GO Committee #5
April 21, 2014

M E M O R A N D U M

April 17, 2014

TO: Government Operations and Fiscal Policy Committee

FROM: Jacob Sesker, Senior Legislative Analyst

SUBJECT: FY15 Operating Budget: Debt Service

Those expected to attend this worksession include: Joseph Beach, Finance Director; Jacqueline Carter, Debt Manager; Chris Mullin, Office of Management and Budget.

Relevant pages from the FY15 Recommended Operating Budget are attached on ©1-12.

Overview

The FY15 recommended budget for Debt Service is $319,683,870.[1] This amount represents an increase of $29,225,530 (9.1 percent) over the FY14 approved budget of $319,683,870. In FY15, as is true every year, the lion's share of the debt service budget is for estimated principal and interest payments on debt the County has already incurred to finance capital projects the County has previously approved and for which the County has already begun repayment.

The total debt service budget for FY15 is comprised of the annual debt service obligation of all outstanding general obligation bond issues, long-term lease payments, long-term loans, short-term lease payments, and projections of certain related expenditures. The FY15 debt service budget is based on existing debt service requirements from bond issues (through November 2013), plus:

- Fall 2013 (FY14) issue of $324.5 million at an interest cost of 5.5 percent for 20 years, with even principal payments,
- Interest expense based on an anticipated average commercial paper/bond anticipation note balance of $400.0 million[2] during FY14, and
- Other short- and long-term financing obligations.

[1] This amount excludes $65,630 in debt service, which is appropriated in non-tax supported funds.
[2] For comparison, the recommended FY13 Operating Budget assumed $415.0 million in average commercial paper/bond anticipation note balance.

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 bond anticipation notes are issued (as the name would imply) with an expectation that the principal amount will be refunded with long-term bonds. Debt service also includes long-term and short-term lease payments, both of which are virtually identical to debt service. Financial advisory services are also included in the debt service budget.

As previously noted, debt service represents a cumulative cost of current and past spending decisions. Consequently, even draconian cuts in capital spending in any one year are unlikely to have a significant effect on debt service costs in that year or any subsequent year.

The total amount of debt outstanding has increased each year since FY05, and is projected to continue to do so through FY20. *See Outstanding Debt, © 12.* **Total debt outstanding as a percentage of the legal debt limit—as calculated by Finance—fell from 24.9 percent in FY04 to 18.8 percent in FY09, then rose to 27.4 percent in FY13.** Based on Finance's FY14 estimates, outstanding debt as a percentage of legal debt limit is 28.4 percent in FY14 and will peak at 28.9 percent in FY16.

The debt service in the General Fund is for various County Government facilities, and also for MCPS, the College, and County-wide parks. The currently outstanding general obligation debt financed projects in the following categories: **46 percent financed public schools**; 21 percent financed roads and storm drains; 17 percent financed general County government projects; 6 percent financed Montgomery College projects; 4 percent financed mass transit projects; 3 percent financed parks projects; and 2 percent financed fire projects.

FY14 Debt Issuance

On November 13, 2013, the County sold $295 million in new money bonds and $25.3 million in refunding bonds. The November refunding bonds produced 13.16 percent savings on refunded bonds, well above the Government Finance Officers Association (GFOA) benchmark of 3 percent to 5 percent savings. The refunding saved $700,000 in FY14-15 and will save $3.6 million over the life of the refunded bonds. True interest cost (TIC) on the refunding was 2.775 percent.

Five bidders competed for the County's $295 million new money issue, with Citigroup offering the lowest bid at 3.12 percent TIC.

FY14 Interest Rate Trends

Interest rates for GO bonds and commercial paper have been falling. Interest rates on commercial paper have fallen from 0.1540 percent in 4QFY13 to 0.0774 percent in 3QFY14. *See Responses, © 13-14.* Interest rates on 20-year AAA GO bonds rose from a low of 2.50 percent on May 2, 2013 to a high of 4.27 percent on September 6, 2013. Since September, interest rates have trended downwards, and on March 31, 2014, the interest rate was 3.36 percent. *See GO Interest Rates, © 15.*

The fall 2013 issue had a true issue cost of 3.12 percent and an average coupon rate of 4.31 percent, well below the FY14 budget assumption of 5.5 percent. *See Results of November New Money and Refunding Bond Sales, © 16-17.*

The County's Bond Rating

Montgomery County is one of 40 counties in the nation—and one of only 23 counties with a population greater than 500,000—to be rated AAA by Moody's, Standard & Poor's, and Fitch ("triple-AAA"). *See Triple AAA Counties Over 500,000 Population, © 18.* The County has held its AAA rating from Moody's since 1973, from S & P since 1976, and from Fitch since 1993 (the first year in which the County sought a rating from Fitch). Those ratings translate into lower interest rates on debt and debt service cost savings over the life of every bond issuance. *See also Financial Impact of a Downgrade, © 19-20.*

Staff recommendation: Approve recommended FY15 budget for debt service.

Attachments:

Attachments:	© 1	Recommended FY15 Operating Budget: Debt Service
	© 12	Outstanding Debt
	© 14	Responses to Council Staff Questions
	© 16	GO Interest Rates
	© 17	Results of November New Money and Refunding Bonds Sale
	© 18	Triple AAA Counties Over 500,000 Population
	© 19	Financial Impact of a Downgrade

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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 MHI Property Acquisition Fund and Water Quality Protection bonds are also included.

BUDGET OVERVIEW

The total recommended FY15 Operating Budget for Debt Service is $348,909,400 an increase of $29,225,530 or 9.1 percent from the FY14 approved budget of $319,683,870. This amount excludes $65,630 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 47.4 percent of the County's capital expenditures (excluding WSSC) for the six years of the Recommended FY15-20 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 1, 2013, the County Council approved SAG limits at $295.0 million for FY15, $295.0 million for FY16 and $1,770.0 million for the FY15-20 period. On February 4, 2014, the County Council amended the SAG limits to $324.5 million for FY15, $324.5 million for FY16 and $1,947.0 million for the FY15-20 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 FY15. 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.

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 and other long-term 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

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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 investment income on BANs/commercial paper and may include 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.

FY14 Estimated Debt Service

FY14 estimated general obligation Debt Service and lease expenditure requirements for tax-supported funds total $301.3 million which is lower than the budget of $309.2 million due to prior years GO refundings and actual interest rates that were lower than budget.

FY15 Recommended Debt Service Budget

The FY15 Debt Service budget is predicated on a base of existing Debt Service requirements from past bond issues (through November 2013) plus the following:

- A fall 2014 (FY15) issue of $324.5 million at an interest cost of 5.5 percent for 20 years with even principal payments (fall bond issues are expected to continue through FY20).
- Interest expense based on an anticipated average BANs/commercial paper balance of $500.0 million during FY15.
- Other short- and long-term financing obligations displayed in a chart at the end of the section.

