

**MEMORANDUM**

April 8, 2009

TO: Management and Fiscal Policy Committee  
C.H.S.  
FROM: Charles H. Sherer, Legislative Analyst  
SUBJECT: FY10 Operating Budget for Debt Service on general obligation bonds and short and long term obligations for County Government

The Executive's recommended FY10 debt service amounts are on ©6, as summarized in the table below. These amounts include tax-supported and non-tax-supported funds, as explained in the Overview section below.

FY09 Approved	249,905,970
FY10 CE Recommended	248,480,990
Amount Change	-1,424,980
% Change	-0.6%

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.

**Overview**

The budget for debt service is determined by past and current decisions on the amount of bond funding. There is no discretion to reduce the debt service budget, other than by reducing bond funding, and there is no need to increase the debt service budget.

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

**FY09** The latest estimate of debt service in the current year, FY09 (total tax and non-tax supported), is \$224.4 million, which is \$25.5 million/10.2% less than the approved budget of \$249.9 million. Tax supported savings was \$23.6 million. As explained on ©3, “The reduction is due primarily to lower commercial paper costs, savings from a GO bond refunding, and the issuance of GO bonds in July 2008 (FY09) instead of May 2008 (FY08) as previously planned.”

**FY10** In the December 2008 Fiscal Plan Update, debt service in FY10 was estimated to be \$280.3 million for the tax supported funds. The amount in the Executive’s budget is \$246.2 million, a decrease of \$34.1 million from the December estimate.

Finance provided the following explanation of significant savings in the Debt Service budget FY09 and FY10:

- Most significant savings result from the one-time, permanent shift from planned spring GO bond issues to fall issues (\$20.1 million in FY09 and \$25.6 million in FY10). This results in a shift in debt service requirements which causes budgetary savings over the next nineteen years, but adds expenditures in year twenty (compared to if we had continued with the spring issues each year).
- Actual interest rate savings on the July 2008 issue
- Estimated interest rate savings on future GO issues
- Estimated interest rate savings affecting variable rate programs (Commercial Paper/BANs and VRDOs)
- Timing changes (delay) on Silver Spring Music Venue and MHI Property Acquisition Fund
- Updated assumptions on other stand alone issues
- Addition of Smart Growth Initiative and Site II Acquisition costs

The two reductions for the tax supported funds total \$57.7 million, which made a significant contribution to eliminating the \$587 million gap the Executive cited in his budget.

**Addition to the Executive's debt service budget** The Executive's recommended FY10 budget assumes County bond funding of \$300 million in FY09 and \$300 million in FY10 at 5.5%. The Council's bond ceiling is \$320 million in FY09 and \$320 million in FY10, \$20 million more each year. The entire \$40 million increase in spending from County bonds must be assumed in FY10, which would result in additional interest in FY10 of \$1.1 million (two additional interest payments of \$550,000). **This amount, \$1.1 million, must be added to the Executive's debt service budget.**

# Debt Service

## MISSION STATEMENT

This section provides budget data for the repayment of general obligation bond issues, and other long- 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 FY10 Operating Budget for Debt Service is \$248,405,690 a decrease of \$1,423,410 or 0.6 percent from the FY09 approved budget of \$249,829,100. This amount excludes \$75,300 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 52 percent of the County's capital expenditures (excluding WSSC) for the six years of the Recommended FY09-14 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. However, once committed, Debt Service represents a major continuing claim on County resources that must be kept within the annual operating requirements of the County government in order to avoid excessive pressures on operating budgets in years of revenue shortfalls.

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 February 5, 2008, the County Council approved SAG limits at \$300.0 million per year and \$1,800.0 million for the FY09-14 period. On February 3, 2009, the County Council amended the approved SAG limits to \$320.0 million for FY09, \$320.0 million for FY10, and \$1,840.0 million for the FY09-14 period. The County Executive recommends CIP G.O. debt issuance at \$300.0 million per year and \$1,800.0 million for the FY09-14 period.

"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.

### Debt Limit

The County's outstanding general obligation debt totals \$1,466,758,054 as of June 30, 2008. 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, 2008, is \$9,133,968,236 based upon the assessed valuation \$142,306,435,593 for all real property and \$3,970,547,370 for personal property. The County's outstanding general obligation debt of \$1,466,758,054 plus outstanding short-term commercial paper of \$300,000,000 is 1.21 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 2008 (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 leases, 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.

Long-term payments include:

- Lease payments to the Montgomery County Revenue Authority for the Conference Center, HHS Piccard Drive, and various Recreation pools.
- Lease payments to the Maryland Economic Development Corporation (MEDCO) for the Town Square and Wayne Avenue Garages in Silver Spring.
- Payments for the acquisition of fire and rescue equipment.

Short-term lease payments include payments for:

- Financing the County's Technology Modernization project.
- Acquisition of the Kay property.
- Acquisition of County Ride On Buses.
- Smart Growth Interim Financing.

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 FY10 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 (\$25 million in each of FY09 and FY10) 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.

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.

