

MEMORANDUM

April 5, 2010

TO: Management and Fiscal Policy Committee
FROM: ^{CHR} Charles H. Sherer, Legislative Analyst
SUBJECT: FY11 Operating Budget for Debt Service on general obligation bonds and short and long term obligations for County Government

Those who may attend this worksession include:

Jennifer Barrett, Director, Finance
Glenn W. Wyman, Debt and Cash Manager, Finance
Jacqueline Carter, Office of Management and Budget Specialist

Relevant pages from the budget are attached, starting at ©1.

Summary of staff recommendation: Approve as the Executive recommended.

Overview

Virtually all of the budget for debt service in FY11 is the estimated amount of principal plus interest payments on debt the County has already incurred to finance capital projects the County has previously approved and has started making payments for. The Executive's recommended budget for FY11 is **\$263,078,440**.

Debt service in this account is for County general obligation bonds and short and long-term obligations for the following tax-supported and non-tax-supported funds: General Fund, Fire Tax District Fund, Mass Transit Fund, Recreation Fund, Bradley Noise Abatement Fund, Cabin John

Noise Abatement Fund, the Montgomery Housing Initiative Fund, and the Water Quality Protection Fund.

The debt service in the General Fund is for various County Government facilities, and also for MCPS, the College, and County-wide parks. Debt service for the revenue bonds sold to finance projects in the enterprise funds is included in their budgets, and debt service for Park bonds used to finance local parks is included in the budget for Parks.

The debt service budget includes debt service on general obligation bonds and on bond anticipation notes (also known as commercial paper), which are short-term notes the County issues several times each year to pay for capital projects. The County then issues long-term general obligation bonds to re-pay the notes. Debt service also includes long-term and short-term lease payments, both of which are virtually identical to debt service.

FY10 The latest estimate of debt service in the current year for tax supported debt is \$238.9 million, which is \$7.6 million or 3.1% less than the approved budget of \$246.5 million. As explained on ©2, the reduction is due primarily to savings from a GO bond refunding at a lower interest rate than the original issue, and savings from an interest rate on the bonds sold in FY10 that was lower than budgeted.

FY11 The estimate for next year is based on the debt service schedules for previously issued debt through July 2009, plus one interest payment on the \$325 million issue in the fall of 2010 at 5.5%; interest on an average balance of \$327 million in bond anticipation notes at 0.6%; and various other payments as shown on ©6.

Debt Service

MISSION STATEMENT

This section provides budget data for the repayment of general obligation bond issues, and other long- and short-term financing for public facilities, equipment and infrastructure in the Debt Service Fund for all tax supported County agencies (MCG, M-NCPPC, MCPS, and Montgomery College), as well as other associated costs. Non-tax supported debt repayment related to the DHCA Property Acquisition Fund is also included.

BUDGET OVERVIEW

The total recommended FY11 Operating Budget for Debt Service is \$263,004,860 an increase of \$14,324,170 or 5.8 percent from the FY10 approved budget of \$248,680,690. This amount excludes \$73,580 in debt service which is appropriated in non-tax supported funds.

General Obligation Bonds

General obligation (G.O.) bonds are issued by the County 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) and is published separately from the Operating Budget and Public Services Program. Currently, G.O. bonds are anticipated to fund approximately 56.5 percent of the County's capital expenditures (excluding WSSC) for the six years of the Recommended FY11-16 CIP program. The 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 citizens benefiting from facilities in the future, as well as current taxpayers. Due to various Federal, State, and local regulations, interest rates are lower than in the private sector.

"General obligation" refers to the fact that the bonds are backed by the "full faith and credit" of the County and its general revenue stream. In addition, the Montgomery County Charter provides that the Director of Finance must make debt service payments even if the Council fails to provide sufficient appropriation. County G.O. bonds are exempt from Federal taxes and also from State taxes for citizens of Maryland. Finally, the County strives to maintain its total and projected outstanding debt and debt service within certain financial parameters according to the County's fiscal policy. Thus, these financial instruments provide strong advantages in both safety of repayment and investment return for certain categories of investors.

Section 305 of the County Charter requires the County Council to set Spending Affordability Guidelines (SAG) for the CIP. The guidelines are related to how much the Council believes the County can afford, rather than how much might be needed. The guidelines apply to County G.O. bonds and must specify the total G.O. debt issued by the County that may be planned for expenditure in the first and second year and approved under the six-year CIP. On October 6, 2009, the County Council approved SAG limits at \$325.0 million for FY11, \$325.0 million for FY12 and \$1,950.0 million for the FY11-16 period.

Debt Service Program

The annual Debt Service obligation of all outstanding G.O. bond issues, long-term lease payments, long-term loans, short-term lease payments, and projections of certain related expenditures constitute the total Debt Service budget for FY11. When a bond-funded facility supports an activity funded by one of the County's Enterprise funds, the debt service is appropriated in that Enterprise fund operation. The Enterprise fund obligation is then subtracted from the total debt service to derive the Debt Service appropriation.

Montgomery County G.O. bonds are budgeted in specific categories for specific purposes: General County (Police, Corrections, Human Services, Libraries, General Government, and other miscellaneous purposes); Roads and Storm Drains; Public Housing; Parks (including land and development for M-NCPPC regional and Countywide use parks); Public Schools; Montgomery College; Fire Tax District; Mass Transit Fund; Recreation Fund; Noise Abatement Districts; Parking Districts; and Solid Waste Disposal Fund. A separate appropriation is made for the General Fund or a special fund (e.g., Fire Tax District, Mass Transit, Recreation, Bradley Noise Abatement, and the Cabin John Noise Abatement Fund) as appropriate. These appropriations include debt service for G.O. bond issues outstanding, long-term lease obligations and short-term financing obligations. In recent years, Solid Waste projects were funded entirely with revenue bonds or Enterprise fund current revenues.

Certain other expenditures and revenues are included in Debt Service budget calculations. The total Debt Service budget consists of principal and interest on the bonds, long-term lease obligations and short-term financing obligations. Bond anticipation notes (BANs)/commercial paper are short-term capital financing instruments issued with the expectation that the principal amount will be refunded with long-term bonds. In the meantime, interest costs are incurred, usually at lower rates than with more permanent financing. Cost of issuance includes the legal, administrative, and production cost of rating, issuing, and selling bonds,

BANs/commercial paper and short- and long-term lease obligations as well as financial advisory services.

Funding sources which offset the General Fund requirement for Debt Service include the accrued interest on bonds between the date of issue and the date the County receives the proceeds, investment income on BANs/commercial paper, and any premium on bonds issued. The special funds will fund the Debt Service appropriation via a transfer from individual special funds to the Debt Service Fund.