The Debt Service assumptions discussed above result in a total FY15 Debt Service requirement for tax supported funds of $338.7 million, which is a 9.6 percent increase from the FY14 budget of $309.2 million. The General Fund appropriation requirement is $290.8 million, or 8.7 percent more than the budgeted FY14 amount of $267.5 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 86.5 percent for FY15-FY20. The actual interest cost of 5.5 percent is budgeted for the fall 2014 (FY15) issue. Projected interest rates for bond issues for FY15 through FY20 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 $338.7 million in FY15 to $419.0 million by FY20 with the General Fund revenue requirement growing from $290.8 million in FY15 to $364.4 million by FY20.

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 FY15-20 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 FY15-20 Capital Improvements Program meets that requirement. The General Obligation Bond Adjustment chart reflecting the Executive's proposals for the Recommended FY15-20 CIP is included at the end of this section.

Debt Limit

The County's outstanding general obligation debt totals $2,249,825,000 as of June 30, 2013. 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, 2013, is $10,037,041,664 based upon the assessed valuation $158,272,830,848 for all real property and $3,604,478,750 for personal property. The County's outstanding general obligation debt of $2,249,825,000 plus outstanding short-term commercial paper of $500,000,000 is 1.70 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 2013 (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 FY15 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 FY12, Water Quality Protection bonds financed 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.

In FY13 the County entered into a 20 year lease purchase agreement to finance energy systems modernization at the County's Health and Human Services building. The lease purchase qualified as financing under the County's Qualified Energy Conservation Bond (QECB) allocation, which provides a federal tax subsidy.

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.

Special Taxing 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 $15.9 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 $2.4 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.

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

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.

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 No. 16-1570, December 2010). Bill 50-10 creates the White Flint Special Taxing District (Chapter 68C of the County Code) in order to collect ad valorem tax revenues that will provide a stable, reliable and consistent revenue stream to fund the transporatation infrastructure improvements identified in the implementation and strategy resolution, by paying for the bonds authorized by the legislation.

PROGRAM CONTACTS

Contact Jacqueline Carter of the Department of Finance at 240.777.8979 or Christopher Mullin of the Office of Management and Budget at 240.777.2772 for more information regarding this department's operating budget.

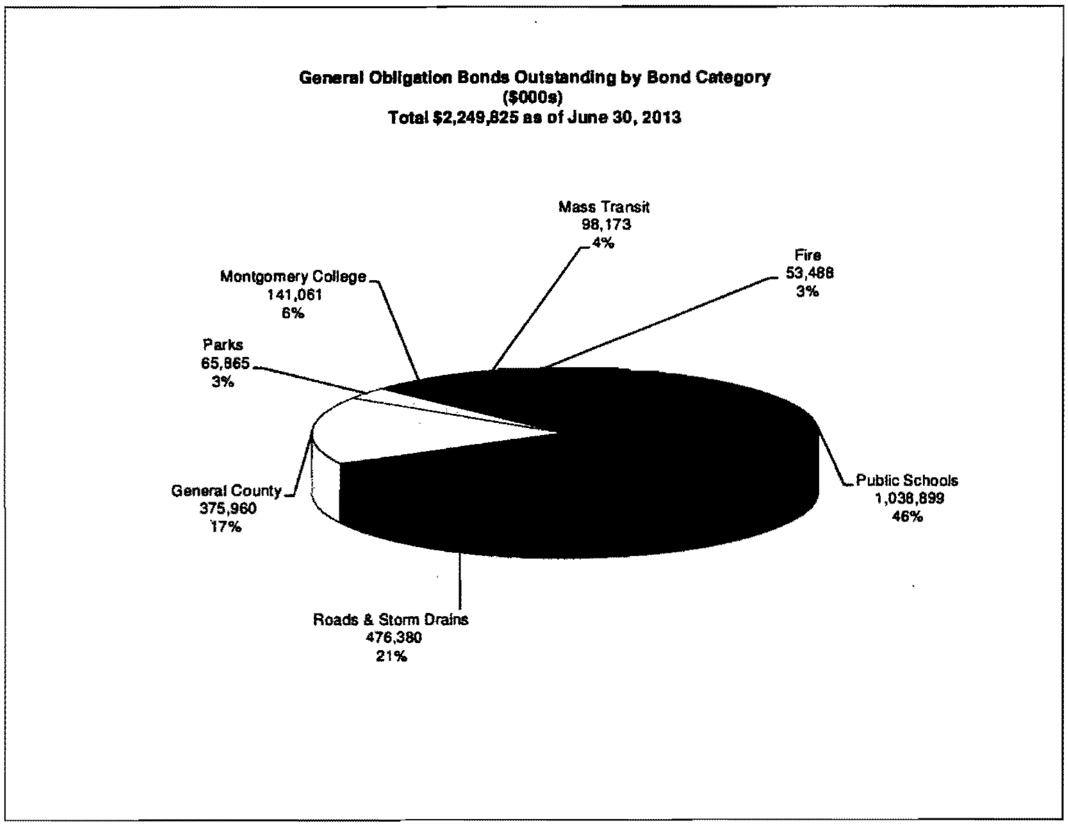
BUDGET SUMMARY

	Actual FY13	Budget FY14	Estimated FY14	Recommended FY15	% 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	264,496,750	283,663,290	279,867,012	311,115,210	9.7%
Debt Service Other	27,286,282	25,493,180	21,479,480	27,578,980	8.2%
Capital Outlay	0	0	0	0	—
Debt Service Expenditures	***291,783,032***	***309,156,470***	***301,346,492***	***338,694,190***	***9.6%***
PERSONNEL					
Full-Time	0	0	0	0	—
Part-Time	0	0	0	0	—
FTEs	0.00	0.00	0.00	0.00	—
REVENUES					
Federal Grants	0	5,778,730	5,811,730	5,928,730	2.6%
Investment Income	114	70,000	0	0	—
Miscellaneous Revenues	1,284,836	0	0	0	—
Other Intergovernmental	6,111,775	0	0	0	—
Debt Service Revenues	***7,396,725***	***5,848,730***	***5,811,730***	***5,928,730***	***1.4%***
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	6,529,175	10,527,400	7,967,400	10,215,210	-3.0%
Capital Outlay	0	0	0	0	—
Debt Service - Non-Tax Supported Expenditures	***6,529,175***	***10,527,400***	***7,967,400***	***10,215,210***	***-3.0%***
PERSONNEL					
Full-Time	0	0	0	0	—
Part-Time	0	0	0	0	—
FTEs	0.00	0.00	0.00	0.00	—
DEPARTMENT TOTALS					
Total Expenditures	**298,312,207**	**319,683,870**	**309,313,892**	**348,909,400**	**9.1%**
Total Full-Time Positions	**0**	**0**	**0**	**0**	—
Total Part-Time Positions	***0***	***0***	***0***	***0***	—
Total FTEs	***0.00***	***0.00***	***0.00***	***0.00***	—
Total Revenues	***7,396,725***	***5,848,730***	***5,811,730***	***5,928,730***	***1.4%***

