)	4,637,376	3,545,268	1,092,108
County Attorney:							
Personnel	-	4,697,650	4,697,650	15,150	4,712,800	4,712,798	2
Operating	221,949	527,330	749,279	161,627	910,906	910,904	2
Totals	221,949	5,224,980	5,446,929	176,777	5,623,706	5,623,702	4
Management and Budget:							
Personnel	-	3,530,883	3,530,883	-	3,530,883	3,505,617	25,266
Operating	35,307	173,010	208,317	(15,465)	192,852	96,717	96,135
Totals	35,307	3,703,893	3,739,200	(15,465)	3,723,735	3,602,334	121,401
Finance:							
Personnel	-	8,455,766	8,455,766	-	8,455,766	8,244,915	210,851
Operating	440,737	1,296,160	1,736,897	(148,093)	1,588,804	933,578	655,226
Totals	440,737	9,751,926	10,192,663	(148,093)	10,044,570	9,178,493	866,077
Human Resources:							
Personnel	-	4,925,017	4,925,017	359,730	5,284,747	5,236,842	47,905
Operating	1,025,045	3,597,390	4,622,435	(563,326)	4,059,109	2,976,765	1,082,344
Totals	1,025,045	8,522,407	9,547,452	(203,596)	9,343,856	8,213,607	1,130,249
Technology Services:							
Personnel	-	17,484,785	17,484,785	-	17,484,785	17,271,499	213,286
Operating	3,600,761	14,239,100	17,839,861	(925,201)	16,914,660	13,087,792	3,826,868
Capital outlay	-	120,300	120,300	-	120,300	-	120,300
Totals	3,600,761	31,844,185	35,444,946	(925,201)	34,519,745	30,359,291	4,160,454
General Services:							
Personnel	-	14,900,270	14,900,270	743,630	15,643,900	15,643,895	5
Operating	184,630	13,070,680	13,255,310	5,026,770	18,282,080	17,257,271	1,024,809
Capital outlay	5,110	-	5,110	-	5,110	(34,999)	40,109
Totals	189,740	27,970,950	28,160,690	5,770,400	33,931,090	32,866,167	1,064,923
Consumer Protection:							
Personnel	-	2,280,321	2,280,321	6,860	2,287,181	2,287,180	1
Operating	4,476	161,690	166,166	(6,832)	159,334	91,364	67,970
Totals	4,476	2,442,011	2,446,487	28	2,446,515	2,378,544	67,971
Corrections and Rehabilitation:							
Personnel	-	58,029,810	58,029,810	250,610	58,280,420	58,280,416	4
Operating	72,552	7,384,590	7,457,142	(24,536)	7,432,606	7,432,600	6
Totals	72,552	65,414,400	65,486,952	226,074	65,713,026	65,713,016	10

(Continued)

MONTGOMERY COUNTY, MARYLAND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED  
 GENERAL FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
 Exhibit A-7

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Human Relations Commission:							
Personnel	\$ -	\$ 2,008,187	\$ 2,008,187	\$ (8,760)	\$ 1,999,427	\$ 1,886,953	\$ 112,474
Operating	61,531	152,620	214,151	7,303	221,454	221,445	9
Totals	61,531	2,160,807	2,222,338	(1,457)	2,220,881	2,108,398	112,483
Police:							
Personnel	-	201,242,784	201,242,784	-	201,242,784	195,410,732	5,832,052
Operating	3,044,639	44,975,360	48,019,999	(429,472)	47,590,527	31,469,970	16,120,557
Capital outlay	307,704	44,000	351,704	(131,560)	220,144	219,768	376
Totals	3,352,343	246,262,144	249,614,487	(561,032)	249,053,455	227,100,470	21,952,985
Sheriff:							
Personnel	-	18,400,836	18,400,836	(262,792)	18,138,044	18,138,042	2
Operating	53,032	2,230,930	2,283,962	(130,396)	2,153,566	2,153,561	5
Totals	53,032	20,631,766	20,684,798	(393,188)	20,291,610	20,291,603	7
Homeland Security:							
Personnel	-	998,160	998,160	-	998,160	575,714	422,446
Operating	180,838	348,780	529,618	(17,812)	511,806	373,571	138,235
Totals	180,838	1,346,940	1,527,778	(17,812)	1,509,966	949,285	560,681
Transportation:							
Personnel	-	24,561,750	24,561,750	8,383,940	32,945,690	31,536,647	1,409,043
Operating	2,003,750	22,011,470	24,015,220	45,552,165	69,567,385	64,174,417	5,392,968
Totals	2,003,750	46,573,220	48,576,970	53,936,105	102,513,075	95,711,064	6,802,011
Health and Human Services:							
Personnel	-	107,313,105	107,313,105	-	107,313,105	104,653,779	2,659,326
Operating	1,360,831	86,761,251	88,122,082	(232,898)	87,889,184	78,309,672	9,579,512
Totals	1,360,831	194,074,356	195,435,187	(232,898)	195,202,289	182,963,451	12,238,838
Libraries:							
Personnel	-	30,199,525	30,199,525	-	30,199,525	30,062,099	137,426
Operating	800,177	7,369,870	8,170,047	(9,061)	8,160,986	6,111,186	2,049,800
Totals	800,177	37,569,395	38,369,572	(9,061)	38,360,511	36,173,285	2,187,226
Housing and Community Affairs:							
Personnel	-	4,398,539	4,398,539	-	4,398,539	4,028,883	369,656
Operating	11,288	668,250	679,538	(6,529)	673,009	419,824	253,185
Totals	11,288	5,066,789	5,078,077	(6,529)	5,071,548	4,448,707	622,841
Economic Development:							
Personnel	-	4,737,948	4,737,948	-	4,737,948	4,476,333	261,615
Operating	46,545	2,890,290	2,936,835	(2,759)	2,934,076	2,766,963	167,113
Totals	46,545	7,628,238	7,674,783	(2,759)	7,672,024	7,243,296	428,728
Environmental Protection:							
Personnel	-	2,191,691	2,191,691	-	2,191,691	2,171,977	19,714
Operating	248,150	822,269	1,070,419	(65,480)	1,004,939	675,302	329,637
Capital outlay	-	-	-	10,000	10,000	9,999	1
Totals	248,150	3,013,960	3,262,110	(55,480)	3,206,630	2,857,278	349,352
Total Departments	15,014,507	772,914,796	787,929,303	57,429,726	845,359,029	789,434,597	55,924,432
Nondepartmental:							
State retirement contribution - operating	-	981,480	981,480	-	981,480	981,477	3
Retirees group insurance - operating	-	26,039,330	26,039,330	-	26,039,330	26,039,330	-
State positions supplement - personnel	-	100,939	100,939	20,520	121,459	121,454	5
Judges special pension contribution - personnel	-	3,740	3,740	-	3,740	2,654	1,086
Compensation adjustment - personnel	-	669,230	669,230	(66,920)	602,310	133,852	468,458
Compensation adjustment - operating	-	643,110	643,110	143,720	786,830	786,822	8
Municipal tax duplication - operating	-	7,488,240	7,488,240	-	7,488,240	7,482,613	5,627
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	854,920	854,920	-	854,920	799,976	54,944
Rebate - Takoma Park library - operating	-	132,830	132,830	-	132,830	120,155	12,675
Homeowners' association roadways - operating	-	87,130	87,130	160	87,290	87,281	9
Contribution to risk management - operating	-	11,510,730	11,510,730	-	11,510,730	11,229,010	281,720
Historical activities - operating	25,185	355,340	380,525	(9,060)	371,465	355,872	15,593
Conference and Visitors Bureau - operating	89,579	700,490	790,069	(89,579)	700,490	697,283	3,207
Arts Council - operating	-	5,069,380	5,069,380	625	5,070,005	5,049,480	20,525
Community grants - operating	1,324,744	4,392,320	5,717,064	(781,229)	4,935,835	4,842,659	93,176
Conference Center - personnel	-	105,119	105,119	(410)	104,709	101,355	3,354
Conference Center - operating	-	512,280	512,280	410	512,690	512,684	6
English Literacy - operating	3,126	842,420	845,546	-	845,546	845,546	-
County associations - operating	-	72,710	72,710	-	72,710	72,709	1
Metropolitan Washington C O G - operating	-	743,370	743,370	-	743,370	742,539	831
Public Technology, Inc. - operating	-	20,000	20,000	-	20,000	20,000	-
Independent audit - operating	-	394,000	394,000	18,000	412,000	393,918	18,082
Prisoner medical services - operating	-	10,000	10,000	89,620	99,620	99,611	9
State property tax services - operating	-	166,300	166,300	10,040	176,340	176,339	1
Boards, committees and commissions - operating	-	27,000	27,000	-	27,000	22,916	4,084
Charter Review Commission - operating	-	1,000	1,000	120	1,120	1,120	-
Working families income supplement - operating	-	15,008,200	15,008,200	74,790	15,082,990	15,082,985	5
Interagency tech, policy & coord comm - operating	-	5,000	5,000	-	5,000	1,172	3,828
County Leases - personnel	-	-	-	20,030	20,030	20,023	7
County Leases - operating	136,829	19,225,800	19,362,629	(444,371)	18,918,258	18,349,362	568,896
County Leases - capital outlay	376,200	-	376,200	343,680	719,880	661,193	58,687
Rockville parking district - operating	-	524,930	524,930	-	524,930	331,498	193,432
Climate Change - personnel	-	34,759	34,759	(3,470)	31,289	-	31,289
Climate Change - operating	758,452	622,000	1,380,452	(35,652)	1,344,800	1,344,795	5
Desktop computer modernization - operating	897,053	6,839,290	7,736,343	(401,117)	7,335,226	6,310,571	1,024,655
Desktop computer modernization - capital outlay	-	-	-	53,950	53,950	53,945	5
Utilities - operating	\$ 4,637	\$ 27,282,900	\$ 27,287,537	\$ -	\$ 27,287,537	\$ 25,728,690	\$ 1,558,847

(Continued)

MONTGOMERY COUNTY, MARYLAND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED  
 GENERAL FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
 Exhibit A-7

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Total - Nondepartmental	3,615,805	131,494,307	135,110,112	(1,056,143)	134,053,969	129,630,901	4,423,068
Total Expenditures	18,630,312	904,409,103	923,039,415	56,373,583	979,412,998	919,065,498	60,347,500
Excess of Revenues over (under) Expenditures	(18,630,312)	1,813,155,058	1,794,524,746	(56,429,295)	1,738,095,451	1,602,825,046	(135,270,405)
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	-	120,750	120,750	8,672,648	8,793,398	8,793,399	1
Recreation	-	4,879,130	4,879,130	7,505,628	12,384,758	12,384,758	-
Mass Transit	-	7,952,700	7,952,700	11,035,360	18,988,060	18,128,132	(859,928)
Water Quality Protection	-	490,880	490,880	-	490,880	490,880	-
Urban Districts	-	424,110	424,110	-	424,110	424,110	-
Housing Activities	-	201,920	201,920	-	201,920	201,920	-
Grants	-	632,695	632,695	-	632,695	635,136	2,441
Cable TV	-	6,475,690	6,475,690	3,135,190	9,610,880	9,610,880	-
Revenue Stabilization Fund	-	-	-	-	-	44,772,562	44,772,562
Total Special Revenue Funds	-	21,177,875	21,177,875	30,348,826	51,526,701	95,441,777	43,915,076
Enterprise Funds:							
Liquor	-	26,375,850	26,375,850	2,667,430	29,043,280	29,043,280	-
Parking Lot Districts	-	785,030	785,030	3,577,540	4,362,570	4,362,570	-
Solid Waste Activities	-	2,419,350	2,419,350	9,970	2,429,320	2,429,320	-
Community Use of Public Facilities	-	371,750	371,750	-	371,750	371,750	-
Permitting Services	-	3,653,010	3,653,010	-	3,653,010	3,653,010	-
Total Enterprise Funds	-	33,604,990	33,604,990	6,254,940	39,859,930	39,859,930	-
Internal Service Funds:							
Self insurance employee health benefits	-	12,500,000	12,500,000	2,000,000	14,500,000	14,500,000	-
Central Duplicating	-	-	-	279,000	279,000	279,000	-
Total Internal Service Funds	-	12,500,000	12,500,000	2,279,000	14,779,000	14,779,000	-
Capital Projects Fund	-	-	-	-	-	499,847	499,847
Total Transfers In	-	67,282,865	67,282,865	38,882,766	106,165,631	150,580,554	44,414,923
Transfers In - Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	-	(328,420)
Montgomery College	-	-	-	-	-	255,150	255,150
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	255,150	(73,270)
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,409,460)	(1,409,460)	-	(1,409,460)	(1,409,460)	-
Urban Districts	-	(1,244,090)	(1,244,090)	-	(1,244,090)	(1,244,090)	-
Mass Transit	-	(531,310)	(531,310)	-	(531,310)	(531,310)	-
Housing Activities	-	(19,919,270)	(19,919,270)	10,448,800	(9,470,470)	(9,470,470)	-
Economic Development	-	(610,590)	(610,590)	550,000	(60,590)	(60,590)	-
Grants	-	-	-	(453,843)	(453,843)	(421,927)	31,916
Total Special Revenue Funds	-	(23,714,720)	(23,714,720)	10,544,957	(13,169,763)	(13,137,847)	31,916
Internal Service Funds:							
Motor Pool	-	(30,000)	(30,000)	-	(30,000)	-	30,000
Total Internal Service Funds	-	(30,000)	(30,000)	-	(30,000)	-	30,000
Enterprise Funds:							
Community Use of Public Facilities	-	(25,000)	(25,000)	-	(25,000)	(25,000)	-
Parking Lot Districts	(80,340)	-	(80,340)	-	(80,340)	-	80,340
Solid Waste Activities	-	(1,941,510)	(1,941,510)	(51,290)	(1,992,800)	(1,992,800)	-
Permitting Services	-	(1,153,770)	(1,153,770)	-	(1,153,770)	(1,153,770)	-
Total Enterprise Funds	(80,340)	(3,120,280)	(3,200,620)	(51,290)	(3,251,910)	(3,171,570)	80,340
Debt Service Fund	-	(143,070,868)	(143,070,868)	(79,355,181)	(222,426,049)	(210,865,864)	11,560,185
Capital Projects Fund	(28,100,809)	(18,273,999)	(46,374,808)	9,012,889	(37,361,919)	(18,625,802)	18,736,117
Total Transfers (Out)	(28,181,149)	(188,209,867)	(216,391,016)	(59,848,625)	(276,239,641)	(245,801,083)	30,438,558
Transfers (Out) - Component Units and Joint Ventures:							
Montgomery County Public Schools - operating	-	(1,531,135,957)	(1,531,135,957)	101,235,342	(1,429,900,615)	(1,429,900,613)	2
Montgomery County Public Schools - capital	(16,748,395)	(7,065,000)	(23,813,395)	(6,750,000)	(30,563,395)	(21,118,157)	9,445,238
Total Montgomery County Public Schools	(16,748,395)	(1,538,200,957)	(1,554,949,352)	94,485,342	(1,460,464,010)	(1,451,018,770)	9,445,240
Montgomery College - operating	-	(108,399,261)	(108,399,261)	-	(108,399,261)	(108,399,261)	-
Montgomery College - capital	(4,658,866)	(3,696,000)	(8,354,866)	1,850,000	(6,504,866)	(2,677,602)	3,827,264
Total Montgomery College	(4,658,866)	(112,095,261)	(116,754,127)	1,850,000	(114,904,127)	(111,076,863)	3,827,264
Housing Opportunity Commission - operating	-	(6,136,340)	(6,136,340)	-	(6,136,340)	(5,522,147)	614,193
Housing Opportunity Commission - capital	-	(1,345,733)	(1,345,733)	121,000	(1,224,733)	(1,062,074)	162,659
Total Housing Opportunity Commission	-	(7,482,073)	(7,482,073)	121,000	(7,361,073)	(6,584,221)	776,852
M-NCPPC - operating	-	-	-	(150,000)	(150,000)	(150,000)	-
Total Transfers (Out) - Component Units and JV	(21,407,261)	(1,657,778,291)	(1,679,185,552)	96,306,342	(1,582,879,210)	(1,568,829,854)	14,049,356
Total Other Financing Sources (Uses)	(49,588,410)	(1,778,376,873)	(1,827,965,283)	75,340,483	(1,752,624,800)	(1,663,795,233)	88,829,567
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(68,218,722)	34,778,185	(33,440,537)	18,911,188	(14,529,349)	(60,970,187)	(46,440,838)
Fund Balance - Beginning of Year	68,218,722	37,317,265	105,535,987	(4,908,160)	100,627,827	100,627,827	-
Fund Balance - End of Year	\$ -	\$ 72,095,450	\$ 72,095,450	\$ 14,003,028	\$ 86,098,478	\$ 39,657,640	\$ (46,440,838)

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 REVENUE STABILIZATION SPECIAL REVENUE FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**Exhibit A-8**

	Budget					Actual	Variance Over (Under)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Revenues - Investment income	\$ -	\$ 250,804	\$ 250,804	\$ -	\$ 250,804	\$ 250,804	\$ -
Expenditures	-	-	-	-	-	-	-
Excess of Revenues over (under) Expenditures	-	250,804	250,804	-	250,804	250,804	-
Other Financing Sources (Uses):							
Transfers In (Out):							
To General Fund	-	-	-	-	-	(44,772,562)	(44,772,562)
To Debt Service Fund	-	(250,804)	(250,804)	-	(250,804)	(250,804)	-
Total Other Financing Sources (Uses)	-	(250,804)	(250,804)	-	(250,804)	(45,023,366)	(44,772,562)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	-	-	-	-	-	(44,772,562)	(44,772,562)
Fund Balance - Beginning of Year	-	119,647,603	119,647,603	-	119,647,603	119,647,603	-
Fund Balance - End of Year	\$ -	\$ 119,647,603	\$ 119,647,603	\$ -	\$ 119,647,603	\$ 74,875,041	\$ (44,772,562)

MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
HOUSING INITIATIVE SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
**Exhibit A-9**

	Budget			Actual	Variance Positive (Negative)
	Prior Year Encumbrances	Current Year	Total		
<b>Revenues:</b>					
Taxes - transfer	\$ -	\$ 5,047,000	\$ 5,047,000	\$ 4,903,426	\$ (143,574)
Charges for services	-	50,000	50,000	-	(50,000)
<b>Investment income:</b>					
Pooled	-	190,000	190,000	45,155	(144,845)
Nonpooled	-	-	-	899,341	899,341
Total Investment Income	-	190,000	190,000	944,496	754,496
<b>Miscellaneous:</b>					
Property rentals, MPDU and other contributions	-	25,281,750	25,281,750	4,288,311	(20,993,439)
Total Miscellaneous	-	25,281,750	25,281,750	4,288,311	(20,993,439)
Total Revenues	-	30,568,750	30,568,750	10,136,233	(20,432,517)
<b>Expenditures:</b>					
Personnel costs	-	1,336,830	1,336,830	1,336,768	62
Operating	3,272,586	38,994,529	42,267,115	31,788,936	10,478,179
Total Expenditures	3,272,586	40,331,359	43,603,945	33,125,704	10,478,241
Excess of Revenues over (under) Expenditures	(3,272,586)	(9,762,609)	(13,035,195)	(22,989,471)	(9,954,276)
<b>Other Financing Sources (Uses):</b>					
<b>Transfers In (Out):</b>					
From General Fund	-	9,470,470	9,470,470	9,470,470	-
To General Fund	-	(201,920)	(201,920)	(201,920)	-
To Debt Service Fund	-	(2,255,290)	(2,255,290)	(75,286)	2,180,004
Mortgage repayment	-	5,672,450	5,672,450	3,247,965	(2,424,485)
Disposition of property	-	2,000,000	2,000,000	1,596,976	(403,024)
Total Other Financing Sources (Uses)	-	14,685,710	14,685,710	14,038,205	(647,505)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(3,272,586)	4,923,101	1,650,515	(8,951,266)	(10,601,781)
Fund Balance - Beginning of Year	3,272,586	7,769,358	11,041,944	11,041,944	-
Fund Balance - End of Year	\$ -	\$ 12,692,459	\$ 12,692,459	\$ 2,090,678	\$ (10,601,781)

**Reconciliation of budgetary schedule to GAAP basis Combining Statement of Revenues, Expenditures, and Changes in Fund Balances:**

Budgetary - Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	Total
	\$ (8,951,266)
Reconciling items:	
Cancellation of prior year encumbrances	(2,661,852)
Elimination of encumbrances outstanding	2,806,878
Reconciling item - Change in notes receivable	17,363,079
GAAP - Net Change in Fund Balance	<u>\$ 8,556,839</u>



MONTGOMERY COUNTY, MARYLAND  
 GRANTS - SPECIAL REVENUE FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
**Exhibit A-10**

	Prior Year Carryover (1)	Current Year	Budget			Actual	Variance Positive (Negative)
			Total Original	Revision	Final		
<b>Revenues:</b>							
<b>Intergovernmental:</b>							
Federal grants	\$ 5,829,342	\$ 94,591,241	\$ 100,420,583	\$ 1,497,209	\$ 101,917,792	\$ 53,520,804	\$ (48,396,988)
State grants	655,978	93,612,236	94,268,214	1,467,264	95,735,478	65,408,330	(30,327,148)
Other non-state and non-federal reimbursements	4,759	1,525,110	1,529,869	29,944	1,559,813	531,255	(1,028,558)
Total Intergovernmental	6,490,079	189,728,587	196,218,666	2,994,417	199,213,083	119,460,389	(79,752,694)
<b>Investment income:</b>							
Pooled investment income	-	-	-	-	-	-	-
Other interest income	-	-	-	-	-	137,558	137,558
Total Investment Income	-	-	-	-	-	137,558	137,558
Miscellaneous	-	292,937	292,937	85,188	378,125	337,388	(40,737)
Total Revenues	6,490,079	190,021,524	196,511,603	3,079,605	199,591,208	119,935,335	(79,655,873)
<b>Expenditures:</b>							
<b>General Government:</b>							
<b>Circuit Court:</b>							
Personnel costs	-	2,489,612	2,489,612	(98,858)	2,390,754	2,096,285	294,469
Operating	4,136	478,011	482,147	(74,451)	407,696	262,817	144,879
Totals	4,136	2,967,623	2,971,759	(173,309)	2,798,450	2,359,102	439,348
<b>Office of State's Attorney:</b>							
Personnel costs	-	346,319	346,319	74,163	420,482	368,152	52,330
Operating	-	405	405	-	405	-	405
Totals	-	346,724	346,724	74,163	420,887	368,152	52,735
<b>Office of the County Executive:</b>							
Personnel costs	-	438,087	438,087	10,056	448,143	239,013	209,130
Operating	30,579	263,827	294,406	12,514	306,920	177,610	129,310
Totals	30,579	701,914	732,493	22,570	755,063	416,623	338,440
<b>Regional Service Centers:</b>							
Personnel costs	-	151,288	151,288	-	151,288	111,650	39,638
Operating	-	70,881	70,881	-	70,881	34,559	36,322
Totals	-	222,169	222,169	-	222,169	146,209	75,960
<b>Intergovernmental Relations:</b>							
Operating	-	27,000	27,000	5,333	32,333	32,333	-
Totals	-	27,000	27,000	5,333	32,333	32,333	-
<b>Department of Technology Services:</b>							
Personnel costs	-	-	-	-	-	-	-
Operating	-	581,375	581,375	-	581,375	-	581,375
Totals	-	581,375	581,375	-	581,375	-	581,375
Total General Government	34,715	4,846,805	4,881,520	(71,243)	4,810,277	3,322,419	1,487,858
<b>Public Safety:</b>							
<b>Department of Corrections and Rehabilitation:</b>							
Personnel costs	-	75,000	75,000	-	75,000	63,392	11,608
Operating	-	3,069	3,069	128,578	131,647	80,767	50,880
Totals	-	78,069	78,069	128,578	206,647	144,159	62,488
<b>Department of Fire and Rescue Services:</b>							
Personnel costs	-	2,251,314	2,251,314	1,135,087	3,386,401	1,991,500	1,394,901
Operating	757,139	2,730,608	3,487,747	797,353	4,285,100	1,776,640	2,508,460
Capital outlay	-	325,270	325,270	450,141	775,411	566,129	209,282
Totals	757,139	5,307,192	6,064,331	2,382,581	8,446,912	4,334,269	4,112,643
<b>Department of Police:</b>							
Personnel costs	-	1,225,364	1,225,364	451,164	1,676,528	876,595	799,933
Operating	3,251,225	4,574,265	7,825,490	5,348,173	13,173,663	6,687,253	6,486,410
Capital outlay	-	157,349	157,349	69,186	226,535	100,296	126,239
Totals	3,251,225	5,956,978	9,208,203	5,868,523	15,076,726	7,664,144	7,412,582
<b>Office of the County Sheriff:</b>							
Personnel costs	-	1,531,526	1,531,526	566,337	2,097,863	1,206,133	891,730
Operating	-	583,823	583,823	200,219	784,042	278,105	505,937
Capital outlay	-	-	-	-	-	-	-
Totals	-	2,115,349	2,115,349	766,556	2,881,905	1,484,238	1,397,667
<b>Office of Emergency Management &amp; Homeland Security:</b>							
Personnel costs	-	84,714	84,714	742,632	827,346	428,856	398,490
Operating	206,791	601,510	808,301	2,773,136	3,581,437	1,248,927	2,332,510
Totals	206,791	686,224	893,015	3,515,768	4,408,783	1,677,783	2,731,000
Total Public Safety	4,215,155	14,143,812	18,358,967	12,662,006	31,020,973	15,304,593	15,716,380
<b>Transportation:</b>							
<b>Department of Transportation:</b>							
Personnel costs	-	1,997,890	1,997,890	89,391	2,087,281	1,740,394	346,887
Operating	156,150	2,957,231	3,113,381	396,769	3,510,150	2,246,540	1,263,610
Capital outlay	361,499	3,374,490	3,735,989	348,981	4,084,970	834,315	3,250,655
Total Transportation	517,649	8,329,611	8,847,260	835,141	9,682,401	4,821,249	4,861,152
<b>Department of Economic Development:</b>							
Personnel costs	-	-	-	-	-	-	-
Operating	270,205	5,429,951	5,700,156	8,340	5,708,496	3,930,827	1,777,669
Total Economic Development	270,205	5,429,951	5,700,156	8,340	5,708,496	3,930,827	1,777,669

(Continued)

MONTGOMERY COUNTY, MARYLAND  
 GRANTS - SPECIAL REVENUE FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
**Exhibit A-10**

	Prior Year Carryover (1)	Current Year	Budget			Actual	Variance Positive (Negative)
			Total Original	Revision	Final		
<b>Health and Human Services:</b>							
Department of Health and Human Services:							
Personnel costs	-	46,970,909	46,970,909	669,379	47,640,288	42,568,299	5,071,989
Operating	686,265	35,607,647	36,293,912	6,158,037	42,451,949	32,339,472	10,112,477
Capital outlay	-	476	476	-	476	-	476
Total Health and Human Services	686,265	82,579,032	83,265,297	6,827,416	90,092,713	74,907,771	15,184,942
<b>Culture and Recreation:</b>							
Department of Libraries:							
Personnel costs	-	147,406	147,406	(100,890)	46,516	40,471	6,045
Operating	-	37,881	37,881	(3,040)	34,841	30,663	4,178
Totals	-	185,287	185,287	(103,930)	81,357	71,134	10,223
Department of Recreation:							
Personnel costs	-	51,874	51,874	30,032	81,906	26,979	54,927
Operating	-	24,252	24,252	45,350	69,602	22,474	47,128
Totals	-	76,126	76,126	75,382	151,508	49,453	102,055
Total Culture and Recreation	-	261,413	261,413	(28,548)	232,865	120,587	112,278
<b>Housing:</b>							
Department of Housing and Community Affairs:							
Personnel costs	-	3,677,511	3,677,511	660,742	4,338,253	2,180,420	2,157,833
Operating	766,090	29,299,937	30,066,027	2,005,049	32,071,076	15,392,771	16,678,305
Capital outlay	-	634	634	-	634	-	634
Total Housing	766,090	32,978,082	33,744,172	2,665,791	36,409,963	17,573,191	18,836,772
<b>Environment:</b>							
Department of Environmental Protection:							
Personnel costs	-	32,050	32,050	70,000	102,050	87,912	14,138
Operating	-	410,000	410,000	137,540	547,540	376,353	171,187
Capital outlay	-	-	-	-	-	-	-
Total Environmental Protection	-	442,050	442,050	207,540	649,590	464,265	185,325
Department of Liquor Control:							
Personnel costs	-	8,437	8,437	13,060	21,497	19,679	1,818
Operating	-	20,823	20,823	31,720	52,543	30,861	21,682
Total Liquor Control	-	29,260	29,260	44,780	74,040	50,540	23,500
<b>Nondepartmental:</b>							
NDA Historical Activities - Operating	-	4,721	4,721	25,000	29,721	23,000	6,721
NDA Miscellaneous Community Grants - Operating	-	-	-	-	-	-	-
Future Grants - Personnel	-	73,660	73,660	(148,660)	(75,000)	-	(75,000)
- Operating	-	5,243,721	5,243,721	16,876,548	22,120,269	-	22,120,269
Total Nondepartmental	-	5,322,102	5,322,102	16,752,888	22,074,990	23,000	22,051,990
Total Expenditures	6,490,079	154,362,118	160,852,197	39,904,111	200,756,308	120,518,442	80,237,866
<b>Excess of Revenues over (under)</b>							
Expenditures	-	35,659,406	35,659,406	(36,824,506)	(1,165,100)	(583,107)	581,993
<b>Other Financing Sources (Uses):</b>							
Transfers In:							
General Fund	-	245,163	245,163	461,889	707,052	400,683	(306,369)
Mass Transit Special Revenue Fund	-	378,205	378,205	712,538	1,090,743	255,046	(835,697)
Fire Tax District Special Revenue Fund	-	-	-	-	-	562,514	562,514
Total Transfers In	-	623,368	623,368	1,174,427	1,797,795	1,218,243	(579,552)
Transfers Out - Internal Service Funds	-	(632,695)	(632,695)	-	(632,695)	(635,136)	(2,441)
Total Transfers Out	-	(632,695)	(632,695)	-	(632,695)	(635,136)	(2,441)
Total Other Financing Sources (Uses)	-	(9,327)	(9,327)	1,174,427	1,165,100	583,107	(581,993)
<b>Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses</b>							
Fund Balance - Beginning of Year	-	-	-	-	-	-	-
Fund Balance - End of Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Grants Fund prior year carryover includes: a) reappropriation of encumbered appropriations, and b) revenues under grants that require more than one fiscal year to complete the grant program.