The Montgomery County Revenue Stabilization Fund Law, Article XII, Section 20-71, Interest, requires transfer of interest earned on the Fund when the Fund exceeds 50 percent of the maximum Fund size authorized by Section 20-67(a). Interest must be transferred to the Debt Service Fund as an offset to the approved issuance of general obligation debt (PAYGO). The interest income earned will be transferred from the Revenue Stabilization Fund to the Debt Service Fund and then transferred from the Debt Service Fund to the CIP Fund to offset G.O. bond funding. From FY98 to FY10, the Revenue Stabilization Fund exceeded 50 percent of the maximum Fund size and interest was transferred to the Debt Service Fund.

FY10 Estimated Debt Service

FY10 estimated general obligation Debt Service and lease expenditure requirements for tax-supported funds total \$238.9 million which is lower than the budget amount of \$246.5 million. The reduction is due primarily to savings from a G.O. bond refunding and interest savings on FY10 G.O. bond issues.

FY11 Recommended Debt Service Budget

The FY11 Debt Service budget is predicated on a base of existing Debt Service requirements from past bond issues (through July 2009) plus the following:

- A fall 2010 (FY11) issue of \$325 million at an interest cost of 5.5 percent for 20 years with even principal payments.
- Interest expense based on an anticipated average BANs/commercial paper balance of \$327.0 million during FY11.
- Other short- and long-term financing obligations displayed in a chart at the end of the section.

Fall bond issues are expected to continue in FY11 through FY16. The favorable short-term interest on commercial paper is significantly offset by investment income earned by BANs/commercial paper funds prior to their required use for project expenditures.

The Debt Service assumptions discussed above result in a total FY11 Debt Service requirement for tax supported funds of \$260.1 million, which is a 5.5 percent increase from the FY10 budget of \$246.5 million. The General Fund appropriation requirement is \$233.0 million, or 6.0 percent more than the budgeted FY10 amount of \$219.8 million. A schedule detailing debt service principal and interest by major fund is included at the end of the chapter.

Public Services Program

The six-year Public Services Program for Debt Service is predicated on the bond issue requirements in the Recommended CIP, adjusted for inflation, and implementation of the capital program at a projected 84 percent rate for FY11-16. The actual interest cost of 5.5 percent is budgeted for the fall 2010 (FY11) issue. Projected interest rates for bond issues for FY11 through FY16 are based on market expectations for coupon rates, which drive actual debt service costs. Under these projections and assumptions, tax-supported Debt Service will increase from \$260.1 million in FY11 to \$388.7 million by FY16 with the General Fund revenue requirement growing from \$233.0 million in FY11 to \$351.7 million by FY16.

Capital Improvements Program

Impact On Operating Budget

Debt Service Requirements

Debt Service requirements are the single largest impact on the Operating Budget/Public Services Program by the Capital Improvements Program. The Charter-required CIP contains a plan or schedule of project expenditures for schools, transportation, and infrastructure modernization, with estimated project costs, sources of funding, and timing of work over a six-year period. Each bond issue used to fund the CIP translates to a draw against the Operating Budget each year for 20 years. Debt requirements for past and future bond issues are calculated each fiscal year, and provision for the payment of Debt Service is included as part of the annual estimation of resources available for other Operating Budget requirements. Debt Service expenditures take up fiscal capacity that could be diverted to improved services as well as tax bill containment. As Debt Service grows over the years, increased pressures are placed on other PSP programs competing for scarce resources.

The County Council adopts Spending Affordability Guidelines for the capital budget based on 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. Debt capacity evaluation also focuses on other factors which impact the County's ability and willingness to pay current and future bond holders. Debt obligations, which include G.O. debt service plus other short- and long-term commitments, are expected to stay manageable, representing about ten percent of General Fund revenues. Maintaining this

guideline ensures that taxpayer resources are not overextended during fiscal downturns, nor are services squeezed out over time due to increased Debt Service burdens. The Debt Capacity chart is displayed at the end of this section. The chart displays the debt issues for the six years which are the basis of the G.O. bond-funded portion of the Recommended FY11-16 CIP.

Annual bond-funding requirements (on which future debt issue projections are based) are based on summations of projected bond-funded expenditures identified by project, amount, and year. The total programmed bond-funded expenditures for each year and for the CIP period are then adjusted to assist in estimating annual bond issue requirements. Adjustment factors include inflation, project implementation rate, commitment of County current revenues (PAYGO) as an offset against bond requirements, and a set-aside for future unprogrammed projects. The resulting bond requirements are then compared to planned bond issue levels over the six-year period. It is most critical that debt funding of the CIP be within projected bond issue requirements for the first and second years and for the six years, and the County Executive's Recommended FY11-16 Capital Improvements Program meets that requirement. The General Obligation Bond Adjustment chart reflecting the Executive's proposals for the Recommended FY11-16 CIP is included at the end of this section.

Debt Limit

The County's outstanding general obligation debt totals \$1,596,561,371 as of June 30, 2009. The allocation of outstanding debt to government programs and functions is displayed in a chart at the end of this section.

The Annotated Code of Maryland, Article 25A, Section 5(P), authorizes borrowing funds and issuance of bonds up to a maximum of 6 percent of the assessed valuation of all real property and 15 percent of the assessed value of all personal property within the County. The legal debt limit as of June 30, 2009, is \$10,076,035,137 based upon the assessed valuation \$158,133,491,472 for all real property and \$3,920,171,020 for personal property. The County's outstanding general obligation debt of \$1,596,561,371 plus outstanding short-term commercial paper of \$300,000,000 is 1.17 percent of assessed value, well within the legal debt limit and safely within the County's financial capabilities. A comparison of outstanding debt to legal debt limit is displayed in a chart at the end of this section.

Additional information regarding the County's outstanding general obligation debt and revenue bond debt can be found in the Debt Service Program Direct Debt for Fiscal Year 2009 (Debt Service Booklet). Schedules which display the allocation of outstanding debt to government programs and functions, debt service requirements for bond principal and interest, and payment schedules for paying agents can also be found in the Debt Service Booklet.

Leases and Other Debt

Long-term leases are similar to debt service in that they are long-term commitments of County funds for the construction or purchase of long-lived assets. They are displayed and appropriated within the Debt Service Fund. Short-term financing, where the payments represent a substantial County commitment for the acquisition of assets which have a shorter life, but still result in a substantial asset, are also displayed and appropriated within this Fund.

Loan payments to HUD are related to a HUD Section 108 program loan that was received by the County. The County re-loaned the funds to HOC. Repayment of the loan will be made by HOC to the County through the MHI fund. Transfers from the MHI fund support the repayment shown in the Debt Service Fund.

The FY11 appropriations for the long- and short-term financing are displayed in a chart at the end of this section.

Other Long-Term Debt

Other long-term debt includes the debt service costs, offset by a transfer from the MHI Fund, for the issuance of debt to create a property acquisition revolving fund which will significantly increase the County's capacity to acquire and renovate affordable housing. Long-term debt payments to acquire the Silver Spring Music Venue and Site II land are also included.