## **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 FY10. 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 (County government facilities that are not included in the following categories); 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., Mass Transit, Fire, Recreation, Noise Abatement Districts) as appropriate. These appropriations include debt service for G.O. bond issues outstanding, long-term lease obligations and short-term financing obligations. The General County category includes County Debt Service on facilities for Police, Corrections, Human Services, Libraries, General Government, and other miscellaneous purposes. In recent years, Solid Waste projects were funded entirely with revenue bonds or Enterprise fund current revenues, but general obligation debt service remains from prior year issues.

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.

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. These special funds include Fire Tax District, Mass Transit, Recreation, Bradley Noise Abatement, and the Cabin John Noise Abatement 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. Beginning in FY98, the Revenue Stabilization Fund exceeded 50 percent of the maximum Fund size; therefore, interest is assumed to be transferred to the Debt Service Fund for FY10-15.

## **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. For FY09-14, approximately 52 percent of the CIP (excluding WSSC) is funded with G.O. bonds. 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 long-term commitments, are expected to stay manageable, representing less than 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 FY09-14 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 FY09-14 Capital Improvements Program meets that requirement. The General Obligation Bond Adjustment chart reflecting the Executive's proposals for the Recommended FY09-14 CIP is included at the end of this section.

### **FY09 Estimated Debt Service**

FY09 estimated general obligation Debt Service and lease expenditure requirements for tax-supported funds total \$224.4 million which is lower than the budget amount of \$248.0 million. The reduction is due primarily to lower commercial paper costs, savings from a GO bond refunding, and the issuance of GO bonds in July 2008 (FY09) instead of May 2008 (FY08) as previously planned.

### **FY10 Recommended Debt Service Budget**

The FY10 Debt Service budget is predicated on a base of existing Debt Service requirements from past bond issues (through July 2008) plus the following:

- A fall 2009 (FY10) issue of \$300 million at a true 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 \$300.0 million during FY10.
- Other short- and long-term financing obligations displayed in a chart at the end of the section.

A fall bond issue delays principal and one semiannual interest payment until FY11. Fall bond issues are expected to continue in

FY10 through FY15. 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 FY10 Debt Service requirement for tax supported funds of \$246 million, which is a 0.7 percent decrease from the FY09 budget of \$248.0 million. The General Fund appropriation requirement, \$222.4 million, or 1.6 percent less than the budgeted FY09 amount of \$226.0 million. The decrease is due to primarily to the timing of debt issuance.

### **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 87.5 percent rate for FY09-14. The actual true interest cost of 5.5 percent is budgeted for the fall 2009 (FY10) issue. Projected interest rates for bond issues for FY10 through FY15 are based on an econometric model which forecasts little change in interest rates after FY10. Under these projections and assumptions, tax-supported Debt Service will increase from \$246.2 million in FY10 to \$345.1 million by FY15 with the General Fund revenue requirement growing from \$222.4 million in FY10 to \$306.2 million by FY15.

### **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 for a total cost of \$10.76 million. In addition, the District will fund contributions totaling \$6.24 million toward the capital cost of two County government projects (a library and extension of Stringtown Road to I-270). 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 FY08	Budget FY09	Estimated FY09	Recommended FY10	% Chg Bud/Rec
<b>DEBT SERVICE</b>					
<b>EXPENDITURES</b>					
Salaries and Wages	0	0	0	0	---
Employee Benefits	0	0	0	0	---
<b>Debt Service Personnel Costs</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>---</b>
Operating Expenses	0	0	0	0	---
Debt Service G.O. Bonds	222,980,816	230,597,980	207,883,830	224,558,960	-2.6%
Debt Service Other	12,987,542	17,381,120	16,484,950	21,666,730	24.7%
Capital Outlay	0	0	0	0	---
<b>Debt Service Expenditures</b>	<b>235,968,358</b>	<b>247,979,100</b>	<b>224,368,780</b>	<b>246,225,690</b>	<b>-0.7%</b>
<b>PERSONNEL</b>					
Full-Time	0	0	0	0	---
Part-Time	0	0	0	0	---
Workyears	0.0	0.0	0.0	0.0	---
<b>REVENUES</b>					
Street Assessments	468,035	0	0	0	---
BAN/Comm Paper Investment Income: Pooled	5,068,687	2,700,000	1,700,000	2,000,000	-25.9%
Accrued Interest: Bonds Non-Pooled	729,167	575,000	648,020	575,000	---
<b>Debt Service Revenues</b>	<b>6,265,889</b>	<b>3,275,000</b>	<b>2,348,020</b>	<b>2,575,000</b>	<b>-21.4%</b>
<b>DEBT SERVICE - NON-TAX SUPPORTED</b>					
<b>EXPENDITURES</b>					
Salaries and Wages	0	0	0	0	---
Employee Benefits	0	0	0	0	---
<b>Debt Service - Non-Tax Supported Personnel Costs</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>---</b>
Operating Expenses	0	0	0	0	---
Debt Service Other	0	1,850,000	0	2,180,000	17.8%
Capital Outlay	0	0	0	0	---
<b>Debt Service - Non-Tax Supported Expenditures</b>	<b>0</b>	<b>1,850,000</b>	<b>0</b>	<b>2,180,000</b>	<b>17.8%</b>
<b>PERSONNEL</b>					
Full-Time	0	0	0	0	---
Part-Time	0	0	0	0	---
Workyears	0.0	0.0	0.0	0.0	---
<b>DEPARTMENT TOTALS</b>					
<b>Total Expenditures</b>	<b>235,968,358</b>	<b>249,829,100</b>	<b>224,368,780</b>	<b>248,405,690</b>	<b>-0.6%</b>
<b>Total Full-Time Positions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>---</b>
<b>Total Part-Time Positions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>---</b>
<b>Total Workyears</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>---</b>
<b>Total Revenues</b>	<b>6,265,889</b>	<b>3,275,000</b>	<b>2,348,020</b>	<b>2,575,000</b>	<b>-21.4%</b>