**Reconciliation of Budgetary Schedule to GAAP Basis**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances:**

	Revenues	Expenditures & Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
As reported - budgetary basis	\$ 119,935,335	\$ 120,518,442	\$ 583,107	-
Reconciling items:				
Elimination of encumbrances outstanding	(9,180,165)	(9,180,165)	-	-
Loan expenditures	(2,187,995)	(2,187,995)	-	-
Indirect costs	(1,189,127)	(1,189,127)	-	-
Pass-through expenditures	4,908,657	4,908,657	-	-
As reported - GAAP basis	\$ 112,286,705	\$ 112,869,812	\$ 583,107	\$ -

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
<b>ASSETS</b>						
Current Assets:						
Equity in pooled cash and investments	\$ 8,230,150	\$ 22,995,964	\$ 11,941,417	\$ 12,972,053	\$ 56,139,584	\$ 114,647,957
Cash with fiscal agents	1,371,052	-	-	-	1,371,052	-
Cash	34,625	3,000	162,681	-	200,306	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	761,039	-	761,039	-
Accounts	1,959,716	2,036,820	7,108	3,902	4,007,546	3,071,974
Parking violations	-	-	2,076,532	-	2,076,532	-
Due from other funds	-	5,466	-	-	5,466	8,397,364
Due from component units	-	54,392	386,423	-	440,815	579,855
Due from other governments	-	399,131	-	-	399,131	261,443
Inventory of supplies	26,627,325	-	-	-	26,627,325	3,849,200
Prepays	1,100,483	1,324	9,548	189,765	1,301,120	204,700
Other assets	273,534	-	-	-	273,534	-
Total Current Assets	<u>39,596,885</u>	<u>25,496,097</u>	<u>15,344,748</u>	<u>13,165,720</u>	<u>93,603,450</u>	<u>131,012,793</u>
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	30,636,090	6,394,188	-	37,030,278	-
Investments	-	4,299,223	1,615,594	-	5,914,817	-
Restricted Assets	-	34,935,313	8,009,782	-	42,945,095	-
Unamortized debt costs	299,493	167,932	452,426	-	919,851	-
Capital Assets:						
Land, improved and unimproved	7,033,656	17,834,755	35,336,478	-	60,204,889	22,506
Improvements other than buildings	-	81,554,468	64,814,023	-	146,368,491	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	33,597,257	32,591,722	181,671,417	-	247,860,396	-
Furniture, fixtures, equipment, and machinery	5,850,552	12,941,648	1,060,733	1,964,586	21,817,519	4,354,077
Automobiles and trucks	3,679,373	324,954	131,445	275,258	4,411,030	74,354,131
Construction in progress	1,015,616	-	1,081,809	-	2,097,425	691,302
Subtotal	51,176,454	145,261,898	284,095,905	2,239,844	482,774,101	79,690,581
Less: Accumulated depreciation	12,867,063	100,877,896	113,172,243	1,849,012	228,766,214	48,224,153
Total Capital Assets (net of accumulated depreciation)	<u>38,309,391</u>	<u>44,384,002</u>	<u>170,923,662</u>	<u>390,832</u>	<u>254,007,887</u>	<u>31,466,428</u>
Total Noncurrent Assets	<u>38,608,884</u>	<u>79,487,247</u>	<u>179,385,870</u>	<u>390,832</u>	<u>297,872,833</u>	<u>31,466,428</u>
Total Assets	<u>78,205,769</u>	<u>104,983,344</u>	<u>194,730,618</u>	<u>13,556,552</u>	<u>391,476,283</u>	<u>162,479,221</u>
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	9,653,334	4,560,691	1,629,012	55,192	15,898,229	6,858,932
Interest payable	-	38,396	315,554	159	354,109	2,231
Retainage payable	-	-	115,866	-	115,866	-
Deposits	244,124	-	-	-	244,124	-
Claims payable	-	-	-	-	-	102,048,669
Accrued liabilities	2,694,972	1,293,344	588,862	11,352,613	15,929,791	4,659,537
Due to other funds	461,456	188,182	61,808	3,911,658	4,623,104	5,863,992
Due to component units	-	-	-	684,645	684,645	-
Due to other governments	660,892	764,902	13,799	-	1,439,593	-
Equipment notes payable	-	-	158,859	11,969	170,828	151,351
Unearned revenue	-	-	-	2,031,968	2,031,968	1,892,868
Revenue bonds payable	1,070,632	3,550,000	1,915,000	-	6,535,632	-
Landfill closure costs	-	1,106,000	-	-	1,106,000	-
Other liabilities	-	-	429,768	-	429,768	-
Total Current Liabilities	<u>14,785,410</u>	<u>11,501,515</u>	<u>5,228,528</u>	<u>18,048,204</u>	<u>49,563,657</u>	<u>121,477,580</u>
Noncurrent Liabilities:						
Equipment notes payable	-	-	81,782	-	81,782	77,892
Revenue bonds payable	31,839,935	6,361,145	30,236,872	-	68,437,952	-
Landfill closure costs	-	17,774,923	-	-	17,774,923	-
Compensated absences	470,068	213,840	116,802	478,684	1,279,394	531,714
Other postemployment benefits	1,325,505	344,115	165,705	1,023,855	2,859,180	797,730
Total Noncurrent Liabilities	<u>33,635,508</u>	<u>24,694,023</u>	<u>30,601,161</u>	<u>1,502,539</u>	<u>90,433,231</u>	<u>1,407,336</u>
Total Liabilities	<u>48,420,918</u>	<u>36,195,538</u>	<u>35,829,689</u>	<u>19,550,743</u>	<u>139,996,888</u>	<u>122,884,916</u>
<b>NET ASSETS</b>						
Invested in capital, net of related debt	5,398,824	34,472,857	138,531,149	378,863	178,781,693	31,237,185
Restricted for debt service	1,371,052	34,935,313	8,009,782	-	44,316,147	-
Unrestricted	23,014,975	(620,364)	12,359,998	(6,373,054)	28,381,555	8,357,120
Total Net Assets	<u>\$ 29,784,851</u>	<u>\$ 68,787,806</u>	<u>\$ 158,900,929</u>	<u>\$ (5,994,191)</u>	<u>251,479,395</u>	<u>\$ 39,594,305</u>
<b>ADJUSTMENTS</b>						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,885,942)	
Net assets of business-type activities					\$ 249,593,453	

Notes to Financial Statements are an integral part of this statement .

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
**Exhibit A-12**

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
<b>OPERATING REVENUES</b>						
Sales - net	\$ 227,335,338	\$ -	\$ -	\$ -	\$ 227,335,338	\$ -
Charges for services	17,355	103,192,336	18,923,025	10,831,447	132,964,163	217,503,389
Licenses and permits	1,608,970	11,034	-	25,341,443	26,961,447	-
Fines and penalties	251,285	51,463	8,870,096	93,805	9,266,649	-
Claim recoveries	-	-	-	-	-	1,623,469
Total Operating Revenues	<u>229,212,948</u>	<u>103,254,833</u>	<u>27,793,121</u>	<u>36,266,695</u>	<u>396,527,597</u>	<u>219,126,858</u>
<b>OPERATING EXPENSES</b>						
Cost of goods sold	162,368,304	-	-	-	162,368,304	-
Personnel costs	24,661,642	12,918,532	4,375,472	23,981,866	65,937,512	25,214,032
Other postemployment contributions	2,209,175	573,525	276,175	1,706,425	4,765,300	1,329,550
Postage	43,426	119,974	9,298	17,522	190,220	1,240,956
Self-insurance incurred and estimated claims	-	-	-	-	-	133,434,920
Insurance	574,840	701,826	47,750	112,760	1,437,176	23,049,159
Supplies and materials	330,619	930,672	411,279	300,038	1,972,608	26,380,457
Contractual services	2,196,973	77,576,953	6,058,868	3,780,499	89,613,293	8,559,579
Communications	461,828	191,240	193,946	278,709	1,125,723	535,190
Transportation	690,997	1,835,268	293,191	560,502	3,379,958	346,595
Public utility services	902,668	136,342	3,385,997	1,971,165	6,396,172	778,004
Rentals	5,881,229	29,191	1,215,813	2,306,299	9,432,532	272,044
Maintenance	719,017	1,819,105	3,187,330	304,653	6,030,105	10,987,722
Depreciation	1,619,465	2,302,666	9,743,802	164,761	13,830,694	7,277,161
Landfill closure expense	-	426,000	-	-	426,000	-
Other	402,679	457,225	7,126	39,416	906,446	137,798
Total Operating Expenses	<u>203,062,862</u>	<u>100,018,519</u>	<u>29,206,047</u>	<u>35,524,615</u>	<u>367,812,043</u>	<u>239,543,167</u>
Operating Income (Loss)	<u>26,150,086</u>	<u>3,236,314</u>	<u>(1,412,926)</u>	<u>742,080</u>	<u>28,715,554</u>	<u>(20,416,309)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Property taxes	-	-	9,931,045	-	9,931,045	-
Intergovernmental	-	30,000	-	-	30,000	-
Gain (loss) on disposal of capital assets	(5,754)	61,285	-	-	55,531	234,424
Investment income	18,278	392,623	142,999	15,892	569,792	269,389
Interest expense	(1,285,035)	(649,864)	(1,455,782)	(1,530)	(3,392,211)	(11,770)
Other revenue	110,000	49,368	487,043	4,814	651,225	3,567,044
Insurance recoveries	-	8,100	-	-	8,100	223,408
Total Nonoperating Revenues (Expenses)	<u>(1,162,511)</u>	<u>(108,488)</u>	<u>9,105,305</u>	<u>19,176</u>	<u>7,853,482</u>	<u>4,282,495</u>
Income (Loss) Before Capital Contributions and Transfers	<u>24,987,575</u>	<u>3,127,826</u>	<u>7,692,379</u>	<u>761,256</u>	<u>36,569,036</u>	<u>(16,133,814)</u>
Transfers In (Out):						
Transfers in	-	-	14,700	25,000	39,700	-
Transfers out	(30,175,062)	(2,429,320)	(18,499,546)	(4,024,760)	(55,128,688)	(14,779,000)
Total Transfers In (Out)	<u>(30,175,062)</u>	<u>(2,429,320)</u>	<u>(18,484,846)</u>	<u>(3,999,760)</u>	<u>(55,088,988)</u>	<u>(14,779,000)</u>
Change in Net Assets	(5,187,487)	698,506	(10,792,467)	(3,238,504)	(18,519,952)	(30,912,814)
Total Net Assets - Beginning of Year	<u>34,972,338</u>	<u>68,089,300</u>	<u>169,693,396</u>	<u>(2,755,687)</u>		<u>70,507,119</u>
Total Net Assets - End of Year	<u>\$ 29,784,851</u>	<u>\$ 68,787,806</u>	<u>\$ 158,900,929</u>	<u>\$ (5,994,191)</u>		<u>\$ 39,594,305</u>
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					(639,640)	
Change in net assets of business-type activities					\$ (19,159,592)	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
Exhibit A-13

	Business-Type Activities - Enterprise Funds				Totals	Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 234,841,514	\$ 100,268,475	\$ 28,667,966	\$ 34,933,022	\$ 398,710,977	\$ 216,110,101
Payments to suppliers	(178,511,729)	(89,275,074)	(16,075,359)	(11,442,070)	(295,304,232)	(66,484,381)
Payments to employees	(23,194,552)	(12,816,715)	(4,143,761)	(24,045,344)	(64,200,372)	(22,222,289)
Internal activity - operating payments from other funds	-	2,751,580	-	1,153,770	3,905,350	-
Other operating receipts	-	-	-	4,134,577	4,134,577	622,730
Other operating payments	-	-	-	(4,212,722)	(4,212,722)	-
Claims paid	-	-	-	-	-	(131,018,600)
Other revenue	110,000	57,468	487,043	4,814	659,325	3,567,044
Net Cash Provided (Used) by Operating Activities	<u>33,245,233</u>	<u>985,734</u>	<u>8,935,889</u>	<u>526,047</u>	<u>43,692,903</u>	<u>574,605</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Property tax collections	-	-	9,931,045	-	9,931,045	-
Operating subsidies, transfers and receipts from other funds	-	-	-	3,447,100	3,447,100	-
Operating subsidies, transfers and payments to other funds	(30,175,062)	(2,429,320)	(18,499,546)	(4,024,760)	(55,128,688)	(14,779,000)
Intergovernmental revenue	-	30,000	-	-	30,000	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(30,175,062)</u>	<u>(2,399,320)</u>	<u>(8,568,501)</u>	<u>(577,660)</u>	<u>(41,720,543)</u>	<u>(14,779,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from sale of capital assets	-	61,285	-	-	61,285	615,394
Purchases of capital assets	(1,134,024)	(3,250,926)	(5,198,001)	-	(9,582,951)	(4,952,659)
Principal paid on capital debt	(1,205,324)	(3,420,000)	(1,992,786)	(62,481)	(6,680,591)	(145,628)
Interest paid on capital debt	(1,436,299)	(589,000)	(1,443,332)	(1,684)	(3,470,315)	(13,187)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,775,647)</u>	<u>(7,198,641)</u>	<u>(8,634,119)</u>	<u>(64,165)</u>	<u>(19,672,572)</u>	<u>(4,496,080)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Investment income from pooled investments	18,278	144,371	60,259	15,892	238,800	269,064
Investment income from nonpooled investments	-	13,086	-	-	13,086	325
Net Cash Provided (Used) by Investing Activities	<u>18,278</u>	<u>157,457</u>	<u>60,259</u>	<u>15,892</u>	<u>251,886</u>	<u>269,389</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(687,198)	(8,454,770)	(8,206,472)	(99,886)	(17,448,326)	(18,431,086)
Balances - Beginning of Year	10,323,025	62,089,824	26,704,758	13,071,939	112,189,546	133,079,343
Balances - End of Year	<u>\$ 9,635,827</u>	<u>\$ 53,635,054</u>	<u>\$ 18,498,286</u>	<u>\$ 12,972,053</u>	<u>\$ 94,741,220</u>	<u>\$ 114,648,257</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>						
Operating income (loss)	\$ 26,150,086	\$ 3,236,314	\$ (1,412,926)	\$ 742,080	\$ 28,715,554	\$ (20,416,309)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	1,619,465	2,302,666	9,743,802	164,761	13,830,694	7,277,161
Other revenue	110,000	57,468	487,043	4,814	659,325	3,567,044
Effect of changes in operating assets and liabilities:						
Receivables, net	324,303	(268,025)	880,564	(1,513)	935,329	(2,348,757)
Inventories, prepaids and other assets	1,351,410	(396)	(5,718)	(189,017)	1,156,279	4,054
Accounts payable and other liabilities	3,518,083	(4,424,050)	(981,475)	61,250	(1,826,192)	11,249,020
Accrued expenses	171,886	81,757	224,599	(256,328)	221,914	1,242,392
Net Cash Provided (Used) by Operating Activities	<u>\$ 33,245,233</u>	<u>\$ 985,734</u>	<u>\$ 8,935,889</u>	<u>\$ 526,047</u>	<u>\$ 43,692,903</u>	<u>\$ 574,605</u>
<b>Noncash investing, capital and financing activities:</b>						
Capital asset disposals	\$ (5,751)	\$ -	\$ -	\$ -	\$ (5,751)	\$ -
Assets acquired through transfers from governmental activities	-	-	14,700	-	14,700	-
Change in fair value of investments that are not cash equivalents	-	88,837	82,740	-	171,577	-

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2010  
**Exhibit A-14**

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts	Agency Funds
<b>ASSETS</b>				
Current Assets:				
Equity in pooled cash and investments	\$ 2,360,911	44,654,577	\$\$ 675,925	\$ 32,375,842
Cash	-	-	-	242,118
Investments:				
U.S. Government and agency obligations	235,631,971	-	-	-
Asset-backed securities	9,343,270	-	-	-
Municipal/Provincial bonds	7,627,603	-	-	-
Corporate bonds	519,898,639	-	-	-
Collateralized mortgage obligations	2,656,570	-	-	-
Commercial mortgage-backed securities	190,025	-	-	-
Common and preferred stock	1,063,949,809	-	-	-
Mutual and commingled funds	521,076,950	-	-	-
Short-term investments	218,146,254	-	-	-
Cash collateral received under securities lending agreements	229,936,305	-	-	-
Real estate	76,182,689	-	-	-
Private equity	167,767,042	-	-	-
Total investments	<u>3,052,407,127</u>	<u>-</u>	<u>-</u>	<u>-</u>
Receivables (net of allowances for uncollectibles):				
Receivables and accrued interest	14,260,259	-	-	-
Property taxes	-	-	-	4,401,258
Accounts	70,484	-	30,000	75,786
Due from other funds	15,519,046	-	-	-
Due from component units	136,978	-	-	-
Due from other governments	1,001,821	-	-	-
Total Current Assets	<u>3,085,756,626</u>	<u>44,654,577</u>	<u>705,925</u>	<u>37,095,004</u>
Total Assets	<u>3,085,756,626</u>	<u>44,654,577</u>	<u>705,925</u>	<u>\$ 37,095,004</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	236,219,831	-	-	19,853
Accrued liabilities	267,957	-	-	-
Deposits	-	-	-	463,011
Claims payable	4,807,430	-	-	-
Due to other funds	6,292	-	-	-
Due to other governments	-	-	-	1,982,109
Uncollected property taxes due to governments	-	-	-	4,075,289
Undistributed taxes and refunds	-	-	-	11,052,944
Unearned revenue	77,121	-	-	-
Tax sale surplus and redemptions payable	-	-	-	2,322,373
Other liabilities	-	-	-	17,179,425
Total Current Liabilities	<u>241,378,631</u>	<u>-</u>	<u>-</u>	<u>37,095,004</u>
Noncurrent Liabilities:				
Compensated absences	52,660	-	-	-
Total Liabilities	<u>241,431,291</u>	<u>-</u>	<u>-</u>	<u>\$ 37,095,004</u>
<b>NET ASSETS</b>				
Held in trust for pension and other postemployment benefits, external investment pool participants, and other purposes	<u>\$ 2,844,325,335</u>	<u>\$ 44,654,577</u>	<u>\$ 705,925</u>	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
**Exhibit A-15**

	<b>Pension and Other Employee Benefit Trusts</b>	<b>Investment Trust</b>	<b>Private- Purpose Trusts</b>
<b>ADDITIONS</b>			
Contributions:			
Employers	\$ 170,671,635	\$ -	\$ -
Members	61,314,440	-	476,600
Federal government - Medicare Part D	2,247,072	-	-
Share purchases	-	28,154,658	-
Total Contributions	<u>234,233,147</u>	<u>28,154,658</u>	<u>476,600</u>
Investment income (loss)	357,173,056	85,890	2,857
Less: Investment expenses	15,945,378	-	-
Net Investment Income (Loss)	<u>341,227,678</u>	<u>85,890</u>	<u>2,857</u>
Other income - forfeitures	<u>557,949</u>	<u>-</u>	<u>-</u>
Total Additions, net	<u>576,018,774</u>	<u>28,240,548</u>	<u>479,457</u>
<b>DEDUCTIONS</b>			
Benefits:			
Annuities:			
Retirees	122,861,083	-	-
Survivors	7,620,034	-	-
Disability	38,607,638	-	-
Claims	52,137,098	-	-
Total Benefits	<u>221,225,853</u>	<u>-</u>	<u>-</u>
Share redemptions	-	29,395,000	-
Member refunds	14,039,347	-	-
Program expenses	-	-	23,151
Administrative expenses	5,410,060	-	-
Total Deductions	<u>240,675,260</u>	<u>29,395,000</u>	<u>23,151</u>
Net Increase (Decrease)	335,343,514	(1,154,452)	456,306
Net Assets - Beginning of Year	<u>2,508,981,821</u>	<u>45,809,029</u>	<u>249,619</u>
Net Assets - End of Year	<u>\$ 2,844,325,335</u>	<u>\$ 44,654,577</u>	<u>\$ 705,925</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
COMPONENT UNITS  
JUNE 30, 2010

Exhibit A-16

	MCPS	HOC	Nonmajor Component Units	Total
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 19,379,458	\$ -	\$ 10,098,060	\$ 29,477,518
Cash with fiscal agents	-	34,925,268	2,010,334	36,935,602
Cash	6,708,268	17,268	4,743,356	11,468,892
Investments-cash equivalents	32,939,818	41,027,224	45,720,366	119,687,408
Investments	5,435,899	-	31,130,033	36,565,932
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	27,870,691	27,870,691
Accounts	20,030,929	2,288,898	2,237,216	24,557,043
Notes	-	-	47,110,000	47,110,000
Mortgages receivable	-	362,957,652	-	362,957,652
Interest	-	5,449,722	-	5,449,722
Other	437,426	-	1,405,930	1,843,356
Due from primary government	80,740,823	3,030,113	14,456,943	98,227,879
Due from other governments	22,485,982	1,961,875	10,641,349	35,089,206
Inventory of supplies	8,563,499	267,616	2,020,212	10,851,327
Prepays	266,603	2,964,680	2,792,283	6,023,566
Deferred charges	-	-	468,514	468,514
Other assets	-	47,317,552	17,393,762	64,711,314
Restricted Assets:				
Equity in pooled cash and investments	-	-	7,140,737	7,140,737
Cash	-	-	717,741	717,741
Cash non pooled	-	18,649,763	-	18,649,763
Investments - cash equivalents	-	80,919,375	3,566,223	84,485,598
Investments	-	218,382,399	-	218,382,399
Capital Assets:				
Nondepreciable assets	160,707,761	90,762,793	167,240,231	418,710,785
Depreciable assets, net	1,836,000,115	370,861,747	268,674,363	2,475,536,225
Total Assets	<u>2,193,696,581</u>	<u>1,281,783,945</u>	<u>667,438,344</u>	<u>4,142,918,870</u>
<b>LIABILITIES</b>				
Accounts payable	60,154,405	8,545,112	28,644,324	97,343,841
Interest payable	-	26,838,481	873,618	27,712,099
Retainage payable	6,000,883	-	338,900	6,339,783
Accrued liabilities	78,345,934	7,501,704	815,723	86,663,361
Claims payable	18,380,085	-	-	18,380,085
Deposits	-	10,572,271	47,637	10,619,908
Due to primary government	101,371	71,709,779	804,661	72,615,811
Due to other governments	-	-	13,700	13,700
Unearned revenue	3,772,082	20,561,788	4,852,297	29,186,167
Other liabilities	-	17,731,110	-	17,731,110
Noncurrent Liabilities:				
Due within one year	24,379,010	120,904,383	6,610,890	151,894,283
Due in more than one year	333,135,633	802,827,996	195,376,183	1,331,339,812
Total Liabilities	<u>524,269,403</u>	<u>1,087,192,624</u>	<u>238,377,933</u>	<u>1,849,839,960</u>
<b>NET ASSETS</b>				
Invested in capital, net of related debt	1,976,371,415	26,170,735	318,215,127	2,320,757,277
Restricted for:				
Capital projects	-	-	327,924	327,924
Debt service	-	47,083,981	3,840,382	50,924,363
Other purposes	1,376,491	13,281,952	23,419,136	38,077,579
Unrestricted (deficit)	(308,320,728)	108,054,653	83,257,842	(117,008,233)
Total Net Assets	<u>\$ 1,669,427,178</u>	<u>\$ 194,591,321</u>	<u>\$ 429,060,411</u>	<u>\$ 2,293,078,910</u>

Notes to Financial Statements are an integral part of this statement.



MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF ACTIVITIES  
COMPONENT UNITS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
Exhibit A-17

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	MCPS	HOC	Nonmajor Component Units	
							Total	Total
<b>Component units:</b>								
General government	\$ 4,482,166	\$ 4,247,612	\$ 180,456	\$ -	\$ -	\$ -	\$ (54,098)	\$ (54,098)
Culture and recreation	19,135,971	17,163,179	-	172,670	-	-	(1,800,122)	(1,800,122)
Community development and housing	214,831,030	106,625,182	103,531,616	5,429,701	-	755,469	-	755,469
Education:								
Secondary education	2,432,813,858	29,298,967	152,218,307	44,899,066	(2,206,397,518)	-	-	(2,206,397,518)
Higher education	281,461,880	77,858,885	34,849,711	321,431	-	-	(168,431,853)	(168,431,853)
Total component units	<u>\$ 2,952,724,905</u>	<u>\$ 235,193,825</u>	<u>\$ 290,780,090</u>	<u>\$ 50,822,868</u>	<u>(2,206,397,518)</u>	<u>755,469</u>	<u>(170,286,073)</u>	<u>(2,375,928,122)</u>
General revenues:								
Grants and contributions not restricted to specific programs					2,174,461,133	-	211,378,232	2,385,839,365
Investment income					79,077	729,987	5,147,067	5,956,131
Gain on sale of capital assets					114,083	-	-	114,083
Total general revenues					<u>2,174,654,293</u>	<u>729,987</u>	<u>216,525,299</u>	<u>2,391,909,579</u>
Change in net assets					(31,743,225)	1,485,456	46,239,226	15,981,457
Net assets - beginning					1,701,170,403	193,105,865	382,821,185	2,277,097,453
Net assets - ending					<u>\$ 1,669,427,178</u>	<u>\$ 194,591,321</u>	<u>\$ 429,060,411</u>	<u>\$ 2,293,078,910</u>

Notes to Financial Statements are an integral part of this statement

MONTGOMERY COUNTY, MARYLAND

**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2010

**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A REPORTING ENTITY
- B GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
- C MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION
- D ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY
- E ACCOUNTING CHANGES

**NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

- A BUDGETARY INFORMATION
- B DEFICIT FUND EQUITY

**NOTE III – DETAILED NOTES ON ALL FUNDS**

- A CASH AND INVESTMENTS
- B RECEIVABLES
- C CAPITAL ASSETS
- D INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS
- E LEASES
- F LONG-TERM DEBT
- G SEGMENT INFORMATION
- H FUND EQUITY
- I SIGNIFICANT TRANSACTIONS WITH DISCRETELY PRESENTED COMPONENT UNITS

**NOTE IV – OTHER INFORMATION**

- A RISK MANAGEMENT
- B SIGNIFICANT COMMITMENTS AND CONTINGENCIES
- C SUBSEQUENT EVENTS
- D JOINT VENTURES
- E EMPLOYEE BENEFITS
- F PENSION PLAN OBLIGATIONS
- G OTHER POSTEMPLOYMENT BENEFITS

## NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) applicable to local government entities. The following is a summary of significant policies:

### A) **Reporting Entity**

#### **Background**

Montgomery County, Maryland (County) is a charter government under the constitution and general laws of the State of Maryland (State). The charter provides for separate legislative and executive branches with legislative responsibility vested in an elected nine-member county council and executive responsibility vested in an elected county executive. The County provides its citizens with services in areas of general government, public safety, public works and transportation, health and human services, education, culture and recreation, community development and housing, and environment.

As required by GAAP, these financial statements present the primary government and its component units, which are entities for which the primary government is considered financially accountable. The County reporting entity is determined by criteria established by the Governmental Accounting Standards Board (GASB). The judgment to include or exclude activities is dependent on evaluation of the GASB criteria. Various departments and agencies governed directly by the County Executive and the County Council of Montgomery County are included in the reporting entity as the primary government and are referred to hereafter as the Primary Government. The component units (as discussed below) are included in the reporting entity because the Primary Government approves the budget requests, provides a significant amount of funding for each of these units, and/or appoints the governing boards.

#### **Discretely Presented Component Units**

The financial data of the County's component units are discretely presented in a column separate from the financial data of the primary government, to emphasize that the component units are legally separate from the Primary Government. Financial information regarding the component units is included in the component units' combining statements. The following are the County's component units, each of which has a June 30 fiscal year-end:

**Montgomery County Public Schools (MCPS)** provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education, including one student member, are elected by the voters. However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.

**Montgomery Community College (Montgomery College or MCC)** provides educational services to County citizens by offering two-year associate degrees and a continuing education program. MCC is responsible for post secondary education within the government's jurisdiction. The Montgomery County Board of Community College trustees is the governing authority. The State Governor appoints the trustees from a list of candidates supplied by a nominating committee. The nominating committee is controlled by the County Executive and the County Council. Therefore, essentially the Primary Government and the State Governor must agree upon the trustees to serve on the College's Governing Board. In addition, the County Council reviews and approves both the operating and capital budgets and budgetary amendments

of MCC. The Primary Government contributes substantial funding for both the operating and capital budgets, as well as issues debt for the construction of college facilities.

**Montgomery County Revenue Authority (MCRA)** is governed by a five-member Board of Directors. All members are appointed by the County Executive subject to the confirmation of the County Council. The County Council approves the capital budget of MCRA. MCRA approves its own operating budget. MCRA is an instrumentality of the Primary Government for the purpose of constructing, improving, and maintaining self-sustaining projects devoted to public use, good or welfare.

**Housing Opportunities Commission of Montgomery County (HOC)** is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of HOC and guarantees a relatively small portion of its debt (up to \$50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though there is a large dependence on the U.S. Department of Housing and Urban Development (HUD), HOC has sufficient financial accountability to the Primary Government to be included as a component unit.

**Bethesda Urban Partnership, Inc (BUPI)** has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI's funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

Complete financial statements can be obtained at the component units' administrative offices listed below:

Montgomery County Public Schools 850 Hungerford Drive Rockville, MD 20850	Montgomery College 900 Hungerford Drive Rockville, MD 20850	Montgomery County Revenue Authority 101 Monroe Street, 4 <sup>th</sup> Floor Rockville, MD 20850
Housing Opportunities Commission of Montgomery County, Maryland 10400 Detrick Avenue Kensington, MD 20895-2484	Bethesda Urban Partnership, Inc. 7700 Old Georgetown Road Bethesda, MD 20814	

### **Joint Ventures**

The following organizations are considered joint ventures of the County: Maryland-National Capital Park and Planning Commission (M-NCPPC), Washington Suburban Sanitary Commission (WSSC), Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA). Disclosure of the County's participation in these joint ventures is presented in Note IV-D. Complete financial statements can be obtained at the joint ventures' offices listed below:

Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737	Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707	Washington Suburban Transit Commission 4351 Garden City Drive, Suite 305 Hyattsville, MD 20785
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Washington Metropolitan Area  
Transit Authority  
600 Fifth Street, NW  
Washington, DC 20001

Metropolitan Washington Council  
of Governments  
777 N. Capitol Street, NE, #300  
Washington, DC 20002

Northeast Maryland Waste  
Disposal Authority  
100 South Charles St, Tower II-Suite 402  
Baltimore, MD 21201

## **B) Government-Wide and Fund Financial Statements**

**Government-Wide Financial Statements** – The government-wide financial statements report information on all of the nonfiduciary activities of the Primary Government and its component units. Since by definition, assets of fiduciary funds are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities of the Primary Government, 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.

**Statement of Net Assets** – This statement is designed to display the financial position of the reporting entity as of year-end. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. Net assets are divided into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

**Statement of Activities** – This statement demonstrates the degree to which the direct expenses of a given function or segment for the fiscal year are offset by program revenues. Therefore, this statement reflects both the gross and net costs per functional category (general government, public safety, public works and transportation, health and human services, culture and recreation, community development and housing, environment, and education) that are otherwise being supported by general revenues. Direct expenses (including depreciation) 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 as general revenues. The County does not allocate indirect expenses. The operating grants column includes operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

**Fund Financial Statements** – 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.

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of 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 comprise assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses.

