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**Montgomery County, Maryland**

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**ANNUAL  
INFORMATION  
STATEMENT**

**In Connection With Bonds and Other Obligations**

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**Department of Finance**

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**January 15, 2017**

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

**COUNTY EXECUTIVE**

Isiah Leggett

**COUNTY COUNCIL**

Roger Berliner	<i>President</i>
Hans Riemer	<i>Vice-President</i>
Marc Elrich	
Nancy Floreen	
Tom Hucker	
Sidney Katz	
George L. Leventhal	
Nancy Navarro	
Craig Rice	

The County Executive and all County Council members were inaugurated on December 2, 2014 for a four year term.

**APPOINTED OFFICIALS**

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

**BOND COUNSEL**

McKennon Shelton & Henn LLP  
Baltimore, Maryland

**INDEPENDENT PUBLIC ACCOUNTANTS**

CliftonLarsonAllen LLP  
Baltimore, Maryland

**DEBT MANAGEMENT AND DISCLOSURE INFORMATION**

Department of Finance  
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Rockville, MD 20850  
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240/777-8857 (Fax)

<http://bonds.montgomerycountymd.gov>

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

This Annual Information Statement (“AIS”), dated January 15, 2017 is prepared by Montgomery County, Maryland (“the County”), to provide, as of this date, certain general information concerning the County and its operations. Included is information on the County 1) government, organizational structure and services, 2) financial information, 3) annual budgets, 4) results of fiscal years 2012-2016, 5) retirement system, 6) revenue sources, and 7) selected demographic and economic statistics, and information including population, employment and income.

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

The presentation of information is intended to show recent historical information, and is not intended to indicate future or continuing trends in the financial position or operations of the County. No representation is made that past experiences, as might be shown by such financial and other information, will necessarily continue or be repeated in the future. Any statements in this document involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and are not representations of fact, and no representation is made that any of the estimates will be realized.

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

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## **STATISTICAL HIGHLIGHTS**

### **Debt as of June 30, 2016**

General Obligation Bonds and Notes Outstanding	\$2,757,290,000
Total Assessed Value	\$174,060,795,069
Direct Debt (incl. Revenue Bonds)	\$3,481,004,000
Ratio of Direct Debt to Assessed Value	2.00%
Net Direct Debt	\$3,257,290,000
Ratio of Net Direct Debt to Assessed Value	1.87%

### **Budgets**

Approved FY17 Operating Budget	\$5.3 billion
Approved FY17 General Fund Unassigned Surplus	\$135.5 million
FY16 General Fund Unassigned Balance	\$113.0 million
FY16 Revenue Stabilization Fund Balance	\$254.4 million
FY17-22 Capital Improvements Program	\$4.6 billion

### **FY16 Major Revenues**

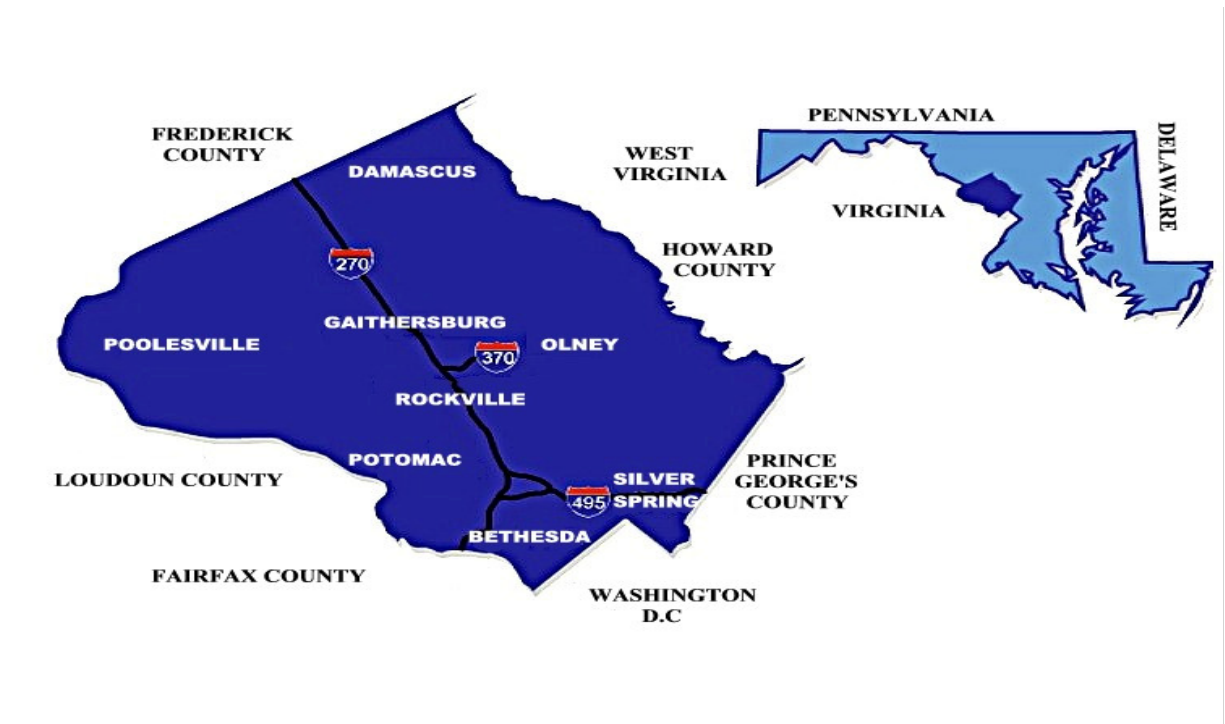
Income Tax	\$1,422.4 million
Property Tax (General Fund)	\$1,126.7 million
Transfer and Recordation Tax	\$161.7 million
Other Taxes	\$266.3 million

### **Demographics**

Population 2015	1,040,116
Households 2015	371,468
Median Age 2015	38.9 years

### **Employment**

Private Sector 2015	369,541
Public Sector 2015	89,344
Unemployment Rate 2015	4.0%
Personal Income 2015	\$79.9 billion
Per Capita Income 2015	\$76,863
Average Household Income 2015	\$215,223
MCPS K-12 Projected FY17 Enrollment	159,016
MCPS Per Pupil Operating Expenditures (FY17)	\$15,454
Montgomery College Enrollment (Fall 2015)	25,320



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

### **Location**

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

### **History**

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

### **Government**

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

The County Executive, who must be a qualified voter of the County for the five years preceding his or her election and who may not be less than thirty years of age, is elected by the qualified voters of the entire County at the same time as the Council. Both the County Executive and the County Council members serve a four-year term. Montgomery County voters in November 2016 approved a referendum to limit the County Executive and Councilmembers to three four-year terms. The first election that this change will impact is in 2018.



## **County Officials**

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

Isiah Leggett was elected Montgomery County's sixth County Executive on November 7, 2006, and sworn in on December 4, 2006. In November 2010, he was reelected to another four-year term by County voters and, in 2014, was overwhelmingly elected to a third term. Mr. Leggett served as an infantry captain in the United States Army in Vietnam, earning the Bronze Star, Vietnam Service, and Vietnam Campaign medals. He worked as a legislative assistant on small business issues for Congressman Parren Mitchell of Baltimore and as a staff attorney for the Department of the Navy. In 1977, Mr. Leggett was selected as a White House Fellow in the Carter Administration. He worked as a member of the Montgomery County Human Rights Commission from 1979 to 1986 and was its chair from 1983 to 1986.

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

### **President, County Council – Roger Berliner**

Council President Berliner is in his third term on the Council. He was first elected in 2006. He represents District 1, which includes the western part of the County from the Washington, D.C. line to the Frederick County border. District 1 includes the communities of Bethesda, Cabin John, Chevy Chase, Garrett Park, Glen Echo, Friendship Heights, North Bethesda, Potomac, Poolesville, Randolph Hills and Somerset.

As chair of the Council's Transportation, Infrastructure, Energy and Environment Committee, Mr. Berliner has led the charge on creating more multi-modal transportation options. He guided the Council to supporting rapid transit, is a forceful proponent for improving Metro, and has been a strong advocate for providing greater bicycle and pedestrian safety.

Mr. Berliner has been the author of more than two dozen laws that make Montgomery County one of the most sustainable communities in the country, including ensuring that the County buys 100 percent renewable power. He also guided the Council to provide protection to Ten Mile Creek in the Clarksburg area from the threat of over-development. Mr. Berliner's background as an energy lawyer has allowed him to play a lead role for the County and the state in holding Pepco accountable for greater electric reliability.

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

Timothy L. Firestine has worked in public sector management for over 38 years. In his latest public sector role, Mr. Firestine is the Chief Administrative Officer (CAO) for Montgomery County, Maryland, a position he was appointed to in December 2006. Prior to his appointment as CAO, Mr. Firestine was the County's Director of Finance for 15 years. Prior to that, he served for 12 years in various management positions in the County's Office of Management and Budget. Before coming to Montgomery County, Mr. Firestine was the Budget Officer for the Allegheny County, Pennsylvania, Controller's Office.

Mr. Firestine received his Bachelor of Arts in Political Science from Albright College in Reading, Pennsylvania, and his Master of Public Administration from the University of Pittsburgh. He is a past President of the Government Finance Officers Association of the United States and Canada and served as vice chair of its Committee on Debt Management. He is also a member of the District of Columbia Water and Sewer Authority, where he served as Vice Chair.

In the past, Mr. Firestine served as President of the Maryland Government Finance Officers Association, President of the Board of Trustees for Suburban Hospital Health Care System, Inc., in Bethesda, Maryland, and President of the Board of Investment Trustees for the Employee Retirement System for Montgomery County. Mr. Firestine was an adjunct professor at the University of Maryland, Graduate School of Public Policy, where he taught Public Finance.

**Director of Finance – Alexandre A. Espinosa**

Alexandre A. Espinosa was appointed Director of Finance in August 2016. Prior to his appointment, he served in various senior level positions with Montgomery County Government including Operating Budget Coordinator and Senior Budget Analyst in the Office of Management and Budget. Mr. Espinosa's service to the County includes extensive work in the areas of multi-year budgeting, fiscal policy, collective bargaining, and compensation and benefits analysis.

Mr. Espinosa is a member of the Government Finance Officers Association's Committee on Retirement and Benefits Administration and is an ex officio member of the County's Board of Investment Trustees. Mr. Espinosa received his Bachelor of Science in Foreign Service from Georgetown University and a Master in Public Policy from Harvard University.