Commencing in FY11, Water Quality Protection bonds will be issued to finance stormwater management requirements resulting from the new National Pollutant Discharge Elimination System (NPDES) Municipal Separate Storm Sewer System (MS-4) permit requirements. To pay for the debt service, a transfer of funds from the Water Quality Protection Fund to the Debt Service fund is required.

Certain other types of long-term debt are issued by the County government and State-chartered agencies of the County, such as the Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Housing Opportunities Commission, and the Revenue Authority. Examples are revenue bonds, backed by fees and charges to facility users; and agency bonds, backed by separate taxes, charges, other revenues, and/or the faith and credit available directly to these agencies. In some cases, the County government may make direct payments under contract to these or other agencies, such as the service payment to the Northeast Maryland Waste Disposal Authority for financing of the Resource Recovery Facility. Most of these other types of non-general obligation debt are not included in expenditure listings of this section.

Rating Agency Reviews

Montgomery County continues to maintain its status as a top-rated issuer of municipal securities. The County has the highest credit ratings possible for a local government, AAA from Moody's Investors Service, Inc. (since 1973), from Standard and Poor's (since 1976), and from Fitch (since 1993, the first year a rating was sought from Fitch). These high ratings are critical to ensure the lowest possible cost of debt to citizens. High ratings translate into lower interest rates and considerable savings over the 20-year interest payments on the bonds. The rating agencies also place great emphasis on certain operating budget criteria, the quality of government administration, legal or constitutional restrictions, and the overall condition of the local economy. All of these factors are considered evidence of both the ability and willingness of local governments to support public debt.

Development Districts

Three development districts have been created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The West Germantown District was created by Council Resolution 13-1135, the Kingsview Village Center Development District was created by Resolution 13-1377, and the Clarksburg Town Center District was created by Resolution 15-87. The creation of the development 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 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 purchase of infrastructure improvements.

The West Germantown Development District was created in an unincorporated area of Montgomery County, encompassing approximately 671 acres. Various transportation, local park, and sewer infrastructure improvements were constructed by developers and acquired by the County at completion for a total cost of \$12.8 million. Special obligation bonds were issued in March 2002.

The Kingsview Village Center Development District was created in an unincorporated area of Montgomery County, encompassing approximately 29 acres. Various transportation improvements were constructed by developers and acquired by the County at completion for a total cost of \$2.7 million. Special obligation bonds were issued in December 1999.

The Clarksburg Town Center Development District was created by Council Resolution 15-87 on March 4, 2003, in an unincorporated area of Montgomery County, encompassing approximately 280 acres. Various transportation, water supply, and greenway trail improvements will be constructed by the developer and acquired by the County at completion. Special obligation bonds will be issued in the future for these improvements.

In October 2001, the County Council approved Resolution 14-1009 initiating evaluation of two additional development districts proposed for Clarksburg: Clarksburg Village and Clarksburg Skylark. In January 2008, the County Executive transmitted to the Council the Fiscal Report for Clarksburg Village and Clarksburg Skylark recommending the creation of the development districts. To date, the Council has not taken action on the Fiscal Report. Upon completion, the three proposed Clarksburg developments will consist of 3,900 residential units, and approximately 110,000 square feet of retail space.

The County issues special obligation bonds to fund the acquisition of the completed infrastructure assets. The debt service on the special obligation debt is funded by an ad valorem tax and special benefit assessment levied on the properties located in the development district. The County Council, by separate resolution, sets the ad valorem tax and special benefit assessment at rates sufficient to pay the principal, interest, any redemption premium on the bonds, and administrative expenses.

Revenues resulting from the ad valorem tax and special benefit assessed, and expenditures for the debt service on the special obligation bonds and administrative expenses, are accounted for in an agency fund, because the County has no obligation whatsoever for the indebtedness. The County acts only as a financing conduit and agent for the property owners and bondholders. In accordance with Section 20A-1 of the Montgomery County Code, the bonds or other obligations issued may not constitute a general obligation debt of the County or a pledge of the County's full faith and credit or taxing power.

PROGRAM CONTACTS

Contact Glenn Wyman of the Department of Finance at 240.777.8929 or Catherine Patterson of the Office of Management and Budget at 240.777.2782 for more information regarding this department's operating budget.

BUDGET SUMMARY

| | Actual FY09 | Budget FY10 | Estimated FY10 | Recommended FY11 | % Chg Bud/Rec |
|---|--------------------|--------------------|--------------------|---------------------|------------------|
| DEBT SERVICE | | | | | |
| EXPENDITURES | | | | | |
| Salaries and Wages | 0 | 0 | 0 | 0 | --- |
| Employee Benefits | 0 | 0 | 0 | 0 | --- |
| Debt Service Personnel Costs | 0 | 0 | 0 | 0 | --- |
| Operating Expenses | 0 | 0 | 0 | 0 | --- |
| Debt Service G.O. Bonds | 208,057,520 | 224,833,960 | 221,287,180 | 237,140,950 | 5.5% |
| Debt Service Other | 16,484,927 | 21,666,730 | 17,586,770 | 22,950,430 | 5.9% |
| Capital Outlay | 0 | 0 | 0 | 0 | --- |
| Debt Service Expenditures | 224,542,447 | 246,500,690 | 238,873,950 | 260,091,380 | 5.5% |
| PERSONNEL | | | | | |
| Full-Time | 0 | 0 | 0 | 0 | --- |
| Part-Time | 0 | 0 | 0 | 0 | --- |
| Workyears | 0.0 | 0.0 | 0.0 | 0.0 | --- |
| REVENUES | | | | | |
| Federal Subsidy on General Obligation Bonds | 0 | 0 | 1,757,720 | 3,858,410 | --- |
| Premium on GO Bonds | 0 | 0 | 2,772,870 | 0 | --- |
| BAN/Comm Paper Investment Income: Pooled | 1,412,223 | 2,000,000 | 255,220 | 689,570 | -65.5% |
| Accrued Interest: Installment Notes, I&P | 896,190 | 0 | 21,280 | 17,570 | --- |
| Accrued Interest: Bonds Non-Pooled | 623,264 | 575,000 | 0 | 575,000 | --- |
| MCPS Reimbursement - Debt Service | 0 | 79,537,322 | 79,537,322 | 0 | --- |
| Debt Service Revenues | 2,931,677 | 82,112,322 | 84,344,412 | 5,140,550 | -93.7% |
| DEBT SERVICE - NON-TAX SUPPORTED | | | | | |
| EXPENDITURES | | | | | |
| Salaries and Wages | 0 | 0 | 0 | 0 | --- |
| Employee Benefits | 0 | 0 | 0 | 0 | --- |
| Debt Service - Non-Tax Supported Personnel Costs | 0 | 0 | 0 | 0 | --- |
| Operating Expenses | 0 | 0 | 0 | 0 | --- |
| Debt Service Other | 0 | 2,180,000 | 0 | 2,913,480 | 33.6% |
| Capital Outlay | 0 | 0 | 0 | 0 | --- |
| Debt Service - Non-Tax Supported Expenditures | 0 | 2,180,000 | 0 | 2,913,480 | 33.6% |
| PERSONNEL | | | | | |
| Full-Time | 0 | 0 | 0 | 0 | --- |
| Part-Time | 0 | 0 | 0 | 0 | --- |
| Workyears | 0.0 | 0.0 | 0.0 | 0.0 | --- |
| DEPARTMENT TOTALS | | | | | |
| Total Expenditures | 224,542,447 | 248,680,690 | 238,873,950 | 263,004,860 | 5.8% |
| Total Full-Time Positions | 0 | 0 | 0 | 0 | --- |
| Total Part-Time Positions | 0 | 0 | 0 | 0 | --- |
| Total Workyears | 0.0 | 0.0 | 0.0 | 0.0 | --- |
| Total Revenues | 2,931,677 | 82,112,322 | 84,344,412 | 5,140,550 | -93.7% |