**Budget-to-Actual Comparison Statement** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. For this reason, the County has chosen to make its General, Revenue Stabilization, Housing Initiative, and Grants funds, budget-to-actual comparison statement part of the basic financial statements. The County and many other governments revise their original budgets over the course of the year for a variety of reasons; such revisions are reflected in a separate column in this statement.

C) **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Measurement Focus and Basis of Accounting**

**Full Accrual Basis Financial Statements** - The government-wide, proprietary fund, and certain fiduciary fund (pension and other employee benefit trusts, investment trust, and private-purpose trusts) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements. The agency funds also use the accrual basis of accounting to recognize assets and liabilities.

**Modified Accrual Basis Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In the governmental funds, revenues are recorded as soon as they are susceptible to accrual (both measurable and available). 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and judgments and compensated absences are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

In applying the susceptible to accrual concept to income taxes (distributed by the State), property taxes, and intergovernmental revenues other than grants, the County defines "available" to mean received within 30 days after year-end.

In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing those collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. The County records estimated receivables relating to income taxes when the underlying income is earned. Amounts not received within 30 days are reported as deferred revenue. At year-end, deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the County's availability period. Amounts relating to late filers are expected to be received from the State within the next fiscal year; however, collections related to delinquent returns and audits and unallocated withholding may not occur and be remitted to the County for several years. Deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and remaining unallocated withholding.

In applying the susceptible to accrual concept to operating and capital grants, classified with intergovernmental revenues in the fund financial statements, the County records receivables when the applicable eligibility requirements including time requirements are met. Related revenues are recognized to the extent that cash is expected to be received within one year of year-end. Resources received before the eligibility requirements are met are reported as deferred revenue.

Charges for services, licenses and permits, fines and penalties, and miscellaneous revenues (except earnings on investments) are generally recorded as revenues when received in cash during the year. At year-end, receivables are recorded for significant amounts due. If such amounts are received in cash after year-end within the County's 30 day availability period, they are recognized as revenue; if not, such amounts are reported as deferred revenue.

### **Financial Statement Presentation**

The County reports the following major governmental funds:

**General Fund** - This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

**Revenue Stabilization Fund** - This fund is used to account for the accumulation of resources during periods of economic growth and prosperity, when revenue collections exceed estimates. Funds may then be drawn upon during periods of economic slowdown, when collections fall short of revenue estimates.

**Housing Initiative Fund** - This fund is used to account for the fiscal activity for financing, supplementing, and constructing affordable residential facilities for eligible participants.

**Grants Fund** - This fund accounts for the Federal and State grant-funded activities of the tax-supported General Fund and special revenue funds.

**Debt Service Fund** - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Special assessment activities are accounted for in the Debt Service Fund for practical purposes because they differ significantly from traditional special assessment practices. The principal and interest collected annually on such assessments are used as a partial source of funding for debt service on all outstanding general obligation road and storm drainage bonds. The remaining debt service requirement is financed from current governmental revenues and transfers, generally from the General Fund.

**Capital Projects Fund** - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The County reports the following major enterprise funds:

**Liquor Enterprise Fund** - This fund accounts for the operations of twenty-four liquor stores and two Montgomery County liquor warehouses. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.

**Solid Waste Activities Enterprise Fund** - This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling and leaf vacuuming, for the County. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements. The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County. The Vacuum Leaf Collection program provides leaf collection services to downcounty residents during the late fall/winter months.

**Parking Lot Districts Enterprise Fund** - This fund accounts for the fiscal activity related to serving the parking needs of the people who work and shop in the four central business districts zoned for commercial or industrial use identified as Silver Spring, Bethesda, Wheaton, and Montgomery Hills.

Additionally, the County reports the following fund types:

**Other Governmental Funds** - The other governmental fund types used by the County are special revenue and permanent. Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs.

**Internal Service Funds** - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or to other governmental units, on a cost-reimbursement basis. There are four internal service funds reported by the County: Motor Pool, Liability and Property Coverage Self-Insurance, Employee Health Benefits Self-Insurance, and Central Duplicating.

The County reports the following fiduciary fund types:

**Pension and Other Employee Benefit Trust Fund** - This fund is used to account for all activities of the Employees' Retirement System of Montgomery County (defined benefit plan), Employees' Retirement Savings Plan (defined contribution plan), Deferred Compensation Plan, and Retiree Health Benefits Trust, including accumulation of resources for, and payment of, retirement annuities and/or other benefits and administrative costs.

**Investment Trust Fund** - This fund accounts for the portion of the external investment pool, sponsored by the County, that belongs to participating governments that are not part of the County reporting entity.

**Private-Purpose Trust Funds** - These funds account for arrangements under which principal and interest are legally held in trust for parties outside of the County, such as court appointed guardians, and others, and must be expended in accordance with their designated purposes.

**Agency Funds** - These funds are used to account for assets, such as property taxes, held in a purely custodial capacity, where the County receives, temporarily invests, and remits such resources to individuals, private organizations, or other governments.

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 GASB. 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 County has elected not to follow subsequent private-sector guidance.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets. The effect of interfund services provided and used between functions has not been eliminated in the Statement of Activities, since to do so would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service 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.

The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

## **D) Assets, Liabilities, and Net Assets or Equity**

### **1) Cash and Investments**

**Pooled Cash and Investments** – The County sponsors an external investment pool. Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The portion of pooled cash and investments applicable to other legally separate entities (not included in the County reporting entity) is accounted for in a separate Investment Trust Fund. During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. At year-end, investments in the pool are adjusted to fair value plus accrued interest. See Note III-A for additional information.

#### **Non-pooled Investments:**

**Proprietary Fund Types** – The Solid Waste Activities and the Parking Lot District enterprise funds investments in U.S. Government securities are stated at fair value plus accrued interest.

**Pension and Other Employee Benefit Trust Fiduciary Fund Type** – Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2010. Fair value for real estate investments is determined using unit values supplied by the issuers, which are based upon the issuers' appraisals of underlying real estate values. Such values involve subjective judgment and may differ from amounts which would be realized if such real estate was actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

**Cash and Cash Equivalents** – For Statement of Cash Flows reporting purposes, “cash equivalents” are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less, at the time of purchase, meet this definition. The balance sheet classification for “cash and cash equivalents” in the Statement of Cash Flows includes the following: “Equity in pooled cash and investments,” “Cash,” “Cash with fiscal agents,” and “Restricted Equity in pooled cash and investments.”

## 2) **Receivables and Payables**

**Due From/To Other Funds and Internal Balances** – Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the year and where repayment is expected within a reasonable time are referred to as “due from/to other funds.” Such outstanding balances not expected to be repaid within a reasonable time are included in interfund “transfers in/out.” Any residual balances of “due from/to other funds” outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

**Trade Accounts Receivable** – Trade and other receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is calculated based on historical collection data and, in some cases, specific account analysis.

## 3) **Inventories and Prepaids**

**Inventories** – Inventories are valued at the lower of cost (principally first-in, first-out) or market in the Liquor Enterprise Fund and consist of goods held for sale. Inventories valued at cost (principally moving-average) are carried in the Motor Pool Internal Service Fund and the governmental fund types. All inventories are maintained by perpetual records and adjusted by annual physical counts. Inventories in the governmental funds and Motor Pool Internal Service Fund consist of items held for consumption. The cost is recorded as an expenditure at the time individual items are withdrawn for use. In governmental funds, the reserve for inventory is equal to the amount of inventory to indicate that portion of fund balance which is not available for funding other expenditures.

**Prepaids** – Payments made to vendors for services that will benefit periods beyond the end of the fiscal year are recorded as prepaids.

## 4) **Restricted Assets**

Certain proceeds of the County’s bonds, as well as certain resources set aside for revenue bond repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

## 5) **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of

\$5,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. 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 asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	20 – 40
Improvements other than buildings	3 – 40
Infrastructure	20 – 60
Furniture, fixtures, equipment and machinery	3 – 20
Automobiles and trucks	2 – 15

For Statement of Cash Flows reporting purposes, proceeds from insurance on capital assets that are stolen or destroyed are classified as proceeds from sale of capital assets.

**6) Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer's share of social security and medicare taxes. Based on a historical analysis of leave accrued leave is classified as current and long-term. In the proprietary fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

**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 activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable in the proprietary fund financial statements and noncurrent liabilities in the government-wide financial statements are reported net of the applicable bond premium or discount. Bond issuance costs are generally reported as a deferred asset and amortized over the term of the related debt using the straight-line method.

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 expenditures.

**8) Fund Equity/Net Assets**

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The capital assets related to component units are reported on the financial statements of MCPS and MCC, and this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2010, the County has reported outstanding general obligation bond and variable rate demand obligation debt related to MCPS, MCC, and M-NCPPC amounting to \$1,252,293,676. Absent the effect of this relationship, the County would have reported a deficit in unrestricted net assets of governmental activities in the amount of \$120,415,664.

In the government-wide Statement of Net Assets (Exhibit A-1), the amount reported in the Business-type Activities column for net assets invested in capital, net of related debt, includes \$48,556,373 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of \$31,104,271 at June 30, 2010, is an obligation of the Governmental Activities (see Note III-E3), and the debt does not relate to a governmental capital asset, the impact of such debt is reported in the unrestricted portion of net assets in the Governmental Activities column. However, in the Total Primary Government column, the impact of such debt has been reclassified and reflected with the associated capital asset, in net assets invested in capital, net of related debt.

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. However, long-term receivables in the Grants Special Revenue Fund, a nonmajor governmental fund, have not met the “available” criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than reserved fund balance. In the Capital Projects Fund, fund balance reserved for other purposes represents recordation and impact tax collections on hand that are legally restricted for use on projects of other component unit and municipality governments.

Designations of fund balances represent tentative management plans that are subject to change, which are described more fully in Note III-H.

**9) Property Taxes**

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY10. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of nine members of the Council to increase the real property tax rate to a level that

will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate adopted for levy year 2009 (i.e., FY10), in conjunction with a one-time income tax offset credit, met the Charter limit for that year.

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Owner-occupied residential property owners pay their tax on a semi-annual schedule, with the first and second installments due on September 30 and December 31, respectively. Taxpayers may opt to make both semi-annual payments on or before September 30.

The County collects delinquent real property taxes through a public tax lien sale. Tax liens, representing delinquent taxes on real property are sold in random groups, utilizing a sealed bid process, on the second Monday in June, when taxes have remained overdue since the preceding October 1 or in the case of a semi-annual schedule, January 1.

**E) New Accounting Standards**

The County has adopted GASB Statements No. 51, *Accounting and Financial Reporting for Intangible Assets*, No. 53, *Accounting and Financial Reporting Derivative Instruments*, and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. Statements No. 51 and 58 have no impact on the County's financial statements for the current fiscal year. The adoption of Statement No. 53 resulted in additional disclosures in the derivatives footnote related to the Employees' Retirement System.

**NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A) Budgetary Information**

**Overview**

Annual appropriated operating budgets are adopted for the General Fund, Debt Service Fund, substantially all Special Revenue Funds (except for the Agricultural Transfer Tax Fund), Enterprise Funds, the Liability and Property Coverage Self-Insurance Internal Service Fund, and the Employee Health Benefits Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

Encumbrance accounting is employed for budgetary purposes in the governmental and proprietary funds. Encumbrances (purchase orders and contracts awarded for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to preserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as a designation of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

## **Approval**

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in three major categories (personnel costs, operating, and capital outlay) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note III-H1), such encumbrances are designated as part of the current fiscal year's fund balance. The annual budget must be consistent with the six-year program for public services and fiscal policy. Multi-year planning provides a framework to make informed decisions about the levels of public services and project the impact of what may happen as a result of current decisions and policies. For the capital projects budget, the annual resolution provides spending authority at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation; or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY10, the County Council increased the operating budget through supplemental and special appropriations by \$67.3 million. In addition, supplemental appropriations increased the CIP budget by \$69.5 million.

## **Presentation**

The basis used to prepare the legally adopted budget is different from GAAP in a number of ways, including the following:

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Proprietary fund budgets do not include depreciation and bad debts, however they do include debt service payments and capital outlay.
- Year-end incurred but not reported (IBNR) adjustments in the self-insurance internal service funds are not budgeted for, as they are incorporated into the budget preparation process of the following fiscal year.

- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Retirement of commercial paper bond anticipation notes through the issuance of general obligation bonds is not budgeted.
- Proceeds under certain capital lease financing are not budgeted.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MCC.

Adjustments necessary to reconcile the General Fund budgetary and GAAP statements are as follows:

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
<u>General Fund:</u>				
As reported - budgetary basis	\$ 2,521,890,544	\$ 919,065,498	\$ (1,663,795,233)	\$ (60,970,187)
Reconciling items:				
Cancellation of prior year encumbrances	(4,908,160)	-	-	(4,908,160)
Elimination of encumbrances outstanding	-	(4,959,728)	-	4,959,728
Unrealized gains (losses)	37,503	-	-	37,503
Financing under lease revenue bonds	-	14,700	14,700	-
Financing under notes payable	-	402,617	402,617	-
Conference Center activity	14,259,794	14,222,284	-	37,510
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	2,077,160	-	(2,077,160)	-
Public agency permits	-	1,153,770	1,153,770	-
Solid waste tipping fees	-	1,992,800	1,992,800	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	255,150	-	(255,150)	-
Component Units and Joint Venture - Transfer out	-	1,568,829,854	1,568,829,854	-
As reported - GAAP basis	<u>\$ 2,533,611,991</u>	<u>\$ 2,500,721,795</u>	<u>\$ (93,733,802)</u>	<u>\$ (60,843,606)</u>

## B) Deficit Fund Equity

**Permitting Services** – The \$7,527,436 total net assets deficit in the Permitting Services Fund was caused by the severe economic downturn in FY09, which resulted in a loss in assets of \$7,380,995 in FY09. The economy improved in FY10 and the department made severe reductions in expenditures. However, there was still a loss of \$2,923,619 in FY10. In the FY11 budget process, Permitting Services reduced its staff by 16 filled and 25 vacant positions. In addition, rent is being reduced by giving up some unused space. With increased revenue projected based on pre-construction conferences, and budgeted reductions, the deficit is projected to be eliminated in FY11.

**NOTE III. DETAILED NOTES ON ALL FUNDS**

**A) Cash and Investments**

**1) Overview**

The Montgomery County reporting entity total cash and investments as of June 30, 2010, totaled \$4,155,295,468 of which \$3,591,783,878 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

	Primary Government	Component Units	Total Reporting Entity
<u>Statement of Net Asset Amounts:</u>			
Equity in pooled cash and investments	\$ 461,526,369	\$ 29,477,518	\$ 491,003,887
Cash with fiscal agents	33,868,795	36,935,602	70,804,397
Cash	834,544	11,468,892	12,303,436
Investments - cash equivalents	-	119,687,408	119,687,408
Investments	3,052,407,127	36,565,932	3,088,973,059
Restricted equity in pooled cash and investments	37,030,278	7,140,737	44,171,015
Restricted cash with fiscal agents	-	18,649,763	18,649,763
Restricted cash	201,948	717,741	919,689
Restricted investments - cash equivalents	-	84,485,598	84,485,598
Restricted investments	5,914,817	218,382,399	224,297,216
Total	<u>\$ 3,591,783,878</u>	<u>\$ 563,511,590</u>	<u>\$ 4,155,295,468</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 193,673,231	\$ 63,409,450	\$ 257,082,681
Investments	3,363,407,308	383,779,364	3,747,186,672
Cash on hand, fiscal agents, safe deposit escrow	34,703,339	116,322,776	151,026,115
Total	<u>\$ 3,591,783,878</u>	<u>\$ 563,511,590</u>	<u>\$ 4,155,295,468</u>

Primary Government cash and investments reconciles to the basic financial statements as follows:

Government-wide	\$ 459,067,378
Fiduciary funds	<u>3,132,716,500</u>
Total	<u>\$ 3,591,783,878</u>

**PRIMARY GOVERNMENT**

**2) External Investment Pool**

**Overview:**

The County maintains an external investment pool that is subject to oversight by the County's Internal Investment Committee, but is not subject to regulatory oversight by the Securities and Exchange Commission (SEC). Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The equity position of each fund and component unit is reported as an asset by the funds and component units. The external portion of the pool (i.e., participation by legally separate entities) is reported as the Investment Trust Fund in the accompanying financial statements. Participants' shares redeemed during the year are based on actual cost; participants' shares are then



adjusted to fair value at year-end. The County has not provided or obtained any legally binding guarantees during the year to support the value of shares.

During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of “2a-7 like.” The fair value of U. S. Government securities, repurchase agreements, commercial paper and bankers’ acceptances are provided by the County’s custodian, which are based on various industry standard pricing sources. For interest-bearing investments, market value quotations did not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest have been classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and the adjustment to fair value at year-end, is allocated to pool participants based upon their average equity in the pool. The adjustment to fair value for the current year related to all County funds (exclusive of legally separate entities’ accounts reflected in the Investment Trust Fund) is recorded in the General Fund, since this amount is not material.

External investment pool amounts, included in the schedule above, are as follows:

	Primary Government	Component Units	Total Reporting Entity
<u>Balance Sheet Amounts:</u>			
Equity in pooled cash and investments	\$ 461,526,369	\$ 5,870,145	\$ 467,396,514
Restricted equity in pooled cash and investments	37,030,278	-	37,030,278
Total	<u>\$ 498,556,647</u>	<u>\$ 5,870,145</u>	<u>\$ 504,426,792</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 193,471,283	-	\$ 193,471,283
Investments, including accrued interest	305,085,364	5,870,145	310,955,509
Total	<u>\$ 498,556,647</u>	<u>\$ 5,870,145</u>	<u>\$ 504,426,792</u>

**Deposits:**

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statute requires that securities underlying certificates of deposit have a market value that equals or exceeds the cost of the deposit while County investment policy requires a market value of at least 102 percent of the cost of the deposit. Appropriate sections of these cited statutes also require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County’s name at a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

Deposits include bank accounts and non-negotiable certificates of deposit. Deposits at financial institutions were fully insured or collateralized at year-end. Therefore, the County has no significant exposure to custodial credit risk.

**Investments:**

The County, through its external investment pool, maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet financial obligations, and maximization of the investment yield on short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County’s investment policies as approved by the County Council. There were no unusual variations in the mix or volume of the investment portfolio throughout the year. The County was in compliance with all applicable investment statutes throughout the fiscal year.

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created the Maryland Local Government Investment Pool with the passage of Article 95 §22G, of the Annotated Code of Maryland. The Pool’s purpose is to assist the public finance officer by providing an investment medium in which the participants may invest their idle balances. A pooled fund strategy is utilized creating a money market fund for municipalities that is a very safe, highly efficient, programmed approach to investing. Participants are provided professional money management, a well-diversified portfolio and reduced cost. The MLGIP is rated “AAAm” by Standard and Poor’s (their highest rating). The MLGIP, under the administrative control of the State Treasurer, is managed by PNC Institutional Investments. An MLGIP Advisory Committee of current participants was formed to review, on a semi-annual basis, the activities of the Fund and to provide suggestions to enhance the Pool.

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Maturity Range</u>	<u>Interest Range</u>
U. S. Government securities	\$ 145,994,026	\$ 146,069,230	July 2010	0.01 - 0.26 %
Money market mutual funds	82,629,504	82,629,504	n/a	0.04 - 0.09
State pool	82,281,489	82,281,489	n/a	0.20
Total	<u>\$ 310,905,019</u>	<u>\$ 310,980,223</u>		

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County’s investment policy limits investments to maturities of one year or less. However, a portion of the portfolio may be invested in investments with longer maturities (up to two years); any investment with a maturity of over 12 months must be approved by the Director of Finance prior to execution. As of June 30, 2010, the County’s investment maturities are as follows:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-2</u>
U. S. Government securities	\$ 145,994,026	\$ 145,994,026	-
Money market mutual funds	82,629,504	82,629,504	-
State pool	82,281,489	82,281,489	-
Total	<u>\$ 310,905,019</u>	<u>\$ 310,905,019</u>	<u>\$ -</u>

## Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secures. Cited statutes also authorize investments in bankers' acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade, the Maryland Local Government Investment Pool (MLGIP), and money market mutual funds that are registered and operate in accordance with Rule 2a-7 and in accordance with Maryland State Code. State statutes and County policies require that these money market mutual funds invest only in obligations of U.S. Treasuries, U.S. agencies and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities.

As of June 30, 2010, the County's investments were rated as follows:

<u>Investment Type</u>	<u>Ratings</u>		
	<u>Standard &amp; Poor's</u>	<u>Fitch</u>	<u>Moody's</u>
Repurchase agreements <sup>1</sup>	N/R	N/R	N/R
U.S. Government securities <sup>2</sup> :			
Agency discount notes	A-1+	F1+	P-1
Other U.S. Government securities	AAA	AAA	Aaa
Commercial paper <sup>3</sup>	A-1	F1	P-1
Bankers' acceptances <sup>4</sup>	N/R	N/R	N/R
Certificates of deposit <sup>5</sup>	N/R	N/R	N/R
Money market mutual funds	AAA	AAA	Aaa

N/R - Not Rated

- 1 - Disclosure of the credit risk for the County's repurchase agreements is required since the underlying securities are not issued or explicitly guaranteed by the U.S. Government.
- 2 - Only includes securities implicitly guaranteed by the U.S. Government.
- 3 - Not all commercial paper is rated by all agencies. However, each commercial paper is rated by at least one rating agency. Each such rating is of the highest investment grade.
- 4 - While the bankers' acceptances are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.
- 5 - While the certificates of deposit are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.

## Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the County will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name.

County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2010, the County's investments were not exposed to custodial credit risk.

### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. It is the County's policy to diversify by investment type and institution in order to avoid unreasonable risks, with maximum limits as follows:

<u>Diversification by Investment Type</u>	<u>Maximum percent of Portfolio*</u>
U. S. Treasury obligations	100 %
U. S. Government agencies	50
Repurchase agreements	50
Bankers' acceptances	50
Money market mutual fund	25
Local government investment pool	25
Collateralized certificates of deposit**	25
Commercial paper	5

<u>Diversification by Institution</u>	<u>Maximum percent of Portfolio*</u>
Approved broker/dealers	50 %
Money market mutual funds by fund	25
Bankers' acceptances by country	25
Bankers' acceptances by institution	10
Commercial banks (certificates of deposit)**	10
U.S. Government agencies by agency	20

\* At time of purchase

\*\* Certificates of deposit are classified as deposits for financial reporting purposes.

As of June 30, 2010, five percent or more of the County's investments, excluding amounts issued or explicitly guaranteed by the U.S. Government, mutual funds, and pooled investments, are invested in:

<u>Issuer</u>	<u>Fair Value</u>
Capital Bank	7,000,000
Dreyfus Funds	23,328,382
Federal Home Loan Bank	65,999,987
Invesco AIM Funds	25,244,537
JPMorgan Funds	28,818,306
MD Local Govt. Investment Pool	82,281,489
Morgan Stanley Funds	5,238,279

**External Investment Pool Condensed Financial Statements:**

The condensed financial statements of the County's external investment pool at June 30, 2010, are as follows:

Statement of Net Assets  
June 30, 2010

Assets:	
Investment in securities, at fair value	\$ 310,905,019
Cash	193,471,283
Accrued interest receivable	50,490
Total assets and net assets	<u>\$ 504,426,792</u>
Net assets consist of:	
Internal participants' units outstanding (\$1.00 par)	\$ 459,772,215
External participants' units outstanding (\$1.00 par)	44,654,577
Net assets	<u>\$ 504,426,792</u>
Participants net asset value, offering price and redemption price per share (\$504,426,792 / 504,739,524 units)	<u>\$ 1.00</u>

Statement of Changes in Net Assets  
For the Fiscal Year Ended June 30, 2010

Investment Income *	\$ 1,203,834
Distributions to participants:	
Distributions paid and payable	(1,203,834)
Share transactions at net asset value of \$1.00 per share:	
Purchase of units	\$ 3,710,656,736
Redemption of units	<u>(3,808,406,468)</u>
Net decrease in net assets and shares resulting from share transactions	<u>(97,749,732)</u>
Total decrease in net assets	(97,749,732)
Net assets, July 1, 2009	602,176,524
Net assets, June 30, 2010	<u>\$ 504,426,792</u>

\* The pool has no expenses.

**3) Major and Nonmajor Fund Deposit and Investment Risks**

Primary government (non fiduciary) cash and investments are primarily invested in the County's external investment pool. Major funds with significant cash and investments comprised of other than the external investment pool include the following:

**Debt Service Fund** - Cash with fiscal agents of \$7,227,245 includes \$3,880,000 which is held for approximately one day in bank accounts that are not in the County's name and are not collateralized. Per the Montgomery County Code, banks receiving County funds in trust, for the purpose of paying principal and interest on bonds or other County obligations, need not furnish security for those funds. The remaining balance of \$3,347,245 represents lease revenue bond debt service reserve funds which are held in money market mutual funds and U.S Government securities.

**Capital Projects Fund** - Cash with fiscal agents of \$23,281,247 is held in money market mutual funds and U.S. Government securities.

**Liquor** – Cash with fiscal agents of \$1,371,052 at the end of FY10 was held in money market funds for the purpose of disbursement of design and planning costs for a warehouse.

There are no cash and investments in nonmajor funds with significantly greater risk exposures than those described above or those relating to the external investment pool.

#### **4) Fiduciary Funds**

##### **Employees' Retirement System:**

###### **Investment Overview**

Section 33-61C of the County Code (Code), authorizes the Board of Investment Trustees (Board) (see Note IV-F) to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Employees' Retirement System (System) is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by the County, any political subdivision within the County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by the County.

###### **Credit Risk/Concentration of Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2010, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 56,223,580	6.64 %
Foreign Government Obligations	AAA	90,699,909	10.72
	A	18,945,491	2.24
	BBB	2,488,945	0.29
	BB	24,931	0.00
Asset-Backed Securities	AAA	7,470,286	0.88
	AA	312,726	0.04
	BBB	907,341	0.11
	BB	100,000	0.01
	B	318,285	0.04
	CC	62,525	0.01
	Unrated	172,107	0.02
Commercial Mortgage-Backed Securities	BBB	190,025	0.02
Collateralized Mortgage Obligations	AAA	675,017	0.08
	BBB	156,759	0.02
	BB	205,797	0.02
	B	261,705	0.03
	CCC	1,356,727	0.16
	D	565	0.00
Municipal/Provincial Bonds	AA	2,947,088	0.35
	A	4,680,515	0.55
Corporate Bonds	AAA	4,379,056	0.52
	AA	42,519,121	5.03
	A	120,156,248	14.20
	BBB	73,983,706	8.74
	BB	58,003,236	6.85
	B	88,018,079	10.40
	CCC	32,437,298	3.83
	CC	991,377	0.12
	C	1,187,437	0.14
	D	735,452	0.09
	Unrated	6,009,993	0.71
Fixed Income Pooled Funds	Unrated	158,726,751	18.76
Short-term Investments and Other	Unrated	70,910,620	8.38
Total Fixed Income Securities		\$ 846,258,698	100.00 %

\*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the

greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent.

As of June 30, 2010, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	13.07	\$ 56,223,580	6.64 %
Foreign Government Obligations	7.25	112,159,276	13.25
Asset-Backed Securities	5.96	9,343,270	1.11
Commercial Mortgage-Backed Securities	5.47	190,025	0.02
Collateralized Mortgage Obligations	0.01	2,656,570	0.31
Municipal/Provincial Obligations	12.05	7,627,603	0.90
Corporate Bonds	7.26	428,421,003	50.63
Fixed Income Pooled Funds	N/A	158,726,751	18.76
Short-term Investments and Other	N/A	70,910,620	8.38
Total Fixed Income Securities		<u>\$ 846,258,698</u>	<u>100.00 %</u>

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as follows:

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
European Currency Unit	\$103,430,844	\$ 52,791,302	\$ (39,335,990)	\$ 116,886,156
Japanese Yen	97,327,711	-	14,112,229	111,439,940
British Pound Sterling	51,518,546	26,266,264	4,585,693	82,370,503
Swedish Krona	10,629,974	8,629,624	23,847,454	43,107,052
Swiss Franc	18,019,934	-	13,329,221	31,349,155
Hong Kong Dollar	21,222,312	-	-	21,222,312
Danish Krone	7,629,731	-	-	7,629,731
South Korean Won	2,560,327	1,164,485	-	3,724,812
Indonesian Rupiah	1,517,008	1,851,373	-	3,368,381
Philippine Peso	2,772,995	-	-	2,772,995
Other Currencies	16,727,043	21,246,687	(132,555,381)	(94,581,651)
Total International Securities	<u>\$333,356,425</u>	<u>\$111,949,735</u>	<u>\$(116,016,774)</u>	<u>\$ 329,289,386</u>

### Derivatives

In accordance with the Board's Derivatives Policy, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY10, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded future contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or



using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Derivatives Policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types of derivative financial instruments and do not measure the System's exposure to credit or market risk and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures, interest rate, swaps, foreign currency exchange swaps and foreign currency exchange contracts.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2010, the System held 34 long US Treasury futures contracts with a fair value of \$4,384,875 and 30 short US Treasury futures contracts with a fair value of (\$3,676,406).

A swap is an agreement in which party commits to pay a fee in exchange for a return linked to the market performance of an underlying security, group of securities, index or other asset. Risks may arise if the counterparty is unable to meet the terms of the contract. Swaps contain market risk resulting from fluctuations in the value of the reference obligation. As of June 30, 2010, the System held a foreign currency swap with a notional value of \$83,400,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2010, the System held \$199,108,790 buy foreign exchange contracts and (\$326,040,335) sell foreign exchange contracts. The unrealized gain on the System's contracts was \$1,958,300.

### **Securities Lending**

Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a

liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. On November 21, 2008, the Board began restricting the amount of loans the lending agent could make on its behalf. This restriction remained in place as of June 30, 2009 and was removed on July 23, 2010. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no other such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2010, the fair value of securities on loan was \$223,007,286. Cash received as collateral and the related liability of \$229,936,305 as of June 30, 2010, is shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to \$763,130 and \$119,915, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2010:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Non-Cash Collateral Value</u>	<u>Cash Collateral Investment Value</u>
Lent for Cash Collateral:			
U.S. Government Obligations	\$ 44,698,458	\$ -	\$ 45,422,904
Corporate Bonds	75,279,127	-	77,368,741
Equities	102,976,612	-	107,144,660
Lent for Non-Cash Collateral:			
Equities	53,089	54,661	-
Total	<u>\$223,007,286</u>	<u>\$ 54,661</u>	<u>\$ 229,936,305</u>

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

### **Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2010, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

### **Employees' Retirement Savings Plan:**

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2010, the fair value of the mutual and commingled investment funds was \$130,892,734. The fair value of the investments in international mutual funds was \$23,070,180.