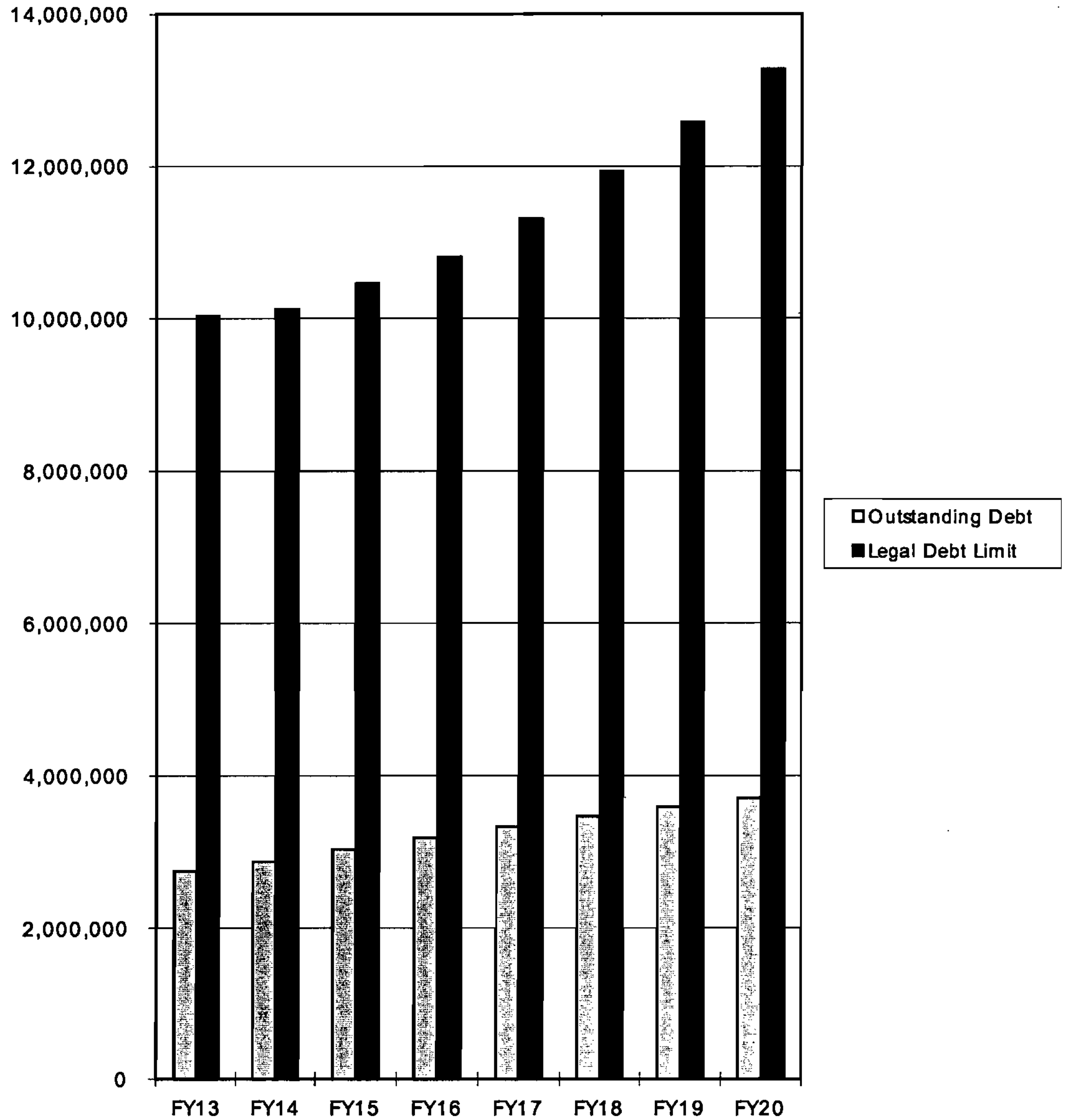
DEBT SERVICE - GENERAL OBLIGATION BONDS, LONG & SHORT TERM LEASES AND OTHER DEBT	Actual FY12	Actual FY13	Budget FY14	Estimated FY14	Recommended FY15	% Chg App/Rec	Rec % GO Bonds
GO BOND DEBT SERVICE EXPENDITURES							
General County	30,543,387	31,544,095	43,669,580	43,034,578	47,398,490		15.5%
Roads & Storm Drains	55,703,984	60,350,215	60,881,770	60,263,490	68,437,830		22.4%
Public Housing	-	-	8,430	13,570	65,640		0.0%
Parks	8,524,688	9,192,758	9,215,400	9,167,030	9,906,220		3.2%
Public Schools	115,105,587	121,987,885	124,466,930	122,759,135	133,221,530		43.5%
Montgomery College	13,544,588	14,902,744	15,783,460	15,443,075	17,841,820		5.8%
Bond Anticipation Notes/Commercial Paper	468,332	753,371	1,255,000	700,000	1,000,000		
Bond Anticipation Notes/Liquidity & Remarketing	3,275,481	2,719,343	3,000,000	3,000,000	3,000,000		
Cost of Issuance	645,489	623,713	1,180,600	850,000	1,000,000		
Total General Fund	227,811,536	242,074,124	259,461,170	255,230,878	281,871,530	8.6%	90.4%
Fire Tax District Fund	6,686,464	6,886,445	7,084,290	7,098,665	8,438,020		2.8%
Mass Transit Fund	3,620,529	6,235,302	8,199,410	8,642,566	11,046,940		3.6%
Recreation Fund	8,106,417	9,270,330	8,918,420	8,894,903	9,758,720		3.2%
Bradley Noise Abatement Fund	24,864	23,549	-	-	-		0.0%
Cabin John Noise Abatement Fund	7,388	7,000	-	-	-		0.0%
Total Tax Supported Other Funds	18,445,662	22,422,626	24,202,120	24,636,134	29,243,680	20.8%	9.6%
TOTAL TAX SUPPORTED	246,257,198	264,496,750	283,663,290	279,867,012	311,115,210	9.7%	100.0%
TOTAL GO BOND DEBT SERVICE EXPENDITURES	246,257,198	264,496,750	283,663,290	279,867,012	311,115,210	9.7%	100.0%
LONG-TERM LEASE EXPENDITURES							
Revenue Authority - Conference Center	1,903,886	309,649	645,340	645,340	981,140		
Revenue Authority - HHS Piccard Drive	633,038	636,870	638,690	638,690	638,580		
Silver Spring Garages	5,554,164	5,070,347	-	-	-		
Revenue Authority - Recreation Pools	2,325,680	2,323,016	1,834,050	1,834,050	1,834,300		
Fire and Rescue Equipment	4,459,475	4,418,126	3,780,600	3,780,600	3,741,600		
TOTAL LONG-TERM LEASE EXPENDITURES	14,876,243	12,758,008	6,898,680	6,898,680	7,195,620	4.3%	
SHORT-TERM LEASE EXPENDITURES / FINANCING							
Technology Modernization Project	4,645,524	5,659,962	6,347,200	5,660,200	6,780,200		
Libraries System Modernization	-	-	53,000	-	98,000		
Ride On Buses	3,798,450	3,801,617	5,815,700	3,802,000	6,675,950		
Public Safety System Modernization	2,186,770	4,373,540	5,519,600	4,373,600	5,223,600		
Fire and Rescue Apparatus	-	-	-	-	-		
Fuel Management System	-	-	165,000	-	480,000		
TOTAL SHORT-TERM LEASE EXPENDITURES	10,630,744	13,835,119	17,900,500	13,835,800	19,257,750	7.6%	
OTHER LONG-TERM DEBT							
Silver Spring Music Venue - **Tax supported**	244,712	293,155	294,000	294,000	295,610		
Site II Acquisition - **Tax supported**	400,000	400,000	400,000	400,000	400,000		