**Director, Office of Management and Budget – Jennifer A. Hughes**

Jennifer A. Hughes was appointed Director of the Office of Management and Budget in August 2011. Prior to her appointment as Director of the Office of Management and Budget, she served in a variety of senior level positions with Montgomery County Government including Acting Director for the Department of Permitting Services, Assistant Chief Administrative Officer, and as an appointed legislative analyst for the County Council in 1985 focusing on education, criminal justice and environmental issues.

Ms. Hughes first moved to the Washington D.C. area to serve as a Presidential Management Intern in the U.S. Office of Management and Budget. Ms. Hughes serves on the Board of Investment Trustees as an ex-officio member and was elected as a fellow to the National Academy of Public Administration in 2014.

**County Attorney – Marc P. Hansen**

Marc P. Hansen was appointed to the position of County Attorney in December 2010. In that capacity, he serves as the chief legal officer of the County. As such Mr. Hansen is responsible for conducting all of the law business of the County, providing legal advice to all County agencies, and representing the County in all legal actions in which the County is a party. Prior to his appointment, he served in various positions in the Office of the County Attorney, including as the acting County Attorney on numerous occasions. His areas of concentration are government operations, legislation, and ethics.

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

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## **COUNTY GOVERNMENT SERVICES**

### **Human Resources**

As of the end of September 2016, the County government employed 8,349 full time and 820 part-time employees. Seven thousand three hundred seventy (7,370) employees are in bargaining unit positions and represented by one of the three labor organizations that are certified under County law to bargain over the wages, fringe benefits, and working conditions of bargaining unit employees. The table below summarizes the current status of County labor agreements.

**Table 1**  
**County Bargaining Units**

<u>Bargaining Unit</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Service, Labor & Trades (MCGEO)	1,444	June 30, 2017
Office, Professional & Technical (MCGEO)	3,635	June 30, 2017
Police Officers (FOP)	1,198	June 30, 2017
Firefighters/Rescuers (IAFF)	1,093	June 30, 2017

Public school teachers in the County are not County government employees, but are employed by the Montgomery County Board of Education (the "Board"). As of October 2016, the Board employed 21,578 full-time equivalent (FTE) employees. This number includes 75 non-represented employees and 21,503 employees in bargaining units. The Board bargains collectively with employees on matters concerning wages, hours, and other conditions of employment. There are four bargaining units, which are comprised of teachers, professional/administrative, non-certified supervisors, and support/maintenance employees, as presented in the table below.

**Table 2**  
**Board of Education Bargaining Units**

<u>Bargaining Unit</u>	<u>Number of FTE Employees</u>	<u>Contract Expiration Date</u>
Teachers & Other Professional (MCEA)	12,761	June 30, 2017
Administrative & Supervisory (MCAAP/MCBOA)	783	June 30, 2017
Support Services (SEIU Local 500)	7,959	June 30, 2017

### **Arts and Leisure**

The Montgomery County Department of Recreation provides a wide range of programs including: aquatics, camps, classes, youth and adult sports, summer fun centers, special events, children and toddler, teen, senior citizen, and therapeutic programs. The Department operates 21 community recreation centers that facilitate leisure activity, social interaction, family participation, and civic involvement. Its newest community center, the Nancy H. Dacek North Potomac Community Recreation Center, opened in the Fall of 2016. The Ross Boddy Neighborhood Recreation Center in Sandy Spring re-opened in the fall of 2016 after major renovation. Five Senior Centers provide full services to residents throughout the County. An additional twelve program sites serve additional senior populations, offering adults aged 55 and above classes, sports and fitness, trips, neighborhood and special programs for frail and isolated seniors. There are seven large public outdoor swimming pools and four indoor aquatic complexes that offer a variety of instructional, recreational, and competitive aquatic programs, countywide. The Department also administers contracted grants for the Takoma Park Community Center, the Arts and Humanities Council and the Public Arts Trust. It also provides specialized recreational programming for at-risk teens, and works cooperatively with the Montgomery County Public Schools to provide a wide range of recreation and leisure opportunities for middle school and high school students throughout the County.

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

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

## **Economic Development**

### ***Montgomery County Economic Development Corporation***

The economic development vision for Montgomery County is to be a global magnet for creative companies, technologies and people as called for in the County's newly-adopted Comprehensive Economic Strategy.

The vision is reflected by four major strategic areas the County has been pursuing and will continue to focus on as major pillars of growing our knowledge-based economy: 1) Business Vitality (growing innovation industries and diversifying economy), 2) Talent (aligning talent needs with industry demand), 3) Creative Economies (stimulating entrepreneurship and supporting small businesses), and 4) Place-making (creating quality places that are attractive to people and businesses). The new economic strategy aims at better coordinating the myriad of partners' efforts from all sectors that are critical to a vibrant economy.

Consistent with these overarching strategies, the County pursues a set of target industries as economic drivers for future growth while focusing on retaining and growing existing businesses to expand jobs and tax base. The Office of the County Executive leads the effort in cultivating a business climate conducive to the ongoing growth and viability.

As part of the overall economic strategy, the County has also restructured the economic development functions to better meet the changing market and community needs and enhancing private sector involvement. For many years the County's economic development functions had been performed by the former Department of Economic Development (DED). In 2015, the County Executive recommended, and Council approved, to replace DED with a new public-private partnership as the lead economic development organization (EDO) for Montgomery County. The new Montgomery County Economic Development Corporation (MCEDC) is led by a private-sector led board and serves as the lead EDO for Montgomery County. The restructuring of DED also led to the spin-off of the workforce development functions, which resulted in the creation of another new public-private partnership solely focused on talent strategies, WorkSource Montgomery (WSM). The mission of WSM is to better align all the programs and resources related to workforce development in the County and strengthen alignment between market demands, talent supply and readiness.

MCEDC is responsible for marketing, business attraction, retention and growth. It facilitates international business opportunities for County companies and proactively attracts foreign direct investments to the County. The County also fosters creative and strong partnerships with academia, the Federal research community, and various levels of government to pursue innovative projects. Furthermore, it engages in public-private partnership projects to revitalize the County's town centers and provide for strategic redevelopment opportunities.

### ***Economic Development Services and Programs***

Existing and prospective new businesses receive an array of professional assistance from Montgomery County. This assistance can take the form of site searches (the County maintains an inventory listing of available office, R&D, and industrial space in the County), direct financial assistance, provision of socioeconomic statistics and other data, permit expediting, training and employment assistance, and targeted programs and services to meet the unique needs of small and minority-owned businesses. The County's business incubator program for early-stage technology companies has also just completed its transition and all three are now managed by third-party contractors with improved services for businesses.

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

Businesses seeking to either establish a presence or expand facilities in the County may qualify for assistance through the County's Economic Development Fund (EDF). Established in 1995, the EDF provides financial assistance to private employers who will either retain jobs in the County or create new jobs through the expansion of current businesses or relocation of its businesses to the County.

As of September 30, 2016, 207 offers for grants and loans totaling \$91.5 million were accepted under the Economic Development Fund Grant and Loan Program. The economic impact of these transactions is estimated to include: over 48,950 jobs retained, attracted, and projected to be created, over \$1.90 billion in estimated private investment, and an estimated annual net revenue return of over \$59.9 million.

In addition to the original Economic Development Fund Grant and Loan Program, there are five other active sub-programs under the Economic Development Fund:

- 1) The Small Business Revolving Loan Program (SBRLP) was created in FY00 to assist small businesses that lack access to traditional private and public funding sources. SBRLP continues to provide financial assistance to small businesses in Montgomery County and facilitates business development through direct loans and augmenting loans made by other financial institutions. Since the beginning of this Program, 45 small businesses have received loans totaling \$2.54 million.
- 2) The Biotechnology Investor Incentive Program was approved by the County Council in FY11 to provide additional incentives to investors of biotechnology companies located in the County. The program operates in conjunction with the State Biotechnology Investment Tax Credit Program by offering an additional supplement to investors who have received a State Biotechnology Investment Tax Credit for their investment in a Montgomery County-based company. In FY16, a total of \$500,000 was awarded to qualified investors.
- 3) The Cybersecurity Supplement Program was approved by the County Council in FY14 to provide financial incentives for companies that invest in Montgomery County cybersecurity companies and receive the State Cybersecurity Investment Tax Credit. One company received \$16,500 under this program in FY16. There was also a partnership agreement with the State of Maryland and the National Institute for Standards and Technology to operate the National Cybersecurity Center of Excellence, the nation's hub of civil cybersecurity, with a total investment of \$12.5 million.
- 4) The Small Business Assistance Program was approved by the County Council in FY13 to provide assistance to small businesses located in either an enterprise zone or an urban renewal area that are adversely impacted by redevelopment projects located on property that is owned by the County or redevelopment projects that are financed in whole or in part by the County. The County is working with four community partners to deliver technical assistance before, during, and after construction. It is expected that the County will begin providing financial assistance for adversely impacted small businesses in FY17, after the Parking Lot 13 serving Wheaton Market Place is closed.
- 5) The MOVE Program was added in FY14 to attract cybersecurity, green technology, IT, and life science businesses to the County. The program was expanded in FY15 to include more industry sectors and provide additional assistance. Through the program, businesses receive financial assistance based on the amount of space that they sign in their lease, which works as a de facto rent reduction program. As of September 30, 2016, a total of \$1.04 million was awarded to qualified businesses.

### **Education**

Montgomery County Public Schools (MCPS) is governed by an elected Board of Education comprised of eight members, including one student member. The Board, which was created by State law, appoints the Superintendent and all other employees. The system operates 204 elementary and secondary schools. The operating budget is \$2.457 billion for FY17, a 6.0 percent increase over the prior year, and the approved FY17-22 Capital Improvement Program is \$1.568 billion, an increase of \$24.4 million over the previously approved CIP. The emphasis that County residents place on education is reflected in budgeted per pupil operating expenditures of \$15,454 in FY17, and in the high percentage of high school graduates who continue formal education. In FY17, projected enrollment is 159,016 students.

## **Finance**

The Department of Finance is responsible for the financial administration of the County government, including accounting, fiscal management, revenue collection, and risk management. The Controller's Division is responsible for the analysis, interpretation, and presentation of the County's financial position and results of operations through timely, accurate, and professional financial reports, and for timely and accurate payments to vendors for goods and services provided to the County. The Treasury Division is responsible for the collection of property taxes and excise taxes, and for the collection and processing of transfer and recordation taxes. The Fiscal Management Division is comprised of debt management and cash management and is responsible for managing the timely and economic issuance of short- and long-term financial obligations; developing and maintaining strong rating agency and investor relations; preparing accurate and timely financing documents, including the County's Annual Information Statement; ensuring strict compliance with disclosure requirements; coordinating bond counsel review; providing high-quality consulting services for County agencies, managers, staff, elected officials, and residents on issues related to debt and cash management. The County maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet County financial obligations, and maximization of the investment yield on the County's short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's short-term investment policy, as approved by the County Council. The average maturity of the working capital portfolio is generally less than six months. For FY16, the County managed an average of \$729.6 million in its pooled consolidated investment portfolio and earned investment income of \$2.84 million with an average rate of return of 0.39%.