### **Employees' Deferred Compensation Plan:**

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in

Section 33-61 of the Code. As of June 30, 2010, the fair value of the mutual and commingled investment funds was \$228,645,743. The fair value of the investments in international mutual funds included in the County Plan was \$30,762,259.

**Retiree Health Benefits Trust:**

Section 33-163 of the Code authorizes the Board to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Section 33-162 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by Montgomery County, any political subdivision within Montgomery County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by Montgomery County.

As of June 30, 2010, the fair value of the mutual and commingled investment funds was \$38,129,574. The fair value of the investments in international mutual funds was \$12,649,114.

## **COMPONENT UNITS**

### **HOC:**

At year-end, HOC's cash and investments are significant in relation to the total component unit cash and investments. HOC's cash balances as of June 30, 2010, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

#### **Interest Rate Risk**

HOC's investment policy which applies to the General Fund, Public Fund and the Opportunity Housing Fund, requires that the majority of HOC's investments must be on a short-term basis (less than one year); however a portion of the portfolio may be invested in investments with longer maturities (up to two years). The investment requirements for the Multi-Family Fund and Single Family Fund are specified within each of the bond trust indentures. The bond trustee is required to invest money in obligations with the objective that sufficient money will be available to pay the interest due on the bonds and will mature or be subject to redemption with the objective that sufficient money will be available for the purposes intended in accordance with the Indenture.

#### **Credit Risk**

HOC's investment policy for the General Fund, Public Fund and the Opportunity Housing Fund permits the following investment types: U.S. government and federal agencies; repurchase agreements; banker's acceptances; money market mutual funds; Maryland local government investment pool; Montgomery County investment pool; certificate of deposits and time deposits; and commercial paper. Bankers Acceptances of domestic banks and commercial paper must maintain the highest rating from one of the Nationally Recognized Statistical Rating Organizations (NRSRO) as designated by the SEC or State Treasurer. Repurchase agreements require collateralization at 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities provided the collateral is held by a custodian, other than the seller. Certificates of deposit or time deposits must be collateralized at 102% of the fair value and held by a custodian other than the seller. HOC invests in the Montgomery County Local Government Investment Pool (County external investment pool) and the Maryland State Local Government Investment Pool (MLGIP). The MLGIP is not subject to regulatory oversight by the SEC, however the MGLIP is operated pursuant to the annotated code of Maryland.

The Single Family and Multi-Family Bond Funds require that the trustee invest moneys on deposit under the indenture in investment obligations as defined by the respective bond indenture agreements. Investment obligations are defined as the following: (i) Government obligations; (ii) bond debentures or other obligation issued by government agencies or corporations; (iii) time deposits or certificate of deposits insured by the Federal Deposit Insurance Corporation; (iv) repurchase agreements backed by obligations described in (i) and (ii) above; (v) investment agreements; (vi) tax exempt obligations; and (vii) money market funds.

#### **Custodial Risk**

Amounts held in trust accounts and other demand accounts are covered by federal depository insurance, or collateralized at a level of at least 102% of fair value of principal and accrued interest. Repurchase agreement collateral for the MLGIP is segregated and held in the name of Mercantile-Safe Deposit and Trust's account at the Federal Reserve Bank. The cash and cash equivalents held by PNC Bank for the

General Fund, Housing Opportunity Fund and Public Fund are in bank money market accounts and interest bearing accounts. These amounts are unrated by an independent rating agency. The Moody's rating for PNC Bank short-term deposits as of June 30, 2010 was P-1.

At June 30, 2010, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value				Rating
<u>Cash Equivalents:</u>					
General Fund:					
Money Market Accounts	14,928,146				N/A
Opportunity Housing Fund:					
Investment in MLGIP	413,889				AAA
Money Market Accounts	8,457,089				N/A
Public Fund:					
Investment in MLGIP	3,721,433				AAA
Money Market Accounts	4,555,337				N/A
Multi-Family Fund					
Money Market Accounts	36,016,598				AAA
Single Family Fund - Money Market Accounts	48,083,018				AAA
Total cash equivalents	<u>\$ 116,175,510</u>				
<u>Short-term Investments:</u>					
Multi-Family Fund:					
Money Market Accounts	46,510,447				N/A
GNMA Pool	937,882				AAA
Freddie Mac	629,436				AAA
RBC GIC	4,570,000				AAA
Single Family Fund					
USG GSE Global Escrow Agreement	40,017,593				N/A
Total short-term investments	<u>\$ 92,665,358</u>				
Long-Term Investments	Fair Value	1-5 years	6-10 years	Greater than 10 years	Rating
<u>Long-term Investments:</u>					
Multi-Family Fund:					
U. S. Treasuries	\$ 2,837,872	\$ -	\$ -	\$ 2,837,872	AAA
Fannie Mae	4,063,033	-	-	4,063,033	AAA
Freddie Mac	3,213,918	1,645,418	-	1,568,500	AAA
GNMA Pool	65,449,560	-	-	65,449,560	AAA
Bank One Investment Agreement	591,525	-	-	591,525	AA/Aa2
Federal Farms	2,729,824	-	-	2,729,824	AAA
Single Family Fund:					
Federal Farm Credit Banks	6,340,935	-	-	6,340,935	AAA
Federal Home Loan Banks	9,769,899	149,848	-	9,620,051	AAA
Fannie Mae	971,539	-	-	971,539	AAA
U. S. Treasuries	8,955,586	321,169	2,557,144	6,077,273	AAA
New York, NY Housing Development Corp.	2,650,000	-	2,650,000	-	VWIG1
New York, NY Variable Taxable Subseries	4,295,000	-	-	4,295,000	VWIG1
Colorado Educational & Cultural Facilities	1,345,000	-	-	1,345,000	AA2
Kentucky Housing Corporation	3,830,000	-	-	3,830,000	AAA
Solomon Repurchase Agreement	2,345,800	-	2,345,800	-	A
Tennessee Valley Authority	6,327,550	-	2,612,475	3,715,075	AAA
Total long-term investments	<u>125,717,041</u>	<u>2,116,435</u>	<u>10,165,419</u>	<u>113,435,187</u>	
Cash balances	47,407,103				
Total Cash, Cash Equivalents and Investments	<u>\$ 381,965,012</u>				

**B) Receivables**

**1) Accounts Receivable**

The allowance for doubtful accounts at June 30, 2010, reported in the enterprise funds, amounted to:

Liquor	\$ 531,726
Solid Waste Activities	12,014
Parking Lot Districts	<u>2,493,316</u>
	<u>\$ 3,037,056</u>

**2) Due from/to Component Units**

The balances at June 30, 2010, were:

Due from Component Units /  
Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	\$ -	\$ 675,000	\$ -	\$ 11,272	\$ -	\$ 686,272
Grants	-	-	-	9,965,086	-	9,965,086
Capital Projects	-	-	-	14,915,379	-	14,915,379
Other Major Governmental	-	-	-	45,891,426	-	45,891,426
Solid Waste Activities Enterprise	49,749	1,964	-	443	2,236	54,392
Major Enterprise	-	-	-	386,423	-	386,423
Internal Service	51,622	3,149	75,135	432,704	17,245	579,855
Fiduciary	-	-	29,932	107,046	-	136,978
<b>Total Due to Primary Government</b>	<b>\$ 101,371</b>	<b>\$ 680,113</b>	<b>\$ 105,067</b>	<b>\$ 71,709,779</b>	<b>\$ 19,481</b>	<b>\$ 72,615,811</b>

Due to Component Units /  
Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	\$ 69,400,044	\$ -	\$ -	\$ 388,885	\$ -	\$ 69,788,929
Grants	792,465	42,632	-	254,007	-	1,089,104
Capital Projects	9,863,669	14,337,806	-	1,732,686	-	25,934,161
Other Major Governmental	-	-	-	654,535	-	654,535
Nonmajor Governmental	-	-	-	-	76,505	76,505
Nonmajor Enterprise	684,645	-	-	-	-	684,645
Internal Service	-	-	-	-	-	-
<b>Total Due from Primary Government</b>	<b>\$ 80,740,823</b>	<b>\$ 14,380,438</b>	<b>\$ -</b>	<b>\$ 3,030,113</b>	<b>\$ 76,505</b>	<b>\$ 98,227,879</b>

In the major governmental funds, \$45,891,426 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of \$2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for \$1 per year for 83 years. Fund balance has been reserved for the remaining loans.

### 3) Due From Other Governments

The total amount due from other governments at June 30, 2010, was comprised of the following:

	General	Grants	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	\$ 125,613	\$ 13,684,537	\$ 143,501	\$ 34	\$ -	\$ -	\$ 908,703	\$ 14,862,388
State of Maryland	7,439,939	6,245,715	30,678,818	1,277	1,140,705	130,133	90,558	45,727,145
Other	594	197,286	643,746	397,820	599,095	131,310	2,560	1,972,411
Total	<u>\$ 7,566,146</u>	<u>\$ 20,127,538</u>	<u>\$ 31,466,065</u>	<u>\$ 399,131</u>	<u>\$ 1,739,800</u>	<u>\$ 261,443</u>	<u>\$ 1,001,821</u>	<u>\$ 62,561,944</u>

**C) Capital Assets**

**PRIMARY GOVERNMENT**

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance		Balance	
	July 1, 2009	Increases	Decreases	June 30, 2010
<b>Governmental Activities</b>				
Nondepreciable Capital Assets:				
Land	\$ 645,547,868	\$ 110,426,413	\$ 533,587	\$ 755,440,694
Construction in progress	352,436,230	160,087,748	46,169,457	466,354,521
Total Nondepreciable Capital Assets	997,984,098	270,514,161	46,703,044	1,221,795,215
Depreciable Capital Assets:				
Buildings	750,744,300	7,139,341	-	757,883,641
Improvements other than buildings	46,433,046	2,514,862	8,269	48,939,639
Furniture, fixtures, equipment and machinery	236,508,949	6,205,407	675,961	242,038,395
Leasehold improvements	12,777,902	-	-	12,777,902
Automobiles and trucks	243,688,476	33,424,317	20,682,024	256,430,769
Infrastructure	1,589,425,227	52,403,113	147,860	1,641,680,480
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	2,881,657,631	101,687,040	21,514,114	2,961,830,557
Less Accumulated Depreciation for:				
Buildings	284,689,400	19,356,907	-	304,046,307
Improvements other than buildings	18,351,057	1,140,892	-	19,491,949
Furniture, fixtures, equipment and machinery*	152,587,599	23,104,770	675,961	175,016,408
Leasehold improvements	3,697,738	810,745	-	4,508,483
Automobiles and trucks*	115,295,938	19,545,295	17,560,595	117,280,638
Infrastructure*	479,398,769	32,741,163	-	512,139,932
Other assets*	1,857,803	207,973	-	2,065,776
Total Accumulated Depreciation	1,055,878,304	96,907,745	18,236,556	1,134,549,493
Total Depreciable Assets, net	1,825,779,327	4,779,295	3,277,558	1,827,281,064
Governmental Activities Capital Assets, net	\$ 2,823,763,425	\$ 275,293,456	\$ 49,980,602	\$ 3,049,076,279
<b>Business-Type Activities</b>				
Nondepreciable Capital Assets:				
Land	\$ 59,329,889	\$ 875,000	\$ -	\$ 60,204,889
Construction in progress	9,282,824	8,411,503	15,596,902	2,097,425
Total Nondepreciable Capital Assets	68,612,713	9,286,503	15,596,902	62,302,314
Depreciable Capital Assets:				
Buildings	245,982,702	1,877,694	-	247,860,396
Improvements other than buildings	132,816,007	13,552,484	-	146,368,491
Furniture, fixtures, equipment and machinery	22,885,924	477,874	1,546,279	21,817,519
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	4,497,118	-	86,088	4,411,030
Total Capital Assets being Depreciated	406,196,102	15,908,052	1,632,367	420,471,787
Less Accumulated Depreciation for:				
Buildings	95,405,633	8,004,572	-	103,410,205
Improvements other than buildings	103,864,264	3,777,833	-	107,642,097
Furniture, fixtures, equipment and machinery	14,438,000	1,757,358	1,540,528	14,654,830
Infrastructure	1,578	574	-	2,152
Automobiles and trucks	2,852,661	290,357	86,088	3,056,930
Total Accumulated Depreciation	216,562,136	13,830,694	1,626,616	228,766,214
Total Depreciable Assets, net	189,633,966	2,077,358	5,751	191,705,573
Business-Type Activities Capital Assets, net	\$ 258,246,679	\$ 11,363,861	\$ 15,602,653	\$ 254,007,887

\*Beginning balance has been reclassified to conform with current year presentation



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

Governmental activities:

General government	\$ 10,528,785
Public safety	28,979,402
Public works and transportation	46,872,585
Health and human services	1,758,152
Culture and recreation	7,581,827
Community development and housing	983,020
Environment	203,974
Total depreciation expense-governmental activities	<u>\$ 96,907,745</u>

Business-type activities:

Liquor	\$ 1,619,465
Solid waste activities	2,302,666
Parking lot districts	9,743,802
Permitting services	155,209
Community use of public facilities	9,552
Total depreciation expense-business-type activities	<u>\$ 13,830,694</u>

Construction commitments as of June 30, 2010, are as follows:

	<u>Construction Commitments</u>
General Government	36,689,726
Public Safety	10,741,540
Public Works and Transportaion	112,856,256
Health and Human Services	15,012
Culture & Recreation	24,631,190
Community Development & Housing	2,473,284
Environment	3,642,936
Total	<u>191,049,944</u>

## COMPONENT UNITS

Capital assets of MCPS, amounting to \$1,996,707,876 at June 30, 2010, are significant in relation to the total component unit capital assets.

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
<b>Governmental Activities</b>				
Nondepreciable capital assets:				
Land	\$ 68,857,319	\$ 1,364,782	\$ -	\$ 70,222,101
Construction in progress	176,514,372	128,787,379	214,816,091	90,485,660
Total nondepreciable capital assets	<u>245,371,691</u>	<u>130,152,161</u>	<u>214,816,091</u>	<u>160,707,761</u>
Depreciable capital assets:				
Buildings and improvements	2,158,250,285	204,781,680	16,656,514	2,346,375,451
Site improvements	190,460,099	16,951,742	-	207,411,841
Vehicles and equipment	145,095,835	6,056,398	4,488,860	146,663,373
Total depreciable capital assets	<u>2,493,806,219</u>	<u>227,789,820</u>	<u>21,145,374</u>	<u>2,700,450,665</u>
Less accumulated depreciation for:				
Buildings and improvements	688,339,767	54,465,028	11,287,536	731,517,259
Site improvements	38,388,318	4,092,131	-	42,480,449
Vehicles and equipment	86,104,076	12,579,028	4,069,874	94,613,230
Total accumulated depreciation	<u>812,832,161</u>	<u>71,136,187</u>	<u>15,357,410</u>	<u>868,610,938</u>
Total depreciable capital assets, net	<u>1,680,974,058</u>	<u>156,653,633</u>	<u>5,787,964</u>	<u>1,831,839,727</u>
Government activities capital assets, net	<u>\$1,926,345,749</u>	<u>\$286,805,794</u>	<u>\$220,604,055</u>	<u>1,992,547,488</u>
<b>Business-Type Activities</b>				
Depreciable capital assets:				
Buildings	\$ 17,831	\$ -	\$ -	17,831
Vehicles and equipment	16,594,248	829,415	469,225	16,954,438
Total depreciable capital assets	<u>16,612,079</u>	<u>829,415</u>	<u>469,225</u>	<u>16,972,269</u>
Less accumulated depreciation for:				
Buildings	16,939	892	-	17,831
Vehicles and equipment	12,211,583	1,033,725	451,258	12,794,050
Total accumulated depreciation	<u>12,228,522</u>	<u>1,034,617</u>	<u>451,258</u>	<u>12,811,881</u>
Business-type activities capital assets, net	<u>\$ 4,383,557</u>	<u>\$ (205,202)</u>	<u>\$ 17,967</u>	<u>4,160,388</u>
Total MCPS government-wide capital assets				<u>\$ 1,996,707,876</u>

Depreciation expense of MCPS was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	\$ 59,930,656
Special education	234,941
School administration	50,023
Student personnel services	3,532
Student transportation	8,733,365
Operation of plant	147,795
Maintenance of plant	1,105,866
Administration	930,009
Total depreciation expense-governmental activities	<u>\$ 71,136,187</u>
Business-type activities:	
Food services	\$ 1,023,412
Entrepreneurial	8,830
Real estate management	2,375
Total depreciation expense-business type activities	<u>\$ 1,034,617</u>

Commitments for ongoing construction in progress at June 30, 2010, were \$175,783,057.

**D) Interfund Receivables, Payables, and Transfers**

The composition of interfund receivables and payables as of June 30, 2010, is as follows:

Due To Fund	Due From Fund					Total
	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	
General	\$ -	\$ 1,901	\$ -	\$ 4,960,210	\$ 7,082,201	\$ 12,044,312
Montgomery Housing Initiative	-	-	-	9,121	8,380	17,501
Grants	3,657,629	-	-	378,741	376,848	4,413,218
Debt Service	3,724,641	-	155,359	-	-	3,880,000
Capital Projects	18,213,483	-	8,355,234	154,734	172,820	26,896,271
Liquor	-	1,020	-	241,577	218,859	461,456
Solid Waste Activities	-	-	-	92,277	95,905	188,182
Parking Lot Districts	-	2,545	-	28,448	30,815	61,808
Nonmajor Governmental	-	-	-	2,089,084	3,126,548	5,215,632
Nonmajor Enterprise	3,422,100	-	-	202,184	287,374	3,911,658
Internal Service	1,510,000	-	-	236,012	4,117,980	5,863,992
Fiduciary	-	-	-	4,976	1,316	6,292
Total	<u>\$ 30,527,853</u>	<u>\$ 5,466</u>	<u>\$ 8,510,593</u>	<u>\$ 8,397,364</u>	<u>\$ 15,519,046</u>	<u>\$ 62,960,322</u>

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY11:

- \$18.2 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and to lag time between programming and collection of certain impact taxes; and
- \$3.9 million to the Debt Service Fund relating to a debt service payment due on the first day of the next fiscal year, that must be remitted to the County's fiscal agent one working day prior to the debt service due date.

- \$0.11 million to the Central Duplicating Internal Service Fund to offset cash deficits.
- Remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, and (4) payroll accrual charges to fiduciary funds.

Interfund transfers for the year ended June 30, 2010, consisted of the following:

	Transfers In Fund						Subtotal Major
	General	Housing Initiative	Grants	Debt Service	Capital Projects	Parking Lot Districts	
<b>Transfers Out Fund</b>							
General	\$ -	\$ 9,470,470	\$ 421,927	\$ 210,865,865	\$ 18,625,801	\$ 14,700	\$ 239,398,763
Revenue Stabilization	44,772,562	-	-	250,804	-	-	45,023,366
Housing Initiative	201,920	-	-	75,286	-	-	277,206
Grants	635,136	-	-	-	-	-	635,136
Debt Service	-	-	-	-	250,804	-	250,804
Capital Projects	499,847	6,753,190	-	-	-	-	7,253,037
Liquor	29,043,280	-	-	1,131,782	-	-	30,175,062
Solid Waste Activities	2,429,320	-	-	-	-	-	2,429,320
Parking Lot Districts	4,362,570	-	-	-	435	-	4,363,005
Nonmajor Governmental	47,754,999	-	796,316	21,865,444	3,610,297	-	74,027,056
Nonmajor Enterprise	4,024,760	-	-	-	-	-	4,024,760
Internal Service Funds	14,779,000	-	-	-	-	-	14,779,000
<b>Total</b>	<b>\$ 148,503,394</b>	<b>\$ 16,223,660</b>	<b>\$ 1,218,243</b>	<b>\$ 234,189,181</b>	<b>\$ 22,487,337</b>	<b>\$ 14,700</b>	<b>\$ 422,636,515</b>

	Transfers In Fund				Subtotal Major	Total
	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Subtotal Major		
<b>Transfers Out Fund</b>						
General	\$ 3,245,450	\$ 25,000	\$ -	\$ 239,398,763	\$ 242,669,213	
Revenue Stabilization	-	-	-	45,023,366	45,023,366	
Housing Initiative	-	-	-	277,206	277,206	
Grants	-	-	-	635,136	635,136	
Debt Service	-	-	-	250,804	250,804	
Capital Projects	-	-	-	7,253,037	7,253,037	
Liquor	-	-	-	30,175,062	30,175,062	
Solid Waste Activities	-	-	-	2,429,320	2,429,320	
Parking Lot Districts	14,136,541	-	-	4,363,005	18,499,546	
Nonmajor Governmental	414,780	-	-	74,027,056	74,441,836	
Nonmajor Enterprise	-	-	-	4,024,760	4,024,760	
Internal Service Funds	-	-	-	14,779,000	14,779,000	
<b>Total</b>	<b>\$ 17,796,771</b>	<b>\$ 25,000</b>	<b>\$ -</b>	<b>\$ 422,636,515</b>	<b>\$ 440,458,286</b>	

Primary activities include:

- Transfers from major and non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipts and pay-go from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and

Transfers at the government-wide financial statement level include \$14,700 associated with the General Fund and Silver Spring Parking Lot District (SSPLD) relating to general governmental capital lease obligations for capital assets accounted for in the SSPLD. At the fund level, such transfers are classified as

capital contributions in the SSPLD, and expenditures and another financing source in the General Fund, in accordance with generally accepted accounting principles (see Note III-E3).

**E) Leases**

**1) Operating Leases**

The County leases buildings and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately \$17,727,000 for FY10. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2011	\$ 27,425,000
2012	23,186,000
2013	19,010,000
2014	16,284,000
2015	10,522,000
2016 - 2020	37,418,000
2021 - 2025	11,679,000
2026 - 2028	<u>21,000</u>
Total	<u>\$ 145,545,000</u>

**2) Capital Lease Receivable**

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F7), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. Separate lease agreements were executed in conjunction with each bond issue. The leases associated with the 2002 and 2004 bond issues have original terms of 22 years and 20 years, respectively, both ending on June 1, 2024.

The composition of the capital lease receivable is as follows:

	<u>Shady Grove</u>	<u>Grosvenor</u>	<u>Total</u>
Minimum lease payments receivable	\$ 23,303,964	\$22,914,460	\$ 46,218,424
Unearned lease income	<u>(6,499,630)</u>	<u>(6,398,794)</u>	<u>(12,898,424)</u>
Net investment in direct financing leases	<u>\$ 16,804,334</u>	<u>\$16,515,666</u>	<u>\$ 33,320,000</u>

At June 30, 2010, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2011	\$ 3,292,009
2012	3,296,303
2013	3,300,252
2014	3,300,640
2015	3,307,115
2016-2020	16,609,255
2021-2024	13,112,850
Total minimum lease payments	<u>\$ 46,218,424</u>

### 3) Capital Lease Obligations

The County has entered into various lease agreements as lessee with the Montgomery County Revenue Authority (MCRA) for financing the construction or acquisition of certain County facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception dates of the leases.

The assets acquired and placed in service through MCRA capital leases are as follows:

Land	\$ 13,449,033
Land improvements	1,673,621
Buildings	53,783,181
Furniture, fixtures, equipment and machinery	159,291
Subtotal	<u>69,065,126</u>
Less accumulated depreciation	<u>(23,198,170)</u>
Total asset value under capital leases	<u>\$ 45,866,956</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	
2011	\$ 4,859,933
2012	4,862,605
2013	3,955,329
2014	3,465,929
2015	3,466,146
2016-2020	13,604,078
2021-2023	2,985,500
Total minimum lease payments	<u>37,199,520</u>
Less: amount representing interest	<u>(8,214,520)</u>
Present value of minimum lease payments	<u>\$ 28,985,000</u>

Included in the schedules above are amounts relating to the Montgomery County Conference Center, which was opened during FY05. The Maryland Stadium Authority (MSA) also participated in financing the construction through the issuance of long-term debt. The County recognized the MSA contribution of \$19,719,328 as revenue when the Conference Center opened. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term.

The County has entered into a lease agreement as lessee with the Maryland Economic Development Corporation (MEDCO) to lease from MEDCO the Town Square Garage 61 and Wayne Avenue Garages, located in the Silver Spring Parking Lot District (SSPLD). The construction of these garages is being funded through the issuance of lease revenue bonds by MEDCO. The ownership of the garages will transfer to the County at the end of the lease term. Although this capital lease is a general governmental obligation, the asset is reflected in the SSPLD, as required by law, and is offset by a capital contribution. For government-wide financial statement purposes, the capital lease obligation in the governmental activities and capital asset in the business-type activities are offset by transfers out and transfers in, respectively, since any amounts that ultimately may be repaid by the SSPLD are not expected to be repaid within a reasonable time.

The assets acquired through this capital lease are as follows:

	<u>Town Square</u>	<u>Wayne Avenue</u>	<u>Total</u>
Buildings	\$30,492,462	\$ 29,700,233	\$60,192,695
Less accumulated depreciation	<u>(5,763,875)</u>	<u>(5,872,447)</u>	<u>(11,636,322)</u>
Total asset value under capital leases	<u>\$24,728,587</u>	<u>\$ 23,827,786</u>	<u>\$48,556,373</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	<u>Town Square</u>	<u>Wayne Ave</u>	<u>Total</u>
2011	\$ 2,470,554	\$ 3,073,775	\$ 5,544,329
2012	2,469,739	3,084,425	5,554,164
2013	2,461,668	3,113,219	5,574,887
2014	2,451,012	3,110,394	5,561,406
2015	2,451,021	3,112,856	5,563,877
2016-2017	<u>4,886,845</u>	<u>6,187,506</u>	<u>11,074,351</u>
Total minimum lease payments	17,190,839	21,682,175	38,873,014
Less: amount representing interest	<u>(2,485,839)</u>	<u>(3,472,175)</u>	<u>(5,958,014)</u>
Present value of minimum lease payments	<u>\$ 14,705,000</u>	<u>\$ 18,210,000</u>	<u>\$ 32,915,000</u>

**F) Long-Term Debt**

**PRIMARY GOVERNMENT**

**1) General Obligation Bonds Payable**

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) Community College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Public Housing Facilities, and (9) Parking Facilities. All bonds are valid and legally binding general obligations of the County, and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County.

Proceeds from general obligation bonds for public schools and the community college are appropriated by the County Council to MCPS and MCC (component units), respectively, and remitted to such component units by the County. For GAAP purposes, proceeds from debt issuance for these purposes and any related expenditures incurred and reimbursed to the component units are reflected as other financing sources and expenditures, respectively, in the accompanying fund financial statements. These amounts are not budgeted by the County since this activity is appropriated for budget purposes to the component units. Any general obligation bond proceeds, not yet expended by the component units at year end, is reflected as Reserved Fund Balance of the Capital Projects Fund.

The County issued \$161,755,000 in general refunding bonds dated November 3, 2009. These bonds were issued with a true interest cost of 2.65%, to current refund \$165,190,000 of general obligation (GO) refunding bonds that were previously issued. A detail listing of these refunded bonds is as follows:

	<u>Dated</u> <u>Date</u>	<u>Original</u> <u>Maturity</u>	<u>True Interest</u> <u>Cost</u>	<u>Originally</u> <u>Issued</u>	<u>Years</u> <u>Refunded</u>	<u>Amount</u> <u>Refunded</u>
GO Bonds	1/1/2000	2000-20	5.4850	\$ 130,000,000	2011	\$ 6,500,000
GO Bonds	2/1/2001	2002-21	4.5447	140,000,000	2012-2013	14,000,000
GO Bonds	2/1/2002	2003-22	4.4619	160,000,000	2014-2015	16,000,000
GO Bonds	5/1/2003	2004-23	3.6304	155,000,000	2014-2015	15,500,000
GO Bonds	3/15/2004	2005-24	3.8290	154,600,000	2015-2016-2017	23,190,000
GO Bonds	5/15/2005	2006-25	3.8806	200,000,000	2017-2018-2020-2021	40,000,000
GO Bonds	5/1/2007	2008-27	4.0821	250,000,000	2018-2019-2020-2021	50,000,000
				<u>\$1,189,600,000</u>		<u>\$ 165,190,000</u>

The net proceeds of the general obligation refunding bonds were used to purchase direct obligations, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the United States of America. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds that were refunded. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statements of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$12,041,832. This amount is being netted against the new debt and amortized over the remaining life of the new debt.



Fiscal Year	Refunded	Refunding	Debt Service
	Debt Service Requirements	Debt Service Requirements	Savings
2010	\$ 4,796,250	\$ 3,420,994	\$ 1,375,256
2011	14,292,500	7,509,500	6,783,000
2012	14,454,500	14,424,650	29,850
2013	14,122,000	14,121,975	25
2014	22,539,500	22,535,025	4,475
2015	29,609,500	29,605,275	4,225
2016	12,803,000	12,799,400	3,600
2017	22,416,500	22,412,400	4,100
2018	26,400,000	26,398,525	1,475
2019	15,375,000	15,372,400	2,600
2020	24,750,000	24,747,400	2,600
2021	23,625,000	23,623,200	1,800
Total	<u>\$ 225,183,750</u>	<u>\$216,970,744</u>	<u>\$ 8,213,006</u>

General obligation bond issues outstanding as of June 30, 2010, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2010	Unamortized Premium **	Unamortized	Carrying Value June 30, 2010
						Deferred Difference	
07/01/92 *	1993-10	2.75 - 5.8	\$ 273,038,054	\$ 1,289,285	\$ -	\$ -	\$ 1,289,285
02/01/01	2002-21	4.0 - 5.0	140,000,000	7,000,000	-	-	7,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	114,200,000	2,604,134	(3,336,000)	113,468,134
02/01/02	2003-22	3.0 - 5.0	160,000,000	24,000,000	501,861	-	24,501,861
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	44,355,000	1,121,328	(847,700)	44,628,628
05/01/03	2004-23	1.5 - 4.0	155,000,000	85,250,000	554,428	-	85,804,428
05/01/03*	2004-11	2.0 - 5.0	49,505,000	10,195,000	77,577	(34,695)	10,237,882
03/15/04	2005-24	3.0 - 5.0	154,600,000	85,030,000	4,409,795	-	89,439,795
08/15/04*	2008-17	3.0 - 5.25	97,690,000	87,210,000	2,973,171	(3,639,979)	86,543,192
05/15/05	2006-25	4.0 - 5.0	200,000,000	110,000,000	7,268,727	-	117,268,727
06/01/05*	2005-16	3.781	120,355,000	120,355,000	8,665,805	(7,113,771)	121,907,034
05/01/06	2006-17	3.871	100,000,000	60,000,000	1,984,147	-	61,984,147
05/01/07	2007-27	4.082	250,000,000	162,500,000	11,793,606	-	174,293,606
3/12/08*	2009-15	2.750 - 5.0	70,295,000	49,200,000	1,834,921	(805,641)	50,229,280
07/15/08	2009-29	3.0 - 5.0	250,000,000	237,500,000	6,561,440	-	244,061,440
11/03/09*	2011-20	2.0 - 5.0	161,755,000	161,755,000	20,039,716	(10,939,999)	170,854,717
11/03/09	2015-29	3.75 - 5.5	232,000,000	232,000,000	1,762,601	-	233,762,601
11/17/09	2010-14	2.0 - 5.0	78,000,000	78,000,000	6,045,727	-	84,045,727
Total			<u>\$ 2,732,208,054</u>	<u>\$ 1,669,839,285</u>	<u>\$ 78,198,984</u>	<u>\$ (26,717,785)</u>	<u>\$ 1,721,320,484</u>

\* Issue represents refunding bonds.