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

	Actual FY07	Actual FY08	Budget FY09	Estimated FY09	Recommended FY10	% Chg Rec/Bud	Rec % GO Bonds
<b>GO BOND DEBT SERVICE EXPENDITURES</b>							
General County	26,233,739	27,416,273	28,093,870	25,950,040	27,501,330		12.4%
Roads & Storm Drains	51,846,170	53,643,535	56,963,150	49,520,490	53,200,560		24.0%
Public Housing	265,999	250,417	175,010	175,010	108,320		0.0%
Parks	6,772,021	7,255,370	7,798,110	7,074,140	7,546,070		3.4%
Public Schools	96,350,665	109,293,160	115,136,940	102,953,880	111,196,710		50.2%
Montgomery College	6,815,147	7,708,907	9,157,530	7,949,950	10,409,050		4.7%
Bond Anticipation Notes/Commercial Paper	6,784,398	5,564,456	3,800,000	2,900,000	2,100,000		
Bond Refunding	-	-	(3,030,000)	-	-		
Cost of Issuance: General Fund	801,172	892,924	1,032,350	1,032,350	1,060,220		
<b>Total General Fund</b>	<b>195,869,311</b>	<b>212,025,042</b>	<b>219,126,960</b>	<b>197,555,860</b>	<b>213,122,260</b>	<b>-2.7%</b>	<b>94.8%</b>
Fire Tax District Fund	3,396,710	3,560,618	4,176,900	3,435,910	3,961,970	-5.1%	1.8%
Mass Transit Fund	2,482,762	2,321,315	2,259,520	2,032,500	2,433,290	7.7%	1.1%
Recreation Fund	4,989,515	5,034,794	4,995,540	4,822,190	5,005,770	0.2%	2.3%
Bradley Noise Abatement Fund	31,383	30,111	30,120	28,810	27,500	-8.7%	0.0%
Cabin John Noise Abatement Fund	9,312	8,936	8,940	8,560	8,170	-8.6%	0.0%
<b>Total Tax Supported Other Funds</b>	<b>10,909,682</b>	<b>10,955,774</b>	<b>11,471,020</b>	<b>10,327,970</b>	<b>11,436,700</b>	<b>-0.3%</b>	<b>5.2%</b>
<b>TOTAL TAX SUPPORTED</b>	<b>206,778,993</b>	<b>222,980,816</b>	<b>230,597,980</b>	<b>207,883,830</b>	<b>224,558,960</b>	<b>-2.6%</b>	<b>100.0%</b>
<b>Non-Tax Supported</b>							
Solid Waste Disposal Fund	2,711	2,447	-	-	-	0.0%	0.0%
<b>Total Non-Tax Supported</b>	<b>2,711</b>	<b>2,447</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>0.0%</b>
<b>TOTAL GO BOND DEBT SERVICE EXPENDITURES</b>	<b>206,781,704</b>	<b>222,983,263</b>	<b>230,597,980</b>	<b>207,883,830</b>	<b>224,558,960</b>	<b>-2.6%</b>	<b>100.0%</b>
<b>LONG-TERM LEASE EXPENDITURES</b>							
Revenue Authority - Conference Center	2,211,269	2,216,061	2,210,660	2,210,660	1,903,290		
Revenue Authority - HHS Piccard Drive	633,198	633,488	632,700	632,700	635,700		
Silver Spring Garages	5,862,366	5,591,008	5,553,520	5,553,520	5,590,330		
Revenue Authority - Recreation Pools	3,067,994	3,041,772	2,662,970	2,662,970	2,664,820		
Fire and Rescue Equipment	-	633,613	4,553,500	4,553,500	4,542,000		
<b>TOTAL LONG-TERM LEASE EXPENDITURES</b>	<b>11,774,827</b>	<b>12,115,942</b>	<b>15,613,350</b>	<b>15,613,350</b>	<b>15,336,140</b>		
<b>SHORT-TERM LEASE EXPENDITURES / FINANCING</b>							
Technology Modernization Project	-	-	560,500	-	2,026,970		
Smart Growth Interim Financing	-	-	-	-	923,700		
Ride On Buses	-	-	-	-	2,644,250		
Short Term Financing - Kay Property	882,219	871,600	871,600	871,600	-		
<b>TOTAL SHORT-TERM LEASE EXPENDITURES</b>	<b>882,219</b>	<b>871,600</b>	<b>1,432,100</b>	<b>871,600</b>	<b>5,594,920</b>		
<b>OTHER LONG-TERM DEBT</b>							
Silver Spring Music Venue - Tax supported	-	-	335,670	-	335,670		