## **Libraries**

Montgomery County Public Libraries (MCPL) is a key resource in the community. The system has 21 library branches, visited over 4.9 million times in FY16, each providing 32 to 68 hours of service per week. Thirteen of these branches are open seven days per week. Continuing the award winning building refresh program, Kensington Park Library and Twinbrook Library reopened in 2016 following significant improvements. The Department received positive customer responses to the physical improvements, refreshed materials collection and technology enhancements such as 3D printers, credit card payments at the service desks, and laptops for in-branch lending.

Construction has begun on a new combined Wheaton Library and Community Recreation Center that will replace two older separate Wheaton Library and Wheaton Community Center buildings on the same campus. The Wheaton Interim Library opened in May 2016 at the Wheaton Volunteer Rescue Squad which is across the street from the Wheaton Library. Service hours are seven days per week which are the same as the Wheaton Library's hours.

Weekend and evening hours will be expanded at four urban libraries in the spring of 2017. Silver Spring, Bethesda, Gaithersburg, and Germantown libraries will join the Rockville Memorial Library and open from 9:00am to 9:00pm on Friday and Saturday during the summer months beginning in May 2017.

The library materials budget was increased to enhance the collection to better meet emerging customer needs and demands. New formats include "language kits" that support language learning; Science, Technology, Engineering, and Math (STEM); support early literacy, skills development, and other workforce development tools; and the ability to earn an online high school diploma.

The County Executive recommended and Council approved a substantial enhancement to MCPL's Programming efforts to better support and coordinate system-wide programs in the branches and community for workforce and economic development; computer coding, civic engagement, seniors, and new Americans.

## **Liquor Control**

State legislation established a Liquor Control Board in Montgomery County on December 5, 1933, shortly after the end of nationwide Prohibition, giving the Board monopoly power for the issuance of liquor, wine, and beer licenses in the County; the distribution of beverage alcohol at the wholesale level to County licensees; and the retail sale of liquor package goods for off-premise consumption. The Department of Liquor Control was created by Article 2B of the Annotated Code of Maryland, effective July 1, 1951. This newly-created Department assumed wholesale and retail control powers, and the Montgomery County Board of License Commissioners retained the authority to issue

licenses for the retail sale of liquor, wine, and beer within the County. In 1997, the unification of Takoma Park gained Montgomery County four additional establishments, with one that is allowed to sell liquor package goods for off-premise consumption. On August 8, 2006, the Office of the Board of License Commissioners was reorganized into a new division of the Department of Liquor Control entitled, "Licensure, Regulation and Education". The Board remains an independent body.

As of October, 2016, the Department of Liquor Control's responsibilities include the operation of 25 County retail stores and a warehouse that distributes beverage alcohol to the County stores and to approximately 1,074 licensed establishments (including beer and wine stores, restaurants, country clubs, etc.); and inspections of licensed premises, training and education programs, and community partnering. The Department is a self-supporting business enterprise with all operating requirements included in the Department's annual budget. Income in excess of departmental needs is transferred to the County's General Fund to pay for general governmental services. In the last five fiscal years (FY12 through FY16) the Department transferred \$145.24 million to the General Fund.

## **Parks**

The Maryland-National Capital Park and Planning Commission administers 37,000 acres of parkland in the County. This includes 16 regional and recreational parks, many consisting of over 200 acres, and featuring more than 640 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake, and Pine Lake. Of the 418 parks in the Montgomery Parks system, 314 smaller park and open space areas serve as urban, local, and neighborhood parks. Additionally, Seneca Creek State Park is located in the heart of the County, and Patuxent River State Park is located along the County's northeastern border. The National Park Service provides additional park facilities including the C & O Canal National Historic Park, Great Falls National Park, and Glen Echo Park. Several municipalities within the County, including Rockville, Takoma Park, Kensington, Gaithersburg, Poolesville, and Washington Grove, maintain local parks.

## **Public Safety**

### ***Fire and Rescue Service***

The Montgomery County Fire and Rescue Service (MCFRS) is an all-hazard fire and rescue service. MCFRS is one of the largest combination career/volunteer fire and rescue departments in the nation. MCFRS components include fire suppression, emergency medical services, emergency communications, apparatus management, fire code compliance, fire and explosive investigations, community outreach, training and administration. The department is comprised of approximately 2,202 personnel including 1,175 career uniformed employees, 127 civilian employees, 900 call active volunteers, and 19 Local Fire and Rescue Departments. MCFRS operates 37 fire and rescue stations and 7 satellite offices.

An extensive Capital Improvements Program (CIP) is in place to ensure that the MCFRS operates and maintains a sufficient complement of facilities to provide response capability and an appropriate level of readiness. In response to increasing calls for service and population growth, MCFRS continues to add stations. The most recent addition was a newly constructed station in Travilah that opened in February 2014. Additionally, MCFRS must rebuild or extensively renovate several older stations. In November 2016, a replacement station in Glenmont opened near the location of the old station. In future years, a station will be built in Clarksburg and another will be rebuilt in White Flint. An addition to the Kensington station is also planned. Finally, there are several on-going projects to replace and/or update major building systems (roof, HVAC, fire alarm, generators) at other fire/rescue facilities to ensure that these facilities are properly maintained and meet current building code standards.

### ***Police Department***

The Montgomery County Police Department (MCPD) is a highly-trained merit system force of 1,271 sworn officers and 623 civilian staff for a total complement of 1,894 personnel. MCPD operates over 34 facilities, including six district police stations, and is accredited by the Commission for the Accreditation of Law Enforcement Agencies (CALEA).

Renovations, replacements, and/or upgrades at several facilities are planned for the Department. There are approved projects for one of the six district stations. The construction of a new 2<sup>nd</sup> District Police Station is underway, and the 3<sup>rd</sup> District Police Station was replaced three years ago. The County Animal Shelter has been replaced with a state-of-the-art facility located in Gaithersburg. In conjunction with the County Executive's Smart Growth Initiative, a new Public Safety Training Academy (PSTA) was built and opened in Fall 2016 that replaced the existing aging facility, and a new Montgomery County Public Safety Headquarters, which incorporates a new 1<sup>st</sup> District Police Station within the Headquarters facility, is in operation.

### ***Correction and Rehabilitation***

The Department of Correction and Rehabilitation (DOCR) personnel complement includes 539 approved positions consisting of Correctional Officers, program staff, and other professionals who provide progressive and comprehensive correctional services through a wide variety of detention and community supervision programs. The Department operates facilities for incarceration and intensive community re-entry planning: the Montgomery County Detention Center (MCDC), the Montgomery County Correctional Facility (MCCF), and the Pre-Release and Re-entry Services (PRRS). In addition, the Pre-Trial Services Unit (PTSU) supervises over 1,800 defendants in the community on a daily basis.

The County is currently engaged in planning and design for the renovation and addition of the kitchen and expansion of the dining area at the Pre-Release Center.

### **Solid Waste Management**

The County Department of Environmental Protection operates an Integrated Solid Waste Management System in order to manage solid waste generated within the County. The elements of the program include an integrated system of methods and technologies, including source reduction, recycling, waste-to-energy, contractual out-of-County landfilling, maintenance of closed landfills, and a reserve permitted landfill within its borders.

The County Council has approved Executive Regulation 7-12 which sets a new recycling goal for the County to recycle 70 percent of waste generated by 2020. The regulation specifies that the County will adopt the State of Maryland methodology per the Maryland Recycling Act to measure the County's recycling, and will include the Source Reduction Credit used to calculate the Waste Diversion Rate. Solid Waste Services manages County-provided separate curbside recycling collection from 215,405, single-family households of yard trim, glass bottles and jars, metal and plastic containers, and all types of clean, unsoiled paper. The County has enacted mandatory multi-family and commercial recycling regulations, and continues efforts to coordinate and integrate the execution and completion of recycling outreach, education, and training to ensure that the maximum amount of recycling is achieved.

During FY16, the County collected \$1.49 million of material sales revenue from the Material Recovery Facility (MRF); this included \$0.86 million in plastics sales, \$0.58 million in bimetal and aluminum can sales, \$0.16 million in mixed paper sales, and incurred a net expense for glass of \$0.11 million. The net glass expense included sales revenue of \$22,220 for flint, green and amber glass, and an expense of \$136,762 for mixed glass. Additionally, the County's Transfer Station collected \$0.74 million in material sales revenue, which included \$49,470 in recycled battery sales, \$50,157 in recycled textiles sales, and, \$637,009 in scrap metal sales. The MRF separates plastics for sale into various types, which includes PET, HDPE, #3-#7, Tubs and Lids, and Rigid Mixed. The plastics are sorted by type, baled, and shipped to buyers. A similar process is followed for glass, aluminum cans and foil, and bimetal cans. In FY16, the County started selling mixed paper directly to buyers.

A large percentage of the County's non-recycled waste is accepted at the County's Shady Grove Transfer Station and transported by rail to the County's mass burn Resource Recovery Facility (RRF) adjacent to the NRG Energy power plant near Dickerson, Maryland. The RRF, with a permitted capacity of 657,000 tons per calendar year, is operated by Covanta Montgomery Inc., and began commercial operations in August 1995. The RRF generates electricity which is sold by the Authority to the PJM day-ahead market. The Solid Waste Enterprise Fund maintains certain management reserves for various future needs of the Disposal Fund, and has allocated the restricted cash for these purposes.



## **Transportation**

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

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

The County Ride-On Bus system operates on 78 routes and is designed to complement the service provided by other transit operators in the County, while 76 of those routes serve one or more of the 12 Metrorail Red Line or MARC Rail Stations in the County. In FY16, approximately 24.5 million passenger trips took place on the County Ride-On Bus system. The entire fleet consists of 343 buses owned and operated by the County, which travel approximately 15.1 million miles per year.

### ***Parking Districts***

There are four parking lot districts in the major urbanized areas of the County. Prior to 1987, general obligation bonds were issued by the County to finance the construction of parking facilities in these areas. In 1987, the County began using parking revenue bonds. Through FY15, a special ad valorem tax was levied on certain commercial and residential properties located within each district to pay for debt service used to finance parking facilities within the district, maintenance and operation of such facilities, and capital construction projects within each district. In May 2015, the County Council set the ad valorem tax rate to zero for FY16 and subsequent years. Current significant sources of revenue used to finance the parking program are meter collections, fees from off-street lots and parking garages, and parking fines. The County has issued parking revenue bonds for land acquisition, construction, repair and renovation of parking facilities. During FY16, the four districts collectively had in service 21 garages with approximately 16,935 parking spaces, 22 surface lots with 1,550 spaces, and 2,450 on-street metered spaces for a total of 20,935 spaces.