5

DEBT SERVICE - GENERAL OBLIGATION BONDS, LONG & SHORT TERM LEASES AND OTHER DEBT

| | Actual FY08 | Actual FY09 | Budget FY10 | Estimated FY10 | Recommended FY11 | % Chg Rec/Bud | App % CO Bonds |
|--|--------------------|--------------------|--------------------|--------------------|---------------------|------------------|-------------------|
| GO BOND DEBT SERVICE EXPENDITURES | | | | | | | |
| General County | 27,416,273 | 26,072,025 | 27,556,930 | 25,845,700 | 26,755,120 | | 11.6% |
| Roads & Storm Drains | 53,643,535 | 49,276,790 | 53,243,820 | 51,741,110 | 54,807,900 | | 23.8% |
| Public Housing | 250,417 | 175,005 | 108,320 | 108,320 | 87,540 | | 0.0% |
| Parks | 7,255,370 | 7,064,767 | 7,554,290 | 7,376,550 | 8,264,900 | | 3.6% |
| Public Schools | 109,293,160 | 102,354,007 | 111,292,490 | 109,790,040 | 112,965,990 | | 49.1% |
| Montgomery College | 7,708,907 | 7,912,457 | 10,451,460 | 9,379,290 | 10,601,800 | | 4.6% |
| Bond Anticipation Notes/Commercial Paper | 5,564,456 | 4,121,080 | 3,023,700 | 2,887,850 | 1,962,500 | | |
| Bond Anticipation Notes/Liquidity & Remarketing | - | - | - | 1,447,800 | 4,000,000 | | |
| Cost of Issuance- General Fund | 892,924 | 922,301 | 1,060,220 | 852,200 | 1,088,320 | | |
| Total General Fund | 212,025,042 | 197,898,432 | 214,291,230 | 209,428,860 | 220,534,070 | 2.9% | 92.8% |
| Fire Tax District Fund | 3,560,618 | 3,416,221 | 3,970,910 | 3,807,570 | 5,236,630 | 31.9% | 2.3% |
| Mass Transit Fund | 2,321,315 | 2,028,746 | 2,447,450 | 2,696,310 | 3,489,700 | 42.6% | 1.5% |
| Recreation Fund | 5,034,794 | 4,676,758 | 5,012,400 | 5,318,770 | 7,846,590 | 56.5% | 3.4% |
| Bradley Noise Abatement Fund | 30,111 | 28,810 | 27,500 | 27,500 | 26,180 | -4.8% | 0.0% |
| Cabin John Noise Abatement Fund | 8,936 | 8,552 | 8,170 | 8,170 | 7,780 | -4.8% | 0.0% |
| Total Tax Supported Other Funds | 10,955,774 | 10,159,088 | 11,466,430 | 11,858,320 | 16,606,880 | 44.8% | 7.2% |
| TOTAL TAX SUPPORTED | 222,980,816 | 208,057,520 | 225,757,660 | 221,287,180 | 237,140,950 | 5.0% | 100.0% |
| Non-Tax Supported | | | | | | | |
| Solid Waste Disposal Fund | 2,447 | - | - | - | - | 0.0% | 0.0% |
| Total Non-Tax Supported | 2,447 | - | - | - | - | 0.0% | 0.0% |
| TOTAL GO BOND DEBT SERVICE EXPENDITURES | 222,983,263 | 208,057,520 | 225,757,660 | 221,287,180 | 237,140,950 | 5.0% | 100.0% |
| LONG-TERM LEASE EXPENDITURES | | | | | | | |
| Revenue Authority - Conference Center | 2,216,061 | 2,490,519 | 1,903,290 | 1,503,290 | 1,901,650 | | |
| Revenue Authority - MHS Piccard Drive | 633,488 | 632,698 | 635,700 | 635,700 | 632,480 | | |
| Silver Spring Garages | 5,591,008 | 5,553,516 | 5,590,330 | 5,590,330 | 5,544,320 | | |
| Revenue Authority - Recreation Pools | 3,041,772 | 2,662,966 | 2,664,820 | 2,664,820 | 2,325,820 | | |
| Fire and Rescue Equipment | 633,613 | 4,553,500 | 4,542,000 | 4,542,000 | 4,509,230 | | |
| TOTAL LONG-TERM LEASE EXPENDITURES | 12,115,942 | 15,893,199 | 15,336,140 | 15,336,140 | 14,913,500 | | |
| SHORT-TERM LEASE EXPENDITURES / FINANCING | | | | | | | |
| Technology Modernization Project | - | - | 2,026,970 | 1,850,630 | 3,701,260 | | |
| Ride On Buses | - | - | 2,644,250 | - | 3,600,000 | | |
| Short Term Financing - Kay Property | 871,600 | 591,728 | - | - | - | | |
| TOTAL SHORT-TERM LEASE EXPENDITURES | 871,600 | 591,728 | 4,671,220 | 1,850,630 | 7,301,260 | | |
| OTHER LONG-TERM DEBT | | | | | | | |
| Silver Spring Music Venue - Tax supported | - | - | 335,670 | - | 335,670 | | |
| Site II Acquisition - Tax supported | - | - | 400,000 | 400,000 | 400,000 | | |
| MHI-HUD Loan - Non-Tax supported | 78,255 | 76,862 | 75,300 | 75,300 | 73,580 | | |
| Water Quality Protection Bonds - Non-Tax supported | - | - | - | - | 413,480 | | |
| MHI - Property Acquisition Fund - Non-tax supported | - | - | 2,180,000 | - | 2,500,000 | | |
| TOTAL OTHER LONG-TERM DEBT | 78,255 | 76,862 | 2,990,970 | 475,300 | 3,722,730 | 24.5% | |
| DEBT SERVICE EXPENDITURES | | | | | | | |
| Tax Supported | 235,968,358 | 224,542,447 | 246,500,690 | 238,873,950 | 260,091,380 | | |
| Non-Tax Supported - Other & GO Bond Debt | 80,702 | 76,862 | 2,255,300 | 75,300 | 2,987,060 | | |
| TOTAL DEBT SERVICE EXPENDITURES | 236,049,060 | 224,619,309 | 248,755,990 | 238,949,250 | 263,078,440 | 5.8% | |
| GO BOND DEBT SERVICE FUNDING SOURCES | | | | | | | |
| General Funds | 206,179,168 | 195,205,792 | 131,255,210 | 125,084,450 | 215,393,520 | | |
| MCPS Reimbursement | - | - | 79,537,320 | 79,537,320 | - | | |
| Accrued Interest: GO Bonds-Non Pooled | 729,167 | 623,264 | 575,000 | - | 575,000 | | |
| Accrued Interest: Installmt Notes, I&P, Street Assessmts | 468,035 | 896,190 | - | 21,280 | 17,570 | | |
| BAN/Commercial Paper Investment Income | 5,068,687 | 1,412,223 | 2,000,000 | 255,220 | 689,570 | | |
| Federal Subsidy on General Obligation Bonds | - | - | - | 1,757,720 | 3,858,410 | | |
| Premium on General Obligation Bonds | - | - | - | 2,772,870 | - | | |
| Total General Fund Sources | 212,445,057 | 198,137,469 | 213,367,530 | 209,428,860 | 220,534,070 | | |
| Fire Tax District Funds | 3,146,701 | 3,164,512 | 3,970,910 | 3,807,570 | 5,236,630 | | |
| Mass Transit Fund | 2,323,084 | 2,044,754 | 2,447,450 | 2,696,310 | 3,489,700 | | |
| Recreation Fund | 5,026,927 | 4,673,423 | 5,012,400 | 5,318,770 | 7,846,590 | | |
| Bradley Noise Abatement Fund | 30,111 | 28,810 | 27,500 | 27,500 | 26,180 | | |
| Cabin John Noise Abatement Fund | 8,936 | 8,552 | 8,170 | 8,170 | 7,780 | | |
| Solid Waste Disposal Fund | 2,447 | - | - | - | - | | |
| Total Other Funding Sources | 10,538,206 | 9,920,051 | 11,466,430 | 11,858,320 | 16,606,880 | | |
| TOTAL GO BOND FUNDING SOURCES | 222,983,263 | 208,057,520 | 224,833,960 | 221,287,180 | 237,140,950 | | |
| NON GO BOND FUNDING SOURCES | | | | | | | |
| General Funds | 9,312,157 | 9,268,461 | 11,815,660 | 10,379,950 | 12,515,380 | | |
| MHI Fund - HUD Loan | 78,255 | 76,862 | 75,300 | 75,300 | 73,580 | | |
| Water Quality Protection Bonds - Non-Tax supported | - | - | - | - | 413,480 | | |
| MHI Fund - Property Acquisition Fund | - | - | 2,180,000 | - | 2,500,000 | | |
| Mass Transit Fund | - | - | 2,644,250 | - | 3,600,000 | | |
| Recreation Fund | 3,041,772 | 2,662,966 | 2,664,820 | 2,664,820 | 2,325,820 | | |
| Fire Tax District Fund | 633,613 | 4,553,500 | 4,542,000 | 4,542,000 | 4,509,230 | | |
| TOTAL NON GO BOND FUNDING SOURCES | 13,065,797 | 16,561,789 | 23,922,030 | 17,662,070 | 25,937,490 | | |
| TOTAL FUNDING SOURCES | 236,049,060 | 224,619,309 | 248,755,990 | 238,949,250 | 263,078,440 | | |
| TRANSFERS | | | | | | | |
| FROM: RSF Investment Income | 5,763,222 | 2,005,903 | 1,316,000 | 311,080 | - | | |
| TO: CIP - PAYGO | 5,763,222 | 2,005,903 | 1,316,000 | 311,080 | - | | |
| TOTAL GENERAL OBLIGATION BOND SALES | | | | | | | |
| Actual and Estimated Bond Sales | - | 250,000,000 | 310,000,000 | 310,000,000 | 325,000,000 | | |
| Council SAG Approved Issues | - | - | 320,000,000 | 320,000,000 | 325,000,000 | | |