Qualified Energy Conservation Bond - **Tax supported**	-	-	-	51,000	430,000		
MHI-HUD Loan - **Non-Tax supported**	71,725	69,769	67,730	67,730	65,630		
Water Quality Protection Bonds - **Non-Tax supported**	-	2,122,601	3,017,000	3,017,000	3,019,200		
MHI - Property Acquisition Fund - **Non-Tax supported**	4,088,162	4,406,574	7,510,400	4,950,400	7,196,010		
TOTAL OTHER LONG-TERM DEBT	4,804,599	7,292,099	11,289,130	8,780,130	11,406,450	1.0%	
DEBT SERVICE EXPENDITURES							
Tax Supported	**272,408,897**	**291,783,032**	**309,156,470**	**301,346,492**	**338,694,190**		
Non-Tax Supported - Other Long-term Debt	**4,159,887**	**6,598,944**	**10,595,130**	**8,035,130**	**10,280,840**		
TOTAL DEBT SERVICE EXPENDITURES	**276,568,784**	**298,381,976**	**319,751,600**	**309,381,622**	**348,975,030**	**9.1%**	
GO BOND DEBT SERVICE FUNDING SOURCES							
General Funds	219,829,713	235,481,958	253,612,440	249,452,148	276,092,800		
Other Interest: Installment Notes, Interest & Penalties	2,225,680	1,284,836	-	-	-		
BAN/Commercial Paper Investment Income	17,222	114	70,000	-	-		
Federal Subsidy on General Obligation Bonds	6,278,732	6,111,775	5,778,730	5,778,730	5,778,730		
Premium on General Obligation Bonds	642,202	-	-	-	-		
Total General Fund Sources	228,993,549	242,878,683	259,461,170	255,230,878	281,871,530		
Fire Tax District Funds	6,571,643	6,799,377	7,084,290	7,098,665	8,438,020		
Mass Transit Fund	2,816,245	5,805,704	8,199,410	8,642,566	11,046,940		
Recreation Fund	7,843,508	8,982,438	8,918,420	8,894,903	9,758,720		
Bradley Noise Abatement Fund	24,864	23,549	-	-	-		
Cabin John Noise Abatement Fund	7,388	7,000	-	-	-		
Total Other Funding Sources	17,263,648	21,618,068	24,202,120	24,636,134	29,243,680		
TOTAL GO BOND FUNDING SOURCES	246,257,197	264,496,751	283,663,290	279,867,012	311,115,210		
NON GO BOND FUNDING SOURCES							
General Funds	15,568,095	16,743,522	13,897,830	12,029,830	14,697,130		
MHI Fund - HUD Loan	71,725	69,769	67,730	67,730	65,630		
Water Quality Protection Fund	-	2,122,601	3,017,000	3,017,000	3,019,200		
MHI - Property Acquisition Fund	4,088,162	4,406,574	7,510,400	4,950,400	7,196,010		
Federal Subsidy - Qualified Energy Conservation Bond	-	-	-	33,000	150,000		
Mass Transit Fund	3,798,450	3,801,617	5,815,700	3,802,000	6,675,950		
Recreation Fund	2,325,680	2,323,016	1,834,050	1,834,050	1,834,300		
Fire Tax District Fund	4,459,475	4,418,126	3,945,600	3,780,600	4,221,600		
TOTAL NON GO BOND FUNDING SOURCES	30,311,587	33,885,225	36,088,310	29,514,610	37,859,820		
TOTAL FUNDING SOURCES	**276,568,784**	**298,381,976**	**319,751,600**	**309,381,622**	**348,975,030**		
TOTAL GENERAL OBLIGATION BOND SALES							
Actual and Estimated Bond Sales	320,000,000	295,000,000	295,000,000	295,000,000	324,500,000		
Council SAG Approved Bond Funded Expenditures	325,000,000	295,000,000	295,000,000	295,000,000	324,500,000		