Site II Acquisition - Tax supported	-	-	-	-	400,000		
MHI-HUD Loan - Non-Tax supported	79,412	78,255	76,870	76,870	75,300		
MHI - Property Acquisition Fund - Non-tax supported	-	-	1,850,000	-	2,180,000		
<b>TOTAL OTHER LONG-TERM DEBT</b>	<b>79,412</b>	<b>78,255</b>	<b>2,262,540</b>	<b>76,870</b>	<b>2,990,970</b>	<b>32.2%</b>	
<b>DEBT SERVICE EXPENDITURES</b>							
<b>Tax Supported</b>	<b>219,436,039</b>	<b>235,968,358</b>	<b>247,979,100</b>	<b>224,368,780</b>	<b>246,225,690</b>		
<b>Non-Tax Supported - Other &amp; GO Bond Debt</b>	<b>82,123</b>	<b>80,702</b>	<b>1,926,870</b>	<b>76,870</b>	<b>2,255,300</b>		
<b>TOTAL DEBT SERVICE EXPENDITURES</b>	<b>219,518,162</b>	<b>236,049,060</b>	<b>249,905,970</b>	<b>224,445,650</b>	<b>248,480,990</b>	<b>-0.6%</b>	
<b>GO BOND DEBT SERVICE FUNDING SOURCES</b>							
General Funds	193,168,912	206,179,168	215,851,960	195,207,840	210,547,260		
Accrued Interest: GO Bonds-Non Pooled	300,972	729,167	575,000	648,020	575,000		
Accrued Interest: GO Refunding Bonds	-	-	-	-	-		
Accrued Interest: Installmt Notes, I&P, Street Assessmnts	80,492	468,035	-	-	-		
BAN/Commercial Paper Investment Income	2,209,468	5,068,687	2,700,000	1,700,000	2,000,000		
Special Street Assessments	169	-	-	-	-		
<b>Total General Fund Sources</b>	<b>195,760,013</b>	<b>212,445,057</b>	<b>219,126,960</b>	<b>197,555,860</b>	<b>213,122,260</b>		
Fire Tax District Funds	3,514,976	3,780,314	4,176,900	3,435,910	3,961,970		
Mass Transit Fund	2,480,147	2,323,084	2,259,520	2,032,500	2,433,290		
Recreation Fund	4,983,162	5,026,927	4,995,540	4,822,190	5,005,770		
Bradley Noise Abatement Fund	31,383	30,111	30,120	28,810	27,500		
Cabin John Noise Abatement Fund	9,312	8,936	8,940	8,560	8,170		
Solid Waste Disposal Fund	2,711	2,447	-	-	-		
<b>Total Other Funding Sources</b>	<b>11,021,691</b>	<b>11,171,819</b>	<b>11,471,020</b>	<b>10,327,970</b>	<b>11,436,700</b>		
<b>TOTAL GO BOND FUNDING SOURCES</b>	<b>206,781,704</b>	<b>223,616,876</b>	<b>230,597,980</b>	<b>207,883,830</b>	<b>224,558,960</b>		
<b>NON GO BOND FUNDING SOURCES</b>							
General Funds	9,589,052	9,312,157	10,164,650	9,268,480	11,815,660		
MHI Fund - HUD Loan	79,412	78,255	76,870	76,870	75,300		
MHI Fund - Property Acquisition Fund	-	-	1,850,000	-	2,180,000		
Mass Transit Fund	-	-	-	-	2,644,250		
Recreation Fund	3,067,994	3,041,772	2,662,970	2,662,970	2,664,820		
Fire Tax District Fund	-	-	4,553,500	4,553,500	4,542,000		
<b>TOTAL NON GO BOND FUNDING SOURCES</b>	<b>12,736,458</b>	<b>12,432,184</b>	<b>19,307,990</b>	<b>16,561,820</b>	<b>23,922,030</b>		
<b>TOTAL FUNDING SOURCES</b>	<b>219,518,162</b>	<b>236,049,060</b>	<b>249,905,970</b>	<b>224,445,650</b>	<b>248,480,990</b>		
<b>TRANSFERS</b>							
FROM: RSF Investment Income	6,175,154	5,763,222	2,991,190	1,558,100	1,316,120		
TO: CIP - PAYGO	6,175,154	5,763,222	2,991,190	1,558,100	1,316,120		
<b>TOTAL GENERAL OBLIGATION BOND SALES</b>							
Actual and Estimated Bond Sales	200,000,000	-	-	250,000,000	300,000,000		
County Executive Recommended Issues	-	-	300,000,000	300,000,000	300,000,000		
Council SAG Approved Issues	-	-	300,000,000	320,000,000	320,000,000		