6

DEBT SERVICE - GENERAL OBLIGATION BONDS AND LONG & SHORT TERM LEASES AND OTHER DEBT

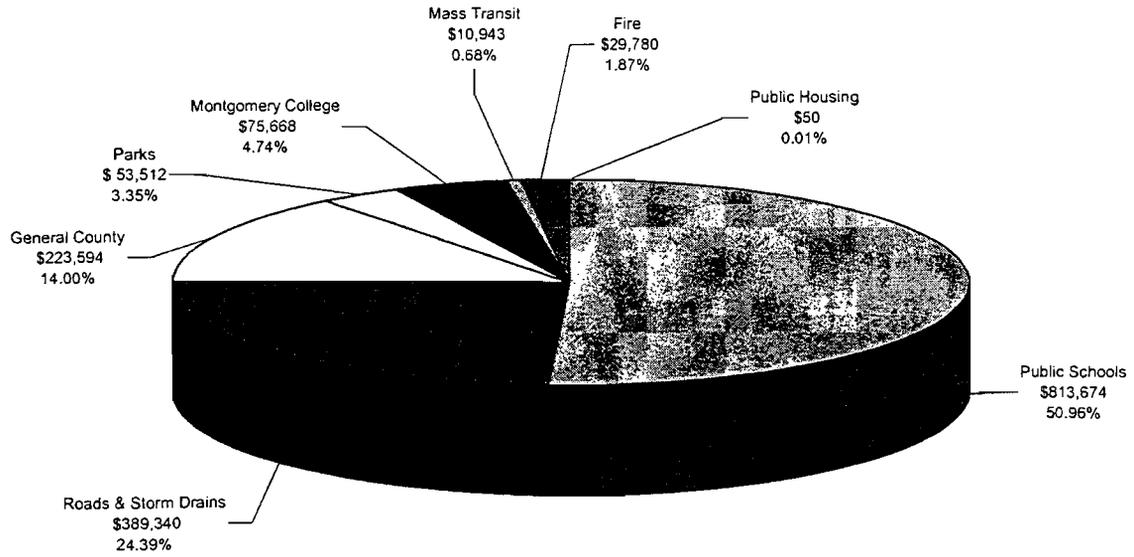
| | Recommended FY11 | Projected FY12 | Projected FY13 | Projected FY14 | Projected FY15 | Projected FY16 |
|--|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| GO BOND DEBT SERVICE EXPENDITURES | | | | | | |
| General County | 26,755,120 | 33,773,830 | 40,267,770 | 46,774,080 | 49,777,360 | 51,997,290 |
| Roads & Storm Drains | 54,807,900 | 57,176,010 | 60,235,550 | 63,474,160 | 68,509,540 | 73,191,830 |
| Public Housing | 87,540 | 292,220 | 522,050 | 508,160 | 494,270 | 480,380 |
| Parks | 8,264,900 | 8,898,150 | 9,518,940 | 10,358,020 | 10,544,400 | 9,963,720 |
| Public Schools | 112,965,990 | 123,176,730 | 132,772,760 | 138,686,810 | 148,122,130 | 157,803,370 |
| Montgomery College | 10,601,800 | 12,733,700 | 13,924,000 | 14,530,970 | 15,632,340 | 16,903,680 |
| Bond Anticipation Notes/Commercial Paper | 1,962,500 | 4,902,090 | 9,234,380 | 11,937,500 | 11,937,500 | 12,932,300 |
| Bond Anticipation Notes/Liquidity & Remarketing | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 |
| Cost of Issuance | 1,088,320 | 1,116,610 | 1,145,090 | 1,173,720 | 1,203,060 | 1,233,130 |
| Total General Fund | 220,534,070 | 246,069,340 | 271,620,540 | 291,443,420 | 310,220,600 | 328,505,700 |
| Fire Tax District Fund | 5,236,630 | 6,040,180 | 6,852,850 | 7,902,170 | 8,742,450 | 7,890,200 |
| Mass Transit Fund | 3,489,700 | 4,107,670 | 4,380,710 | 4,784,220 | 5,446,850 | 10,174,750 |
| Recreation Fund | 7,846,590 | 9,070,010 | 10,422,150 | 11,233,620 | 11,029,890 | 9,129,810 |
| Bradley Noise Abatement Fund | 26,180 | 24,870 | 23,550 | - | - | - |
| Cabin John Noise Abatement Fund | 7,780 | 7,390 | 7,000 | - | - | - |
| Total Tax Supported Other Funds | 16,606,880 | 19,250,120 | 21,686,260 | 23,920,010 | 25,219,190 | 27,194,760 |
| TOTAL TAX SUPPORTED | 237,140,950 | 265,319,460 | 293,306,800 | 315,363,430 | 335,439,790 | 355,700,460 |
| TOTAL GO BOND DEBT SERVICE EXPENDITURES | 237,140,950 | 265,319,460 | 293,306,800 | 315,363,430 | 335,439,790 | 355,700,460 |
| LONG-TERM LEASE EXPENDITURES | | | | | | |
| Revenue Authority - Conference Center | 1,901,650 | 1,903,890 | 995,440 | 993,190 | 993,190 | 996,020 |
| Revenue Authority - HHS Piccard Drive | 632,480 | 633,040 | 636,870 | 638,390 | 638,580 | 642,520 |
| Silver Spring Garages | 5,544,320 | 5,554,170 | 5,574,890 | 5,561,410 | 5,563,880 | 5,538,040 |
| Revenue Authority - Recreation Pools | 2,325,820 | 2,325,680 | 2,323,020 | 1,834,050 | 1,834,300 | 1,836,050 |
| Fire and Rescue Equipment | 4,509,230 | 4,459,480 | 4,418,350 | 3,780,600 | 3,741,600 | 3,723,200 |
| TOTAL LONG-TERM LEASE EXPENDITURES | 14,913,500 | 14,876,260 | 13,948,570 | 12,807,640 | 12,771,550 | 12,735,830 |
| SHORT-TERM LEASE EXPENDITURES / FINANCING | | | | | | |
| Technology Modernization Project | 3,701,260 | 4,850,490 | 5,999,730 | 5,999,730 | 5,999,730 | 5,999,730 |
| Ride On Buses | 3,600,000 | 3,600,000 | 3,600,000 | 3,600,000 | 3,600,000 | 3,600,000 |
| Public Safety System Modernization | - | 1,107,420 | 7,559,500 | 14,693,460 | 15,768,200 | 9,316,120 |
| Fire and Rescue Fuel Management System | - | 311,200 | 568,250 | 568,250 | 568,250 | 568,250 |
| TOTAL SHORT-TERM LEASE EXPENDITURES | 7,301,260 | 9,869,110 | 17,727,480 | 24,861,440 | 25,936,180 | 19,484,100 |
| OTHER LONG-TERM DEBT | | | | | | |
| Silver Spring Music Venue - Tax supported | 335,670 | 335,670 | 335,670 | 335,670 | 335,620 | 335,620 |
| Site II Acquisition - Tax Supported | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 |