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## **OTHER SERVICES**

### **Transportation Services**

#### ***Airports***

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

Ronald Reagan Washington National Airport is located in Arlington County, Virginia, across the Potomac River from Washington, D.C. Reagan National is accessible to Montgomery County also by Metrorail. In 2015 the airport served approximately 23 million passengers on commercial, general aviation and commuter flights, a 10.7 percent increase from 2014. The airport's popularity is fueled by its proximity to Washington, D.C. and its convenient access to Metrorail.

Dulles International Airport is located in adjacent Fairfax/Loudoun counties in Virginia and offers commercial, general aviation and commuter service. Dulles served 21.7 million passengers in 2015, a modest increase over 2014. In 2015, international air service continued to expand at Dulles. New airlines began flights at Dulles and new services were added. Domestic cargo at Dulles scored a turnaround in 2015, as tonnage increased 4 percent. The airport is positioned for continued growth as demand increases.

Baltimore-Washington International Thurgood Marshall Airport (BWI) is located in Anne Arundel County, Maryland. Approximately 22.8 million passengers used the airport in 2015, an increase of 2.4 percent from 2014. On March 4, 2015, Governor Hogan announced a \$105 million construction procurement to improve passenger services and accommodate growing international service with a new security checkpoint to serve domestic and international travelers, including a new secure connector between Concourse D and Concourse E. This multi-phase project was unanimously approved by the Maryland Board of Public Works and is expected to be completed in 2017.

#### ***Metrorail Transit System***

Services of the Washington Metropolitan Area Transit Authority (Metro) are the backbone of the County transit system. Providing service to the County are 12 rapid rail stations with 15,559 parking spaces and additional service by 150 Metrobuses. With the opening of the final Metrorail station in the County (Glenmont) in July 1998, the system includes 18.4 miles of rail service operating in the County. Each weekday approximately 160,000 trips are made on Metrorail in Montgomery County.

Metrorail is now a 117-mile network with six lines. The Silver Line is a 23-mile extension that connects Tysons Corner and Reston Virginia to the network and eventually to Dulles International Airport. Phase I of the extension project opened in July 2014 and construction is underway on Phase II. The regional network connects Washington, D.C. with the expanding Maryland and Virginia suburbs. It includes 38.3 miles of rapid transit services in the District of Columbia, 38.3 miles in Maryland and 40.4 miles in Virginia.

#### ***Metrobus***

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

#### ***MARC Rail and Commuter Bus***

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

## **Water and Sewer Service**

### **WSSC**

Operation and maintenance of the public water and sewer systems in the County (excluding the City of Rockville and the Town of Poolesville) are the responsibilities of a State-chartered agency, the Washington Suburban Sanitary Commission (WSSC) that serves both Montgomery and Prince George's Counties. WSSC operates under State law and is governed by a six-member Commission. The County Executives of Montgomery County and Prince George's County each appoint three members, subject to confirmation by the respective County Councils. The FY17 approved operating budget for WSSC totals \$736.4 million; the approved capital budget totals \$690.3 million.

The Potomac and Patuxent Rivers are WSSC's two sources of raw water supply, with filtration plants located in Potomac and Laurel, respectively. WSSC has 14 billion gallons of water supply storage and an effective filtration capacity of 344 million gallon per day (MGD). The Jennings Randolph Reservoir near Bloomington on the North Branch Potomac River and Little Seneca Lake near Boyds on Little Seneca Creek can supplement flows to Potomac River water users, including WSSC and Rockville. These reservoirs can provide an additional 17 billion gallons of raw water, if needed, during low flow periods. An approved expansion of the Patuxent Water Filtration Plant, which WSSC expects to complete during FY19, will increase normal capacity there from 56 MGD to 72 MGD, and increase emergency capacity up to 110 MGD.

Most of the sewage collected by WSSC's systems is conveyed for treatment at the Blue Plains Wastewater Treatment Plant (Blue Plains) in Washington, D.C. Blue Plains, owned and operated by the District of Columbia Water and Sewer Authority (aka DC Water), has a treatment capacity of 370 MGD, of which WSSC's allocated capacity totals approximately 170 MGD. The County maintains membership on the DC Water Board. WSSC's 26 MGD Seneca Wastewater Treatment Plant serves the communities of Gaithersburg, Germantown, and Clarksburg. WSSC also operates two smaller wastewater treatment plants in the County which serve the communities of Damascus and Hyattstown and, through an Intergovernmental Agreement with the Town of Poolesville, WSSC has a 0.02 MGD capacity allocation at the Poolesville wastewater treatment plant to serve two sewer service areas surrounding the incorporated limits of the Town. Enhanced Nutrient Removal projects, to meet Chesapeake Bay environmental quality goals, have been completed at the Seneca and Damascus Wastewater Plants, and are currently under construction at Blue Plains.

### ***City of Rockville***

Approximately 70% of the geographic area of the City receives water and sewer services from the City of Rockville. The remaining 30% receives water and sewer services from WSSC. The approved FY17 Operating Budget for Rockville totals \$12.7 million for the water enterprise fund and \$12.8 million for the sewer enterprise fund.

Rockville owns and operates an 8.0 MGD water treatment plant which is located in Potomac, MD. Rockville has an appropriation permit issued by the Maryland Department of Environment to withdraw an average of 7.1 MGD of Potomac River water and a maximum not-to-exceed amount of 12.1 MGD. Consistent with regional and national trends in the water industry, the average daily production has declined from 4.88 MGD in 2011 to 4.58 MGD in 2014 and the average maximum daily production has declined from 7.5 MGD in 2011 to 6.2 MGD in 2014. Rockville's planning projections predict an average daily demand of 6.55 MGD by the year 2040 which can be accommodated by the existing Potomac River allocation. Rockville has 10 MG of potable water storage in the following tanks: Hunting Hill and Carr Avenue. The water distribution system consists of 170 miles of water lines.

In FY09, Rockville initiated a program to renew the aging water lines on a 100-year cycle. This ongoing water main rehabilitation project accounts for a total \$1.2 million FY17 Capital Improvement Program for the water enterprise fund.

Rockville provides wastewater collection services through 148-miles of City-owned and maintained sewer lines in three sewer sheds: Watts Branch, Cabin John and Rock Creek. Rockville does not have any combined sewers. The wastewater is conveyed through WSSC and District of Columbia Water and Sewer Authority (DC Water) facilities for treatment at the Blue Plains advanced wastewater treatment plant. The average daily wastewater flow for 2015 calendar year was 5.9 MGD. Rockville's planning projections (from the 2010 Comprehensive Master Plan - Water Resource Element) predict an average of 7.4 MGD by the year 2040 which is well within the City's existing 9.31 MGD allotment of Blue Plains regional treatment capacity.

Rockville has an aggressive preventative maintenance, pipe-lining and dig-and-replace plan for the wastewater collection system that will help prevent blockages and overflows, identify and prioritize capital improvements, and reduce opportunities for infiltration and inflow of rain and groundwater into the system. The ongoing sewer main rehabilitation project accounts for \$0.5 million of the total \$4.2 million FY17 Capital Improvement Program for the sewer enterprise fund.

### ***Town of Poolesville***

The Town of Poolesville operates its own water and wastewater systems, which serve the majority of the Town. Raw water for the Town's system is supplied by ten groundwater wells, with an average daily demand of approximately 0.5 MGD. The Town has acquired withdrawal permits for up to 0.65 MGD on an annual daily average. Two additional wells are slated to be constructed in 2017. One will be as a redundant well and another to support a new subdivision. A five-hundred-thousand-gallon elevated tank and a one-million-gallon standpipe serve as storage and fire protection. The Town's Waste Water Treatment Plant is permitted to discharge 0.75 MGD and has completed treatment improvements to meet the Enhanced Nutrient Removal limits of the State. Efforts continue to reduce inflow and infiltration to the sewer system through pipe lining and additional repairs. During the Fall of 2014, a subdivision relining project was completed and a substantial reduction in inflow and infiltration is being observed. Ongoing efforts include additional relining and manhole repairs. The Town's approved water and sewer operating budget in FY17 is just over \$1 million, while the planned CIP budget is \$321,000.

## **Utilities**

The County is served by three electric distribution utilities: The Potomac Electric Power Company (Pepco), Potomac Edison, and Baltimore Gas and Electric. In addition, Washington Gas and Light Company provide natural gas service, accessible to all major commercial and industrial corridors. The County's Office of Energy and Sustainability, within the Department of General Services, provides oversight of both County energy purchases and energy management. The Office consists of a chief and three full time program managers plus contractual support. The Office provides a variety of services to continually identify energy cost containment and savings opportunities.

Montgomery County has contracted with a third party to provide utility bill processing and software services. The contractor will receive, validate, and provide ongoing surveillance of utility costs and issues, enhancing the County's ability to quickly identify utility billing errors and abnormal patterns of energy consumption.

Both electricity and natural gas are deregulated and customers are free to choose from over thirty suppliers to reduce costs or stabilize utility budgets. The County is an active participant in these markets and negotiates utility contracts to secure favorable rates. Montgomery County also separately contracts for renewable energy credits (RECs) to meet its voluntary climate protection goals. RECs are a tradable commodity representing the environmental benefits of clean sources of electricity. The County competitively procures RECs separately from electricity to reduce overall costs.

The County has also contracted with a third party to design, finance, own and operate solar photovoltaic systems on County facilities as a public-private partnership. The County receives electricity from these systems at pre-determined negotiated rates for 20 or more years. Currently, seven systems are installed with another eight in final planning or construction. Currently, County law exempts Tier 1 renewables such as solar and wind energy generated on-site or through a state approved net metering program from the County's fuel energy tax (Montgomery County Code 52-14(4)).

Montgomery County also benefits from incentive programs created by the EmPower Maryland Act (Md. Public Utility Companies Code § 7-211) which directs all three electric utilities serving the County to offer incentive programs to help consumers reduce energy costs. Recently, these programs were also expanded to include Washington Gas and provide incentives for reduced natural gas consumption. These programs collectively provide incentives for a wide array of energy efficiency improvements allowing customers to limit exposure to utility costs by reducing consumption.