DEBT SERVICE - GENERAL OBLIGATION BONDS, LONG & SHORT TERM LEASES AND OTHER DEBT	Recommended FY15	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20
GO BOND DEBT SERVICE EXPENDITURES						
General County	47,398,490	54,200,320	59,542,110	62,930,250	68,264,100	68,079,940
Roads & Storm Drains	68,437,830	68,574,830	70,458,400	72,543,450	76,097,440	83,901,580
Public Housing	65,640	64,050	62,480	60,730	58,980	57,230
Parks	9,906,220	9,151,000	9,415,820	10,386,820	11,137,080	11,824,010
Public Schools	133,221,530	142,029,940	149,382,880	151,512,300	156,786,050	161,673,520
Montgomery College	17,841,820	20,546,920	22,580,320	24,473,280	24,824,430	25,795,560
Bond Anticipation Notes/Commercial Paper	1,000,000	1,750,000	3,000,000	4,250,000	5,500,000	7,000,000
Bond Anticipation Notes/Liquidity & Remarketing	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Cost of Issuance	1,000,000	1,023,000	1,051,200	1,078,000	1,103,400	1,127,800
Total General Fund	281,871,530	300,340,060	318,493,210	330,234,830	346,771,480	362,459,640
Fire Tax District Fund	8,438,020	8,128,130	8,599,860	9,516,070	11,194,180	13,633,090
Mass Transit Fund	11,046,940	13,419,710	14,110,660	15,640,870	16,835,800	17,646,210
Recreation Fund	9,758,720	8,987,480	9,378,870	9,431,170	9,194,310	8,862,040
Total Tax Supported Other Funds	29,243,680	30,535,320	32,089,390	34,588,110	37,224,290	40,141,340
TOTAL TAX SUPPORTED	311,115,210	330,875,380	350,582,600	364,822,940	383,995,770	402,600,980
TOTAL GO BOND DEBT SERVICE EXPENDITURES	311,115,210	330,875,380	350,582,600	364,822,940	383,995,770	402,600,980
LONG-TERM LEASE EXPENDITURES						
Revenue Authority - Conference Center	981,140	985,040	988,540	986,640	989,440	991,850
Revenue Authority - HHS Piccard Drive	638,580	641,520	642,500	-	-	-
Revenue Authority - Recreation Pools	1,834,300	1,836,050	1,834,050	1,834,450	1,832,250	-
Fire and Rescue Equipment	3,741,600	3,723,200	3,715,800	3,717,900	-	-
TOTAL LONG-TERM LEASE EXPENDITURES	7,195,620	7,185,810	7,180,890	6,538,990	2,821,690	991,850
SHORT-TERM LEASE EXPENDITURES / FINANCING						
Technology Modernization Project	6,780,200	7,130,200	7,130,200	3,499,000	2,484,500	1,470,000
Libraries System Modernization	98,000	128,500	128,500	128,500	128,500	30,500
Ride On Buses	6,675,950	8,492,540	9,234,790	5,433,590	5,433,590	5,433,590
Public Safety System Modernization	5,223,600	6,990,600	6,302,800	4,330,000	4,330,000	3,480,000
Fire and Rescue Apparatus	-	1,010,200	1,667,500	2,361,200	2,994,100	3,505,000
Fuel Management System	480,000	960,000	960,000	960,000	960,000	480,000
TOTAL SHORT-TERM LEASE EXPENDITURES	19,257,750	24,712,040	25,423,790	16,712,290	16,330,690	14,399,090
OTHER LONG-TERM DEBT						
Silver Spring Music Venue - **Tax supported**	295,610	295,100	290,500	290,800	291,000	291,000
Site II Acquisition - **Tax supported**	400,000	400,000	400,000	400,000	400,000	400,000
Qualified Energy Conservation Bond - **Tax supported**	430,000	324,500	325,500	326,500	327,000	321,500
MHI-HUD Loan - **Non-Tax supported**	65,630	63,480	61,274	59,021	56,727	54,396
Water Quality Protection Bonds - **Non-Tax supported**	3,019,200	3,020,250	7,432,400	7,430,100	12,646,200	12,839,650
MHI - Property Acquisition Fund - **Non-Tax supported**	7,196,010	7,196,110	7,200,310	7,208,010	7,201,510	7,205,600
TOTAL OTHER LONG-TERM DEBT	11,406,450	11,299,440	15,709,984	15,714,431	20,922,437	21,112,146
DEBT SERVICE EXPENDITURES						
Tax Supported	**338,694,190**	**363,792,830**	**384,203,280**	**389,091,520**	**404,166,150**	**419,004,420**
Non-Tax Supported - Other Long-term Debt	**10,280,840**	**10,279,840**	**14,693,984**	**14,697,131**	**19,904,437**	**20,099,646**
TOTAL DEBT SERVICE EXPENDITURES	**348,975,030**	**374,072,670**	**398,897,264**	**403,788,651**	**424,070,587**	**439,104,066**
GO BOND DEBT SERVICE FUNDING SOURCES						
General Funds	276,092,800	294,633,060	313,043,210	324,884,830	341,701,480	357,589,640
Federal Subsidy on General Obligation Bonds	5,778,730	5,707,000	5,450,000	5,350,000	5,070,000	4,870,000
Total General Fund Sources	281,871,530	300,340,060	318,493,210	330,234,830	346,771,480	362,459,640
Fire Tax District Fund	8,438,020	8,128,130	8,599,860	9,516,070	11,194,180	13,633,090
Mass Transit Fund	11,046,940	13,419,710	14,110,660	15,640,870	16,835,800	17,646,210
Recreation Fund	9,758,720	8,987,480	9,378,870	9,431,170	9,194,310	8,862,040
Total Other Funding Sources	29,243,680	30,535,320	32,089,390	34,588,110	37,224,290	40,141,340
TOTAL GO BOND FUNDING SOURCES	311,115,210	330,875,380	350,582,600	364,822,940	383,995,770	402,600,980
NON GO BOND FUNDING SOURCES						
General Funds	14,697,130	16,749,460	16,067,540	9,825,440	8,818,840	6,859,350
MHI Fund - HUD Loan	65,630	63,480	61,274	59,021	56,727	54,396
Water Quality Protection Fund	3,019,200	3,020,250	7,432,400	7,430,100	12,646,200	12,839,650
MHI - Property Acquisition Fund	7,196,010	7,196,110	7,200,310	7,208,010	7,201,510	7,205,600
Federal Subsidy - Qualified Energy Conservation Bond	150,000	146,000	141,000	136,000	131,600	125,500
Mass Transit Fund	6,675,950	8,492,540	9,234,790	5,433,590	5,433,590	5,433,590
Recreation Fund	1,834,300	1,836,050	1,834,050	1,834,450	1,832,250	-
Fire Tax District Fund	4,221,600	5,693,400	6,343,300	7,039,100	3,954,100	3,985,000
TOTAL NON GO BOND FUNDING SOURCES	37,859,820	43,197,290	48,314,664	38,965,711	40,074,817	36,503,086
TOTAL FUNDING SOURCES	**348,975,030**	**374,072,670**	**398,897,264**	**403,788,651**	**424,070,587**	**439,104,066**
TOTAL GENERAL OBLIGATION BOND SALES						
Estimated Bond Sales	324,500,000	324,500,000	324,500,000	324,500,000	324,500,000	324,500,000
Council SAG Approved Bond Funded Expenditures	324,500,000	324,500,000	324,500,000	324,500,000	324,500,000	324,500,000
ESTIMATED INTEREST RATE	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%