| MHI-HUD Loan - Non-Tax supported | 73,580 | 71,730 | 69,770 | 67,730 | 65,630 | 65,630 |
| Water Quality Protection Bonds - Non-Tax supported | 413,480 | 1,633,230 | 2,532,750 | 5,266,990 | 6,135,200 | 8,960,540 |
| Property Acquisition Fund - Non-tax supported | 2,500,000 | 4,700,000 | 6,900,000 | 8,660,000 | 8,660,000 | 8,660,000 |
| TOTAL OTHER LONG-TERM DEBT | 3,722,730 | 7,140,630 | 10,238,190 | 14,730,390 | 15,596,450 | 18,421,790 |
| DEBT SERVICE EXPENDITURES | | | | | | |
| Tax Supported | 260,091,380 | 290,800,500 | 325,718,520 | 353,768,180 | 374,883,140 | 388,656,010 |
| Non-Tax Supported - Other Long-term Debt | 2,987,060 | 6,404,960 | 9,502,520 | 13,994,720 | 14,860,830 | 17,686,170 |
| TOTAL DEBT SERVICE EXPENDITURES | 263,078,440 | 297,205,460 | 335,221,040 | 367,762,900 | 389,743,970 | 406,342,180 |
| GO BOND DEBT SERVICE FUNDING SOURCES | | | | | | |
| General Funds | 215,393,520 | 240,175,680 | 264,212,020 | 283,848,340 | 302,230,310 | 320,419,300 |
| MCPS Reimbursement | - | - | - | - | - | - |
| Accrued Interest on Bonds - Non-Pooled | 575,000 | 575,000 | 575,000 | 575,000 | 575,000 | 575,000 |
| Accrued Interest: Installmt Notes, I&P, Street Assessmts | 17,570 | - | - | - | - | - |
| BAN/Commercial Paper Investment Income | 689,570 | 1,460,250 | 2,975,110 | 3,161,670 | 3,556,880 | 3,754,480 |
| Federal Subsidy on General Obligation Bonds | 3,858,410 | 3,858,410 | 3,858,410 | 3,858,410 | 3,858,410 | 3,756,920 |
| Total General Fund Sources | 220,534,070 | 246,069,340 | 271,620,540 | 291,443,420 | 310,220,600 | 328,505,700 |
| Fire Tax District Fund | 5,236,630 | 6,040,180 | 6,852,850 | 7,902,170 | 8,742,450 | 7,890,200 |
| Mass Transit Fund | 3,489,700 | 4,107,670 | 4,380,710 | 4,784,220 | 5,446,850 | 10,174,750 |
| Recreation Fund | 7,846,590 | 9,070,010 | 10,422,150 | 11,233,620 | 11,029,890 | 9,129,810 |
| Bradley Noise Abatement Fund | 26,180 | 24,870 | 23,550 | - | - | - |
| Cabin John Noise Abatement Fund | 7,780 | 7,390 | 7,000 | - | - | - |
| Total Other Funding Sources | 16,606,880 | 19,250,120 | 21,686,260 | 23,920,010 | 25,219,190 | 27,194,760 |
| TOTAL GO BOND FUNDING SOURCES | 237,140,950 | 265,319,460 | 293,306,800 | 315,363,430 | 335,439,790 | 355,700,460 |
| NON GO BOND FUNDING SOURCES | | | | | | |
| General Funds | 12,515,380 | 14,784,680 | 21,502,100 | 28,621,850 | 29,699,200 | 23,228,050 |
| MHI Fund - HUD Loan | 73,580 | 71,730 | 69,770 | 67,730 | 65,630 | 65,630 |
| Water Quality Protection Bonds - Non-Tax supported | 413,480 | 1,633,230 | 2,532,750 | 5,266,990 | 6,135,200 | 8,960,540 |
| MHI Fund - Property Acquisition Fund | 2,500,000 | 4,700,000 | 6,900,000 | 8,660,000 | 8,660,000 | 8,660,000 |
| Mass Transit Fund | 3,600,000 | 3,600,000 | 3,600,000 | 3,600,000 | 3,600,000 | 3,600,000 |
| Recreation Fund | 2,325,820 | 2,325,680 | 2,323,020 | 1,834,050 | 1,834,300 | 1,836,050 |
| Fire Tax District Fund | 4,509,230 | 4,770,680 | 4,986,600 | 4,348,850 | 4,309,850 | 4,291,450 |
| TOTAL NON GO BOND FUNDING SOURCES | 25,937,490 | 31,886,000 | 41,914,240 | 52,399,470 | 54,304,180 | 50,641,720 |
| TOTAL FUNDING SOURCES | 263,078,440 | 297,205,460 | 335,221,040 | 367,762,900 | 389,743,970 | 406,342,180 |
| TRANSFERS | | | | | | |
| FROM: RSF Investment Income | - | - | - | - | - | - |
| TO: CIP - PAYGO | - | - | - | - | - | - |
| Actual and Estimated Bond Sales | 325,000,000 | 325,000,000 | 325,000,000 | 325,000,000 | 325,000,000 | 325,000,000 |
| Council SAG Approved Issues | 325,000,000 | 325,000,000 | 325,000,000 | 325,000,000 | 325,000,000 | 325,000,000 |
| ESTIMATED INTEREST RATE | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% |