## Healthcare

There are six accredited hospitals located in the County: Holy Cross Hospital in Silver Spring, Suburban Hospital-Johns Hopkins Medicine in Bethesda, Washington Adventist Hospital in Takoma Park, Shady Grove Adventist Hospital in Rockville, Holy Cross Germantown Hospital, and MedStar Montgomery Medical Center in Olney. There is also a free-standing Shady Grove Adventist Emergency Center in Germantown with 21 emergency treatment beds. In addition, a military hospital, Walter Reed National Military Medical Center (a consolidation of the National Naval Medical Center and Walter Reed Army Medical Center), is located in Bethesda, and the National Institutes of Health in Bethesda operates one of the world's foremost centers of medical research. Accessible to the County are Frederick Memorial Hospital in Frederick County; Laurel Regional Hospital and Prince George's Hospital Center in Prince George's County; and various hospitals in the District of Columbia and Northern Virginia. On December 17, 2015, the Maryland Health Care Commission approved Washington Adventist Hospital's certificate of need (CON) for the construction of a replacement hospital facility to be located in the White Oak area of Silver Spring. When completed, Washington Adventist Hospital will relocate most of its existing services, while maintaining acute psychiatric beds and medical rehabilitation services and opening an urgent care center at the current Takoma Park campus.

## Higher Education

In the most recent American Community Survey taken in 2015, the 5-year estimates indicated that County residents, on average, are highly educated. According to the 2015 Survey, 57.4 percent of County residents 25 years old or over completed four or more years of college. Advanced degrees are held by 30.9 percent of the adult population, while high school graduates account for 91.3 percent of the County population aged 25 and over.

There are numerous colleges and universities offering degrees in various disciplines in and around Montgomery County. Many institutions also offer advanced degree programs in engineering, medicine, business, and computer sciences. The following table lists selected schools within or near the County and shows the student enrollment.

**Table 3**  
**Post Secondary Education**

<u>College</u>	<u>Student Enrollment</u>
American University, Washington, DC	12,371
Catholic University, Washington, DC	6,702
George Washington University, Washington, DC	25,500 *
Georgetown University, Washington, DC	17,858
Hood College, Frederick, MD	2,288
Howard University, Washington, DC	10,265
Johns Hopkins University, Baltimore, MD	21,372
Montgomery College, 3 Campuses in County (2-year)	25,320 **
Universities at Shady Grove, Montgomery County	4,000 *
University of Maryland, College Park, MD	37,610

\* Approximate student enrollment

\*\* Articulation agreements with 4-year institutions are available. Excludes enrollment in workforce development and continuing education classes.

Note: Most current data available for each institution

## Travel and Tourism

According to the most recent report released (2014) by Tourism Economics, an Oxford Economics Company, the tourism industry in Montgomery County generated \$1.75 billion in expenditures in 2014 up from \$1.69 billion in 2013. Total sales tax collections in the lodging category as reported by the Maryland Comptroller was up 5.3 percent in FY 2016. Local room rental transient tax (7% levied) collections generated \$19,686,059 in FY16, up slightly from FY 2015 (2.5%). Lodging occupancy as reported by Smith Travel Research for 2015 was down 0.3 percent from 2014. The Average Daily Hotel Rate was up 2.9 percent in 2015 from the previous year. Montgomery County welcomes over 8 million day-trip and overnight visitors combined annually.

Visit Montgomery County, MD (formerly The Conference and Visitors Bureau of Montgomery County, Maryland, Inc.) is a public-private non-profit membership organization dedicated to the promotion of travel and tourism to the County. On behalf of the entire hospitality community, Visit Montgomery participates in travel industry trade shows across the country, sponsors familiarization tours for tour operators, travel agents and travel writers. Visit Montgomery also implements a \$450,000 print and electronic advertising campaign annually, manages a direct sales initiative for the meetings, group tour and sports markets, and implements marketing programs specifically targeting large groups that could meet in the Montgomery County Conference Center, markets all of the County's assets, including the Music Center at Strathmore, The Fillmore, and the American Film Institute. Furthermore, Visit Montgomery provides marketing and sales support to sporting events hosted at signature facilities like the Maryland SoccerPlex and Discovery Sports Center, Congressional Country Club, and other Maryland-National Capital Park and Planning facilities. Marketing support is also provided for special events like the Silver Spring Jazz Festival, Heritage Days, as well as special events held year-round like the AFI DOCS Film Festival. Visit Montgomery is recognized by the MD Office of Tourism as the designated destination marketing organization for Montgomery County.

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## **DEBT SUMMARY**

### **Overview**

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

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

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

Overlapping debt includes all borrowings of other County agencies, incorporated municipalities, and special taxing or development districts, which may impact those County tax- or rate-payers who are residents of those municipalities or special districts. More broadly, overlapping debt illustrates the degree to which the total economy is being asked to support long-term fixed commitments for governmental facilities.

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

The County's Net Direct and Overlapping Debt is derived by subtracting Direct Self-Supporting Debt from the Total Direct and Overlapping Debt. A summary statement of direct and overlapping debt for Montgomery County is provided in Tables 4 and 4A on the following pages. For additional discussion of particular elements of the County's debt, see the sections that follow and the Debt Service Program Report at the following link:

[https://www.montgomerycountymd.gov/finance/resources/files/data/financial/FY16\\_DEBT\\_SERVICE\\_BOOK.pdf](https://www.montgomerycountymd.gov/finance/resources/files/data/financial/FY16_DEBT_SERVICE_BOOK.pdf)

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**Table 4**  
**Statement of Direct and Overlapping Debt**  
**As of June 30, 2016**

Direct Debt		
General Obligation Bonds Outstanding	\$2,657,290,000	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANs/Commercial Paper Outstanding	500,000,000	
Revenue Bonds Outstanding	<u>223,714,000</u>	
Total Direct Debt		\$3,481,004,000
Overlapping Debt		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,821,694,000	
Housing Opportunities Commission	875,542,045	
Montgomery County Revenue Authority	90,930,616	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	50,230,000	
Kingsview Village Center Development District	1,112,999	
West Germantown Development District	11,440,000	
Towns, Cities and Villages within Montgomery County	<u>144,473,252</u>	
Total Overlapping Debt		<u>\$2,995,422,912</u>
Total Direct and Overlapping Debt		\$6,476,426,912
Less Self-Supporting Debt:		
County Government Revenue Bonds	223,714,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,821,694,000	
Housing Opportunities Commission	875,542,045	
Montgomery County Revenue Authority	<u>90,930,616</u>	
Total Self-Supporting Debt		<u>(\$3,011,880,661)</u>
Net Direct and Overlapping Debt		<u><u>\$3,464,546,251</u></u>
Ratio of Debt to June 30, 2016 Assessed Valuation of (100% Assessment):		\$174,060,795,069
Direct Debt		2.00%
Net Direct Debt *		1.87%
Direct and Overlapping Debt		3.72%
Net Direct and Overlapping Debt		1.99%
Ratio of Debt to June 30, 2016 Market Value of:		\$188,057,991,930
Direct Debt		1.85%
Net Direct Debt *		1.73%
Direct and Overlapping Debt		3.44%
Net Direct and Overlapping Debt		1.84%

\* Net Direct Debt of \$3,257,290,000 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.



**Table 4A**  
**Statement of Direct and Overlapping Debt**  
**As of June 30, 2016**  
**And Including 2016 General Obligation Bonds\***

Direct Debt:		
General Obligation Bonds Outstanding	\$2,657,290,000	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANS/Commercial Paper Outstanding**	160,000,000	
2016 General Obligation Bonds	340,000,000	
Revenue Bonds Outstanding	<u>223,714,000</u>	
Total Direct Debt		\$3,481,004,000
Overlapping Debt as of June 30, 2016		
Washington Suburban Sanitary Commission	1,821,694,000	
Applicable to Montgomery County		
Housing Opportunities Commission	875,542,045	
Montgomery County Revenue Authority	90,930,616	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	50,230,000	
Kingsview Village Center Development District	1,112,999	
West Germantown Development District	11,440,000	
Towns, Cities and Villages within Montgomery County	<u>144,473,252</u>	
Total Overlapping Debt		<u>\$2,995,422,912</u>
Total Direct and Overlapping Debt		\$6,476,426,912
Less Self-Supporting Debt as of June 30, 2016		
County Government Revenue Bonds	223,714,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,821,694,000	
Housing Opportunities Commission	875,542,045	
Montgomery County Revenue Authority	<u>90,930,616</u>	
Total Self-Supporting Debt		<u>(\$3,011,880,661)</u>
Net Direct and Overlapping Debt		<u>\$3,464,546,251</u>
Ratio of Debt to June 30, 2016 Assessed Valuation of (100% Assessment):		\$174,060,795,069
Direct Debt		2.00%
Net Direct Debt ***		1.87%
Direct and Overlapping Debt		3.72%
Net Direct and Overlapping Debt		1.99%
Ratio of Debt to June 30, 2016 Market Value of:		\$188,057,991,930
Direct Debt		1.85%
Net Direct Debt ***		1.73%
Direct and Overlapping Debt		3.44%
Net Direct and Overlapping Debt		1.84%

\* On December 13, 2016, the County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of \$340,000,000.

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

\*\*\* Net Direct Debt of \$3,257,290,000 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

## Debt Affordability

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

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

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

**Table 5**  
**Statement of Legal Debt Margin**  
**As of June 30, 2016**

June 30, 2016 Assessed Valuation – Real Property	\$170,176,446,052
Debt Limit (% of Assessed Valuation)	<u>6%</u>
Subtotal Limitation – Real Property	<u>\$ 10,210,586,763</u>
June 30, 2016 Assessed Valuation – Personal Property	\$ 3,884,349,017
Debt Limit (% of Assessed Valuation)	<u>15%</u>
Subtotal Limitation – Personal Property	<u>\$ 582,652,353</u>
Total Assessed Valuation – Real and Personal Property	\$174,060,795,069
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	\$10,793,239,116
Less Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds Outstanding	\$2,657,290,000
General Obligation Variable Rate Demand Obligations	100,000,000
Short-Term BANs/Commercial Paper	<u>500,000,000</u>
Net Direct Debt	<u>3,257,290,000</u>
Legal Debt Margin	<u>\$7,535,949,116</u>
Net Direct Debt as a Percentage of Assessed Valuation	<u>1.87%</u>

**Table 5A**  
**Statement of Legal Debt Margin**  
**As of June 30, 2016**  
**And Including 2016 General Obligation Bonds\***

June 30, 2016 Assessed Valuation – Real Property	\$170,176,446,052
Debt Limit (% of Assessed Valuation)	<u>6%</u>
Subtotal Limitation – Real Property	<u>\$ 10,210,586,763</u>
June 30, 2016 Assessed Valuation – Personal Property	\$ 3,884,349,017
Debt Limit (% of Assessed Valuation)	<u>15%</u>
Subtotal Limitation – Personal Property	<u>\$ 582,652,353</u>
Total Assessed Valuation – Real and Personal Property	\$174,060,795,069
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	\$10,793,239,116
Less Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds Outstanding	\$2,657,290,000
General Obligation Variable Rate Demand Obligations	100,000,000
2016 General Obligation Bonds	340,000,000
Short-Term BANs/Commercial Paper	<u>160,000,000</u>
Net Direct Debt	<u>3,257,290,000</u>
Legal Debt Margin	<u>\$7,535,949,116</u>
Net Direct Debt as a Percentage of Assessed Valuation	<u>1.87%</u>

\* On December 13, 2016, the County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of \$340,000,000.