Projected Debt Obligations Schedule of Principal & Interest FY15 Recommended Budget			
FUND	**Principal**	**Interest**	**Total**
Debt Service Fund	221,838,089	127,071,311	348,909,400
Liquor Control (Section 65)	4,896,000	5,227,000	10,123,000
Montgomery Housing Initiative	43,000	22,630	65,630
Bethesda Parking Lot District (Section 46)	3,120,000	1,839,790	4,959,790
Total	**229,897,089**	**134,160,731**	**364,057,820**


General Obligation Bonds Outstanding by Bond Category
($000s)
Total $2,249,825 as of June 30, 2013
Mass Transit
98,173
4%
Fire
53,488
3%
Montgomery College
141,061
6%
Parks
65,865
3%
General County
375,960
17%
Public Schools
1,038,899
46%
Roads & Storm Drains
476,380
21%

Outstanding Debt and Legal Debt Limit
($000s)



DEBT CAPACITY ANALYSIS

FY15-20 Capital Improvements Program
COUNTY EXECUTIVE RECOMMENDED
MARCH 17, 2014
GO BOND 6 YR TOTAL = 1,947.0 MILLION
GO BOND FY15 TOTAL = 324.5 MILLION
GO BOND FY16 TOTAL = 324.5 MILLION

	FY14	FY15	FY16	FY17	FY18	FY19	FY20
1 GO Bond Guidelines ($000)	295,000	324,500	324,500	324,500	324,500	324,500	324,500
2 GO Debt/Assessed Value	1.76%	1.78%	1.78%	1.76%	1.72%	1.67%	1.62%
3 Debt Service + LTL + Short-Term Leases/Revenues (GF)	10.31%	10.94%	11.23%	11.42%	11.15%	11.20%	11.36%
4 $ Debt/Capita	2,848	2,946	3,036	3,114	3,186	3,246	3,295
5 $ Real Debt/Capita (FY14=100%)	2,848	2,887	2,911	2,913	2,903	2,888	2,866
6 Capita Debt/Capita Income	3.71%	3.63%	3.58%	3.53%	3.53%	3.52%	3.49%
7 Payout Ratio	68.62%	68.67%	68.81%	69.05%	69.35%	70.07%	70.77%
8 Total Debt Outstanding ($000s)	2,873,315	3,004,815	3,124,770	3,234,330	3,338,610	3,432,390	3,515,855
9 Real Debt Outstanding (FY14=100%)	2,873,315	2,945,031	2,996,086	3,024,907	3,042,419	3,053,675	3,058,203
10 Note: OP/PSP Growth Assumption (2)		3.0%	4.1%	3.2%	3.2%	3.2%	2.6%

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 FY14 approved budget to FY15 budget for FY15 and budget to budget for FY16-20.

11

	A	B	C	D	E	F	G	H	
1		Assessable Base - Real Property	Assessable Base - Personal Property	Legal Debt Limit	Outstanding GO Debt	Outstanding Commercial Paper	Total Debt Outstanding (GO + CP)	Debt Outstanding as Percentage of Legal Debt Limit	1
2	FY04 Act	$89,263,005,267	$3,963,801,610	$5,950,350,558	$1,331,068,348	$150,000,000	$1,481,068,348	24.9%	2
3	FY05 Act	$98,281,724,723	$3,902,612,110	$6,482,295,300	$1,416,406,439	$0	$1,416,406,439	21.9%	3
4	FY06 Act	$110,529,249,116	$3,831,629,230	$7,206,499,331	$1,493,888,054	$100,000,000	$1,593,888,054	22.1%	4
5	FY07 Act	$125,710,776,118	$3,948,949,550	$8,134,989,000	$1,612,678,054	$150,000,000	$1,762,678,054	21.7%	5
6	FY08 Act	$142,306,435,593	$3,970,547,370	$9,133,968,241	$1,466,758,054	$300,000,000	$1,766,758,054	19.3%	6
7	FY09 Act	$158,133,491,472	$3,920,171,020	$10,076,035,141	$1,596,561,371	$300,000,000	$1,896,561,371	18.8%	7
8	FY10 Act	$167,096,843,537	$4,123,996,612	$10,644,410,104	$1,769,839,285	$425,000,000	$2,194,839,285	20.6%	8
9	FY11 Act	$167,790,792,529	$3,856,191,952	$10,645,876,345	$1,955,600,000	$500,000,000	$2,455,600,000	23.1%	9
10	FY12 Act	$162,197,149,758	$3,718,945,710	$10,289,670,842	$2,097,290,000	$500,000,000	$2,597,290,000	25.2%	10
11	FY13 Act	$158,272,830,848	$3,604,478,750	$10,037,041,663	$2,249,825,000	$500,000,000	$2,749,825,000	27.4%	11
12	*FY14 Est*	*$159,960,000,000*	*$3,538,200,000*	*$10,128,330,000*	*$2,373,315,000*	*$500,000,000*	*$2,873,315,000*	*28.4%*	12
13	*FY15 Est*	*$165,668,000,000*	*$3,469,000,000*	*$10,460,430,000*	*$2,504,815,000*	*$500,000,000*	*$3,004,815,000*	*28.7%*	13
14	*FY16 Est*	*$171,721,000,000*	*$3,351,600,000*	*$10,806,000,000*	*$2,624,770,000*	*$500,000,000*	*$3,124,770,000*	*28.9%*	14
15	*FY17 Est*	*$180,393,000,000*	*$3,259,000,000*	*$11,312,430,000*	*$2,734,330,000*	*$500,000,000*	*$3,234,330,000*	*28.6%*	15
16	*FY18 Est*	*$190,963,000,000*	*$3,174,100,000*	*$11,933,895,000*	*$2,838,610,000*	*$500,000,000*	*$3,338,610,000*	*28.0%*	16
17	*FY19 Est*	*$201,929,000,000*	*$3,094,500,000*	*$12,579,915,000*	*$2,932,390,000*	*$500,000,000*	*$3,432,390,000*	*27.3%*	17
18	*FY20 Est*	*$213,746,000,000*	*$3,012,700,000*	*$13,276,665,000*	*$3,015,855,000*	*$500,000,000*	*$3,515,855,000*	*26.5%*	18
	A	B	C	D	E	F	G	H	

Notes: Actual FY04-FY13

1. Data is from the FY04-FY13 Annual Information Statements, Table 2. Source is the Department of Finance.

Notes: Estimated FY14-FY20

1. Assessable base data is Finance's February 2014 projection.
2. Legal Debt Limit assumes 6% of assessed valuation for Real Property and 15% of assessed valuation for Personal Property. This is consistent with actual years.
3. Outstanding commercial paper is flat lined at the FY13 level for FY14 to FY20. The GO bond debt is projected for FY14 to FY20.