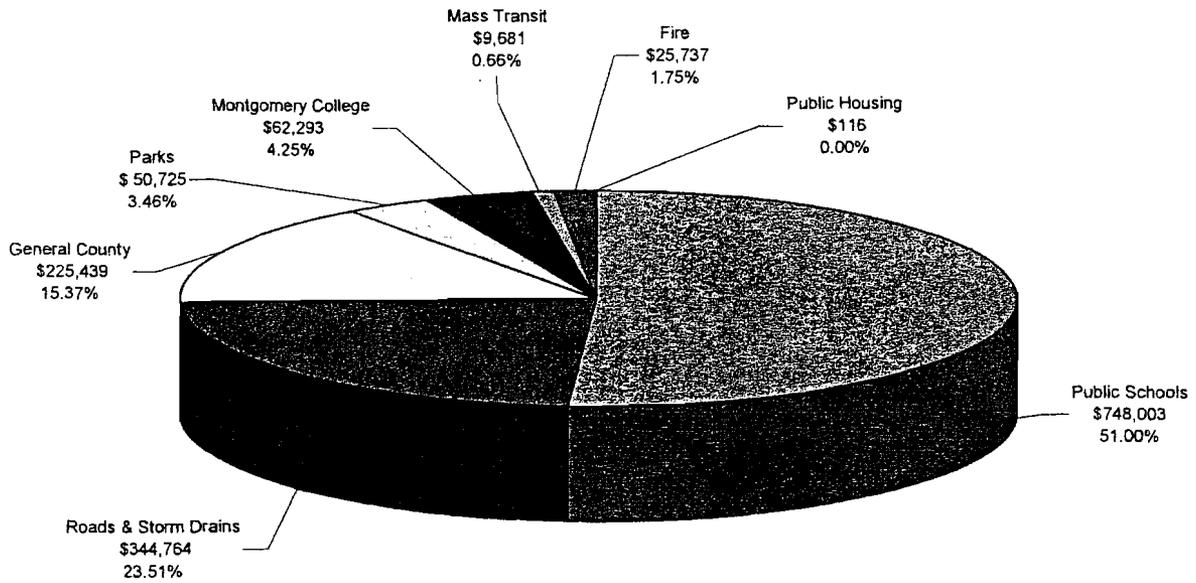
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**DEBT SERVICE - GENERAL OBLIGATION BONDS AND LONG & SHORT TERM LEASES AND OTHER DEBT**