\*\* GAAP require amortization of premiums and issue costs to occur prospectively, beginning with the year of GASB-34 implementation. As a result, unamortized premiums and issue costs for issues prior to FY02, are not reflected above.

Changes in general obligation bonds during FY10 are as follows:

	Balance July 1, 2009	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2010
Governmental Activities:					
General County	\$ 221,094,644	\$ 72,439,410	\$ 19,201,494	\$ 30,124,906	\$ 244,207,654
Roads and Storm Drainage	363,339,665	73,894,875	31,879,588	37,110,500	368,244,452
Parks	52,512,271	15,712,826	4,576,721	6,857,171	56,791,205
Public Schools	749,674,485	237,095,307	68,386,633	79,747,843	838,635,316
Community College	71,667,511	26,505,439	5,643,638	7,662,157	84,867,155
Consolidated Fire Tax District	27,680,223	13,008,649	2,243,779	3,077,423	35,367,670
Mass Transit	10,542,699	33,098,494	1,316,964	610,000	41,714,229
Public Housing	49,873	-	38,269	-	11,604
	<u>\$ 1,496,561,371</u>	<u>\$ 471,755,000</u>	<u>\$ 133,287,086</u>	<u>\$ 165,190,000</u>	<u>\$ 1,669,839,285</u>

General obligation bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	General Obligation Bond Requirements		
	Principal	Interest	Total
2011	\$ 139,239,285	\$ 80,102,369	\$ 219,341,654
2012	141,015,000	71,070,073	212,085,073
2013	137,785,000	64,695,416	202,480,416
2014	131,830,000	57,637,798	189,467,798
2015	127,165,000	50,906,054	178,071,054
2016-2020	510,715,000	172,900,656	683,615,656
2021-2025	329,740,000	77,346,830	407,086,830
2026-2030	152,350,000	17,112,762	169,462,762
Total	<u>\$ 1,669,839,285</u>	<u>\$ 591,771,958</u>	<u>\$ 2,261,611,243</u>

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6 percent of the assessable base of real property and 15 percent of the assessable base of personal property and operating real property. The legal debt margin as of June 30, 2010 is \$8,449,570,819.

General obligation bonds authorized and unissued as of June 30, 2010, are as follows:

Purpose	Authority		Amount	Amount Unissued
	Chapter	Act		
General County, Parks, and Consolidated Fire Tax District	19	2005	\$ 44,100,000	\$ 15,390,000
	43	2006	92,000,000	92,000,000
	12	2007	51,300,000	51,300,000
	36	2008	68,200,000	68,200,000
	22	2009	58,700,000	58,700,000
			<u>314,300,000</u>	<u>285,590,000</u>
Roads and Storm Drainage	43	2006	66,700,000	47,140,000
	12	2007	45,800,000	45,800,000
	36	2008	36,000,000	36,000,000
	22	2009	64,600,000	64,600,000
			<u>213,100,000</u>	<u>193,540,000</u>
Public Schools and Community College	12	2007	118,900,000	27,268,000
	36	2008	222,500,000	222,500,000
	22	2009	272,500,000	272,500,000
			<u>613,900,000</u>	<u>522,268,000</u>
Mass Transit	22	2009	57,100,000	33,005,000
			<u>57,100,000</u>	<u>33,005,000</u>
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
	22	2009	1,000,000	1,000,000
			<u>6,630,000</u>	<u>6,570,000</u>
Parking Districts: Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			<u>4,165,000</u>	<u>3,265,000</u>
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			<u>9,150,000</u>	<u>4,865,000</u>
Total Parking Districts			<u>13,315,000</u>	<u>8,130,000</u>
Total General Obligation Bonds			<u>\$1,218,345,000</u>	<u>\$ 1,049,103,000</u>

Bond authority and related amounts unissued, presented above, include amounts related to variable rate demand obligations (see Note III-F2). In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

2) **Variable Rate Demand Obligations**

On June 7, 2006, the County for the first time issued variable rate demand obligations (VRDOs), in the amount of \$100 million. These obligations will not mature in total until 2026; however, the County is required by the Note Order to make annual sinking fund payments to retire one-tenth of the notes each year beginning in 2017.

The interest rate on the obligations, which re-sets daily, is established by the remarketing agents, and is payable on the first business day of each month. Other potential modes for the obligations include a Weekly Mode, a Commercial Paper Mode, a Term Rate Mode or a Fixed Rate Mode. Subject to certain terms and conditions in the Note Order, the County may effect a change in Mode with respect to the obligations. The obligations are subject to optional tender and purchase on the demand of the owners thereof, upon certain terms. All such obligations are general obligations of the County to the payment of which the full faith and credit and unlimited taxing power of the County is irrevocably pledged.

In connection with these obligations, the County entered into a standby note purchase agreement on June 7, 2006 with Dexia Credit Local, acting through its New York Branch. Under the agreement, Dexia is obligated to purchase, through the registrar and paying agent, obligations that are tendered by their owners and have not been remarketed by the remarketing agent. The standby note purchase agreement will expire on June 7, 2011. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this agreement. Because the County entered into a financing agreement that ensures the VRDOs can be refinanced on a long-term basis, these obligations are classified as noncurrent liabilities at year-end.

VRDOs outstanding as of June 30, 2010, are as follows:

<u>Dated</u> <u>Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally</u> <u>Issued</u>	<u>Balance</u> <u>June 30, 2010</u>
06/07/06	2017-26	Variable	\$ 50,000,000	\$ 50,000,000
06/07/06	2017-26	Variable	50,000,000	50,000,000
Total			<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>

For budget and bond authority purposes, VRDO activity is reported with general obligation bonds.

Changes in VRDOs during FY10 are as follows:

	Balance July 1, 2009	VRDOs Issued	VRDOs Retired	Balance June 30, 2010
Governmental Activities:				
General County	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Roads and Storm Drainage	26,000,000	-	-	26,000,000
Parks	1,000,000	-	-	1,000,000
Public Schools	64,000,000	-	-	64,000,000
Community College	4,000,000	-	-	4,000,000
Consolidated Fire Tax District	2,100,000	-	-	2,100,000
Mass Transit	400,000	-	-	400,000
<b>Total</b>	<b>\$ 100,000,000</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 100,000,000</b>

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements		
	Principal	Interest*	Total
2011	\$ -	\$ 205,000	\$ 205,000
2012	-	205,000	205,000
2013	-	205,000	205,000
2014	-	205,000	205,000
2015	-	205,000	205,000
2016-2020	40,000,000	902,000	40,902,000
2021-2025	50,000,000	410,000	50,410,000
2026-2030	10,000,000	20,500	10,020,500
<b>Total</b>	<b>\$ 100,000,000</b>	<b>\$ 2,357,500</b>	<b>\$ 102,357,500</b>

\* Includes interest on VRDOs at estimated rates of .250 percent for Series A and .160 percent for series B respectively, for the June 7, 2006 issue; the interest rate on the notes is calculated daily and due monthly. The estimated rates used for this calculation were based on the rates at year-end.

### 3) **Revenue Bonds Payable**

Revenue bonds are authorized, issued, and outstanding to finance specific projects such as parking garages for the Bethesda and Silver Spring Parking Lot Districts and Solid Waste facilities. Net revenues of Bethesda and Silver Spring Parking Lot Districts including parking fees, fines and dedicated property taxes and net revenues of the Solid Waste Disposal fund are pledged against the timely repayment of principal and interest of the outstanding revenue bonds of the respective funds.

In May 2009, the County issued \$46.8 million of revenue bonds, secured by Department of Liquor Control revenues. The proceeds were used to purchase a warehouse facility for the Department, as well as to fund the County's share of an interchange at the intersection of Maryland Route 355 (Rockville Pike) and Montrose Parkway West.

The term of the commitments and approximate amounts of the pledged revenues are as follows:

	<u>Terms of Commitment</u>	<u>Approximate amount of Pledge</u>
Bethesda Parking Lot District	16	\$ 42,493,879
Solid Waste Disposal Fund	3	10,838,750
Liquor Control	19	69,495,700
Total		<u>\$ 122,828,329</u>

The pledged net revenues recognized during FY10 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	<u>Net Available Revenue for Debt Service</u>	<u>Debt Service</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Parking Lot District:				
Bethesda Parking Lot District	\$ 11,857,974	\$ 1,840,000	\$ 1,429,335	\$ 3,269,335
Silver Spring Parking Lot District	6,512,961	-	-	-
Solid Waste Disposal Fund:	5,546,827	3,420,000	589,000	4,009,000
Liquor Control Fund:	27,892,075	1,745,000	2,024,478	3,769,478

Revenue bond issues outstanding as of June 30, 2010, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2010	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2010
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	\$ 26,000,000	\$ 17,415,000	\$ (10,486)	\$ -	\$ 17,404,514
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	9,925,000	146,164	(160,019)	9,911,145
Parking Revenue 2005:								
Bethesda Parking Lot District	08/31/05	2007-25	3.62 - 5.00	16,495,000	14,665,000	82,357	-	14,747,357
Liquor Control Revenue 2009:								
Liquor Control & Transportation	05/12/09	2010-29	3.00 - 5.00	46,765,000	45,020,000	2,626,048	-	47,646,048
Total				<u>\$ 120,335,000</u>	<u>\$ 87,025,000</u>	<u>\$ 2,844,083</u>	<u>\$ (160,019)</u>	<u>\$ 89,709,064</u>

Changes in revenue bond principal during FY10 are as follows:

	<u>Balance July 1, 2009</u>	<u>Bonds Issued</u>	<u>Bonds Retired</u>	<u>Balance June 30, 2010</u>
Bethesda Parking Lot District	\$ 33,920,000	\$ -	\$ 1,840,000	\$ 32,080,000
Solid Waste Disposal	13,345,000	-	3,420,000	9,925,000
Liquor Control	46,765,000	-	1,745,000	45,020,000
Total	<u>\$ 94,030,000</u>	<u>\$ -</u>	<u>\$ 7,005,000</u>	<u>\$ 87,025,000</u>

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Liquor Control	
	Principal	Interest	Principal	Interest
2011	\$ 1,915,000	\$ 1,355,235	\$ 1,550,000	\$ 2,108,250
2012	1,995,000	1,278,135	1,605,000	2,051,750
2013	2,085,000	1,194,010	1,670,000	1,987,550
2014	2,180,000	1,105,025	1,735,000	1,920,750
2015	2,275,000	1,013,663	1,820,000	1,836,000
2016-2020	13,020,000	3,519,400	10,530,000	7,765,300
2021-2025	7,390,000	922,791	13,140,000	5,150,850
2026-2029	1,220,000	25,620	12,970,000	1,655,250
<b>Total</b>	<b>\$32,080,000</b>	<b>\$ 10,413,879</b>	<b>\$ 45,020,000</b>	<b>\$ 24,475,700</b>

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2011	\$ 3,550,000	\$ 460,750	\$ 7,015,000	\$ 3,924,235	\$ 10,939,235
2012	3,690,000	318,750	7,290,000	3,648,635	10,938,635
2013	2,685,000	134,250	6,440,000	3,315,810	9,755,810
2014	-	-	3,915,000	3,025,775	6,940,775
2015	-	-	4,095,000	2,849,663	6,944,663
2016-2020	-	-	23,550,000	11,284,700	34,834,700
2021-2025	-	-	20,530,000	6,073,641	26,603,641
2026-2029	-	-	14,190,000	1,680,870	15,870,870
<b>Total</b>	<b>\$ 9,925,000</b>	<b>\$ 913,750</b>	<b>\$ 87,025,000</b>	<b>\$ 35,803,329</b>	<b>\$ 122,828,329</b>

Revenue bonds authorized and unissued as of June 30, 2010, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 25,593,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Public Housing	16-675	2008	50,000,000	50,000,000
Liquor & Transportation	16-676	2008	78,000,000	31,235,000
Liquor & Transportation	16-863	2009	60,000,000	60,000,000
<b>Total</b>			<b>\$331,098,000</b>	<b>\$ 182,083,000</b>

Restricted assets related to these revenue bonds, classified as “Investments” or “Equity in Pooled Cash and Investments” for statement of net asset purposes, include the following:

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	\$ 1,335,658	\$ 1,784,902	\$ -
Debt Service Account - Used to pay debt service on bonds	273,628	-	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	1,615,594	-	4,299,223
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	3,879,002
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	24,354,128
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	2,402,960
Total	<u>\$ 4,724,880</u>	<u>\$ 3,284,902</u>	<u>\$ 34,935,313</u>

In lieu of Debt Service Reserve Accounts, the 2002 Series Parking Refunding Bonds and the 2002 Series A Parking Revenue Bonds are being secured with a municipal bond insurance policy. The County is in compliance with all significant financial bond covenants.

#### 4) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY10 are as follows:

	Balance July 1, 2009	BANs Issued	BANs Retired	Balance June 30, 2010
BAN Series 2002-L	\$ 50,000,000	\$ -	\$ 50,000,000	\$ -
BAN Series 2002-M	150,000,000	-	33,000,000	117,000,000
BAN Series 2002-N	100,000,000	-	32,000,000	68,000,000
BAN Series 2002-O	-	200,000,000	200,000,000	-
BAN Series 2002		115,000,000		115,000,000
BAN Series 2009-A		125,000,000		125,000,000
Total	<u>\$ 300,000,000</u>	<u>\$ 440,000,000</u>	<u>\$ 315,000,000</u>	<u>\$ 425,000,000</u>

The interest rate changes based on market conditions; during FY10, the rate of interest varied from .150 to .400 percent. Interest earned on BAN proceeds totaled \$213,811 during FY10, which was accounted for in the Debt Service Fund.

BANs totaling \$440 million were issued during FY10; \$315 million Series 2002 and \$125 million Series 2009 respectively, at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002 and was amended on July 16, 2002, July 29, 2003, July 27, 2004, July 26, 2005, November 30, 2006, September 18, 2007, October 28, 2008 and September 15, 2009 to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY11, and intends to use the proceeds to replace short-term notes that were issued to fund capital



construction and improvements. In connection with the BANs, the County entered into a credit agreement on July 1, 2005 with Fortis Bank to provide liquidity for the 2002 Series Notes, and may borrow up to \$300,000,000; the 2002 Credit Agreement expired on July 1, 2010. Utilizing a competitive request for proposals process, the County replaced the Fortis Credit Agreement with new Credit Agreements provided by State Street Bank and PNC Bank. These new Agreements are each \$150,000,000 and are for three-year terms; to expire on July 31, 2013. The county entered into a Credit Agreement with JPMorgan Chase to provide liquidity with respect to the 2009 Series Notes. Under the terms of the 2009 Credit agreement, the County may borrow up to \$200,000,000 plus interest not to exceed 34 days interest at 10% per annum calculated on the basis of 365-day year on a revolving principal and interest; the credit agreement expires on August 24, 2012.

During FY10, the County passed Resolution No. 16-1104 dated September 15, 2009 to increase the County's authority to issue BANS by \$453.9 million. Cumulative BANS authorized and unissued as of June 30, 2010, including amounts authorized and unissued from prior years, is \$608,703,000.

**5) Certificates of Participation**

In April 2010, the County issued Certificates of Participation (certificates) for Equipment Acquisition in the public transportation Program dated April 7, 2010, in the amount of \$23.0 million.

In October 2007, the County issued Certificates of Participation (certificates) for its Equipment Acquisition in the fire and rescue Program dated October 24, 2007, in the amount of \$33.58 million. The certificates represent proportionate interest in a Conditional Purchase Agreement (CPA) between the County, as purchaser and U.S. Bank National Association, as the seller. The CPA requires the County, as purchaser; to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing powers of the County.

The Certificates were issued at interest rates ranging from 2.4 to 5.0 percent and have maturity schedules as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2011	\$ 6,320,000	\$ 1,992,329	\$ 8,312,329
2012	6,515,000	1,742,925	8,257,925
2013	6,745,000	1,475,000	8,220,000
2014	6,370,000	1,212,600	7,582,600
2015	6,620,000	923,600	7,543,600
2016 - 2018	17,685,000	1,074,900	18,759,900
Total	\$ 50,255,000	\$ 8,421,354	\$ 58,676,354

**6) Master Lease/Equipment Notes**

The County has entered into purchase agreements to provide financing for the acquisition of capital asset equipment. The agreements have terms of two to five years with interest rates identified in the agreements. Arrangements provide that proceeds are to be held by a trustee and disbursed to vendors. If assets are acquired prior to the note agreement, the trustee reimburses the County. The following is a schedule by fiscal year for the agreements as of June 30, 2010:

Fiscal Year Ending June 30	Equipment Notes Requirements		
	Principal	Interest	Total
2011	\$ 2,396,265	\$ 104,808	\$ 2,501,073
2012	770,384	32,414	802,798
2013	321,968	12,450	334,418
2014	130,464	5,477	135,941
2015	66,861	1,110	67,971
Total	<u>\$ 3,685,942</u>	<u>\$ 156,259</u>	<u>\$ 3,842,201</u>

**7) WSSC Promissory Note**

In April 2007, the County entered into a Purchase and Sale Contract with Washington Suburban Sanitary Commission (WSSC) to acquire property for \$10,000,000. On January 15, 2009, the County signed a promissory note evidencing its obligation to fulfill the terms of the Contract. The note has a term of 15 years; interest accrues at a rate of 4.43%, commencing six months after the execution of the promissory note. Under the provisions of the promissory note, the minimum annual payment by the County is \$400,000 and is due on July 15, 2010 and annually thereafter. The County must make additional payments equal to the net of proceeds of parcels sold in a given year; payments should be allocated first to interest and then to principal. If in a given year, net proceeds for the sale of parcels equal or exceed the debt service payment, the County will not be required to make a separate debt service payment. The minimum annual loan payment is less than the interest accrued during the fiscal period; the difference between the interest and the debt service paid is added to the total principal amount owed. Consequently, a negative balance is shown on the principal column of the amortization schedule.

The note will mature upon its 15<sup>th</sup> anniversary when all unpaid principal and accrued interest shall be due and payable by the County or upon the date of the "Payment Event" for the last parcel for which an additional annual payment is due to WSSC.

The following is a schedule by fiscal year for the debt service requirement at 06/30/2010:

Fiscal Year Ending June 30	Promissory Note Requirements		
	Principal	Interest	Total
2011	\$ (25,280)	\$ 425,280	\$ 400,000
2012	(26,400)	426,400	400,000
2013	(27,569)	427,569	400,000
2014	(28,791)	428,791	400,000
2015	(30,066)	430,066	400,000
2016 - 2020	(171,531)	2,171,531	2,000,000
2021 - 2025	9,909,637	1,989,852	11,899,489
Total	<u>\$ 9,600,000</u>	<u>\$ 6,299,489</u>	<u>\$15,899,489</u>

#### 8) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of \$37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. The approximate amount of the pledge is \$46,218,424. WMATA's obligation to make payments under the leases is payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund of \$3,344,171, included in Debt Service Fund cash with fiscal agents in the accompanying financial statements, is less than the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

The County issued \$4,745,000 in lease revenue bonds (Metrorail Garage Projects) on September 1, 2004. The bonds were issued due to certain cost increases incurred since the issuance of the Series 2002 Bonds. The County needed an additional \$2,100,000 to complete construction of the Shady Grove Metro Garage and an additional \$2,110,000 to complete construction of the Grosvenor Metro Garage. The Series 2004 bonds were delivered on September 28, 2004. The lease has a term of 20 years ending in June 1, 2024. In FY10, pledged revenue of \$3,294,214 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2010, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2010	Unamortized Premium	Carrying Value June 30, 2010
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	\$ 37,880,000	\$ 29,675,000	\$ 72,532	\$ 29,747,532
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	3,645,000	13,892	3,658,892
Total				<u>\$ 42,625,000</u>	<u>\$ 33,320,000</u>	<u>\$ 86,424</u>	<u>\$ 33,406,424</u>

Lease revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Lease Revenue Bond Requirements		
	Principal	Interest	Total
2011	\$ 1,770,000	\$ 1,522,009	\$ 3,292,009
2012	1,845,000	1,451,303	3,296,303
2013	1,925,000	1,375,252	3,300,252
2014	2,005,000	1,295,640	3,300,640
2015	2,095,000	1,212,115	3,307,115
2016-2020	12,015,000	4,594,255	16,609,255
2021-2024	11,665,000	1,447,850	13,112,850
Total	<u>\$ 33,320,000</u>	<u>\$12,898,424</u>	<u>\$46,218,424</u>

**9) Taxable Limited Obligation Certificates**

In April 2010, the County issued Taxable Limited Obligation Certificates, dated April 6, 2010, in the amount of \$30.4 million to finance the Montgomery Housing Initiative Program to promote a broad range of housing opportunities in the County. The certificates represent proportionate interests in a Funding Agreement between the County and U.S. bank National Association; the Certificates, and the interest on them, are limited obligations of the County. The principal or redemption price of and interest on the Certificates shall be payable solely from the Contract Payments and other funds pledged for the payment thereof under the Trust Agreement. The Funding Agreement is not a general obligation of the County and shall never constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing power of the County.

The following is a schedule by fiscal year for the debt service requirement at 06/30/2010:

Fiscal Year Ending June 30	Taxable Limited Obligation Requirements		
	Principal	Interest	Total
2011	\$ 930,000	\$ 1,572,130	\$ 2,502,130
2012	1,005,000	1,496,585	2,501,585
2013	1,045,000	1,456,385	2,501,385
2014	1,085,000	1,414,585	2,499,585
2015	1,130,000	1,371,185	2,501,185
2016-2020	6,430,000	6,076,275	12,506,275
2021-2025	8,175,000	4,329,360	12,504,360
2026-2030	10,600,000	1,900,970	12,500,970
Total	<u>\$ 30,400,000</u>	<u>\$19,617,475</u>	<u>\$50,017,475</u>

**10) HUD Loan**

During 2002, the County Council authorized the Department of Housing and Community Affairs (DHCA) to participate in the HUD Section 108 program for the purpose of acquiring twenty-one units at the Chelsea Tower which provides affordable housing for income qualified persons. On July 16, 2003, the County signed a loan agreement with HUD in the amount of \$870,000. The County subsequently received approval from the County Council to disburse and re-loan these funds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, the principal of \$870,000 with interest thereon on a semi-annual basis at 4.59 percent over a twenty-year period, which is consistent with the HUD repayment terms. The principal amount payable at June 30, 2010, for this loan is \$612,000.

## 11) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within one year
<b>Governmental Activities</b>					
Bonds and Notes Payable:					
General obligation bonds	\$ 1,496,561,371	\$ 471,755,000	\$ (298,477,086)	\$ 1,669,839,285	\$ 139,239,285
Variable rate demand obligations	100,000,000	-	-	100,000,000	-
Bond anticipation notes	300,000,000	440,000,000	(315,000,000)	425,000,000	425,000,000
Lease revenue bonds	35,025,000	-	(1,705,000)	33,320,000	1,770,000
Equipment notes	5,109,265	1,753,063	(3,176,386)	3,685,942	2,396,265
Taxable limited obligation certificates	-	30,400,000	-	30,400,000	930,000
HUD loan	655,000	-	(43,000)	612,000	43,000
WSSC Promissory Note	10,000,000	-	(400,000)	9,600,000	425,280
Revenue Bonds	14,463,000	-	(539,676)	13,923,324	479,368
Subtotal	1,961,813,636	943,908,063	(619,341,148)	2,286,380,551	570,283,198
Add remaining original issue premium	64,307,030	31,992,728	(16,912,681)	79,387,077	-
Less deferred amount on refundings	(19,365,538)	(12,041,832)	4,689,585	(26,717,785)	-
Total Bonds and Notes Payable	2,006,755,128	963,858,959	(631,564,244)	2,339,049,843	570,283,198
Other Liabilities:					
Certificates of participation	30,475,000	23,000,000	(3,220,000)	50,255,000	6,320,000
Compensated absences	70,023,763	51,587,425	(49,037,768)	72,573,420	54,430,065
Other postemployment benefits	113,534,939	104,972,700	(40,654,230)	177,853,409	-
Capital leases	67,929,435	22,593,067	(8,958,219)	81,564,283	8,936,793
Claims and judgments	1,550,000	-	(950,000)	600,000	600,000
Total Other Liabilities	283,513,137	202,153,192	(102,820,217)	382,846,112	70,286,858
Governmental Activities Long-Term Liabilities	\$ 2,290,268,265	\$ 1,166,012,151	\$ (734,384,461)	\$ 2,721,895,955	\$ 640,570,056
<b>Business-Type Activities</b>					
Revenue Bonds:					
Liquor Control	32,302,000	-	(1,205,324)	31,096,676	1,070,632
Parking revenue bonds	33,920,000	-	(1,840,000)	32,080,000	1,915,000
Solid waste disposal revenue refunding bonds	13,345,000	-	(3,420,000)	9,925,000	3,550,000
Subtotal	79,567,000	-	(6,465,324)	73,101,676	6,535,632
Add remaining original issue premium	2,329,961	-	(287,549)	2,042,412	-
Less remaining original issue discount	(12,233)	-	1,747	(10,486)	-
Less deferred amount on refundings	(281,121)	-	121,102	(160,019)	-
Total General Obligation and Revenue Bonds	81,603,607	-	(6,630,024)	74,973,583	6,535,632
Other Liabilities:					
Compensated absences	5,275,874	48,480	(206,776)	5,117,578	3,838,184
Other postemployment benefits	-	4,765,300	(1,906,120)	2,859,180	-
Equipment notes	467,877	-	(215,267)	252,610	170,828
Landfill closure costs	20,675,923	426,000	(2,221,000)	18,880,923	1,106,000
Total Other Liabilities	26,419,674	5,239,780	(4,549,163)	27,110,291	5,115,012
Business-Type Activities Long-Term Liabilities	\$ 108,023,281	\$ 5,239,780	\$ (11,179,187)	\$ 102,083,874	\$ 11,650,644

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$2,126,852 (\$1,595,138 due within one year and \$531,714 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

## **12) Conduit Debt Obligations**

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring and/or renovating facilities for third party facility users. Facility users may be individuals, public or private corporations, or other entities. The bonds are sometimes secured by the facilities financed or by a financial institution and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2010, there were 31 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 16 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2010, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$175,875,000. The principal amount payable at June 30, 2010, for bonds issued after July 1, 1996, totaled \$277,139,992.

## **13) Special Taxing Districts**

The County created three development districts: Kingsview Village Center, West Germantown, and Clarksburg Town Center. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County with high priority for new development or redevelopment.

Pursuant to Chapter 14, special taxes and/or special assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective district. Any bond issued under Chapter 14 is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County, and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements.

In December 1999, the County issued \$2.4 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessments were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds for the West Germantown Development District. The County issued \$11.6 million of Senior Series 2002A bonds and \$4.3 million of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt. Bonds have not yet been issued for the Clarksburg Town Center development district.

## COMPONENT UNITS

At June 30, 2010, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	\$ 104,626,741	\$662,634,978	\$ 767,261,719
Capital leases payable	161,466	20,047,355	20,208,821
Notes payable	16,116,176	120,145,663	136,261,839
Total	<u>\$ 120,904,383</u>	<u>\$802,827,996</u>	<u>\$ 923,732,379</u>

HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding as follows:

<u>Purpose</u>	
Multi-Family Mortgage Purchase Program Fund	\$ 438,500,891
Single Family Mortgage Purchase Program Fund	<u>328,760,828</u>
Total	<u>\$ 767,261,719</u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 0.88 to 11.25 percent and 0.800 to 6.75 percent, respectively, as of June 30, 2010.