7

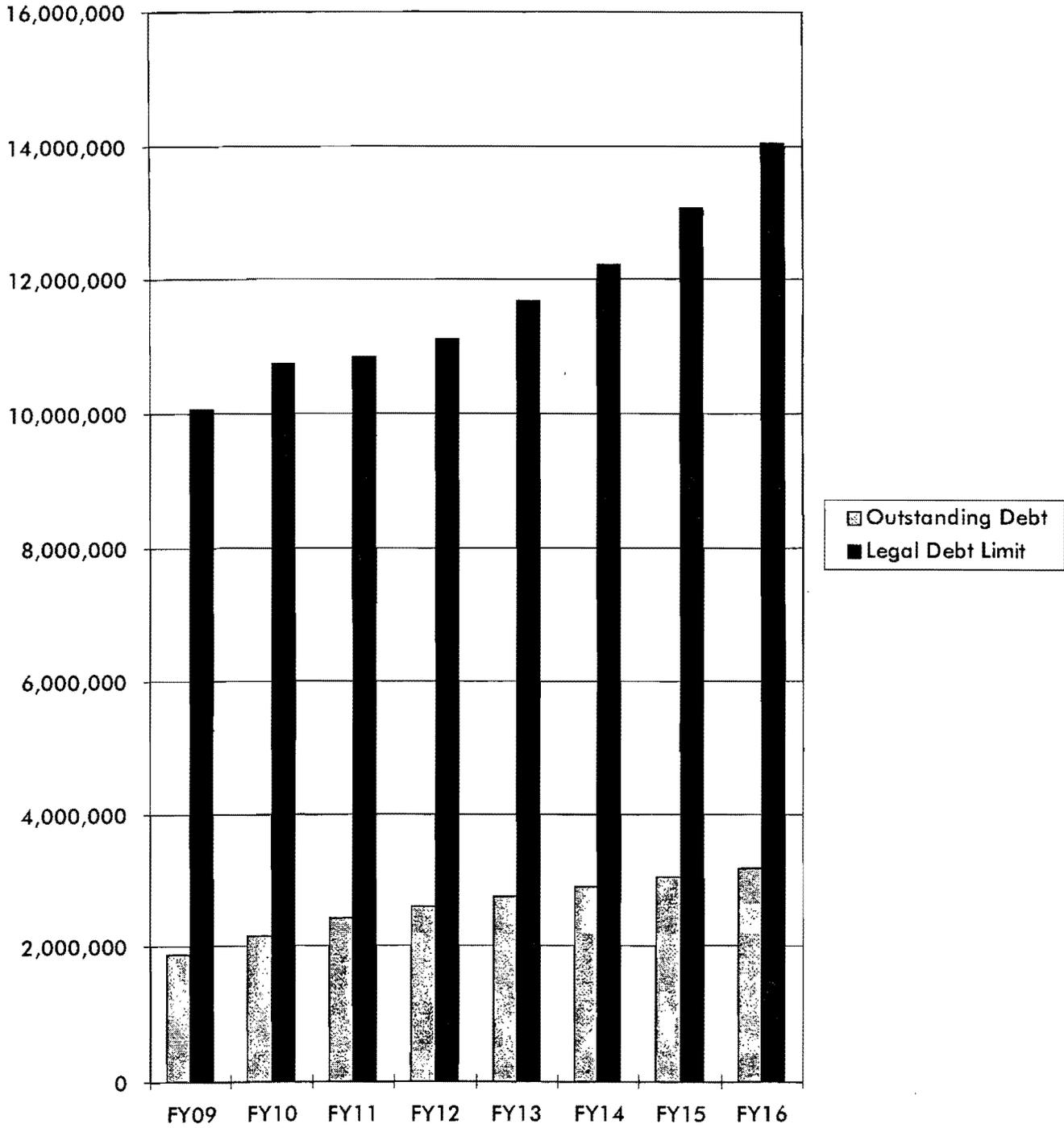
**Projected Debt Obligations
Schedule of Principal & Interest
FY11 Recommended Budget**