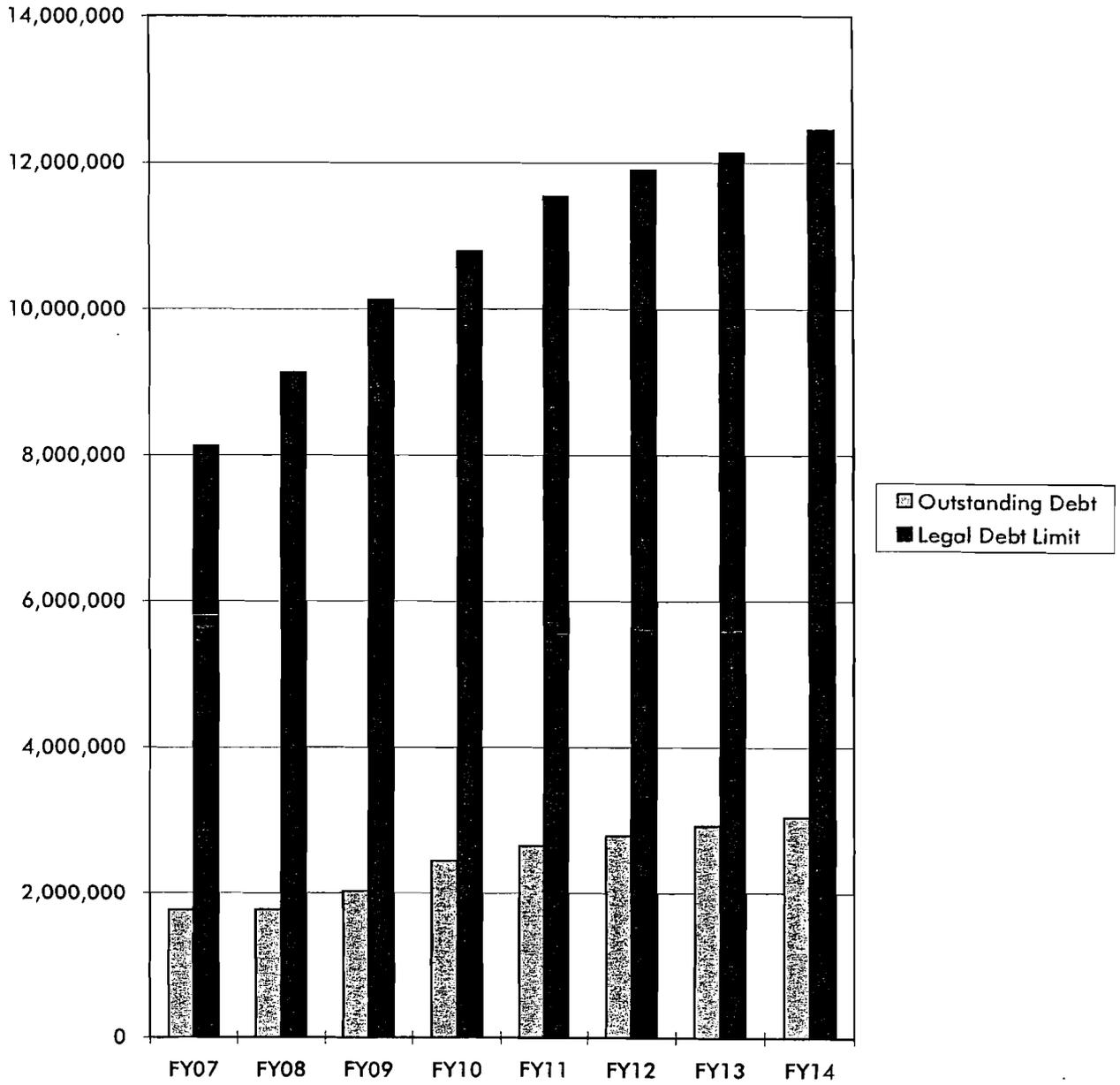
	Recommended FY10	Projected FY11	Projected FY12	Projected FY13	Projected FY14	Projected FY15
<b>GO BOND DEBT SERVICE EXPENDITURES</b>						
General County	27,501,330	31,422,000	35,990,240	39,704,530	44,706,400	46,575,240
Roads & Storm Drains	53,200,560	55,250,000	59,504,510	64,006,400	68,602,300	70,550,540
Public Housing	108,320	34,920	-	-	-	-
Parks	7,546,070	8,336,340	8,932,030	9,863,350	10,889,420	11,371,280
Public Schools	111,196,710	115,545,370	121,894,950	131,144,170	133,800,580	136,592,500
Montgomery College	10,409,050	15,072,560	16,922,220	18,296,440	20,063,740	21,256,760
Bond Anticipation Notes/Commercial Paper	2,100,000	4,500,000	8,100,000	9,000,000	10,200,000	11,200,000
Cost of Issuance	1,060,220	1,088,320	1,116,610	1,145,090	1,173,720	1,203,060
<b>Total General Fund</b>	<b>213,122,260</b>	<b>231,249,510</b>	<b>252,460,560</b>	<b>273,159,980</b>	<b>289,436,160</b>	<b>298,749,380</b>
Fire Tax District Fund	3,961,970	4,698,680	5,101,280	5,214,890	5,397,910	5,286,580
Mass Transit Fund	2,433,290	3,470,640	3,466,300	4,704,080	7,355,150	9,383,970
Recreation Fund	5,005,770	5,791,240	6,895,160	8,072,040	8,322,790	7,934,420
Bradley Noise Abatement Fund	27,500	26,180	24,870	23,550	-	-
Cabin John Noise Abatement Fund	8,170	7,780	7,390	7,000	-	-
<b>Total Tax Supported Other Funds</b>	<b>11,436,700</b>	<b>13,994,520</b>	<b>15,495,000</b>	<b>18,021,560</b>	<b>21,075,850</b>	<b>22,604,970</b>
<b>TOTAL TAX SUPPORTED</b>	<b>224,558,960</b>	<b>245,244,030</b>	<b>267,955,560</b>	<b>291,181,540</b>	<b>310,512,010</b>	<b>321,354,350</b>
<b>TOTAL GO BOND DEBT SERVICE EXPENDITURES</b>						
	<b>224,558,960</b>	<b>245,244,030</b>	<b>267,955,560</b>	<b>291,181,540</b>	<b>310,512,010</b>	<b>321,354,350</b>
<b>LONG-TERM LEASE EXPENDITURES</b>						
Revenue Authority - Conference Center	1,903,290	1,901,650	1,903,890	995,440	993,190	993,270
Revenue Authority - HHS Piccard Drive	635,700	632,480	633,040	636,870	638,390	638,580
Silver Spring Garages	5,590,330	5,544,320	5,554,170	5,574,890	5,561,410	5,563,880
Revenue Authority - Recreation Pools	2,664,820	2,325,820	2,325,680	2,323,020	1,834,050	1,834,300
Fire and Rescue Equipment	4,542,000	4,509,230	4,459,480	4,418,350	3,780,600	3,741,600
<b>TOTAL LONG-TERM LEASE EXPENDITURES</b>	<b>15,336,140</b>	<b>14,913,500</b>	<b>14,876,260</b>	<b>13,948,570</b>	<b>12,807,640</b>	<b>12,771,630</b>
<b>SHORT-TERM LEASE EXPENDITURES / FINANCING</b>						
Technology Modernization Project	2,026,970	4,126,810	5,077,750	5,991,390	5,991,390	5,991,390
Smart Growth Interim Financing	923,700	3,215,100	4,780,000	108,000	553,300	1,624,800
Ride On Buses	2,644,250	5,128,500	5,128,500	5,128,500	5,128,500	2,644,250
<b>TOTAL SHORT-TERM LEASE EXPENDITURES</b>	<b>5,594,920</b>	<b>12,470,410</b>	<b>14,986,250</b>	<b>11,227,890</b>	<b>11,673,190</b>	<b>10,260,440</b>
<b>OTHER LONG-TERM DEBT</b>						
Silver Spring Music Venue - Tax supported	335,670	335,670	335,670	335,670	335,670	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	75,300	73,580	71,730	69,770	67,730	65,630