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## Direct Debt

### General Obligation Bonds

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

### Variable Rate Demand Obligations

Variable rate demand obligations ("VRDO") are debt instruments that represent borrowed funds that are payable on demand and accrued interest based on prevailing short-term money market rates. VRDOs are general obligations of the County and are, therefore, secured by an irrevocable pledge of the full faith and credit and unlimited taxing power of the County.

The County issued two series of VRDOs which mature on June 1, 2026. However, the County is required by the terms of the Note Order to make annual sinking fund payments to retire one-tenth of the notes each year beginning in 2017. The VRDOs were issued in the Daily Mode and currently bear interest at the Daily Rate, which is established by the remarketing agents and re-sets daily. Interest on these obligations is payable on the first business day of each month.

The General Obligation Bonded Debt Ratios displayed below measure the burden of the County's net direct debt, which consists primarily of general obligation bonds and outstanding BANs/commercial paper, and debt service payments on such. As with the calculation of the Legal Debt Limit, the County includes its BANs/commercial paper in these ratio calculations because it intends to repay such notes with the proceeds of general obligation debt to be issued in the near future. The ratios are as follows: 1) net direct debt as a percentage of full (market) value of taxable property; 2) debt service on outstanding general obligation bonds as a percentage of General Fund expenditures and transfers out; 3) net direct debt per capita; 4) net direct debt per capita as a percentage of per capita income; and 5) rate of replacement of general obligation bond principal (payout ratio) in ten years. The results of these indicators are displayed in Table 6 below.

**Table 6**  
**General Obligation Bonded Debt Ratios**  
**2007 – 2016**

Fiscal Year	Net Direct Debt to Market Value	GO Bond Debt		Net Direct Debt Per Capita to Per Capita Income	GO Bond Payout Ratio
		Service to General Fund Expenditures	Net Direct Debt Per Capita		
2007	1.30	7.83	1,861	2.81	68.92
2008	1.18	7.95	1,848	2.70	71.39
2009	1.13	7.31	1,997	2.83	70.63
2010	1.22	7.92	2,277	3.24	69.37
2011	1.27	8.58	2,507	3.55	68.65
2012	1.46	8.87	2,625	3.60	67.88
2013	1.58	8.88	2,737	3.74	68.33
2014	1.61	8.96	2,819	3.88	68.64
2015	1.57	9.62	2,761	3.76	67.41
2016	1.73	9.36	3,132	4.07	67.88

The County's general obligation indebtedness by issue is presented in Tables 7 and 7A. Annual debt service payments for the County's debt are displayed in Table 8. Table 9 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2016. Also see Subsequent Events, Note 4 on page 35.

**Table 7**  
**General Obligation Debt of the County**  
**As of June 30, 2016**

<u>Issue</u>	<u>Dated</u> <u>Date</u>	<u>Original Issue</u> <u>Size</u>	<u>Original</u> <u>Coupon</u> <u>Rates</u>	<u>TIC</u> <sup>(1)</sup>	<u>Maturity</u>	<u>Principal</u> <u>Outstanding</u> <u>June 30, 2016</u>
GO Refunding Bonds	06/01/05	120,355,000	5.00	3.7817	2011-21	\$27,465,000
GO Bond	05/01/06	100,000,000	4.25-5.00	3.8711	2007-16	-
GO VRDO <sup>(2)</sup>	06/07/06	100,000,000	variable	variable	2017-26	100,000,000
GO Bonds	05/01/07	250,000,000	5.00	4.0821	2008-27	12,500,000
GO Bonds	07/15/08	250,000,000	3.00-5.00	4.1809	2009-28	48,600,000
GO Bonds <sup>(3)</sup>	11/03/09	232,000,000	3.75-5.00	3.1774	2015-29	216,535,000
GO Bonds	11/03/09	161,755,000	2.00-5.00	2.6487	2011-20	100,515,000
GO Bonds	07/08/10	195,000,000	2.00-5.00	2.2596	2011-22	113,750,000
GO Bonds <sup>(4)</sup>	07/08/10	130,000,000	4.75-5.40	5.0708	2023-30	130,000,000
GO Bonds	08/11/11	320,000,000	2.00-5.00	3.2268	2012-31	160,000,000
GO Refunding Bonds	08/11/11	237,655,000	2.00-5.00	1.9896	2012-22	169,850,000
GO Bonds	10/24/12	295,000,000	2.50-5.00	2.2599	2013-32	250,750,000
GO Refunding Bonds	10/24/12	23,360,000	2.50-5.00	0.3812	2013-16	5,400,000
GO Bonds	11/26/13	295,000,000	3.00-5.00	3.1270	2014-33	265,500,000
GO Refunding Bonds	11/26/13	24,915,000	5.00	2.7745	2023-24	24,915,000
GO Bonds	11/19/14	500,000,000	4.00-5.00	2.7445	2015-34	475,000,000
GO Refunding Bonds	11/19/14	297,990,000	5.00	2.3437	2016-28	297,990,000
GO Refunding Bonds	03/26/15	58,520,000	5.00	1.2264	2018-21	58,520,000
GO Bonds	12/1/2015	300,000,000	3.00-5.00	2.8036	2016-35	300,000,000
Total						<u>\$2,757,290,000</u>

(1) True Interest Cost

(2) Variable Rate Demand Obligations

(3) Federally Taxable – Build America Bonds – Direct Pay

(4) Includes Federally Taxable – Build America Bonds \$106.3 million – Direct Pay

**Table 7A**  
**General Obligation Debt of the County**  
**As of June 30, 2015 and June 30, 2016**  
**And Including 2016 General Obligation Bonds, Series A**

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Coupon Rates</u>	<u>TIC<sup>(1)</sup></u>	<u>Maturity</u>	<u>Outstanding June 30, 2015</u>	<u>Outstanding June 30, 2016</u>
GO Refunding	06/01/05	120,355,000	5.00	3.7817	2011-21	34,605,000	27,465,000
GO Bonds	05/01/06	100,000,000	4.25-5.00	3.8711	2007-16	10,000,000	-
GO VRDO <sup>(2)</sup>	06/07/06	100,000,000	variable	variable	2017-26	100,000,000	100,000,000
GO Bonds	05/01/07	250,000,000	5.00	4.0821	2008-27	25,000,000	12,500,000
GO Bonds	07/15/08	250,000,000	3.00-5.00	4.1809	2009-28	61,100,000	48,600,000
GO Bonds <sup>(3)</sup>	11/03/09	232,000,000	3.75-5.00	3.1774	2015-29	232,000,000	216,535,000
GO Refunding	11/03/09	161,755,000	2.00-5.00	2.6487	2011-20	108,325,000	100,515,000
GO Bonds	07/08/10	195,000,000	2.00-5.00	2.2596	2011-22	130,000,000	113,750,000
GO Bonds <sup>(4)</sup>	07/08/10	130,000,000	4.75-5.40	5.0708	2023-30	130,000,000	130,000,000
GO Bonds	08/11/11	320,000,000	2.00-5.00	3.2268	2012-31	176,000,000	160,000,000
GO Refunding	08/11/11	237,655,000	2.00-5.00	1.9896	2012-22	199,985,000	169,850,000
GO Bonds	10/24/12	295,000,000	2.50-5.00	2.2599	2013-32	265,500,000	250,750,000
GO Refunding	10/24/12	23,360,000	2.50-5.00	0.3812	2013-16	10,560,000	5,400,000
GO Bonds	11/26/13	295,000,000	3.00-5.00	3.1270	2014-33	280,250,000	265,500,000
GO Refunding	11/26/13	24,915,000	5.00	2.7745	2023-24	24,915,000	24,915,000
GO Bonds	11/19/14	500,000,000	4.00-5.00	2.7448	2015-34	500,000,000	475,000,000
GO Refunding	11/19/14	297,990,000	5.00	2.3437	2016-28	297,990,000	297,990,000
GO Refunding	03/26/15	58,520,000	5.00	1.2264	2018-21	58,520,000	58,520,000
GO Bonds	12/01/15	300,000,000	3.00-5.00	2.8036	2016-35	-	300,000,000
GO Bonds <sup>(5)</sup>	12/13/16	340,000,000	3.00-5.00	3.2816	2017-37	-	340,000,000
Total						<u>\$2,644,750,000</u>	<u>\$3,097,290,000</u>

(1) True Interest Cost

(2) Variable Rate Demand Obligations

(3) Federally Taxable – Build America Bonds – Direct Pay

(4) Includes Federally Taxable – Build America Bonds \$106.3 million – Direct Pay

(5) Principal Outstanding as of June 30, 2016 includes the 2016 General Obligation Bonds, Series A issued and delivered by the County on December 13, 2016. The balance excluding the 2016 General Obligation Bonds Series A is \$2,757,290,000.

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**Table 8**  
**Summary of General Obligation Bonds**  
**Debt Service Requirements by Fiscal Year**  
**As of June 30, 2016**

Fiscal Year	Principal	Interest*	Total
2017	\$ 218,025,000	\$ 118,247,911	\$ 336,272,911
2018	210,930,000	107,834,919	318,764,919
2019	205,230,000	97,999,134	303,229,134
2020	199,295,000	88,474,563	287,769,563
2021	192,640,000	79,379,647	272,019,647
2022	185,590,000	69,990,816	255,580,816
2023	178,120,000	63,023,144	241,143,144
2024	168,695,000	54,624,913	223,319,913
2025	160,825,000	47,216,350	208,041,350
2026	152,400,000	40,378,931	192,778,931
2027	142,445,000	33,865,425	176,310,425
2028	129,675,000	27,754,706	157,429,706
2029	129,700,000	22,080,775	151,780,775
2030	117,220,000	16,652,300	133,872,300
2031	101,750,000	11,995,000	113,745,000
2032	85,500,000	8,358,750	93,858,750
2033	69,500,000	5,481,250	74,981,250
2034	54,750,000	3,126,250	57,876,250
2035	40,000,000	1,287,500	41,287,500
2036	15,000,000	243,750	15,243,750
Total	\$ 2,757,290,000	\$ 898,016,034	\$ 3,655,306,034

\*For budget and bond authority purposes, variable rate demand obligations are reported with general obligation bonds. Estimated interest payments for the variable rate demand obligations are included on this schedule. The interest rate is re-set daily and the rate is established by the marketing agents.