Pursuant to Section 15 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee. The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year Ending June 30	<u>Guaranteed Revenue Bond Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 340,000	\$ 496,023	\$ 836,023
2012	355,000	480,555	835,555
2013	370,000	464,058	834,058
2014	385,000	446,500	831,500
2015	405,000	427,834	832,834
2016-2020	-	2,091,075	2,091,075
2021-2025	2,880,000	1,443,075	4,323,075
2026-2030	5,430,000	959,753	6,389,753
Total	<u>\$10,165,000</u>	<u>\$ 6,808,873</u>	<u>\$ 16,973,873</u>



The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

Fiscal Year Ending June 30	Total Revenue Bond Requirements		
	Principal	Interest	Total
2011	\$ 104,626,740	\$ 26,373,377	\$ 131,000,117
2012	50,063,104	25,670,266	75,733,370
2013	17,964,619	24,444,833	42,409,452
2014	18,431,304	23,850,240	42,281,544
2015	18,108,199	23,205,158	41,313,357
2016-2020	81,487,852	108,135,770	189,623,622
2021-2025	69,320,995	95,691,979	165,012,974
2026-2030	110,329,502	74,618,866	184,948,368
2031-2035	136,325,800	36,530,680	172,856,480
2036-2040	130,850,000	16,632,634	147,482,634
2041-2045	20,775,000	5,058,509	25,833,509
2046-2050	9,090,000	95,520	9,185,520
Unamortized Bond Discount	(111,396)	-	(111,396)
Total	<u>\$ 767,261,719</u>	<u>\$ 460,307,832</u>	<u>\$ 1,227,569,551</u>

Changes in the HOC revenue bonds during FY10 are as follows:

Purpose	Balance	Bonds	Bonds	Balance
	July 1, 2009	Issued*	Retired	June 30, 2010
Multi-Family Mortgage Purchase Program Fund	\$ 399,106,059	\$ 91,289,832	\$ 51,895,000	\$ 438,500,891
Single Family Mortgage Purchase Program Fund	270,161,033	79,999,220	21,399,425	328,760,828
Total	<u>\$ 669,267,092</u>	<u>\$ 171,289,052</u>	<u>\$ 73,294,425</u>	<u>\$ 767,261,719</u>

\* Includes accretions and bond discounts.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt), and accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 2009	\$ 270,078,666
Issuances during the year	41,280,000
Redemptions during the year	<u>(61,766,619)</u>
Bonds outstanding, June 30, 2010	<u>\$ 249,592,047</u>

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

### G) Segment Information

The County has issued revenue bonds to finance activities relating to Solid Waste Disposal operations, including recycling, and the Silver Spring and Bethesda Parking Lot districts (PLDs). The Solid Waste Disposal operations and the Silver Spring and Bethesda PLDs are accounted for within the Solid Waste Activities Fund and the Parking Lot Districts Fund, respectively. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each activity as of and for the year ended June 30, 2010, is presented below:

#### Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
<b>ASSETS</b>			
Current assets	\$ 22,913,065	\$ 2,159,653	\$ 11,802,165
Due from component units	54,392	-	386,423
Other assets	35,103,245	3,284,902	5,177,306
Capital assets	44,372,739	85,047,190	79,843,967
Total Assets	<u>102,443,441</u>	<u>90,491,745</u>	<u>97,209,861</u>
<b>LIABILITIES</b>			
Current liabilities	10,749,398	1,444,452	3,552,949
Due to other funds	175,781	24,668	33,095
Long-term liabilities	24,625,866	172,628	30,408,943
Total Liabilities	<u>35,551,045</u>	<u>1,641,748</u>	<u>33,994,987</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	34,461,594	84,806,549	47,692,095
Restricted for debt service	34,935,313	3,284,902	4,724,880
Unrestricted	(2,504,511)	758,546	10,797,899
Total Net Assets	<u>\$ 66,892,396</u>	<u>\$ 88,849,997</u>	<u>\$ 63,214,874</u>

\* Includes Solid Waste Leafing

**Condensed Statements of Revenues, Expenses, and Changes in Fund Net Assets**

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
<b>OPERATING REVENUES (EXPENSES):</b>			
Operating Revenues:			
Charges for services	\$ 96,361,936	\$ 7,760,223	\$ 10,372,352
Licenses and permits	11,034	-	-
Fines and penalties	51,463	2,624,942	5,731,708
Total Operating Revenues (pledged against bonds)	<u>96,424,433</u>	<u>10,385,165</u>	<u>16,104,060</u>
Depreciation	(2,300,678)	4,725,237	4,617,350
Other operating expenses	96,013,600	9,986,029	8,188,688
Operating Income (Loss)	<u>2,711,511</u>	<u>(4,326,101)</u>	<u>3,298,022</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Property taxes	-	5,702,142	3,729,688
Intergovernmental	30,000	-	-
Gain (loss) on disposal of capital assets	61,285	-	-
Investment income	385,885	19,467	121,647
Interest expense	(649,864)	(11,992)	(1,443,790)
Other revenue	57,468	392,216	91,267
Capital contributions	-	14,700	-
Transfers in	-	-	-
Transfers out	(2,242,820)	(8,817,129)	(9,226,162)
Change in Net Assets	<u>353,465</u>	<u>(7,026,697)</u>	<u>(3,429,328)</u>
Beginning Net Assets	66,538,931	95,876,694	66,644,202
Ending Net Assets	<u>\$ 66,892,396</u>	<u>\$ 88,849,997</u>	<u>\$ 63,214,874</u>

**Condensed Statements of Cash Flows**

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	\$ 470,971	\$ 1,268,314	\$ 7,547,919
Noncapital financing activities	(2,212,820)	(3,114,987)	(5,496,474)
Capital and related financing activities	(7,198,641)	(1,944,617)	(6,601,379)
Investing activities	150,719	19,467	38,907
Net Increase (Decrease)	<u>(8,789,771)</u>	<u>(3,771,823)</u>	<u>(4,511,027)</u>
Beginning Cash and Cash Equivalents	59,905,703	7,553,515	18,440,218
Ending Cash and Cash Equivalents	<u>\$ 51,115,932</u>	<u>\$ 3,781,692</u>	<u>\$ 13,929,191</u>

\* Includes Solid Waste Leafing

H) **Fund Equity**

1) **Designated Fund Balances**

Designated fund balances include amounts encumbered at year-end, which are reported separately in the accompanying financial statements. Designated fund balances also include committed amounts which have been appropriated as part of the next year's original budget where the source of funds is the fund balance as of the end of the current year, and amounts appropriated but unexpended in the Capital Projects Fund where the source of funds is current receipts in the governmental funds. Such amounts are as follows at June 30, 2010:

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Designated for next year's budget	\$ -	\$ 5,501,002	\$ 5,501,002
Designated for transfers to Capital Projects Fund	34,705,889	15,406,821	50,112,710
Total	<u>\$ 34,705,889</u>	<u>\$ 20,907,823</u>	<u>\$ 55,613,712</u>

Designated fund balance does not include the following commitments, which otherwise meet the criteria for designation, but for which unrestricted fund balance is not available to designate:

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Total</u>
Encumbrances *	\$ 585,617	\$ 191,049,944	\$ 9,180,165	\$200,815,726
Total	<u>\$ 585,617</u>	<u>\$ 191,049,944</u>	<u>\$ 9,180,165</u>	<u>\$200,815,726</u>

\* Encumbrances relating to special revenue funds include \$9,180,165 relating to the Grants Fund, where appropriation and spending on Federal and State grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available.

2) **Net Assets Restricted by Enabling Legislation**

Net assets restricted by enabling legislation represent legislative restrictions that a party external to the government can compel the government to honor. For the County, such amounts represent primarily accumulated net assets attributed to revenue streams, such as taxes or fees, which are restricted for specified purposes in the County Code. This generally includes Capital Project Fund recordation and impact tax collections on hand for other component unit and municipal governments, ending fund balances of substantially all special revenue funds, and ending unrestricted net assets of the Solid Waste Activities and Parking Lot Districts enterprise funds. Such amounts, which are included with restricted net assets in the government-wide Statement of Net Assets, are as follows at year-end:

Governmental activities	\$ 316,168,025
Business-type activities	<u>12,359,998</u>
Total	<u>\$ 328,528,023</u>

**I) Significant Transactions with Discretely Presented Component Units**

**1) Operating and Capital Funding**

Expenditures incurred for operating and capital funding of discretely presented component units amounted to the following for the year ended June 30, 2010:

	<u>Operating</u>	<u>General Fund Capital *</u>	<u>Total</u>	<u>Capital Projects</u>	<u>Total</u>
MCPS	\$1,429,900,613	\$ 21,118,157	\$1,451,018,770	\$ 137,812,754	\$1,588,831,524
MCC	108,399,261	2,677,602	111,076,863	38,724,641	149,801,504
HOC	<u>5,522,147</u>	<u>1,062,074</u>	<u>6,584,221</u>	-	<u>6,584,221</u>
Total	<u>\$1,543,822,021</u>	<u>\$ 24,857,833</u>	<u>\$1,568,679,854</u>	<u>\$ 176,537,395</u>	<u>\$1,745,217,249</u>

\* Represents current receipt and pay-go funding transferred from the General Fund for component units' use towards their capital projects.

For GAAP financial statement reporting purposes, General Fund expenditures incurred for funding of MCPS and MCC are classified as education expenditures; HOC funding is classified under community development and housing.

**2) Other Transactions**

BUPI charges for services revenue includes \$4,010,635 earned under contracts with the County. For capital leases with MCRA, see Note III-E3. For mortgages receivable due from HOC, see Note III-B2.

**NOTE IV. OTHER INFORMATION**

**A) Risk Management**

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation; comprehensive general; automobile and professional liability (errors and omissions); property coverage including fire and theft; and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include MCPS, HOC, MCC, MCRA, BUPI, M-NCPPC, the City of Rockville, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the Village of Martin's Additions, the City of Gaithersburg, the Village of Drummond, the City of Takoma Park, and the Village of Friendship Heights. The liability for claims with respect to all participants transfers to the self-insurance fund, except for M-NCPPC which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, prescription, dental, vision, and life insurance. While the majority of coverage is self-insured, certain fully

insured plan options, including health maintenance organizations (HMO's), are offered to participants. WSTC, BUPI, Montgomery Community Television, the Strathmore Hall Foundation, Inc., Arts and Humanities Council of Montgomery County, Montgomery County Volunteer Fire & Rescue Association, and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include nonincremental claims adjustment expenses such as internal salary costs. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in the Liability and Property Coverage Self-Insurance Fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

Changes in the balances of Claims Payable for the self-insurance funds for FY10 and FY09 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2008	\$80,831,000	\$ 6,186,897
Claims and changes in estimates	36,547,713	86,223,421
Claim payments <sup>1</sup>	<u>(29,242,713)</u>	<u>(85,610,110)</u>
Balance June 30, 2009	88,136,000	6,800,208
Claims and changes in estimates	35,825,614	98,011,667
Claim payments <sup>1</sup>	<u>(29,128,614)</u>	<u>(97,609,306)</u>
Balance June 30, 2010 <sup>2,3</sup>	<u>\$94,833,000</u>	<u>\$ 7,202,569</u>

**1** Includes non-monetary settlements.

**2** Includes incurred but not reported (IBNR) claims of \$51,353,000 and \$7,215,669 for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

**3** Life Insurance is covered by a third-party provider, but the County is required to hold a reserve with the provider proportionate to claims incurred. The Life Insurance IBNR of \$13,100 is not included in the schedule. Claims payable including Life IBNR is \$7,215,669.

## **B) Significant Commitments and Contingencies**

### **1) Landfill**

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at \$62,423,000, which has been fully accrued through June 30, 2010. Of the total amount accrued, \$41,321,077 in actual costs has been paid out in prior years, and \$2,221,000 was paid in FY10, resulting in a net liability of \$18,880,923 at June 30, 2010. The current and non-current portions of the adjusted liability at year-end are estimated at \$1,106,000 and \$17,774,923 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

### **2) Pollution Remediation**

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that the County disclose in the notes of the financial statements any contingent liability related to a pollution remediation event. The County has a contingent liability with respect to the Gude Landfill. This landfill was used for the disposal of County municipal solid waste from 1965 to 1982. The landfill received approximately 4.8 million tons of municipal waste from 1965 until the site was closed in 1982. A contingent liability currently exists because the Gude Landfill has been identified as a site which will require pollution remediation or additional post-closure costs due to ground water and surface water contamination. The County is still investigating the extent to which this site needs remediation, therefore no reasonable estimable costs can be reported for FY10 and may not be until FY11. In light of this determination, GASB 49 dictates that the potential financial liability be disclosed only in the footnote section and not the financial statements.

### **3) Litigation**

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed \$600,000. In accordance with general accepted accounting principles, this amount has been reflected as a liability in the accompanying financial statements, given that the claims are determined to be probable.

**4) Grants, Entitlements, and Shared Revenues**

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2010, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

**5) Other Commitments**

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amounts of outstanding commitments at June 30, 2010, are as follows:

<u>Enterprise Funds:</u>	<u>Operating</u>	<u>Capital</u>	<u>Inventory</u>	<u>Total</u>
Major Funds:				
Liquor	\$ 1,905,342	\$ -	\$ 4,988,658	\$ 6,894,000
Solid Waste Activities:				
Disposal operations	5,875,470	-	-	5,875,470
Collection operations	197,644	-	-	197,644
Parking Lot Districts:				
Silver Spring	551,458	2,421,969	-	2,973,427
Bethesda	613,631	2,171,633	-	2,785,264
Wheaton	148,260	383,378	-	531,638
Montgomery Hills	17,889	-	-	17,889
Subtotal	<u>9,309,694</u>	<u>4,976,980</u>	<u>4,988,658</u>	<u>19,275,332</u>
Nonmajor Funds:				
Permitting Services	-	-	-	-
Community Use of Public Facilities	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Enterprise Funds	<u>9,309,694</u>	<u>4,976,980</u>	<u>4,988,658</u>	<u>19,275,332</u>
<u>Internal Service Funds:</u>				
Motor Pool	1,136,150	-	2,795,744	3,931,894
Central Duplicating	177,686	-	-	177,686
Liability and Property Coverage Self-Insurance	-	-	-	-
Employee Health Benefits Self-Insurance	105,380	-	-	105,380
Total Internal Service Funds	<u>1,419,216</u>	<u>-</u>	<u>2,795,744</u>	<u>4,214,960</u>
Total Proprietary Funds	<u>\$ 10,728,910</u>	<u>\$ 4,976,980</u>	<u>\$ 7,784,402</u>	<u>\$ 23,490,292</u>

As of June 30, 2010, the County has \$410,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.



**C) Subsequent Events**

On July 8, 2010, the County issued General Obligation Bonds (Tax-Exempt, Series A) in the amount of \$195,000,000; Build America Bonds (Federally Taxable, Series B) totaling \$106,320,000; and Recovery Zone Economic Development Bonds (Federally Taxable, Series C) amounting to \$23,680,000. Subsequent to closing on July 22, 2010, the County retired commercial paper bond anticipation notes (BANS) totaling \$325,000,000; \$117,000,000 for 2002 series M, \$68,000,000 for 2002 series N, \$15,000,000 for 2002 series P, and \$125,000,000 for 2009 series A. On August 9, 2010, the County issued BANS totaling \$200,000,000. On September 23, 2010, the County issued a master lease agreement totaling \$1,287,744 to purchase fire and rescue equipment.

**D) Joint Ventures**

The Primary Government participates in six joint ventures which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no "Investment in Joint Ventures" is included in the accompanying financial statements. Audited financial statements are available from each of the six organizations. A general description of each joint venture follows:

**Maryland-National Capital Park and Planning Commission (M-NCPPC)**

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George's Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties' oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of M-NCPPC issued for its jurisdiction.

At June 30, 2010, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$113,983,226, of which \$3,393,261 was self-supporting. Of the total amount payable, \$16,225,615 represented debt due within one year. Generally, debt of M-NCPPC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. Montgomery County's contingent liability for non self-supporting M-NCPPC debt at June 30, 2010, is \$33,287,029, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

**Washington Suburban Sanitary Commission (WSSC)**

WSSC is a bi-county instrumentality of the State of Maryland created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The two participating counties share equal control over WSSC in the selection of the six-member governing body, budgeting authority, and financing responsibility.

At June 30, 2010, WSSC had outstanding notes payable and bonds payable in the amount of \$1,371,098,000, which was fully self-supporting. Of the total amount payable, \$319,299,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on WSSC bonds, unless WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to all outstanding WSSC bonds. At June 30, 2010, all WSSC debt relating to the County is self-supporting.

### **Washington Suburban Transit Commission (WSTC)**

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the State Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling \$93,130 to WSTC during FY10. The FY10 WSTC Annual Financial Report was not available when this report was published.

### **Washington Metropolitan Area Transit Authority (WMATA)**

WMATA was created in 1967 by interstate compact among the State of Maryland, the Commonwealth of Virginia, and the District of Columbia. WMATA's primary function is to plan, construct, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a sixteen-member Board of Directors. Maryland, Virginia, the District of Columbia, and the federal government each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.

Montgomery County is committed to participation in WMATA and its regional Metro Rail and Metro Bus programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail and bus operating expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rail System. The County's share of the cost of construction of the Metro Rail System has been totally assumed by the State. In addition, State legislation mandates, effective in FY00, that the State provides 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover its related 100 percent of the combined operating deficit of WMATA and County Ride-On operations (that began on or after June 30, 1989) assuming that 35 percent (effective in FY09) of gross operating costs are recovered by revenues.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY10, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	\$ 43,739,552
Rail operating subsidy	31,747,993
Americans with Disabilities Act service	19,497,935
MetroMatters program	33,744,000
Debt service on WMATA revenue bonds	4,867,500
Local bus program	22,089,042
Total	<u><u>\$155,686,022</u></u>

At June 30, 2010, WMATA had outstanding bonds payable of \$390,945,000, of which \$34,705,000 represented bonds payable due within one year. All of this debt is payable from resources of WMATA.

**Metropolitan Washington Council of Governments (COG)**

COG is a multi-governmental regional planning organization in which local governments work together, in partnership with state and federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 12 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY09 membership dues and fees for services amounting to \$743,366.

**Northeast Maryland Waste Disposal Authority (NEMWDA)**

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following eight member jurisdictions from the State of Maryland: Montgomery County, Anne Arundel County, Baltimore City, Baltimore County, Carroll County, Frederick County, Harford County, and Howard County. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). In April 2003, NEMWDA refinanced \$205,078,908 of the 1993 bonds. At June 30, 2010, NEMWDA had outstanding bonds payable in the amount of \$160,730,000 of which \$20,795,000 represented debt due within one year. Of these amounts, \$153,025,000 is related to the Project, \$18,885,000 of which represented debt due within one year. These bonds are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste

disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY10 amounted to \$34,874,818.

**E) Employee Benefits**

**1) Deferred Compensation**

During FY05, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. County non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who did not elect to continue to participate in the County Plan may participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

During FY99, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries. Trust responsibilities were assigned to the Board of Investment Trustees (Board). The County Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. The assets of the Union Plan are not included in the accompanying financial statements since the County has no fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

Under both Plans, contributions are sent to contracted third party administrator investment vendors for different types of investments as selected by participants. A separate account, which reflects the monies deferred, the investment of the monies, and related investment earnings, is maintained for each participant. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies. Administrative expenses relating to the County Plan, which are not significant to the County Plan, have been paid by the General Fund.

**2) Annual, Sick Leave, and Other Compensated Absences**

Employees of the County earn annual, compensatory, and sick leave in varying amounts. Employees who are part of the County Management Leadership Service and participate in the Retirement Savings Plan earn only Paid Time Off (PTO) leave. In the event of termination, employees are reimbursed for accumulated annual, PTO (where applicable), and compensatory leave (up to a limit if applicable). Under the Employees' Retirement System of Montgomery County, covered employees are given credited service toward retirement benefits for accumulated sick leave at retirement. Earned but unused annual, PTO, and compensatory leave is accounted for in the proprietary funds as a liability. The liability for unused annual, PTO, and compensatory leave payable from governmental fund types is reflected only at the government-wide level because it will be paid from future periods' resources. Liabilities for compensated absences have not been recorded in governmental funds since the portion expected to be liquidated with expendable available financial resources has been determined to be immaterial. Earned but unused sick leave is not recorded as a liability because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

### 3) **Group Insurance Benefits**

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY10, the County and its employees contributed \$77,035,808 and \$28,684,718, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$702,528, \$3,599,293, and \$70,207 for these component units, respectively, for FY10.

## F) **Pension Plan Obligations**

### 1) **Defined Benefit Pension Plan**

**Plan Description** - The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board consists of thirteen trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be accessed on the County's website at <http://www.montgomerycountymd.gov/bit>, or can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 101 Monroe Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, Montgomery County Employees Federal Credit Union, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Section 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Benefit provisions are established under the Montgomery County Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups and retirement membership classes within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement class assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated group members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group.

Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. Disability benefits are contingent upon service-connected or nonservice-connected occurrences and total or partial permanent disablement. Death benefits are contingent upon service-connected or nonservice-connected occurrences. Effective July 1, 1989, when members terminate employment before their retirement date and after completion of five years of credited service, they may elect to leave their member contributions in the System and receive a pension upon reaching their normal retirement date, based on the amount of their normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under Section 33-45 of the Montgomery County Code of 2001, as amended. A member who terminates employment prior to five years of credited service is refunded their accumulated contributions with interest.

Deferred Retirement Option (DROP) Plans, established in FY00, allow any employee who is a member of a specified membership class or bargaining unit, and who meets certain eligibility requirements, to elect to “retire” but continue to work for a specified time period, during which pension payments are deferred. When the member’s participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member’s credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant’s benefit is determined based upon the account balance which includes contributions and earnings.

**Funding Policy** - Required employee contribution rates varying from 4 to 9.25 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year’s employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

The GRIP, as defined in Section 33-35 of the Code, requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-40 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non -public safety and public safety employees, respectively.

**Annual Pension Cost and Net Pension Obligation** - The annual required contributions (ARC) for FY10 were based on an actuarial valuation as of June 30, 2008, the latest valuation available on the date the County Council was required to approve the appropriation resolution. The ARC, or annual pension cost (APC), were the same as contributions actually made.

The APC and the net pension obligation (NPO) of the County and the participating agencies and political subdivisions for FY10 were as follows:

Fiscal Year	APC	Percentage of APC Contributed	NPO
2008	\$117,686,375	100 %	\$ -
2009	109,567,014	100	-
2010	113,957,784	100	-

**Allocated Insurance Contract** - On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. The transactions related to this agreement have not been recognized in the System's financial statements.

2) **Defined Contribution Plan**

**Plan Description** - Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under Section 33-114 of the County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994, are covered under this Plan. In addition to the County, other participant agencies include MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, and Montgomery County Employees Federal Credit Union. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan, provided they are unrepresented employees, or represented by a collective bargaining agreement that allows for participation in this Plan.

Under Section 33-116 of the Code, the Plan requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY10 were \$16,400,574 and \$8,871,048, respectively. In accordance with IRS regulations and the County Code, \$400,000 in accumulated revenue was used to reduce employer contributions in FY10.

The Montgomery County Council passed legislation in FY09 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Employees' Retirement System, for employees. During FY10, eligible County employees who were

members of the Retirement Savings Plan (Plan) were granted the option to elect to participate in the GRIP and to transfer their Plan member account balance to the GRIP and cease being a member of the Plan. For employees who elected to participate in the GRIP, the \$31.5 million transfer of their member account balances from the Plan to the GRIP has been reported as movement of member account asset balances in the accompanying Statement of Changes in Plan Net Assets.

**3) Other**

The County contributed \$981,477 during FY10 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

**4) Length of Service Award Program (LOSAP)**

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's Department of Fire and Rescue Service volunteers who meet certain age and service criteria. Benefit expenditures amounting to \$1,163,140 in FY10 also include disability and survivor annuities and lump-sum death benefits, and are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis. There were 482 recipients comprising former volunteers and their beneficiaries at the end of FY10. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is \$20,740,159.

**G) Other Postemployment Benefits (OPEB)**

**Plan Description** – During FY08, the Montgomery County Council enacted legislation (Bill No. 28-07) to establish a new trust effective July 1, 2007 to fund certain County retiree benefit plans. The Retiree Health Benefits Trust (Retiree Trust) is a cost-sharing multiple-employer defined benefit healthcare plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the Retiree Trust. The Board consists of thirteen trustees and functions as part of the County. Separate financial statements are not issued for the Retiree Trust.

Substantially all retirees of the County, MCRA, HOC, the independent fire/rescue corporations, WSTC, the Strathmore Hall Foundation, Inc., the Village of Friendship Heights, Montgomery County Employees Federal Credit Union and certain retirees of the State Department of Assessments and Taxation, are provided postemployment benefits such as medical, life, dental, vision, and prescription coverage under the Montgomery County Group Insurance Plan (Plan). Retirees may also elect coverage for their eligible dependents. A member of the Employees' Retirement System of Montgomery County, who retires under a normal, early, disability or discontinued service retirement, is eligible for group insurance benefits under the Plan. However, the member is not eligible for group insurance benefits if the member leaves County service prior to retirement eligibility with a deferred vested benefit payable upon member's retirement date. A member of the Employees' Retirement Savings Plan is eligible for group insurance upon separation from service based upon the member's age and credited service at the time of separation. Postemployment benefit provisions and eligibility requirements for retirees are described under the Montgomery County Group Insurance Summary Plan Description.



Plan membership at June 30, 2008, the most recent actuarial valuation, consisted of the following:

Retirees and beneficiaries receiving benefits	7,490
Active plan members	<u>9,949</u>
Total	<u><u>17,439</u></u>

Condensed FY10 financial statements for the Retiree Health Benefits Trust are as follows:

<b>Condensed Statement of Fiduciary Net Assets</b>		<b>Condensed Statement of Changes in Fiduciary Net Assets</b>	
<b>ASSETS</b>		<b>ADDITIONS</b>	
Cash and investments	\$ 38,134,986	Contributions	\$ 57,543,856
Other assets	<u>4,281,658</u>	Net investment income (loss)	<u>3,998,331</u>
Total Assets	<u>42,416,644</u>	Total Additions, net	<u>61,542,187</u>
<b>LIABILITIES</b>		<b>DEDUCTIONS</b>	
Claims payable	4,242,882	Benefits	52,137,098
Other liabilities	<u>26,200</u>	Administrative	<u>2,265,979</u>
Total Liabilities	<u>4,269,082</u>	Total Deductions	<u>54,403,077</u>
<b>NET ASSETS:</b>		Change in Net Assets	7,139,110
Held in trust for other		Beginning Net Assets	<u>31,008,452</u>
postemployment benefits	<u>\$ 38,147,562</u>	Ending Net Assets	<u>\$ 38,147,562</u>

**Contributions** – The County Council has the authority to establish and amend contribution requirements of the plan members and the County. The Plan is a contributory plan in which the County and the retired members and beneficiaries contribute, based on an actuarial valuation, certain amounts toward the current cost of healthcare benefits. During FY10, plan members and beneficiaries receiving benefits contributed \$14,983,507 (approximately 28 percent of current contributions). The County and other contributing entities contributed \$42,560,350, including \$39,302,710 (approximately 72 percent of current contributions) for current premiums, claims and administrative expenses, and \$3,257,640 toward prefunding future benefits.

**Funding Status and Funding Progress** – As of June 30, 2008, the most recent actuarial valuation, the actuarial accrued liability (AAL) was \$1,161,222,000 and there was \$35,279,000 of actuarial plan assets; therefore, the unfunded AAL (UAAL) was \$1,125,943,000. The annual covered payroll of active employees covered by the Plan was \$667,400,000 and the ratio of the UAAL to covered payroll was 168.7 percent.

The actuarial valuation of the Plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarially determined amounts regarding the funded status of the Plan and the annual required contributions (ARC) of the County and other participating agencies are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

During FY08, the County Council adopted Resolution No. 16-555, expressing its intent to phase in to full funding of the difference between pay-as-you-go contributions and the ARC over eight years. The prefunding contributions reflected in the accompanying financial statements represent the third year of that eight year phase in.

**Annual OPEB Cost and Net OPEB Obligation** - The ARC, or annual OPEB cost (AOC), for FY10 was based on an actuarial valuation as of June 30, 2008, the latest valuation available on the date the County Council was required to approve the FY10 budget.

The AOC and the net OPEB obligation of the County as of June 30, 2010 were as follows:

Annual required contribution (ARC)	\$ 107,397,000
Interest on net OPEB obligation	2,341,000
Annual OPEB cost	<u>109,738,000</u>
Contributions made	<u>42,560,350</u>
Increase in net OPEB obligation	67,177,650
Net OPEB obligation - beginning of year	<u>113,534,939</u>
Net OPEB obligation - end of year	<u><u>\$ 180,712,589</u></u>

The County's annual OPEB cost (AOC) and the net OPEB obligation of the plan for the current and prior two years were as follows:

<u>Fiscal Year Ended June 30</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$ 102,320,000	42.7 %	\$ 58,598,791
2009	113,139,000	51.4	113,534,939
2010	109,738,000	38.8	180,712,589

**Actuarial Methods and Assumptions** – The calculations of projected benefits are based on the terms of the Plan in effect at the time of valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial calculations reflect a long-term perspective and actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued liability and the actuarial value of assets.

Actuarial assumptions used in the actuarial valuation were:

Valuation date	June 30, 2008
Actuarial method	Projected unit credit
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open period)
Investment rate of return	8.0%
Salary scale	4.25%
Inflation rate	3%
Mortality	RP 2000 projected 10 years, separate tables for males and females
Health care cost trend rates:	(initial, ultimate)
Medical (excluding Indemnity plan) pre-65	10.0%, 5.0%
Medical (excluding Indemnity plan) post-65	8.5%, 5.0%
Medical (Indemnity plan)	11.0%, 5.0%
Prescription drugs	10.0%, 5.0%
Dental	6.5%, 4.5%

**REQUIRED SUPPLEMENTARY INFORMATION**

**REQUIRED SUPPLEMENTARY INFORMATION**

**RETIREE HEALTH BENEFITS TRUST**

The following required supplementary information is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons among employers.

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
6/30/2007	\$ -	\$ 1,176,000,000	\$1,176,000,000	0 %	\$ 602,006,000	195.3 %
6/30/2008	35,279,000	1,161,222,000	1,125,943,000	3.0	667,400,000	168.7

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability provides one indication of the system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

**SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITIES CONTRIBUTIONS**

Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed		Net OPEB Obligation
		Employers	Other Contributing Entities	
2008	\$ 102,320,000	38.6 %	4.1 %	\$ 58,598,791
2009	111,677,000	51.0	1.2	113,534,939
2010	107,397,000	37.5	2.1	180,712,589

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**APPENDIX C**

**FORM OF APPROVING OPINION OF SPECIAL COUNSEL**

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[Form of Approving Opinion of Special Counsel]

[Closing Date]

County Executive and County Council  
of Montgomery County, Maryland  
Rockville, Maryland

County Executive and Council Members:

In connection with the issuance of \$ \_\_\_\_\_ Montgomery County, Maryland, Taxable Limited Obligation Certificates (Facility and Residential Development Projects) Series 2011 (the "Series 2011 Certificates") we have examined:

(i) the Taxable Limited Obligation Certificate Trust Agreement by and between Montgomery County, Maryland (the "County") and the U.S. Bank National Association, acting as Trustee (the "Trustee") and as the Bank (the "Bank") dated as of April 1, 2010, as amended by the First Supplemental Taxable Limited Obligation Certificate Trust Agreement and Supplemental Funding Agreement dated as of August 1, 2011 (the "Trust Agreement");

(ii) the Funding Agreement by and between the County and the Bank dated as of April 1, 2010, as amended by the First Supplemental Taxable Limited Obligation Certificate Trust Agreement and Supplemental Funding Agreement (the "Funding Agreement");

(iii) Resolution No. 17- 227 passed by the County Council of the County on July 26, 2011;

(iv) Executive Order No. \_\_\_\_\_ executed by the County Executive of the County on \_\_\_\_\_, 2011;

(v) form of the Series 2011 Certificates;

(vi) relevant provisions of the Internal Revenue Code of 1986, as amended (the "Code"); and

(vii) other proofs submitted to us relative to the issuance of the Series 2011 Certificates.

The Funding Agreement provides for the payment by the County of contract payments (the "Contract Payments"). Each Contract Payment has a principal portion and an interest portion, in the amounts and on the dates set forth in the Funding Agreement.

The Series 2011 Certificates are in registered form in denominations of \$5,000 or any integral multiple thereof. The Series 2011 Certificates bear interest, mature and are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth therein and in the Trust Agreement.

We have made no investigation of, and are rendering no opinion regarding the title to real or personal property or the priority or perfection of any lien or security interest in real or personal property. Based upon the foregoing, it is our opinion that:



(a) The County is a validly created and existing body politic and corporate and political subdivision of the State of Maryland.

(b) The Series 2011 Certificates have been duly authorized and issued pursuant to, and are permitted by the terms of, the Trust Agreement, constitute valid and binding obligations evidencing direct and proportionate interests of the owners thereof in principal and interest components of Contract Payments, and are equally and ratably secured under the Trust Agreement. Additional Certificates secured equally and ratably with the Series 2011 Certificates may be issued from time to time under the conditions, limitations and restrictions set forth in the Trust Agreement.

(c) The County's obligation to make Contract Payments is subject to and dependent upon the County Council making annual appropriations for such purpose. Such obligation does not constitute a debt of the County within the meaning of any constitutional or statutory limitation nor a liability of or a lien or charge upon funds or property of the County beyond any fiscal year for which the County Council has appropriated moneys to make such payments.

(d) The Funding Agreement and the Trust Agreement have been duly authorized, executed and delivered by the County and, assuming the due authorization, execution and delivery thereof by the other parties thereto, constitute the valid and binding obligation of the County enforceable against the County in accordance with their terms.