Property Acquisition Fund - Non-tax supported	2,180,000	4,400,000	4,400,000	4,400,000	4,400,000	4,400,000
<b>TOTAL OTHER LONG-TERM DEBT</b>	<b>2,990,970</b>	<b>5,209,250</b>	<b>5,207,400</b>	<b>5,205,440</b>	<b>5,203,400</b>	<b>5,201,250</b>
<b>DEBT SERVICE EXPENDITURES</b>						
Tax Supported	246,225,690	273,363,610	298,553,740	317,093,670	335,728,510	345,122,040
Non-Tax Supported - Other Long-term Debt	2,255,300	4,873,580	4,471,730	4,469,770	4,467,730	4,465,630
<b>TOTAL DEBT SERVICE EXPENDITURES</b>	<b>248,480,990</b>	<b>277,837,190</b>	<b>303,025,470</b>	<b>321,563,440</b>	<b>340,196,240</b>	<b>349,587,670</b>
<b>GO BOND DEBT SERVICE FUNDING SOURCES</b>						
General Funds	210,547,260	226,974,510	246,185,560	266,284,980	281,961,160	290,674,380
Accrued Interest on Bonds - Non-Pooled	575,000	575,000	575,000	575,000	575,000	575,000
BAN/Commercial Paper Investment Income	2,000,000	3,700,000	5,700,000	6,300,000	6,900,000	7,500,000
<b>Total General Fund Sources</b>	<b>213,122,260</b>	<b>231,249,510</b>	<b>252,460,560</b>	<b>273,159,980</b>	<b>289,436,160</b>	<b>298,749,380</b>
Fire Tax District Fund	3,961,970	4,698,680	5,101,280	5,214,890	5,397,910	5,286,580
Mass Transit Fund	2,433,290	3,470,640	3,466,300	4,704,080	7,355,150	9,383,970
Recreation Fund	5,005,770	5,791,240	6,895,160	8,072,040	8,322,790	7,934,420
Bradley Noise Abatement Fund	27,500	26,180	24,870	23,550	0	0
Cabin John Noise Abatement Fund	8,170	7,780	7,390	7,000	0	0
<b>Total Other Funding Sources</b>	<b>11,436,700</b>	<b>13,994,520</b>	<b>15,495,000</b>	<b>18,021,560</b>	<b>21,075,850</b>	<b>22,604,970</b>
<b>TOTAL GO BOND FUNDING SOURCES</b>	<b>224,558,960</b>	<b>245,244,030</b>	<b>267,955,560</b>	<b>291,181,540</b>	<b>310,512,010</b>	<b>321,354,350</b>
<b>NON GO BOND FUNDING SOURCES</b>						
General Funds	11,815,660	16,156,030	18,684,520	14,042,260	14,473,350	15,547,540
MHI Fund - HUD Loan	75,300	73,580	71,730	69,770	67,730	65,630
MHI Fund - Property Acquisition Fund	2,180,000	4,400,000	4,400,000	4,400,000	4,400,000	4,400,000
Mass Transit Fund	2,644,250	5,128,500	5,128,500	5,128,500	5,128,500	2,644,250
Recreation Fund	2,664,820	2,325,820	2,325,680	2,323,020	1,834,050	1,834,300
Fire Tax District Fund	4,542,000	4,509,230	4,459,480	4,418,350	3,780,600	3,741,600
<b>TOTAL NON GO BOND FUNDING SOURCES</b>	<b>23,922,030</b>	<b>32,593,160</b>	<b>35,069,910</b>	<b>30,381,900</b>	<b>29,684,230</b>	<b>28,233,320</b>
<b>TOTAL FUNDING SOURCES</b>	<b>248,480,990</b>	<b>277,837,190</b>	<b>303,025,470</b>	<b>321,563,440</b>	<b>340,196,240</b>	<b>349,587,670</b>
<b>TRANSFERS</b>						
FROM: RSF Investment Income	1,316,120	1,974,190	3,051,010	3,350,130	3,709,080	4,008,200
TO: CIP - PAYGO	1,316,120	1,974,190	3,051,010	3,350,130	3,709,080	4,008,200
<b>TOTAL GENERAL OBLIGATION BOND SALES</b>						
County Executive Recommended Issues	300,000,000	300,000,000	300,000,000	300,000,000	300,000,000	300,000,000
Council SAG Approved Issues	320,000,000	300,000,000	300,000,000	300,000,000	300,000,000	300,000,000
<b>ESTIMATED INTEREST RATE</b>	<b>5.50%</b>	<b>6.30%</b>	<b>6.00%</b>	<b>6.00%</b>	<b>6.00%</b>	<b>6.00%</b>