FY15 Recommended Debt Service Budget
Department of Finance Response to Council Staff Questions

1. Please provide FY15 version of the attached tables (prepared in response to my FY14 budget question). *–Please see attached files*

2. Please describe interest rate movement & trends for both GO and BAN/commercial paper since March of 2013.

   GO – please see attached memo

   BAN/Commercial Paper
   - ***Interest rates vary depending on period of time for which the CP is placed with investors but have been falling over the past year. The average rates have been as follows -***
     - ***4th qtr FY13: .1540%***
     - ***1st qtr FY14: .1099%***
     - ***2nd qtr FY14: .1018%***
     - ***3rd qtr FY14: .0774%***

3. FY14 assumed a fall issue at 5.5%/20yr/level principal—what was the actual interest cost of the fall 2013 (FY14) issue?
   - ***The true interest cost (TIC) for the issue was 3.1%. and the average coupon was 4.31%***

4. FY15 interest expense is based on average BAN/commercial paper balance of $500 million (in contrast to assumed $400 million in the FY14 budget). Please explain.
   - ***The County has a total Commercial Paper debt limit of $500 million***
   - ***Commercial paper (CP) proceeds fund CIP expenditures and GO bonds are used to payoff CP.***
   - ***Subsequent to payoff, new CP is issued based on CIP funding needs***
   - ***Due to increasing demands for CP by the CIP program, we need to issue more CP immediately after payoff. This will result in the total CP of $500 million being outstanding for virtually the entire year.***
   - ***In prior years there were usually two commercial paper issuances in fall and spring resulting in a lower annual average balance.***

5. Cost of issuance expenditures (FY14 estimate and FY15 recommended) are below FY14 budget—explain (briefly).
   - ***In prior years the budget was increased primarily by inflation.***
   - ***In preparing the FY15 budget we updated the FY14 budget to estimate based on a review of FY12, FY13 and FY14 actuals***
   - ***FY15 recommended budget was based on the FY14 estimate and anticipated future needs***

6. **Please provide the most up-to-date version of the "Financial Impact of a Downgrade."** ***Please see attached memo.***

7. Please explain (briefly) FY14 non-tax supported expenditures (budget vs. estimate).
   - ***The variance in FY14 budget and estimate is due to***
     - ***Increase Budget - $51K for debt service on Qualified Energy Conservation Bonds – not in FY14 budget and relating to Energy Performance project. The increase is offset by a reduction in expenditures in the Utilities NDA. See explanation under "Other Long-Term Debt" on page 7-3***
     - ***Decrease Budget - $2.2 million for MHI Property Acquisition fund debt service assumed for new debt issuance that was delayed to FY15. Housing Taxable Certificates in the amount of $38 million were issued in November 2013.***

8. Debt service expenditures for commercial paper/BAN in FY14 estimated at $700,000 vs. budget of $1,255,000, and FY15 budget reflects sharply lower (versus FY14 budget) GO debt service expenditures for commercial paper/BAN through the end of the 6 year PSP. Please explain.
   - ***The methodology for projecting commercial paper/BAN interest rates was modified to more accurately reflect current market conditions using JP Morgan's AAA Tax-exempt interest rate forecasts with rates increasing from .20% to 1.40% over the six year period. Projections prepared for the FY14 budget based on economic projections resulted in rates averaging .19% to 2.5%***

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Philadelphia, PA
19103-2770

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215 567-4180 fax
www.pfm.com

April 8, 2014

Memorandum

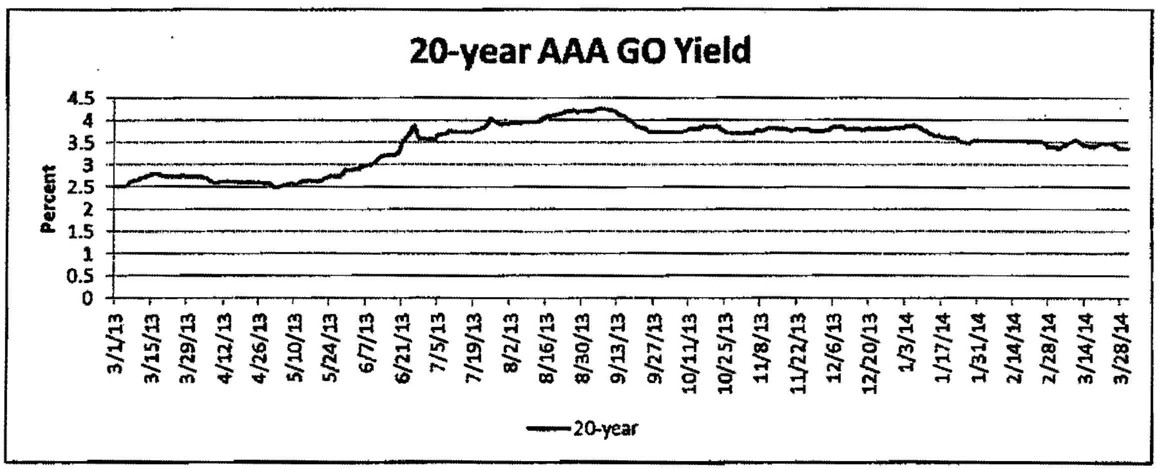
To: Jacqueline D. Carter, *Debt Manager, Montgomery County*

From: Linda Ginty, *Senior Managing Consultant*
Alex Benoit, *Analyst*

Re: General Obligation Interest Rates: March 1, 2013 through March 31, 2014

At your request we have put together charts detailing AAA General Obligation MMD rates from March 1, 2013 through March 31, 2014. In May of 2013 the Federal Reserve announced it would begin tapering its bond buying program later in the year and there was a substantial rise in interest rates in the summer of 2013. The Fed did not begin tapering until January 2014 and therefore rates fell lower through the Fall of 2013 increasing again toward the beginning of the year. Rates have declined from the beginning of the year as economic indicators have been as strong as expected.

20-Year AAA MMD	
3/1/2013	2.52
3/31/2014	3.36
Low (5/2/13 and 5/3/13)	2.50
High (9/6/2013)	4.27
Average	3.47



Bud, Fin & Econ Dev.

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JS

DEPARTMENT OF FINANCE

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

November 13, 2013

TO: Isiah Leggett
County Executive

FROM: Joseph F. Beach, Director
Department of Finance

SUBJECT: Results of the November 13th New Money and Refunding Bonds Sale

This Wednesday November 13th the County conducted a sale of $295 million in: "new money" general obligation bonds and $25.3 million in refunding bonds for previously outstanding GO debt. Despite a recent increase in municipal bond yields since the early summer the sale of both issues was a very successful.