(e) The Funding Agreement, the Trust Agreement and the Series 2011 Certificates are subject to bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditors' rights and to general principles of equity.

(f) Under existing law, the interest portion of the Contract Payments on the Series 2011 Certificates is not exempt from income taxation by the State of Maryland or by any of its political subdivisions.

(g) The interest portion on the Contract Payments on the Series 2011 Certificates will be includable in gross income for federal income tax purposes under existing statutes, regulations and decisions.

We assume no obligation to supplement this opinion if any applicable laws or interpretations thereof change after the date hereof or if we become aware of any facts or circumstances that might change the opinions expressed herein after the date hereof. The opinions expressed herein are limited to the matters set forth above, and no other opinions should be inferred beyond the matters expressly stated.

Investors are urged to obtain independent federal income tax advice regarding the Series 2011 Certificates based upon their particular circumstances. Federal income tax advice set forth herein regarding the Series 2011 Certificates was not intended or written to be used, and cannot be used, for purposes of avoiding federal income tax penalties. The advice provided herein was written to support the promotion or marketing of the Series 2011 Certificates. This notice is intended to comply with the provisions of Section 10.35 of the United States Treasury Publication Circular 230.

Very truly yours,

**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement dated as of August \_\_\_, 2011 (this "Disclosure Agreement") is executed and delivered by MONTGOMERY COUNTY, MARYLAND (the "County") in connection with the issuance of its Taxable Limited Obligation Certificates (Facility and Residential Development Projects) Series 2011 (the "Series 2011 Certificates"). The County, intending to be legally bound hereby and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby covenant and agree as follows:

SECTION 1. *Purpose of the Disclosure Agreement.* This Disclosure Agreement is being executed and delivered by the County for the benefit of the owners of the Series 2011 Certificates, including beneficial owners, and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The County's obligations hereunder shall be limited to those required by written undertaking pursuant to the Rule.

SECTION 2. *Definitions.* In addition to the definitions set forth above, which apply to any capitalized term used in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

"EMMA" shall mean Electronic Municipal Market Access System maintained by the MSRB. For more information on EMMA, see [www.emma.msrb.org](http://www.emma.msrb.org).

"Listed Events" shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

"Participating Underwriter" shall mean any of the original underwriters of the Series 2011 Certificates required to comply with the Rule in connection with offering of the Series 2011 Certificates.

"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 or replaced from time to time.

"State" shall mean the State of Maryland.

SECTION 3. *Provision of Annual Financial Information, Operating Data and Audited Information.*

(a) The County shall provide to the MSRB, the following annual financial information and operating data, such information and data to be updated as of the end of the preceding fiscal year and made available within 275 days after the end of the fiscal year, commencing with the fiscal year ended June 30, 2011:

- (i) Statement of Direct and Overlapping Debt;
- (ii) General Bonded Debt Ratios;
- (iii) Assessed Value of All Taxable Property By Class;
- (iv) Property Tax Levies and Collections;
- (v) Property Tax Rates and Tax Levies, By Purpose; and
- (vi) Schedule of General Fund Revenues, Expenditures and Transfers In (Out).

(b) The County shall provide to the MSRB annual audited financial statements for the County, such information to be made available within 275 days after the end of the County's fiscal year, commencing with the fiscal year ended June 30, 2011, unless the audited financial statements are not available on or before such date, in which event said financial statements will be provided promptly when and if available. In the event that audited

financial statements are not available within 275 days after the end of the County's fiscal year (commencing with the fiscal year ended June 30, 2011), the County will provide unaudited financial statements within such time period.

(c) The presentation of the financial information referred to in paragraph (a) and in paragraph (b) of this Section shall be made in accordance with the same accounting principles as utilized in connection with the presentation of applicable comparable financial information included in the final official statement for the Series 2011 Certificates.

(d) If the County is unable to provide the annual financial information and operating data within the applicable time periods specified in (a) and (b) above, the County shall send in a timely manner a notice of such failure to the MSRB.

(e) The County hereby represents and warrants that it has not failed to comply with any prior disclosure undertaking made pursuant to the Rule.

#### SECTION 4. *Reporting of Significant Events.*

(a) This Section 4 shall govern the giving of notices of the occurrence of any of the following events with respect to the Series 2011 Certificates:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or other material events affecting the tax status of the Series 2011 Certificates;
- (7) modifications to rights of holders of the Series 2011 Certificates, if material;
- (8) bond calls, if material;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the Series 2011 Certificates, if material;
- (11) rating changes;
- (12) the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2011 Certificates;
- (13) tender offers;
- (14) bankruptcy, insolvency, receivership or similar event of the County;
- (15) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or

the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

- (16) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) In a timely manner, not in excess of ten business days after the occurrence of an event listed in Section 4(a) above, the County shall file a notice of such occurrence with the MSRB.

SECTION 5. *Filing with EMMA.* Unless otherwise required by the MSRB, all filings with the MSRB shall be made with EMMA and shall be accompanied by indentifying information as prescribed by the MSRB.

SECTION 6. *Termination of Reporting Obligations.* The County's obligations under this Disclosure Agreement shall terminate upon the payment in full of all of the Series 2011 Certificates either at their maturity or by early redemption. In addition, the County may terminate its obligations under this Disclosure Agreement if and when the County no longer remains an obligated person with respect to the Series 2011 Certificates within the meaning of the Rule.

SECTION 7. *Amendments.*

(a) The County may provide further or additional assurances that will become part of the County's obligations under this Disclosure Agreement. In addition, this Disclosure Agreement may be amended by the County in its discretion, provided that:

(1) the amendment is being made in connection with a change of circumstances that arises from a change in legal requirements, change in law, change in the identity, nature or status of the County as the obligated person with respect to the Series 2011 Certificates, or type of business conducted by the County;

(2) this Disclosure Agreement, as amended, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the issuance of the Series 2011 Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(3) the amendment does not materially impair the interests of owners of the Series 2011 Certificates, including beneficial owners, as determined by bond counsel selected by the County or by an approving vote of at least 25% of the outstanding principal amount of the Series 2011 Certificates.

(b) The reasons for the County agreeing to provide any further or additional assurances or for any amendment and the impact of the change in the type of financial information or operating data being provided will be explained in narrative form in information provided with the annual financial information containing the additional or amended financial information or operating data.

SECTION 8. *Additional Information.* Nothing in this Disclosure Agreement shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including disclaimers or any other information in any disclosure made pursuant to Section 3(a) or 3(b) hereof or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the County chooses to include any information in any disclosure made pursuant to Section 3(a) or 3(b) hereof or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the County shall have no obligation under this Disclosure Agreement to update such information or include it in any future disclosure made pursuant to Section 3(a) or 3(b) hereof or notice of occurrence of a Listed Event.

SECTION 9. *Limitation on Remedies and Forum.*

(a) The County shall be given written notice at the address set forth below of any claimed failure by the County to perform its obligations under this Disclosure Agreement, and the County shall be given 15 days to remedy any such claimed failure. Any suit or other proceeding seeking further redress with regard to any such claimed failure by the County shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action. Written notice to the County shall be given to Director of Finance, 15th Floor, Executive Office Building, 101 Monroe Street, Rockville, Maryland 20850, or at such alternate address as shall be specified by the County in disclosures made pursuant to Section 3(a) or 3(b) hereof or a notice of occurrence of a Listed Event.

(b) Any suit or proceeding seeking redress with regard to any claimed failure by the County to perform its obligations under this Disclosure Agreement must be filed in the Circuit Court for Montgomery County, Maryland.

SECTION 10. *Beneficiaries.* This Disclosure Agreement shall inure solely to the benefit of the owners from time to time of the Series 2011 Certificates, including beneficial owners, and shall create no rights in any other person or entity.

SECTION 11. *Relationship to Series 2011 Certificates.* This Disclosure Agreement constitutes an undertaking by the County that is independent of the County's obligations with respect to the Series 2011 Certificates. Any breach or default by the County under this Disclosure Agreement shall not constitute or give rise to a breach or default under the Series 2011 Certificates.

SECTION 12. *Severability.* In case any section or provision of this Disclosure Agreement or any covenant, stipulation, obligation, agreement, or action, or any part thereof, made, assumed, entered into or taken under this Disclosure Agreement, or any application thereof, is for any reason held to be illegal or invalid or is at any time inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other section or provision of this Disclosure Agreement, or any other covenant, stipulation, obligation, agreement, act or action, or part thereof, made, assumed, entered into or taken under this Disclosure Agreement, which shall at the time be construed and enforced as if such illegal or invalid or inoperable portion were not contained therein.

SECTION 13. *Entire Agreement.* This Disclosure Agreement contains the entire agreement of the County with respect to the subject matter hereof and supersedes all prior arrangements and understandings with respect thereto; provided, however, that this Disclosure Agreement shall be interpreted and construed with reference to and in pari materia with the Rule.

SECTION 14. *Captions.* The captions or headings herein shall be solely for convenience of reference and shall in no way define, limit or describe the scope or intent of any provisions or sections hereof.

SECTION 15. *Governing Law.* This Disclosure Agreement and any claim made with respect to the performance by the County of its obligations hereunder shall be governed by, subject to and construed in accordance with the federal securities laws, where applicable, and the laws of the State, without reference to the choice of law principles thereof.

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IN WITNESS WHEREOF, the County has caused this Disclosure Agreement to be duly executed as of the day and year first above written.

MONTGOMERY COUNTY, MARYLAND

By: \_\_\_\_\_  
Joseph F. Beach  
Director of Finance



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**APPENDIX E**

**SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

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## DEFINITIONS OF CERTAIN TERMS

In addition to the terms defined elsewhere in this Official Statement, the following are definitions of certain terms used in this Official Statement. Terms used but not defined in this Official Statement shall have the meanings set forth in the Funding Agreement and the Trust Agreement.

**“Certificate”** means the limited obligation certificates executed and delivered under the Trust Agreement, together with any Additional Certificates.

**“Certificate Fund”** means the fund so designated that is established under the provisions of the Trust Agreement for the purpose of accepting and disbursing to the Holders moneys received by the Trustee from the County for the payment of principal, premium, if any, and interest on the Certificates.

**“County Representative”** means the County Executive, the Chief Administrative Officer, or the Director of Finance of the County and any other person authorized by the County to act on its behalf under or with respect to the Funding Agreement and the Trust Agreement by written certificate executed by the Director of Finance of the County and delivered to the Trustee.

**“Holder”** means the person or entity in whose name a certificate is registered on the Certificate register maintained by the Trustee pursuant to the Trust Agreement.

**“Government Obligations”** means direct obligations of, or obligations the full and timely payment of the principal of and the interest on which are unconditionally guaranteed by, the United States of America.

**“Interest Payment Date”** means May 1 and November 1 of each year commencing November 1, 2011.

**“Outstanding”** when used with reference to the Certificates and as of any particular date, means all Certificates theretofore authenticated and delivered except: (a) any Certificate cancelled by the Trustee (or delivered to the Trustee for cancellation) at or before such date, (b) any Certificate in lieu of or in substitution for which another Certificate shall have been delivered pursuant to the Trust Agreement and (c) any Certificate that is deemed to have been paid pursuant to the provisions of the Trust Agreement.

**“Project Costs”** means the costs of acquisition, construction, rehabilitation and renovation of real property for the purpose of implementing the Program.

**“Revenues”** means (i) all payments to be made by the County to the Bank pursuant to the Funding Agreement, (ii) the proceeds of the Certificates and all amounts from time to time on deposit in the funds and accounts established by the Trust Agreement, and (iii) all other revenues derived from the Funding Agreement or from the exercise of remedies under the Trust Agreement.

## SUMMARY OF CERTAIN PROVISIONS OF THE FUNDING AGREEMENT

The following is a summary of certain provisions of the Funding Agreement. This summary is not a complete recital of the terms of the Funding Agreement, and reference should be made to the Funding Agreement for a complete statement of its terms.

**Term of Agreement (Section 3.02.)**

The Funding Agreement will remain in effect until the County has paid all of the Contract Payments and any other sums required to be paid under the provisions of the Funding Agreement to the Bank or until the date on which the Funding Agreement is terminated.

**Contract Payments to Be Unconditional (Section 4.03.)**

The obligation of the County to make payment of the Contract Payments required under the Funding Agreement and to perform and observe the other covenants and agreements contained therein is absolute and unconditional in all events except as expressly provided in the Funding Agreement. Notwithstanding any dispute between the County and the Bank or any other person, the County agrees to pay all Contract Payments when due and not to withhold any part of any Contract Payments pending final resolution of the dispute. The County agrees that it will not assert any right of set-off, cross-claim, recoupment, or counterclaim against its obligation to make the payments required under the Funding Agreement. The County's obligation to pay Contract Payments during the term of the Funding Agreement will not be abated through accident or unforeseen circumstances.

**Continuation of Agreement by the County (Section 4.04.)**

The County agrees, subject to the nonappropriation provisions of the Funding Agreement, to pay the Contract Payments due under the Funding Agreement. The County agrees, to the extent permitted by law and subject to applicable public policy, that it will not terminate the Funding Agreement for nonappropriation of funds in any fiscal year for which sufficient funds for the payment of Contract Payments due in that fiscal year are appropriated for such Contract Payments. The County Executive, to the extent permitted by law and subject to applicable public policy, will use best efforts to obtain the authorization and appropriation of such funds, including (without limitation) the inclusion of such funds in the budget of the County to be submitted to the County Council and a request for adequate funds to meet the County's obligations in full in its next fiscal year budget.

**Nonappropriation (Section 4.05.)**

In the event that sufficient funds are not appropriated for the payment of the Contract Payments, the County may terminate the Funding Agreement at the end of the last fiscal year or earlier date for which an appropriation is available and the County will not be obligated to make payment of the Contract Payments beyond the last date for which an appropriation is available. The County agrees to deliver written notice to the Bank of such termination no later than seven days after the County has knowledge that an appropriation will not be available. The failure to give the notice will not extend the Funding Agreement beyond such fiscal year or affect the termination of the Funding Agreement. Upon termination of the Funding Agreement for nonappropriation, the County will pay to the Bank all proceeds of the Certificates not theretofore expended by the County, if any, or such lesser amount as shall be required to pay the outstanding principal of and interest on the Certificates and all other amounts payable under the Funding Agreement after the application to the payment thereof of amounts on deposit in the funds and accounts created by the Trust Agreement. Upon the payment of such proceeds to the Bank, all obligations of the County under the Funding Agreement requiring the expenditure of money will cease (other than the obligation to pay any Contract Payments and other amounts payable under the Funding Agreement previously appropriated).

**Essentiality (Section 4.06.)**

The County represents that the Program is essential to the County.

### **Events of Default and Remedies (Sections 6.01., 6.02. and 6.03.)**

The following constitute an “Events of Default” under the Funding Agreement, subject to the provisions under the Funding Agreement regarding nonappropriation: (a) failure by the County to pay any Contract Payment at the time specified in the Funding Agreement; or (b) failure by the County to observe and perform any covenant, condition or agreement on its part to be observed or performed, for a period of 30 days after written notice to the County by the Bank, specifying such failure and requesting that it be remedied, unless the Bank agrees to an extension of such time; *provided* that if the failure stated on the notice cannot be corrected within 30 days, the Bank will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within the applicable period and diligently pursued until the default is corrected; or (c) the County files any proceeding under the United States Bankruptcy Code or makes a general assignment for the benefit of creditors or institutes or consents to the filing of any proceeding for any receivership under any other bankruptcy or insolvency laws.

Whenever any Event of Default shall have happened and be continuing, the Bank shall have the right, at its sole option, without any further demand or notice, to terminate the Funding Agreement and require the County to pay to the Bank all proceeds of the Certificates not theretofore expended by the County, if any, or such lesser amount as shall be required to pay the outstanding principal of and interest on the Certificates and all other amounts payable thereunder after the application to the payment thereof of amounts on deposit in the funds and accounts created by the Trust Agreement, holding the County liable for the deficiency, if any, between (i) the amount actually appropriated for the payment of Contract Payments and other amounts payable thereunder and unpaid by the County during the current fiscal year and which is therefore payable by the County thereunder to the end of the current fiscal year of the County and (ii) the sum of the amounts on deposit in the funds and accounts created by the Trust Agreement and the proceeds of the Certificates not theretofore expended by the County, if any, paid to the Bank, after deducting all the Bank’s costs and expenses, including (without limitation) reasonable attorneys’ fees and expenses incurred in the enforcement of the Funding Agreement.

Whenever an Event of Default shall have occurred and be continuing, the Bank shall have the right, at its sole option, without further demand or notice, to institute appropriate legal proceedings to require the County to cure any such Event of Default by observing, complying with or performing its obligations under the Funding Agreement.

No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Bank to exercise any remedy reserved to it in the Funding Agreement, it will not be required to give any notice other than such notice as may be required in the Funding Agreement.

### **SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT**

The following is a summary of certain provisions of the Trust Agreement. This summary is not a complete recital of the terms of the Trust Agreement, and reference should be made to the Trust Agreement for a complete statement of its terms.

## **Security (Granting Clauses)**

The County and the Bank, in order to provide for the payment of the Certificates and the interest with respect thereto according to their tenor, purport and effect, and the performance and observance by the County and the Bank, respectively, of all the covenants expressed or implied in the Certificates, the Trust Agreement and the Funding Agreement, do, pursuant and subject to the provisions of the Trust Agreement, thereby grant, bargain, sell, release, convey, transfer and assign unto the Trustee for the benefit of the Holders, their successors and assigns, unconditionally and absolutely, all rights, title and interest of the County and the Bank, respectively, under the Funding Agreement, and all amounts on deposit from time to time in the funds and accounts established by the Trust Agreement.

## **Establishment and Application of Project Fund (Section 4.02.)**

There is established under the Trust Agreement a special fund designated the "Project Fund," which shall be held in trust by the Trustee for the benefit of the Holders and which shall be kept separate and apart from all other funds and moneys held by the Trustee.

Moneys on deposit in the Project Fund shall be paid by the Trustee for the costs of issuance of the Certificates upon receipt from the County of a duly executed requisition.

Moneys on deposit in the Project Fund shall be paid by the Trustee to pay the Project Costs upon receipt from the County of a duly executed requisition. Upon receipt of such requisition, the Trustee shall make payment either directly to the payee named therein, or, if the County can establish that it has already made such payment, to the County as reimbursement.

Upon the earlier of (i) three years from the date of initial authentication and delivery of the Certificates and (ii) the payment of all of the Project Costs, the Trustee shall transfer any moneys remaining in the Project Fund upon the written direction of the County; provided that the proceeds of the sale of the Certificates, including any premium paid for such Certificates in excess of the face amount thereof, together with investment earnings on such proceeds and premium, may be transferred upon the direction of the County from time to time from the Project Fund to the Certificate Fund for the purpose of paying the maturing principal of and interest on the Certificates as they become due.

## **Establishment and Application of Certificate Fund (Section 4.03.)**

There is established under the Trust Agreement a special fund designated the "Certificate Fund," which shall be held in trust by the Trustee for the benefit of the Holders and which shall be kept separate and apart from all other funds and moneys held by the Trustee. Within the Certificate Fund there is established the Interest Account and the Principal Account.

The Trustee shall deposit amounts received by the Trustee under the Funding Agreement, as follows:

FIRST: to the Interest Account, the amount, if any, necessary to make the amount on deposit in the Interest Account equal to the interest to accrue on the Certificates until the earlier of (i) the immediately succeeding Interest Payment Date and (ii) any redemption date;

SECOND: to the Principal Account, the amount, if any, necessary to make the amount on deposit therein equal to the principal amount or redemption price of the Certificates due on the earlier of (i) the immediately succeeding May 1 and (ii) any redemption date; and

THIRD: to the Trustee, the accrued fees and expenses of the Trustee invoiced and remaining unpaid for a period of 30 days.

After making the payments required by items FIRST through THIRD above, the Trustee shall deposit any balance of funds held by the Trustee in the Interest Account.

On each Interest Payment Date and redemption date, the Trustee shall pay or cause to be paid out of the Interest Account the interest due on the Certificates on such date and on each May 1 and redemption date, the Trustee shall pay or cause to be paid out of the Principal Account the principal or redemption price due on the Certificates on such date.

#### **Investments (Section 4.04.)**

Moneys held by the Trustee under the Trust Agreement shall be invested by the Trustee upon written order of a County Representative. Such investments shall be registered in the name of the Trustee or any authorized nominee of the Trustee and held by the Trustee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made giving full consideration for the time at which funds are required to be available. The Trustee may act as purchaser or agent in the making or disposing of any investment.

#### **Issuance of Additional Certificates (Section 7.10.)**

So long as the Funding Agreement is in effect and no Event of Default shall have occurred and be continuing thereunder or under the Trust Agreement, one or more series of Additional Certificates on a parity with the Certificates may be issued for the purpose of providing additional funds necessary to fund the Program. Each series of Additional Certificates shall be issued in such principal amount, mature on such dates, bear interest at such rates and have such provisions for redemption and other terms and conditions not inconsistent with the Trust Agreement as shall be specified in a supplemental trust agreement authorizing such Additional Certificates.

Prior to the issuance of each series of Additional Certificates and the execution and delivery of a supplemental trust agreement in connection therewith, the County and the Trustee shall enter into an amendment to the Funding Agreement which shall provide among other things that, with the consent of the County, the Contract Payments shall be increased and computed so as to amortize in full the principal of and interest on such Additional Certificates and any other costs in connection therewith.

#### **Limitation on Duties (Section 8.05.)**

The Trustee shall not have any duty or obligation to manage, control, use, sell or otherwise transfer title to or dispose of or otherwise deal with any part of the assets constituting the Trust Estate, or to otherwise take or refrain from taking any action under or in connection with the Funding Agreement or the Certificates, except as expressly provided by the terms of the Funding Agreement and the Trust Agreement or as expressly provided in written instructions from the Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding. Whenever the Trustee is required to give any consent, approval, permission or otherwise act affirmatively under the terms of the Funding Agreement, the Trustee at its discretion may give such consent, approval, permission or otherwise act affirmatively as it may deem appropriate.



### **Trustee May Deal in Certificates and Take Action as a Holder (Section 8.06.)**

The Trustee and its directors, officers, employees or agents may in good faith buy, sell, own and hold any of the Certificates issued under and secured by the Trust Agreement, and may join in the capacity of a Holder in any action which any Holder may be entitled to take with like effect as if it were not the Trustee under the Trust Agreement.

### **Resignation and Removal of Trustee (Sections 8.09. and 8.10.)**

The Trustee may resign and thereby become discharged from the trusts thereby created by notice in writing given to the County and the Holders of the Certificates. Such resignation shall take effect immediately upon, but only upon (i) the appointment of a new Trustee, (ii) upon acceptance by the new Trustee of the trusts created and the duties of the Trustee under the Trust Agreement, and (iii) assignment by the Trustee and acceptance and assumption by the new Trustee of all the rights, title and interest, duties and obligations of the Trustee under the Funding Agreement. Upon the occurrence of any such resignation, the Trustee, by appropriate documentation, shall transfer all right, title and interest it may have as Trustee under the Trust Agreement and as Trustee under the Funding Agreement to the successor Trustee.

The Trustee may be removed at any time by an instrument or concurrent instruments in writing executed by the Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding.

The Trustee may also be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Trust Agreement with respect to the duties and obligations of the Trustee, by any court of competent jurisdiction upon the application of the County or the Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding. Upon any such removal of the Trustee, the Trustee, by appropriate documentation, shall transfer all right, title and interest it may have as Trustee under the Trust Agreement and under the Funding Agreement to the successor Trustee. Removal of the Trustee shall take effect immediately upon (i) the appointment of a new Trustee and (ii) upon acceptance by the new Trustee of the trusts created and the duties of the Trustee under the Trust Agreement and under the Funding Agreement.

### **Appointment of Successor Trustee; Qualifications of Trustee (Section 8.11.)**

If at any time the Trustee shall resign, be removed, be dissolved or otherwise become incapable of acting, or the bank or trust company acting as the Trustee shall be taken over by a governmental official, agency, department or board, the position of Trustee shall thereupon become vacant. If the position of Trustee shall become vacant for any of the foregoing reasons or for any other reason, the County shall appoint a successor Trustee to fill such vacancy and shall mail notice of any such appointment to the Trustee and the Holders.

At any time within one year after any such vacancy shall have occurred, the Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding, by an instrument or concurrent instruments in writing, executed by such Holders and filed with the County may appoint a successor Trustee, which appointment shall supersede any appointment theretofore made by the County. Copies of each such instrument shall be delivered promptly by the County to the predecessor Trustee and the Trustee so appointed by the Holders.

If no appointment of a successor Trustee shall be made, the Holders of not less than a majority in aggregate principal amount of the Certificates outstanding or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

Any successor Trustee appointed under the provisions of the Trust Agreement shall (i) be a commercial bank or trust company duly authorized to exercise corporate trust powers and subject to examination by federal or state authority, of good standing and having a combined capital and surplus aggregating not less than \$50,000,000; and (ii) have, in the opinion of the County, substantial prior experience as a trustee for the benefit of municipal bondholders or certificate holders if such a bank or trust company is available and willing to assume the position of successor Trustee upon reasonable and customary terms. If the Trustee has or shall acquire any conflicting interest, it shall, within ninety (90) days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign and thereby become discharged from the trusts thereby created by giving notice as provided in the Trust Agreement, such resignation to become effective immediately upon the appointment of a successor Trustee and such successor Trustee's acceptance of such appointment. The Trustee shall be deemed to have a conflicting interest if such interest is a conflicting interest within the meaning of Section 310(b)(1) to (9), inclusive, of the Trust Indenture Act of 1939, as amended.

#### **Liability of Trustee (Section 8.14.)**

Except as expressly provided in the Trust Agreement, the Trustee shall have no obligation or liability to the Holders with respect to the payment of the Contract Payments when due, or with respect to the performance by the County of any other covenant made by the County in the Funding Agreement. The Trustee shall be under no liability to any person for interest earned on any money received by it for deposit in the Certificate Fund. Any money deposited with the Trustee for the payment of the principal, premium (if any) or interest on the Certificates and remaining unclaimed for five (5) years after the Certificate has become due and payable, will be paid by the Trustee to the County, and the Holder of such Certificate shall thereafter look only to the County for payment thereof, and all liability of the Trustee with respect to such moneys shall thereupon cease. The Trustee shall in no event be liable to any Holder or Holders of any Certificate or any other person for any amount due on any Certificate from its own funds.

#### **Limited Liability of the County (Section 8.15.)**

The liability of the County is limited solely to its obligations under the Funding Agreement. No recourse shall be had for the payment of the principal or redemption price of and interest on any Certificate or for any claims based thereon, on the Funding Agreement or on the Trust Agreement against any officer, official, council member, employee or agent of Montgomery County, Maryland, all such liability, if any, being expressly waived and released by every Holder of a Certificate by the acceptance of such Certificate.

#### **Supplemental Trust Agreements and Modification to Trust Agreement (Sections 10.01. and 10.02.)**

Without the consent of the Holders, the County and the Trustee may from time to time, and at any time, enter into such supplemental trust agreements as shall not be inconsistent with the terms and provisions hereof, which supplemental trust agreements shall thereafter form a part thereof:

(a) to cure any ambiguity or formal defect or omission or to correct any inconsistent provisions in the Trust Agreement or in any supplemental trust agreement;

(b) to grant to or confer upon the Trustee or the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Trustee or the Holders;

(c) to authorize the issuance of Additional Certificates; or

(d) to make any other change in the Trust Agreement that, in the opinion of the County and the Trustee, shall not prejudice in any material respect the rights of the Holders of Certificates Outstanding at the date as of which such change shall become effective.

Not less than thirty (30) days prior to the execution of any supplemental trust agreement for any of the purposes indicated above, the Trustee shall cause a notice of the proposed execution of such supplemental trust agreement to be mailed, postage prepaid, to all Holders at their addresses as they appear on the registration books. Such notice shall briefly set forth the nature of the proposed supplemental trust agreement and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Holders.

Subject to the terms and provisions of the Trust Agreement, Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding shall have the right from time to time, anything contained in the Trust Agreement to the contrary notwithstanding, to consent to and approve the execution by the County and the Trustee of a supplemental trust agreement for the purpose of modifying, altering, amending, adding to or rescinding, any of the terms or provisions contained in the Trust Agreement or in any supplemental trust agreement; provided, however, that nothing therein contained shall permit or be construed as permitting:

(a) a preference or priority of any Certificate or Certificates over any other Certificate or Certificates;

(b) a change in the interest rates, payment terms or payment dates of any of the Certificates;

(c) a reduction in the aggregate principal amount of the Certificates without the consent of the holders of such Certificates; or

(d) the adoption of a provision in any supplemental trust agreement which increases the obligations of the County under the Funding Agreement.

If the Holders of not less than a majority in aggregate principal amount of the Certificates at the time of the execution of such supplemental trust agreement shall have consented to and approved the execution thereof as therein provided, no Holder shall have any right to object to the execution of such supplemental trust agreement, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the County from executing the same or from taking any action pursuant to the provisions thereof.

### **Defaults and Remedies (Article XI)**

The occurrence of an Event of Default (as such term is defined in the Funding Agreement) under the Funding Agreement constitutes an Event of Default under the Trust Agreement.

The failure by the Trustee to receive from the County sufficient amounts (in funds satisfactory to the Trustee) to pay the principal or redemption price of or interest on the Certificates when due or to

redeem Certificates on any date fixed for redemption of Certificates, or the failure by the Trustee to pay (the County having deposited sufficient funds with the Trustee for such payment) to the Holders the interest on or principal of any Certificate when due, are also declared to be and constitute Events of Default under the Trust Agreement.

Upon the occurrence and continuance of an Event of Default, subject to any applicable cure period as set forth in the Funding Agreement, the Trustee may, and shall, upon written request of the Holders of not less than a majority in aggregate principal amount of the Certificates then outstanding, declare the principal amount of and accrued interest on the Certificates due and payable; subject, however, to the condition that after the principal of and accrued interest on the Certificates shall have been so declared to be due and payable, the Trustee may, and shall, upon the written request of the Holders of not less than a majority in aggregate principal amount of the Certificates then Outstanding, waive such Event of Default and rescind and annul such declaration and its consequences by written notice to the County; provided that no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon and provided further that an Event of Default based on the nonpayment of interest on or principal of a Certificate may not be waived without the written consent of the Holders of all Certificates then Outstanding.

The Trustee may, in its discretion, enforce each and every right or remedy granted to it, in its capacity as the Bank, pursuant to the Funding Agreement.

Upon the happening of any Event of Default, the Trustee may, and shall, upon the written request of the Holders of not less than a majority in aggregate principal amount of the Certificates then Outstanding and receipt of indemnity to its satisfaction: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Holders and require the County to carry out any agreements with or for the benefit of the Holders and to perform its duties under the Funding Agreement and the Trust Agreement; (b) bring suit against the County upon the Funding Agreement; (c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Holders; (d) intervene in proceedings involving the rights of the Bank, the Trustee or the Holders; or (e) exercise any other rights or remedies now or hereafter existing at law or in equity including, without implied limitation, the rights and remedies of the Trustee as the Bank under the Funding Agreement.