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General Obligation Bonds Outstanding by Bond Category  
(\$000s)  
Total \$1,466,758 as of June 30, 2008



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



**DEBT CAPACITY ANALYSIS**

**FY09-14 Capital Improvements Program  
 COUNTY EXECUTIVE RECOMMENDED  
 MARCH 16, 2009  
 GO BOND 6 YR TOTAL = 1,800.0 MILLION  
 GO BOND FY09 TOTAL = 300.0 MILLION  
 GO BOND FY10 TOTAL = 300.0 MILLION**

	FY08	FY09	FY10	FY11	FY12	FY13	FY14
1 New GO Debt Issued (\$000s)	0	300,000	300,000	300,000	300,000	300,000	300,000
2 GO Debt/Assessed Value	1.21%	1.25%	1.41%	1.42%	1.45%	1.49%	1.51%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	8.73%	8.84%	8.54%	9.17%	9.55%	9.70%	9.80%
4 \$ Debt/Capita	1,858	2,078	2,531	2,703	2,817	2,917	3,004
5 \$ Real Debt/Capita (FY08=100%)	1,858	2,021	2,355	2,446	2,487	2,512	2,525
6 Capita Debt/Capita Income	2.69%	2.96%	3.52%	3.58%	3.57%	3.56%	3.55%
7 Payout Ratio	68.32%	67.82%	69.56%	68.91%	68.57%	68.45%	68.52%
8 Total Debt Outstanding (\$000s)	1,766,758	2,034,451	2,445,074	2,642,135	2,786,705	2,919,375	3,043,160
9 Real Debt Outstanding (FY08=100%)	1,766,758	1,979,038	2,274,842	2,391,229	2,460,556	2,514,828	2,557,521
10 Note: OP/PSP Growth Assumption (2)			0.5%	2.9%	4.3%	4.1%	4.4%

**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 FY09 approved budget to FY10 budget for FY10 and budget to budget for FY11-14.
- (3) Council Approved SAG is \$320.0 million in GO Bond debt issuances in FY09 and FY10. The County Executive recommends issues of \$300.0 million in FY09 and FY10.

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## GENERAL OBLIGATION BOND ADJUSTMENT CHART

### FY09-14 CAPITAL IMPROVEMENTS PROGRAM

COUNTY EXECUTIVE RECOMMENDED

MARCH 16, 2009

(\$ millions)	6 YEARS	FY09	FY10	FY11	FY12	FY13	FY14
BONDS PLANNED FOR ISSUE	1,800.000	300.000	300.000	300.000	300.000	300.000	300.000
Does not assume Council SAG in FY09 and FY10*							
Plus PAYGO Funded	126.722	5.406	1.316	30.000	30.000	30.000	30.000
Adjust for Implementation *	245.404	42.857	42.857	41.573	40.455	39.363	38.299
Adjust for Future Inflation *	(82.171)	-	-	(8.988)	(16.818)	(24.456)	(31.909)
<b>SUBTOTAL FUNDS AVAILABLE FOR DEBT ELIGIBLE PROJECTS (after adjustments)</b>	<b>2,089.955</b>	<b>348.263</b>	<b>344.173</b>	<b>362.585</b>	<b>353.637</b>	<b>344.907</b>	<b>336.390</b>
Less Set Aside: Future Projects	218.943	1.273	15.880	14.986	15.791	84.576	86.437
	10.48%						
<b>TOTAL FUNDS AVAILABLE FOR PROGRAMMING</b>	<b>1,871.012</b>	<b>346.990</b>	<b>328.293</b>	<b>347.599</b>	<b>337.846</b>	<b>260.331</b>	<b>249.953</b>
MCPS	(734.320)	(135.952)	(114.377)	(136.376)	(149.608)	(93.541)	(104.466)
MONTGOMERY COLLEGE	(178.252)	(42.117)	(46.291)	(32.326)	(16.318)	(21.348)	(19.852)
M-NCPPC PARKS	(71.871)	(13.978)	(9.820)	(12.732)	(13.863)	(12.104)	(9.374)
TRANSPORTATION	(469.471)	(70.102)	(72.548)	(88.320)	(81.158)	(79.406)	(77.937)
MCG - OTHER	(417.098)	(84.841)	(85.257)	(77.845)	(76.899)	(53.932)	(38.324)
<b>SUBTOTAL PROGRAMMED EXPENDITURES</b>	<b>(1,871.012)</b>	<b>(346.990)</b>	<b>(328.293)</b>	<b>(347.599)</b>	<b>(337.846)</b>	<b>(260.331)</b>	<b>(249.953)</b>
<b>AVAILABLE OR (GAP)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
NOTES:							
* Council Approved SAG is \$320 million in FY09 and FY10							
* Adjustments Include:							
Inflation =		2.80%	2.70%	2.80%	2.50%	2.50%	2.50%
Implementation Rate =		87.50%	87.50%	87.50%	87.50%	87.50%	87.50%

(11)