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**Table 9**  
**General Obligation Bonds Authorized - Unissued**  
**June 30, 2016**

Purpose	Authority			Amount Unissued
	Chapter	Act	Amount	
General County, Parks, and Consolidated Fire Tax District	54	2010	\$ 341,600,000	\$ 91,268,000
	24	2011	65,400,000	65,400,000
	19	2012	13,900,000	13,900,000
	26	2013	331,600,000	331,600,000
	31	2014	315,500,000	315,500,000
			<u>1,068,000,000</u>	<u>817,668,000</u>
Roads and Storm Drainage	54	2010	-	-
	19	2012	38,700,000	13,100,000
	26	2013	86,800,000	86,800,000
	31	2014	162,900,000	162,900,000
			<u>288,400,000</u>	<u>262,800,000</u>
Public Schools and Community College	24	2011	-	-
	19	2012	187,400,000	102,349,000
	26	2013	15,100,000	15,100,000
	31	2014	429,200,000	429,200,000
			<u>631,700,000</u>	<u>546,649,000</u>
Mass Transit	24	2011	103,200,000	11,886,000
	31	2014	43,600,000	43,600,000
			<u>146,800,000</u>	<u>55,486,000</u>
Public Housing	17	1981	2,650,000	1,890,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
	22	2009	1,000,000	1,000,000
	54	2010	46,400,000	46,400,000
			<u>53,030,000</u>	<u>52,270,000</u>
Agricultural Easements	24	2011	2,000,000	2,000,000
Facade Easements	24	2011	1,100,000	1,100,000
	26	2013	2,200,000	2,200,000
			<u>5,300,000</u>	<u>5,300,000</u>
Parking Districts: Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
	19	2012	20,115,000	1,193,000
			<u>24,280,000</u>	<u>4,458,000</u>
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			<u>9,150,000</u>	<u>4,865,000</u>
Total Parking Districts			<u>33,430,000</u>	<u>9,323,000</u>
Total General Obligation Bonds			<u>\$ 2,226,660,000</u>	<u>\$ 1,749,496,000</u>

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



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

The County follows a practice of budgeting significant current revenue substitution for general obligation bonds over the six-year Capital Improvements Program. This “pay-as-you-go” approach to funding debt-eligible capital improvement projects, known as PAYGO, helps manage the County’s debt burden and retain funding flexibility. The significant amounts of PAYGO substitutions over the past four years, and planned for substitution over the six years beginning FY17, are displayed below.

**Table 10**  
**PAYGO Substitutions**  
**(Actual FY12-16, Budgeted FY17-22)**

<u>Fiscal Year</u>	<u>PAYGO Amount</u>
2013	\$ 29,500,500
2014	29,500,500
2015	29,950,000
2016	34,000,000
2017	34,000,000
2018	34,000,000
2019	34,000,000
2020	34,000,000
2021	34,000,000
2022	34,000,000

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

The County utilizes Bond Anticipation Notes (BANs)/commercial paper for short-term capital financing of capital expenditures with the expectation that the principal amount will be refinanced with the proceeds of long-term general obligation bonds. Interest costs incurred are usually at lower rates than with long-term financing. The County has BANs/commercial paper authorized, issued, and outstanding as financing sources for capital construction and improvements. BANs/commercial paper are issued at varying maturities to a maximum of 270 days. The County reissues the notes upon maturity until they are refinanced with long-term bonds. Changes in BANs/commercial paper during the period July 1, 2015 through June 30, 2016 are presented in Table 11. Also see Subsequent Events, Note 4 on page 35.

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**Table 11**  
**Bond Anticipation Notes Outstanding**  
**As of June 30, 2016**

<u>Issue</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>BANs Retired</u>	<u>BANs Issued</u>	<u>Balance</u> <u>June 30, 2016</u>
BAN 2009-A	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000
BAN 2009-B	100,000,000	100,000,000	100,000,000	100,000,000
BAN 2010-A	150,000,000	50,000,000	50,000,000	150,000,000
BAN 2010-B	<u>150,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>150,000,000</u>
Total	<u>\$500,000,000</u>	<u>\$300,000,000</u>	<u>\$300,000,000</u>	<u>\$500,000,000</u>

### Revenue Bonds

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

In October 2015, the County issued \$9.2 million of Bethesda Parking Lot District (PLD) bonds via direct bank placement to refund the outstanding 2005 Bethesda PLD bonds for debt service savings.

In April 2016, the County issued \$46.5 million of Water Quality Protection Revenue Bonds, Series 2016. The proceeds of the Series 2016 will be used to (i) finance and refinance the planning, design, acquisition, and construction of storm-water management facilities and other related projects pursuant to the County's regulatory obligations under the Municipal Separate Storm Sewer permit (the "MS4 Permit") between the County and the Maryland Department of the Environment, as such facilities are included in and approved in the County's Capital Improvements Program and (ii) fund a debt service reserve fund, and (iii) pay costs of issuing the Series 2016 Bonds.

County revenue bond indebtedness by issue is presented in Table 12. Annual debt service payments for the County's revenue bond debt are displayed in Table 13. Table 14 sets forth the amount of revenue bonds authorized to be issued by the County as of June 30, 2016.

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**Table 12**  
**Revenue Bond Debt of the County**  
**As of June 30, 2016**

<u>Bond Description</u>	<u>Date</u>	<u>Original Issue Size</u>	<u>Original Coupon Rates</u>	<u>TIC*</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2016</u>
Parking Revenue Bonds (Bethesda PLD)	08/31/05	\$16,495,000	3.62%-5.00%	4.0471%	2007-25	\$ -
Parking Revenue Bonds (Bethesda PLD)	05/16/12	24,190,000	3.00%-5.00%	2.8367%	2015-23	22,250,000
Parking Revenue Refunding Bonds (Bethesda PLD)	05/16/12	13,750,000	1.25%-1.93%	2.8367%	2013-17	8,285,000
Parking Revenue Bonds (Bethesda PLD)	10/19/15	9,174,000	2.55%	2.5504%	2017-26	9,174,000
Liquor Control Revenue Bonds	05/12/09	46,765,000	3.00%-5.00%	4.1195%	2010-29	34,725,000
Liquor Control Revenue Bonds	04/28/11	34,360,000	2.00%-5.00%	4.2826%	2012-31	28,305,000
Liquor Control Revenue Bonds	07/30/13	46,645,000	3.125%-5.00%	3.9326%	2014-33	41,600,000
Water Quality Protection Revenue Bonds	07/18/12	37,835,000	0.25%-5.00%	3.3148%	2013-32	32,875,000
Water Quality Protection Revenue Bonds	04/06/16	46,500,000	2.25%-5.00%	4.1195%	2017-36	<u>46,500,000</u>
Total						<u>\$ 223,714,000</u>

\* True Interest Cost.

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**Table 13**  
**Summary of Revenue Bond Debt Service Requirements by Fiscal Year**  
**As of June 30, 2016**

Fiscal Year	Principal	Interest	Total
2017	\$ 11,403,000	\$ 9,154,396	\$ 20,557,396
2018	11,831,000	8,724,516	20,555,516
2019	12,321,000	8,241,488	20,562,488
2020	12,836,000	7,715,764	20,551,764
2021	13,410,000	7,150,906	20,560,906
2022	12,500,000	6,531,129	19,031,129
2023	13,016,000	6,014,428	19,030,428
2024	13,555,000	5,476,713	19,031,713
2025	14,113,000	4,926,340	19,039,340
2026	14,654,000	4,375,534	19,029,534
2027	13,975,000	3,809,889	17,784,889
2028	14,570,000	3,216,639	17,786,639
2029	15,195,000	2,594,239	17,789,239
2030	12,175,000	1,952,164	14,127,164
2031	12,680,000	1,450,694	14,130,694
2032	10,515,000	916,151	11,431,151
2033	6,110,000	498,900	6,608,900
2034	2,865,000	265,650	3,130,650
2035	2,950,000	179,700	3,129,700
2036	3,040,000	91,200	3,131,200
Total	\$ 223,714,000	\$ 83,286,439	\$ 307,000,439

**Table 14**  
**Revenue Bonds Authorized – Unissued**  
**As of June 30, 2016**

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 1,403,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,635,000	6,255,000
Liquor & Transportation	16-863	2009	138,000,000	10,230,000
Parking Lot Districts	17-403	2012	46,000,000	8,060,000
Water Quality Protection	Bill 12-12	2012	95,000,000	10,665,000
Parking Lot Districts	18-232	2015	11,200,000	2,026,000
Total			\$ 432,998,000	\$ 47,639,000

## Other Long Term Obligations

### Conduit Debt of the County (Capital Leases)

Montgomery County's conduit issuers issue bonds on the County's behalf and loan the proceeds to the County. This results in lease payments from the County to the conduit issuers, which in turn pays the debt service on the bonds. The principal amounts owed by the County to these conduit issuers as of June 30, 2016 are listed below. Table 15 displays principal and interest debt service requirements.

<u>Purpose</u>	<u>Issuer</u>	<u>Principal Outstanding June 30, 2016</u>
Montgomery County		
Conference Center	Montgomery County Revenue Authority	\$ 6,305,000
Health & Human Services Headquarters	Montgomery County Revenue Authority	390,780
Aquatic Centers	Montgomery County Revenue Authority	4,462,650
Solid Waste Disposal System	Northeast Maryland Waste Disposal Authority	-
Total		<u>\$ 11,158,430</u>

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

The County entered into a conditional purchase agreement (COPs) dated October 1, 2007 with U.S. Bank National Association for the purpose of borrowing \$33.6 million to acquire equipment for use in the County's fire and rescue program. The COPs mature in 10 years. In April 2010, the County entered into a conditional purchase agreement with U.S. Bank, for the purpose of borrowing \$23.0 million to acquire buses. That issuance of COPs matures in seven years. Table 15 discloses principal and interest debt service requirements for the outstanding COPs balance of \$10.8 million as of June 30, 2016.