No Holder shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust, or any other remedy under the Trust Agreement or on the Certificates, unless (a) such Holder previously shall have given to the Trustee written notice of a continuing Event of Default; (b) the Holders of not less than a majority in aggregate principal amount of the Certificates then outstanding shall have made written request of the Trustee so to do, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted, or to institute such action, suit or proceeding in its or their name; (c) there shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses (including counsel fees) and liabilities to be incurred therein or thereby; and (d) the Trustee shall not have complied with such request within a reasonable time. Such notification, request and offer of indemnity are thereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Trust Agreement or for any other remedy; it being understood and intended that no one or more Holders of the Certificates thereby secured shall have any right in any manner whatever by his, her or their action to affect, disturb or prejudice the security of the Trust Agreement, or to enforce any right under the Trust Agreement or under the Certificates, except in the manner therein provided, and that all proceedings at law or in equity shall be instituted, held and maintained in the manner therein provided and for the equal and ratable benefit of all Holders of Outstanding Certificates.

Nothing contained in the Trust Agreement shall, however, affect or impair the right of any Holder of Certificates to enforce the payment of the principal or redemption price of and the interest on any Certificate at and after the maturity thereof.

### **Defeasance (Article XII)**

If the Trustee shall pay or cause to be paid the principal or redemption price of and interest on all of the Certificates, then the pledge of the Trust Estate and all other rights granted under the Trust Agreement to the Trustee or the Holders shall be discharged and satisfied. In such event, upon the request of the County, the Trustee shall execute and deliver to the County all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee, without any request required, shall pay or deliver all moneys, securities and funds held by it pursuant to the Trust Agreement that are not required for the payment or redemption of Certificates not theretofore surrendered for such payment or redemption to the County or to such officer, board or body as may then be entitled by law to receive the same.

A Certificate shall be deemed to have been paid if (i) sufficient money for the payment of the principal or redemption price of and interest on such Certificate shall then be held by the Trustee (through deposit by the County of moneys for such payment or otherwise, regardless of the source of such moneys), whether at or prior to the maturity or the redemption date of such Certificates or (ii) if the maturity or redemption date of such Certificate shall not then have arrived, provision shall have been made for the payment of the principal or redemption price of and interest on such Certificate on the due dates for such payments, by deposit with the Trustee (or other method satisfactory to the Trustee) of Government Obligations, the principal of and the interest on which when due will provide sufficient moneys for such payment and the Trustee shall have given notice, at the expense of the County, by first class mail, postage paid, to all Holders at their addresses as they appear on the registration books maintained by the Trustee, that such moneys are so available for such payment; provided, however, that if any such Certificate is to be redeemed prior to the maturity thereof, provisions shall have been made for the giving of notice of such redemption.

Anything in the Trust Agreement to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Certificates that remain unclaimed for five (5) years after the date on which such Certificates became due and payable either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such dates or for five (5) years after the date of deposit of such moneys if deposited with the Trustee after such date, shall, at the written request of the County Representative, be repaid by the Trustee to the County or to such officer, board or body as may then be entitled by law to receive such moneys, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged; provided, however, that, before being required to make any such payment, the Trustee may, at the expense of the County, give notice, by first class mail, postage paid, to all Holders at their addresses as they appear on the registration books maintained by the Trustee, that such moneys remain unclaimed and that, after a date named in such notice which date shall be not fewer than forty (40) nor more than ninety (90) days after the date of giving of such notice, the balance of such moneys then unclaimed shall be returned to the County.

**APPENDIX F**

**OFFICIAL NOTICE OF SALE**

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## NOTICE OF SALE

**\$29,345,000\***  
**MONTGOMERY COUNTY, MARYLAND**  
**Taxable Limited Obligation Certificates**  
**(Facility and Residential Development Projects)**  
**Series 2011**

*NOTICE IS HEREBY GIVEN* that electronic bids will be received on the date and up to the time specified below:

**SALE DATE:** **August 10, 2011**

**SALE TIME:** **10:30 a.m. Prevailing Eastern Time**

**ELECTRONIC BIDS:** Must be submitted through *PARITY*<sup>®</sup> as described below. **No other form of bid or provider of electronic bidding services will be accepted.**

Bids will be received for the purchase of all, but not less than all, of the Montgomery County, Maryland Taxable Limited Obligations Certificates (Facility and Residential Development Projects) Series 2011 (the "Series 2011 Certificates") to be issued by Montgomery County, Maryland (the "County"). The Series 2011 Certificates are more particularly described in the Preliminary Official Statement dated August 1, 2011 relating to the Series 2011 Certificates (the "Preliminary Official Statement"), available at the County's website, <http://bonds.montgomerycountymd.gov>. Prior to accepting bids, the County reserves the right to adjust the aggregate principal amount and principal amounts of each maturity of the Series 2011 Certificates being offered, to change the terms of the Series 2011 Certificates, to postpone the sale of the Series 2011 Certificates to a later date, or to cancel the sale of the Series 2011 Certificates based on market conditions.

Consideration of the bids and the award will be made by the County on the Sale Date (as set forth above and in the Bidding Parameters Table herein). The County also reserves the right to adjust the principal amount of the Series 2011 Certificates offered, to eliminate maturities, or to cancel the sale of the Series 2011 Certificates after the bids are opened as further described herein. See "Adjustment of Amounts and Maturities" and "Change or Cancellation of Sale Date and/or Date of Delivery."

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\*Preliminary, subject to change.



## Contact Information

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### **I-DEAL/PARITY® (ELECTRONIC BIDDING PLATFORM)**

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**Client Services**  
Phone: (212) 849-5024  
Email: [parity@i-deal.com](mailto:parity@i-deal.com)

## Bidding Parameters Table \*

INTEREST		PRICING	
Dated Date:	Date of Delivery	Max. Aggregate Bid Price:**	
Anticipated Date of Delivery:	August 30, 2011	Min. Aggregate Bid Price:100%	
Interest Payment Dates:	May 1 and November 1		
First Interest Payment Date:	November 1, 2011	Max. Reoffering Price (each maturity):**	
Coupon Multiples:	1/8 or 1/20 of 1%	Min. Reoffering Price (each maturity):100%	
Maximum Coupon:	N/A		
Minimum Coupon:	N/A		
Maximum TIC:	N/A		
Maximum Difference Between Coupons:	N/A		
<b>PRINCIPAL</b>		<b>PROCEDURAL</b>	
Optional Redemption:	Bonds maturing on or before May 1, 2021, are not subject to redemption. Bonds maturing on or after May 1, 2022, are subject to redemption beginning May 1, 2021, as a whole or in part at any time thereafter.	Sale Date:	August 10, 2011
		Sale Time:	10:30 a.m. Prevailing Eastern Time
Post-bid Principal Increases	Each Maturity: N/A Aggregate: 10%	Bid Submission:	Electronic bids through PARITY only
Post-bid Principal Reductions	Each Maturity: N/A Aggregate: 10%	All or None?	Yes
		Bid Award Method:	Lowest TIC Electronically
		Bid Confirmation:	Fax Signed PARITY screen
		Awarding of Bid:	On the Sale Date by the County
		Good Faith Deposit:	\$586,900**; as more fully described herein. See "Good Faith Deposit."

\* If numerical or date references contained in the body of this Official Notice of Sale conflict with the Bidding Parameters Table, the Bidding Parameters Table of this Official Notice of Sale shall control. Consult the body of this Official Notice of Sale for a detailed explanation of the items contained in the Bidding Parameters Table, including interpretation of such items and methodologies used to determine such items.

\*\* Preliminary, subject to change.

## PRINCIPAL AMORTIZATION SCHEDULE

Interest on the Series 2011 Certificates is payable on November 1, 2011 and semi-annually thereafter on each May 1 and November 1 until maturity. The Series 2011 Certificates shall mature on May 1 in the following years and in the following amounts:

### \$29,345,000\* Montgomery County, Maryland Taxable Limited Obligation Certificates (Facility and Residential Development Projects) Series 2011

<b>Maturing May 1*</b>	<b>Principal Amount*</b>	<b>Maturing May 1*</b>	<b>Principal Amount*</b>
2012	\$1,090,000	2022	\$1,390,000
2013	1,045,000	2023	1,460,000
2014	1,060,000	2024	1,535,000
2015	1,080,000	2025	1,615,000
2016	1,105,000	2026	1,700,000
2017	1,140,000	2027	1,795,000
2018	1,180,000	2028	1,900,000
2019	1,225,000	2029	2,015,000
2020	1,275,000	2030	2,135,000
2021	1,330,000	2031	2,270,000

\*Preliminary, subject to change.

## ***The Series 2011 Certificates***

### **Authority for Issuance**

The Series 2011 Certificates are issued pursuant to the Taxable Limited Obligation Certificate Trust Agreement dated as of April 1, 2010 (the “Taxable Limited Obligation Trust Agreement”), as amended and supplemented by the First Supplemental Taxable Limited Obligation Certificate Trust Agreement and Supplemental Funding Agreement dated as of August 1, 2011 (the “First Supplemental Trust and Agreement” and, together with the Taxable Limited Obligation Trust Agreement, the “Trust Agreement”), each between the County and U.S. Bank National Association, as trustee (the “Trustee”), and as the Bank (the “Bank”). The Series 2011 Certificates represent proportionate interests in a Funding Agreement dated as of April 1, 2010, between the County and the Bank, as amended by the First Supplemental Trust and Agreement (the “Funding Agreement”), and are payable solely from and secured by (i) periodic payments to be made by the County to the Bank pursuant to the Funding Agreement (the “Contract Payments”) and (ii) amounts realized pursuant to the exercise of certain remedies under the Funding Agreement upon the occurrence of nonappropriation or certain defaults by the County thereunder.

### **Security**

**The Series 2011 Certificates, and the interest on them, are limited obligations of the County. The principal or redemption price of and the interest on the Series 2011 Certificates shall be payable solely from the Contract Payments and other funds pledged for the payment thereof under the Trust Agreement. All amounts payable by the County under the Funding Agreement, including the Contract Payments, are subject in each year to appropriation by the County Council of the County. The County Council of the County is under no obligation to make any appropriation with respect to the Funding Agreement. The Funding Agreement is not a general obligation of the County and shall never constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or a charge against the general credit or taxing power of the County.**

### **Use of Proceeds**

The proceeds of the Series 2011 Certificates will be used to finance and refinance a community and recreational project and the Montgomery Housing Initiative program of the County, as more fully set forth in the Preliminary Official Statement dated August 1, 2011.

### **Description of the Series 2011 Certificates**

The Series 2011 Certificates will be issued in fully registered form in denominations of \$5,000 or integral multiples thereof, will be dated the anticipated date of delivery (the “Dated Date”) set forth in the Bidding Parameters Table, and will bear interest from the Dated Date until paid or duly called for redemption at the annual rate or rates specified by the successful bidder, subject to the limitations specified below, payable as shown on the Bidding Parameters Table. Interest will be computed on the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to the rules of the Municipal Securities Rulemaking Board (“MSRB”).

The Series 2011 Certificates will mature on the month and day, in the years and principal amounts shown in the Principal Amortization Schedule, subject in each case to adjustment to the extent permitted in this Official Notice of Sale. See “Adjustments of Amounts and Maturities.”

### **Book-Entry Only**

The Series 2011 Certificates will be issued in fully registered, book-entry only form and a certificate for each maturity will be issued to The Depository Trust Company, New York, New York (“DTC”), registered in the name of its nominee, Cede & Co., and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Series 2011 Certificates, with transfers of ownership effected on

the records of DTC and its participants pursuant to rules and procedures adopted by DTC and its participants. The successful bidder, as a condition to delivery of the Series 2011 Certificates, will be required to deposit the certificates with DTC, registered in the name of Cede & Co. Principal of, premium, if any, and interest on the Series 2011 Certificates will be payable by the Trustee by wire transfer or in clearinghouse funds to DTC or its nominee as registered owner of the Series 2011 Certificates. Transfer of principal, premium, if any, and interest payments to the beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. Neither the County nor the Trustee will be responsible or liable for payments by DTC to its participants or by DTC participants to beneficial owners or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. The successful bidder will be required to furnish to DTC within seven days after the sale the customary underwriter's questionnaire and information as to each DTC participant and the Series 2011 Certificates to be held for it. See the Preliminary Official Statement for more information regarding DTC.

### **Redemption**

Series 2011 Certificates that mature on or before May 1, 2021, are not subject to redemption prior to their respective maturities. Series 2011 Certificates that mature on or after May 1, 2022, are subject to redemption beginning May 1, 2021, as a whole or in part at any time thereafter, in any order of their maturities, at the option of the County, at a redemption price for each Series 2011 Certificate equal to the principal amount of the Series 2011 Certificate to be redeemed, together with interest accrued to the date fixed for redemption, without premium.

### ***Adjustment of Amounts and Maturities***

Prior to the Sale Date, the County may cancel the sale of the Series 2011 Certificates or adjust the aggregate principal amount and the principal amount of any maturity of the Series 2011 Certificates. The preliminary aggregate principal amount of the Series 2011 Certificates and the preliminary principal amount of each annual payment on the Series 2011 Certificates as set forth in this Official Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Principal Amount", and collectively the "Preliminary Amounts") may be revised before the receipt and opening of the bids for their purchase. **ANY SUCH REVISIONS MADE PRIOR TO THE OPENING OF THE BIDS** (the "Revised Aggregate Principal Amount" and the "Revised Principal Amount", and collectively the "Revised Amounts") **WILL BE PUBLISHED ON THOMPSON MUNICIPAL MARKET MONITOR ("TM3") (www.tm3.com) NOT LATER THAN 4:00 P.M., PREVAILING EASTERN TIME, ON THE BUSINESS DAY IMMEDIATELY PRIOR TO THE SALE DATE FOR THE SERIES 2011 CERTIFICATES.**

In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. Bidders shall submit bids based on the Revised Amounts and the Revised Amounts will be used to compare bids and select a winning bidder.

After the receipt and opening of the bids for their purchase, the County may reject the bids for the Series 2011 Certificates or adjust the aggregate principal amount and the principal amount of each maturity of the Series 2011 Certificates; provided that such adjustments are within the limitations set forth in the Bidding Parameters Table, calculated based on the applicable bid amount. The County will consult with the successful bidder before adjusting the amount of any maturity of the Series 2011 Certificates or canceling the sale of the Series 2011 Certificates; however, the County reserves the sole right to make adjustments, within the limits described above, or to cancel the sale of the Series 2011 Certificates. The County intends to notify the successful bidder, if any, of any adjustments made after the opening of the bids promptly and in any event not later than twenty-four (24) hours after the bid opening unless waived by the successful bidder. Adjustments within the limits described above will not relieve the successful bidder from its obligation to purchase all of the Series 2011 Certificates offered by the County, assuming the County has satisfied all other conditions of this Official Notice of Sale.

If the principal amount of any maturity of the Series 2011 Certificates is adjusted after the award, the interest rate and reoffering price (as a percentage of the adjusted principal) for each maturity and the Underwriter's Discount on the Series 2011 Certificates as submitted by the successful bidder shall be held constant. The "Underwriter's Discount" shall be defined as the difference between the purchase price of the Series 2011 Certificates submitted by the bidder and the price at which the Series 2011 Certificates will be issued to the public, calculated from information provided by the bidder, divided by the par amount of the Series 2011 Certificates bid.

### ***Change or Cancellation of Sale Date and/or Date of Delivery***

The County may cancel or postpone the sale of the Series 2011 Certificates prior to the Sale Date. Notice of a cancellation or postponement will be announced via the Thomson Municipal News wire at [www.tm3.com](http://www.tm3.com) not later than 4:00 pm, prevailing Eastern Time, on the business day immediately preceding the bid opening. Such notice will specify the revised principal amount or other revised feature, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated on at least forty-eight (48) hours notice via the Thomson Municipal News wire at [www.tm3.com](http://www.tm3.com).

The County may change the scheduled delivery date for the Series 2011 Certificates by notice given in same manner as that set forth above.

### ***Preliminary Official Statement; Continuing Disclosure***

The County has deemed the Preliminary Official Statement to be final as of its date for purposes of Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC"), except for the omission of certain information permitted to be omitted by said rule. The County agrees to deliver to the successful bidder for its receipt no later than seven business days after the date of sale of the Series 2011 Certificates such quantities of the final official statement as the successful bidder shall request; provided, that the County shall deliver up to 300 copies of such official statement without charge to the successful bidder.

The County has made certain covenants for the benefit of the holders from time to time of the Series 2011 Certificates to provide certain continuing disclosure, in order to assist bidders for the Series 2011 Certificates in complying with Rule 15c2-12(b)(5) of the SEC. Such covenants are described in the Preliminary Official Statement.

### ***Electronic Bidding***

#### **Procedures**

Only electronic bids submitted via PARITY<sup>®</sup> will be accepted. No other provider of electronic bidding services will be accepted. No bid delivered in person or by facsimile directly to the County will be accepted. Bidders are permitted to submit bids for the Series 2011 Certificates during the bidding time period, provided they are eligible to bid as described under "ELIGIBILITY TO BID" below.

Each bid must be unconditional and received by PARITY<sup>®</sup> before the Sale Time set forth in the Bidding Parameters Table. No proposal to purchase the Series 2011 Certificates may be withdrawn after the deadline set for receiving bids. Prior to the deadline set for receiving bids, an eligible prospective bidder may, subject to any limitations which may be imposed by PARITY<sup>®</sup>, modify the proposed terms of its bid in which event the proposed terms last modified will constitute its bid for Series 2011 Certificates. At the deadline stated above for receiving bids, the bidding process will close and each bid shall then constitute an irrevocable offer to purchase the Series 2011 Certificates on the terms provided in the bid and this Official Notice of Sale.

## **Eligibility to Bid**

All prospective bidders shall be solely responsible for making necessary arrangements to access PARITY® for purposes of submitting such bidder's bid in a timely manner and in compliance with the requirements of the County pursuant to this Official Notice of Sale. The County shall have no duty or obligation to provide or assure such access to any bidder. Without limiting the generality of the foregoing, bidders submitting an electronic proposal must fulfill any requirements of the bidding service provider, if any, over and above the requirements of the County set forth in this Official Notice of Sale. Each bidder may contact BiDCOMP at 212-849-5059 for further information regarding its services.

## **Form of Bid, Interest Rates and Bid Prices**

All bids must conform to the requirements of this Official Notice of Sale. Bidders must bid to purchase all maturities of the Series 2011 Certificates. No bid will be considered which does not offer to purchase all of the Series 2011 Certificates. Each bid must specify (i) an annual rate of interest for each maturity, (ii) a reoffering price or yield for each maturity, and (iii) a dollar purchase price for the entire issue of the Series 2011 Certificates.

A bidder must specify the rate or rates of interest per annum per maturity, which the Series 2011 Certificates are to bear, to be expressed in the coupon rate multiples set forth in the Bidding Parameters Table. Any number of interest rates may be named, but the Series 2011 Certificates of each maturity must bear interest at the same single rate for all Series 2011 Certificates of that maturity.

Each bid for the Series 2011 Certificates must meet the minimum and maximum coupon and pricing criteria shown in the Bidding Parameters Table on a maturity and aggregate basis. Each bidder must specify, as part of its bid, the prices or yields at which a substantial amount (i.e., at least 10%) of the Series 2011 Certificates of each maturity will be offered and sold to the public. Reoffering prices presented as a part of the bids will not be used in computing the bidders' true interest cost. As promptly as reasonably possible after bids are received, the County will notify each successful bidder that it is an apparent winner.

## **Disclaimer**

The use of PARITY® electronic bidding shall be at the bidder's risk and expense, and the County shall have no liability with respect thereto. The County is using electronic bidding as a communications medium and solely as a courtesy to prospective bidders. PARITY® is not acting as the County's agent. The County shall assume no responsibility or liability for bids submitted through such electronic bidding service provider. The County shall not be responsible for proper operation of, or have any liability for, any delays or interruptions of, or any damages caused by, the approved provider's service. Without limiting the generality of the foregoing disclaimers, the County does not assume responsibility for any communications or negotiations between bidders and any electronic bidding service provider, or for any failure of such a provider to accurately or timely submit any electronic proposal.

*Each electronic bid submitted via PARITY® shall be deemed an offer, in response to this Official Notice of Sale, and shall be binding on the bidder as if made by a signed, sealed bid delivered to the County. The successful bidder must confirm such bid by a signed PARITY® Bid Form and a signed statement of reoffering prices, both delivered by fax to the County's Department of Finance (at (240) 777-8860, Attention Joseph F. Beach, Director) no later than one hour after being notified by the County of being the winning bidder, the original of each of which must be received by the County on the following business day at the address shown above. Failure to deliver this written confirmation does not relieve the bidder of the obligation to purchase the Series 2011 Certificates.*

Any electronic proposals shall be deemed to incorporate all of the provisions of this Official Notice of Sale. If any provision of this Official Notice of Sale conflicts with information provided by PARITY®, this Official Notice of Sale shall control. The County is not bound by any advice or determination of

PARITY® as to whether any bid complies with the terms of this Official Notice of Sale. The time as maintained by PARITY® shall constitute the official time with respect to all bids submitted.

### ***Award of Bid***

The County expects to award the Series 2011 Certificates to the winning bidder or bidders on the Sale Date. It is anticipated that all bids will be reviewed by the Director of Finance of the County at the time stated above and will be acted on following the opening, tabulation and verification of the bids received. The decision as to the award of each series of Series 2011 Certificates will be final. Bids may not be withdrawn prior to the award.

The Series 2011 Certificates will be awarded by the County on the Sale Date to the bidder or bidders whose bid complies with this Official Notice of Sale and results in the lowest true interest cost to the County. The lowest true interest cost will be determined in accordance with the True Interest Cost (“TIC”) method by doubling the semi-annual interest rate, compounded semi-annually, necessary to discount the debt service payments from the payment dates to the Dated Date of the Series 2011 Certificates and to the aggregate purchase price of the Series 2011 Certificates. If two or more bidders offer to purchase the Series 2011 Certificates at the same lowest TIC, such Series 2011 Certificates may be apportioned between such bidders if it is agreeable to each of the bidders who have offered the price producing the same lowest TIC; provided, that if apportionment is not acceptable to such bidders, the County will have the right to award such Series 2011 Certificates to one of such bidders.

### ***Right of Rejection***

The County expressly reserves the right (i) to waive any informalities, (ii) to reject all bids, any incomplete bid or any bid not fully complying with all of the requirements set forth herein, and (iii) to solicit new bids or proposals for the sale of the Series 2011 Certificates or otherwise provide for the public sale of the Series 2011 Certificates if all bids are rejected or the winning bidder defaults, including, without limitation, sale of the Series 2011 Certificates to one or more of the losing or rejected bidders without regard to their original bid or its relationship to any other bid.

### ***Delivery and Payment***

Delivery of the Series 2011 Certificates will be made by the Trustee under the direction of the County to DTC in book-entry only form, in New York, New York on or about the Dated Date, or on or about such other date as may be agreed on by the County and the successful bidder.

At the time of delivery of the Series 2011 Certificates, payment of the amount due for the Series 2011 Certificates must be made by the successful bidder to the order of the County immediately available in federal funds or other funds immediately available to the County, or by such other means as may be acceptable to the Director of Finance of the County. Any expense incurred in providing immediately available funds, whether by transfer of federal funds or otherwise, shall be borne by the purchaser.

### ***Good Faith Deposit***

A Good Faith Deposit in the amount of \$586,900\* is required of the winning bidder only for the Series 2011 Certificates. The winning bidder for the Series 2011 Certificates is required to submit such Good Faith Deposit payable to the order of the County in the form of a wire transfer in federal funds as instructed by the County’s Financial Advisor, Public Financial Management, Inc. The winning bidder shall submit the Good Faith Deposit not more than two hours after verbal award is made. The winning bidder should provide as quickly as it is available, evidence of wire transfer by providing the County the federal funds reference number. If the Good Faith Deposit is not received in the time allotted, the bid of the winning bidder may be rejected and the County may direct the next lowest bidder to submit a Good Faith Deposit

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\* Preliminary, subject to change.



and thereafter may award the sale of the Series 2011 Certificates to the same. If the winning bidder fails to comply with the Good Faith Deposit requirement as described herein, that bidder is nonetheless obligated to pay to the County the sum of \$586,900\* as liquidated damages due to the failure of the winning bidder to timely deposit the Good Faith Deposit.

***Submission of a bid to purchase the Series 2011 Certificates serves as acknowledgement and acceptance of the terms of the Good Faith Deposit requirement.***

The Good Faith Deposit so wired will be retained by the County until the delivery of the Series 2011 Certificates, at which time the Good Faith Deposit will be applied against the purchase price of the Series 2011 Certificates or the Good Faith Deposit will be retained by the County as partial liquidated damages in the event of the failure of the successful bidder to take up and pay for such Series 2011 Certificates in compliance with the terms of this Official Notice of Sale and of its bid. No interest on the Good Faith Deposit will be paid by the County. The balance of the purchase price must be wired in federal funds to the account detailed in the closing memorandum, simultaneously with delivery of the Series 2011 Certificates.

***CUSIP Numbers; Expenses of the Bidder***

It is anticipated that CUSIP numbers will be assigned to each of the Series 2011 Certificates, but neither the failure to type or print such numbers on any of the Series 2011 Certificates nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Series 2011 Certificates. The policies of the CUSIP Service Bureau will govern the assignment of specific numbers to the Series 2011 Certificates. The successful bidder will be responsible for applying for and obtaining, subject to the CUSIP Service Bureau policy and procedures, CUSIP numbers for the Series 2011 Certificates promptly upon award of the bid. All expenses of typing or printing CUSIP numbers for the Series 2011 Certificates will be paid for by the County; provided the CUSIP Service Bureau charges for the assignment of the numbers shall be the responsibility of and shall be paid for by the successful bidder.

All charges of DTC and all other expenses of the successful bidder will be the responsibility of the successful bidder for the Series 2011 Certificates.

***Reoffering Prices and Certificate***

The successful bidder shall make a bona fide public offering of all of the Series 2011 Certificates and shall represent to the County that such reoffering is in compliance with all applicable securities laws of the jurisdictions in which such Series 2011 Certificates are offered. **Within 30 minutes after being notified of the tentative award of the Series 2011 Certificates, the successful bidder shall advise the County in writing (via facsimile or e-mail transmission) to Katherine Clupper or Lorpu Jones at [clupperk@pfm.com](mailto:clupperk@pfm.com) or [jonesl@pfm.com](mailto:jonesl@pfm.com), respectively, of the initial public offering prices of the Series 2011 Certificates. The County will review the initial public offering prices for compliance with applicable securities laws prior to final confirmation of the award.**

SIMULTANEOUSLY WITH OR BEFORE DELIVERY OF THE SERIES 2011 CERTIFICATES, THE SUCCESSFUL BIDDER SHALL FURNISH TO THE COUNTY A CERTIFICATE ACCEPTABLE TO SPECIAL COUNSEL TO THE EFFECT THAT (I) THE SUCCESSFUL BIDDER HAS MADE A BONA FIDE PUBLIC OFFERING OF EACH MATURITY OF THE SERIES 2011 CERTIFICATES AT THE INITIAL REOFFERING PRICES, (II) AS OF THE DATE OF THE SALE OF THE SERIES 2011 CERTIFICATES, THE SUCCESSFUL BIDDER REASONABLY EXPECTED TO SELL A SUBSTANTIAL AMOUNT OF EACH MATURITY OF THE SERIES 2011 CERTIFICATES TO THE PUBLIC (EXCLUDING BOND HOUSES, BROKERS AND OTHER INTERMEDIARIES) AT THEIR RESPECTIVE REOFFERING PRICES, AND (III) A SUBSTANTIAL AMOUNT OF EACH MATURITY OF THE SERIES 2011 CERTIFICATES WAS SOLD TO THE PUBLIC (EXCLUDING BOND HOUSES, BROKERS AND OTHER INTERMEDIARIES) AT THEIR RESPECTIVE INITIAL REOFFERING PRICES OR SUCH OTHER FACTS REGARDING THE ACTUAL SALE OF THE

SERIES 2011 CERTIFICATES AS SPECIAL COUNSEL SHALL REQUEST, AS DESCRIBED BELOW. Special Counsel advises that (i) such certificate must be made on the best knowledge, information and belief of the successful bidder, (ii) the sale to the public of 10% or more in par amount of each maturity of the Series 2011 Certificates at the initial reoffering prices would be sufficient to certify as of the sale of a substantial amount of the Series 2011 Certificates, and (iii) reliance on other facts as a basis for such certification would require evaluation by Special Counsel to assure compliance with the statutory requirement to avoid the establishment of an artificial price for the Series 2011 Certificates.

***Additional Obligation of Successful Bidder***

As a condition to the award of the Series 2011 Certificates (and to the County's obligation to deliver the Series 2011 Certificates pursuant to the bid of the successful bidder), the successful bidder agrees by submitting its bid that the successful bidder shall supply the names and tax identification numbers of the registered owners of beneficial interests in the Series 2011 Certificates to be delivered, and the denomination of each such Series 2011 Certificate (\$5,000 or any integral multiple of \$5,000), not later than seven (7) days prior to the date of delivery, by written direction to the Trustee for the Series 2011 Certificates.

***Tax Status, Legal Opinions, Closing Documents and No Litigation***

The approving legal opinion of McKennon Shelton & Henn LLP, Baltimore, Maryland, Special Counsel, will be furnished without cost to purchasers of the Series 2011 Certificates. A summary description of the tax treatment of the Series 2011 Certificates is contained in the Preliminary Official Statement under the heading "Tax Matters." The proposed form of legal opinion of Special Counsel is attached as Appendix C to the Preliminary Official Statement.

***Additional Information***

This Official Notice of Sale is not a summary of the terms of the Series 2011 Certificates. Reference is made to the Preliminary Official Statement for a further description of the Series 2011 Certificates and the County. Prospective investors or bidders for the Series 2011 Certificates must read the entire Preliminary Official Statement to obtain information essential to making an informed investment decision. The Preliminary Official Statement is deemed final by the County as of its date for purposes of the Rule but is subject to revision, amendment and completion in a final Official Statement. Additional information concerning the matters discussed in this Official Notice of Sale, and copies of the Official Bid Form and Preliminary Official Statement may be obtained online at <http://bonds.montgomerycountymd.gov> or by request from Joseph F. Beach, the County's Director of Finance, at (240) 777-8860 or [joseph.beach@montgomerycountymd.gov](mailto:joseph.beach@montgomerycountymd.gov) or from Katherine Clupper or Lorpju Jones at (215) 567-6100 or [clupperk@pfm.com](mailto:clupperk@pfm.com) or [jonesl@pfm.com](mailto:jonesl@pfm.com), respectively.

**MONTGOMERY COUNTY, MARYLAND**

By: Joseph F. Beach  
Director of Finance

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