| FUND | Principal | Interest | Total |
|--|--------------------|--------------------|--------------------|
| Debt Service Fund | 156,863,950 | 106,140,910 | 263,004,860 |
| Liquor Control (Section 66) | 4,210,000 | 6,508,250 | 10,718,250 |
| Montgomery Housing Initiative | 43,000 | 30,580 | 73,580 |
| Bethesda Parking Lot District (Section 47) | 2,592,220 | 2,371,060 | 4,963,280 |
| Solid Waste Services (Section 64) | 3,550,000 | 460,750 | 4,010,750 |
| Total | 167,259,170 | 115,511,550 | 282,770,720 |

General Obligation Bonds Outstanding by Bond Category
(\$000s)
Total \$1,596,561 as of June 30, 2009



**Outstanding Debt and Legal Debt Limit
(\$000s)**



10

DEBT CAPACITY ANALYSIS

FY11-16 Capital Improvements Program

COUNTY EXECUTIVE RECOMMENDED

MARCH 15, 2010

GO BOND 6 YR TOTAL = 1,950.0 MILLION

GO BOND FY11 TOTAL = 325.0 MILLION

GO BOND FY12 TOTAL = 325.0 MILLION

| | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1 New GO Debt Issued (\$000s) | 310,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 | 325,000 |
| 2 GO Debt/Assessed Value | 1.24% | 1.40% | 1.46% | 1.47% | 1.47% | 1.44% | 1.39% |
| 3 Debt Service + LTL + Short-Term Leases/Revenues (GF) | 8.75% | 9.03% | 9.84% | 10.64% | 11.08% | 11.13% | 11.04% |
| 4 \$ Debt/Capita | 2,239 | 2,498 | 2,639 | 2,762 | 2,872 | 2,969 | 3,058 |
| 5 \$ Real Debt/Capita (FY10=100%) | 2,239 | 2,446 | 2,528 | 2,583 | 2,617 | 2,632 | 2,632 |
| 6 Capita Debt/Capita Income | 3.11% | 3.49% | 3.56% | 3.57% | 3.55% | 3.53% | 3.53% |
| 7 Payout Ratio | 69.56% | 68.59% | 68.12% | 67.91% | 67.95% | 68.17% | 68.47% |
| 8 Total Debt Outstanding (\$000s) | 2,163,274 | 2,442,635 | 2,610,455 | 2,765,125 | 2,909,660 | 3,042,940 | 3,164,765 |
| 9 Real Debt Outstanding (FY10=100%) | 2,163,274 | 2,392,395 | 2,500,502 | 2,585,317 | 2,651,514 | 2,697,441 | 2,723,722 |
| 10 Note: OP/PSP Growth Assumption (2) | 4.6% | 3.8% | 2.9% | 3.6% | 4.2% | 5.1% | 4.1% |

Notes:

(1) This analysis is used to determine the capacity of Montgomery County to pay debt service on long-term GO Bond debt, long-term leases, and substantial short-term financing.

(2) OP/PSP Growth Assumption equals change in revenues from FY10 approved budget to FY11 budget for FY11 and budget to budget for FY12-16.

GENERAL OBLIGATION BOND ADJUSTMENT CHART

FY11-16 CAPITAL IMPROVEMENTS PROGRAM

COUNTY EXECUTIVE RECOMMENDED

MARCH 15, 2010

| (\$ millions) | 6 YEARS | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|--|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| BONDS PLANNED FOR ISSUE | 1,950.000 | 325.000 | 325.000 | 325.000 | 325.000 | 325.000 | 325.000 |
| Plus PAYGO Funded | 162.500 | - | 32.500 | 32.500 | 32.500 | 32.500 | 32.500 |
| Adjust for Implementation ** | 354.497 | 61.905 | 61.905 | 60.276 | 58.592 | 56.828 | 54.992 |
| Adjust for Future Inflation ** | (88.889) | - | - | (8.549) | (17.392) | (26.656) | (36.292) |
| SUBTOTAL FUNDS AVAILABLE FOR DEBT ELIGIBLE PROJECTS (after adjustments) | 2,378.108 | 386.905 | 419.404 | 409.227 | 398.700 | 387.672 | 376.200 |
| Less Set Aside: Future Projects | 208.604 | 7.964 | 12.515 | 12.385 | 40.254 | 60.339 | 75.147 |
| | 8.77% | | | | | | |
| TOTAL FUNDS AVAILABLE FOR PROGRAMMING | 2,169.504 | 378.941 | 406.889 | 396.842 | 358.446 | 327.333 | 301.053 |
| MCPS | (957.748) | (187.818) | (171.979) | (175.743) | (183.011) | (119.359) | (119.838) |
| MONTGOMERY COLLEGE | (108.718) | (36.427) | (20.856) | (14.831) | (17.385) | (10.755) | (8.464) |
| M-NCPPC PARKS | (64.159) | (12.483) | (12.564) | (15.637) | (8.403) | (7.536) | (7.536) |
| TRANSPORTATION | (578.094) | (96.842) | (75.604) | (72.895) | (74.894) | (125.927) | (131.932) |
| MCG - OTHER | (550.851) | (112.753) | (146.005) | (119.938) | (75.116) | (63.756) | (33.283) |
| Programming Adjustment - Unspent Prior Years* | 90.066 | 67.382 | 20.119 | 2.202 | 0.363 | - | - |
| SUBTOTAL PROGRAMMED EXPENDITURES | (2,169.504) | (378.941) | (406.889) | (396.842) | (358.446) | (327.333) | (301.053) |
| AVAILABLE OR (GAP) | - | - | - | - | - | - | - |
| NOTES: | | | | | | | |
| * Detailed information is included on the GO Bond Programming Adjustment for Unspent Prior Year Detail Chart in the County Executive's FY11-16 Recommended CIP publication, Volume 1, p. 6-20 & 6-21 | | | | | | | |
| ** Adjustments Include: | | | | | | | |
| Inflation = | | 2.10% | 2.25% | 2.45% | 2.60% | 2.80% | 3.00% |
| Implementation Rate = | | 84.00% | 84.00% | 84.00% | 84.00% | 84.00% | 84.00% |

NOTE: This chart includes adjustments to the Recommended FY11-16 Capital Improvements Program recommended on January 15, 2010 for FY11 PAYGO, the FY11-16 inflation rate, and \$300k for the Cost Sharing: MCG project.