Refunding Bonds

Traditionally, the County's benchmark for issuing refunding bonds is when the net present value savings relative to the refunded bonds falls between three and five percent. That benchmark is also the range promulgated by the Government Finance Officers Association. The sale on November 13th produced a percentage savings of refunded bonds of 13.16%, which is significantly above the refunding threshold. In real dollars, the County will save $3.6 million in debt service payments over the remaining life of the bond issue including over $700,000 in FY14-15

Bidding on the County bonds was very competitive. The County received 5 bids from underwriters. Citigroup Global Markets, Inc. submitted the winning bid or the lowest true interest cost (TIC) to the County of 2.775%.

New Money Bonds

The bidding on the County' $295 million in new general obligation bonds was also very competitive with 5 different bidders. Citigroup was the winning bidder with a TIC of

3.12%. As part of the winning bid, Citigroup included a premium of $30.1 million. The County will use the proceeds of this premium to retire additional, outstanding commercial paper and further reduce debt service costs in the current fiscal year.

JFB: km

cc: Nancy Navarro, Council President
Timothy L. Firestine, Chief Administrative Officer
Steve Farber, Council Administrator
Jennifer Hughes, Director, Office of Management and Budget

Triple AAA Counties Over 500,000 Population

	County	State	2010 Population
1	Baltimore	MD	805,000
2	Bernalillo	NM	663,000
3	Cobb	GA	688,000
4	Denver	CO	600,000
5	Dupage	IL	917,000
6	Fairfax	VA	1,082,000
7	Gwinnett	GA	805,000
8	Harris	TX	4,092,000
9	Hennepin	MN	1,152,000
10	Hillsborough	FL	1,229,000
11	Johnson	KS	544,000
12	King	WA	1,931,000
13	Maricopa	AZ	3,817,000
14	Mecklenburg	NC	920,000
15	Monmouth	NJ	630,000
16	**Montgomery**	**MD**	**972,000**
17	New Castle	DE	538,000
18	Palm Beach	FL	1,320,000
19	Prince George's	MD	863,000
20	Salt Lake	UT	1,030,000
21	St. Louis	MO	999,000
22	Wake	NC	901,000
23	Westchester	NY	949,000

The Financial Impact of a Downgrade

April 2014

Prepared by the Montgomery County Department of Finance

The purpose of bond ratings is to indicate to the investor community the relative likelihood that a bond issuer will make timely and required debt service payments on outstanding bonds. The question as to the relative costs associated with being downgraded from an AAA rated county is not answered with a simple mathematical calculation. Below, we attempt to both define and quantify the impacts of a downgrade in the County's general obligation bond rating on various components of the County's financial operations, and especially on its borrowing and transaction costs.

Nearly every single financial transaction that the County enters into with a financial institution has some element of risk for that institution and that risk has a price associated with it. So from a more subjective standpoint, a lower rated county pays more for banking services and credit card merchant fees, receives less interest on investments, pays higher lockbox fees, has a less lucrative P-card rebate program, pays higher fees for financial advisors and bond counsel, pays higher underwriting and remarketing fees, etc.

It would be difficult, if not impossible, to quantify all of the additional costs associated with being a lower rated county. Too many subjective and objective attributes are calculated and considered in pricing certain financial services. However, as a triple AAA rated issuer of debt, and one of the top 250 counties in the nation issuing debt, it is highly probable that Montgomery County is paying some of the lowest fees for its financial services and, more importantly, has one of the lowest costs of funds.

It is not difficult to quantify in dollars some of the more obvious differences in higher and lower rated general obligation debt. For example, if the County priced its $295 million of general obligation bonds sold on November 13, 2013 as an AA+ rated issuer, over the 20-year life of that bond issue, the County would pay approximately $4.51 million more in interest expense. In the current market the average spread between AAA and AA+ interest rates is about 15 basis points. To place this additional cost in the context of the County's 6-year CIP program, if one assumes equal future annual borrowings; debt service would increase by about $27 million.

The County maintains standby liquidity facilities to back its $600 million variable rate note programs. These programs include the County's $500 million commercial paper program (BANs) and its $100 million variable rate demand obligation program. Based on information provided by the County's financial advisor, as an AA+ rated issuer of short-term notes, the County would pay an additional 20 basis points for its lines of credit. In real terms, the additional annual fee would be $1.2 million. Again, that is an annual fee for programs, which at different amounts, have been in place since 1988.

Typically, debt issued by the County that is "appropriation backed" is not backed by the "full faith and credit of the County" and is therefore priced slightly below the County's AAA bonds.

Appropriation backed debt issues, which would include lease revenue bonds and certificates of participation, are generally rated one to two steps below the County's GO rating, with each step costing approximately 15 basis points in the current market. Therefore, appropriation backed debt now would become AA or AA- rated debt instead of AA+ or AA rated.

The average basis point spread over the last year between an AA+ bond and an AA bond with a maturity of 10 years is about 15 basis points. The County issued certificates of participation for about $38 million in December 2013. The certificates were rated AA+; had they been rated AA, the additional debt service cost over the life of the certificates would have been about $644,000.

Another example of the benefit of the AAA rating is the access to the credit markets. During the historic credit market disruptions of 2008 the County was able to maintain its access to a liquidity facility for its commercial paper program because of its strong credit rating. During this same time period many lower rated municipalities were not able to access the credit markets.

The last few examples of costs associated with being a lower rated county are probably some of the most obvious and expensive examples. Since FY12, the County has been able to save over $46 million in long term debt service savings through bond refundings. This level of savings would not have been possible without the County's strong credit rating. The County has a $25 million master lease program, through which over the last 10 years it has leased various assets such as computer equipment, fire trucks, ambulances, and buses. Without question, the cost of those leases would have been higher if the County had lower ratings. Over the last few decades, the County frequently issued debt that did not fall into the categories described above. The County issued development district bonds, various varieties of revenue bonds, term notes, short term debt for bus, apparatus, and equipment financings, and acted as a conduit issuer for not-for-profit borrowers. Suffice it to say, all those terms would have been more costly had the County been lower rated.

Finally, one should remember that a downgrade in a credit rating not only affects the issuer's new debt, but it also influences all existing debt of that issuer. That is, in the case of a downgrade, all the outstanding debt of the issuer becomes cheaper or the market value shrinks. A municipal investor who is holding onto an AAA rated County bond is now holding a lower rated security that is not worth as much as it was before the downgrade. That could potentially discourage investors from purchasing future County bonds and drives up the County's cost of funds.

For decades, the County has enjoyed and benefited from having the highest ratings from all three rating agencies. In the municipal bond market, the name Montgomery County, Maryland is synonymous with the highest quality bonds. County bonds often trade at levels equal in price and yield to similarly rated state bonds. There are only 40 other counties in the United States that enjoy AAA ratings from all three rating agencies. While it is difficult to achieve and maintain that status, from a financial perspective the rewards are voluminous.