In April 2010, the County issued \$30.4 million of Taxable Limited Obligation Certificates which was supplemented by an additional issue of \$28.8 million in August 2011. The proceeds of these sales are being used to fund the County's Facility and Residential Development Projects - primarily projects associated with affordable housing and the Fillmore music venue. The Certificates fully amortize over 20 years. In November 2013, the County issued Taxable Limited Obligation Certificates in the amount of \$38 million; the County issued the certificates to finance the Montgomery Housing Initiative program established by the County to promote a broad range of affordable housing opportunities in the County. Table 15 discloses principal and interest debt service requirements for the outstanding Taxable Certificates balance of \$82.5 million as of June 30, 2016.

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

### Other Leases and Notes

Other Leases and Notes Payable represent various unique long-term debt transactions including a HUD Loan, WSSC Promissory Note, and Energy Performance Leases.

The HUD Loan was authorized by the County to acquire twenty-one housing units to provide affordable housing for income qualified persons. After a loan agreement was signed between the County and HUD, the County Council approved the County to disburse and re-loan the proceeds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, principal with interest over a twenty-year period. The balance outstanding as of June 30, 2016 was \$354,000, as included in the Table 15.

In 2007, the County entered into a Purchase and Sale Contract with Washington Suburban Sanitary Commission (WSSC) to acquire property for \$10 million. On January 15, 2009, the County signed the promissory note evidencing its obligation to fulfill the terms of the contract. The note has a term of 15 years; interest accrues at a rate of 4.43% and the minimum annual payment due by the County is \$400,000. If the minimum annual loan payment is less than the interest accrued during the fiscal period; the difference between the interest accrued and the debt service paid is added to the total principal amount owed. Table 15 includes debt service on the \$9.8 million outstanding as of June 30, 2016.

The County entered into two lease/purchase agreements to fund energy performance savings projects for which the repayment of debt is expected to be covered through energy savings. The balance outstanding as of June 30, 2016 was \$7.4 million and principal and interest repayment is included in Table 15.

### **Equipment Notes and Master Leases**

The County entered into a Tax-Exempt Term Loan Note to fund Public Safety System communication equipment as well as Master Leases to finance equipment acquisitions for various County programs. The County's obligation to make payment under the Master Leases in any fiscal year is contingent upon the County Council making an appropriation for such purpose in such year. In the event that the Council does not appropriate money to make such payments, the County is required to return the financed asset to the bank identified in the applicable Master Lease, without any additional financial liability. The obligation of the County under the agreements does not constitute a pledge of the full faith and credit or taxing powers of the County. Principal and Interest amortization for the \$42.2 million in equipment notes outstanding as of June 30, 2016 balance is displayed in Table 15.

## **Other Operating Payment Agreements**

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

The County entered into a Trust Agreement dated June 1, 2002 with Wachovia Bank, N.A. related to the issuance of \$37.88 million in Lease Revenue Bonds to finance the costs of parking structures and related facilities at the Shady Grove Metrorail Station and the Grosvenor Metrorail Station in Montgomery County. The County leased the garages to the Washington Metropolitan Area Transit Authority (WMATA), an interstate compact agency and instrumentality of the District of Columbia, the State of Maryland, and the Commonwealth of Virginia.

Pursuant to the Trust Agreement, and a First Supplemental Trust Agreement dated September 1, 2004, additional bonds in the amount of \$4.7 million were issued by the County on September 28, 2004 to complete construction of the Shady Grove and Grosvenor parking structures and related facilities. The final maturity of the Series 2002 and Series 2004 bonds is in 2024.

On October 13, 2011, the County issued \$35.5 million in Lease Revenue Project and Refunding bonds to finance a portion of the design and construction costs of the Glenmont Metrorail Station parking structure and refund the outstanding Series 2002 and 2004 Metrorail garage bonds. The Bonds were issued pursuant to a Trust Agreement between the County and U.S. Bank National Association as Trustee. The final maturity of the bonds is in 2031.

The Bonds are limited obligations of the County payable solely from and secured by a pledge of (1) the revenues and receipts to be derived from the lease of the garages to WMATA and (2) certain funds and accounts established pursuant to the Trust Agreement, including a debt service reserve. The County covenanted to budget, appropriate and pay to the Trustee for deposit in the debt service reserve, at any time and in any fiscal year when the amount to the credit thereof is less than required by the Trust Agreement, an amount equal to the deficiency; however, the obligation of the County to make any such payment in any fiscal year is contingent upon the appropriation in such fiscal year by the Montgomery County Council of funds from which such payment can be made.

The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the full faith and credit nor the taxing power of the County is pledged to the payment of the bonds. Lease revenue bonds outstanding as of June 30, 2016 was \$25.1 million and debt service principal and interest requirements are disclosed in Table 15.

**Table 15**  
**Summary of Other Long Term Obligations Debt Service Requirements**  
**As of June 30, 2016**

**Conduit Debt (Capital Leases)**

Fiscal Year	Principal	Interest	Total
2017	\$ 2,703,600	\$ 205,172	\$ 2,908,772
2018	2,348,320	164,668	2,512,988
2019	2,386,510	128,566	2,515,076
2020	900,000	91,834	991,834
2021	915,000	72,709	987,709
2022	940,000	50,977	990,977
2023	965,000	26,538	991,538
Total	<u>\$ 11,158,430</u>	<u>\$ 740,464</u>	<u>\$ 11,898,894</u>

**Certificates of Participation**

Fiscal Year	Principal	Interest	Total
2017	\$ 7,155,000	\$ 362,000	\$ 7,517,000
2018	3,645,000	72,900	3,717,900
Total	<u>\$ 10,800,000</u>	<u>\$ 434,900</u>	<u>\$ 11,234,900</u>

**Taxable Limited Obligation Certificates**

Fiscal Year	Principal	Interest	Total
2017	\$ 3,875,000	\$ 3,614,700	\$ 7,489,700
2018	3,995,000	3,501,862	7,496,862
2019	4,110,000	3,382,454	7,492,454
2020	4,255,000	3,241,114	7,496,114
2021	4,415,000	3,079,405	7,494,405
2022	4,585,000	2,903,396	7,488,396
2023	4,780,000	2,711,994	7,491,994
2024	4,990,000	2,504,673	7,494,673
2025	5,210,000	2,281,322	7,491,322
2026	5,455,000	2,041,651	7,496,651
2027	5,710,000	1,784,031	7,494,031
2028	5,990,000	1,505,440	7,495,440
2029	6,285,000	1,206,131	7,491,131
2030	6,610,000	880,609	7,490,609
2031	4,460,000	531,894	4,991,894
2032	2,480,000	312,075	2,792,075
2033	2,600,000	191,425	2,791,425
2034	2,730,000	64,838	2,794,838
Total	<u>\$ 82,535,000</u>	<u>\$ 35,739,014</u>	<u>\$ 118,274,014</u>

**Other Leases and Notes Payable****(HUD Loan, WSSC Note, Energy Performance Leases)**

Fiscal Year	Principal	Interest	Total
2017	\$ 139,285	\$ 721,820	\$ 861,105
2018	145,397	758,949	904,346
2019	350,369	747,719	1,098,088
2020	293,790	733,844	1,027,634
2021	305,045	720,691	1,025,736
2022	316,667	706,997	1,023,664
2023	328,664	692,752	1,021,416
2024	392,017	677,071	1,069,088
2025	10,470,790	437,638	10,908,428
2026	411,186	197,210	608,396
2027	428,439	179,213	607,652
2028	446,268	160,432	606,700
2029	464,690	140,839	605,529
2030	470,195	120,581	590,776
2031	489,256	99,990	589,246
2032	508,944	78,534	587,478
2033	529,279	56,186	585,465
2034	551,388	28,909	580,297
2035	251,567	12,759	264,326
2036	259,672	4,297	263,969
Total	\$ 17,552,908	\$ 7,276,431	\$ 24,829,339

**Equipment Notes**

Fiscal Year	Principal	Interest	Total
2017	\$ 12,407,050	\$ 755,231	\$ 13,162,280
2018	8,554,485	535,533	9,090,018
2019	7,680,628	360,051	8,040,679
2020	6,617,104	221,430	6,838,535
2021	5,203,066	102,411	5,305,477
2022	1,571,409	18,599	1,590,008
2023	155,422	1,348	156,770
Total	\$ 42,189,164	\$ 1,994,603	\$ 44,183,767

**Lease Revenue Bonds**

Fiscal Year	Principal	Interest	Total
2017	\$ 2,280,000	\$ 1,210,613	\$ 3,490,613
2018	2,395,000	1,096,613	3,491,613
2019	2,520,000	976,863	3,496,863
2020	2,660,000	850,863	3,510,863
2021	2,790,000	717,863	3,507,863
2022	2,935,000	578,363	3,513,363
2023	3,085,000	431,613	3,516,613
2024	2,985,000	277,363	3,262,363
2025	440,000	128,113	568,113
2026	450,000	113,813	563,813
2027	465,000	98,625	563,625
2028	485,000	82,350	567,350
2029	505,000	61,738	566,738
2030	525,000	42,800	567,800
2031	545,000	21,800	566,800
Total	\$ 25,065,000	\$ 6,689,388	\$ 31,754,388



## Events Subsequent to June 30, 2016

1. On July 29, 2016, the County entered into two Master Lease Purchase Agreements with JP Morgan Chase Bank N.A in the amount of \$23,990,960 to fund the County's Health and Human Services information technology project.
2. On July 27, 2016, the County issued Series 2016A and Series 2016B, Certificates of Participation (Montgomery College Improvements) in the amounts of \$23,050,000 and \$1,810,000 respectively. The proceeds will fund the purchase and improvements to an office building to consolidate administration and eliminate leased space.
3. On September 23, 2016, the County entered into a Banc of America Public Capital Corp, Master Equipment Lease/Purchase Agreement. The Agreement provides a \$40 million Master Lease facility to fund energy performance savings projects for which the repayment of debt is guaranteed through energy savings. The first draw under the facility in the amount of \$3.905 million was also made on September 23, 2016.
4. On December 13, 2016, the County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of \$340,000,000. The proceeds of this bond issue were used to pay off an equivalent amount of the County's BANs which funded capital expenditures for transportation, education, and other County facilities.
5. On December 21, 2016, the County entered into four Master Leases with PNC Equipment Finance, LLC to fund various County equipment. The Leases provide (i) \$164,000 for Department of Police mobile desktop units, (ii) \$462,000 for Montgomery County Public Libraries computer equipment, (iii) \$779,000 for Department of Liquor Control fleet trucks, and (iv) \$9.3 million for Department of Transportation Ride-On buses.

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## **Overlapping Debt**

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

### **Washington Suburban Sanitary Commission**

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

### **Housing Opportunities Commission**

The Housing Opportunities Commission of Montgomery County (HOC) issues revenue bonds for its Multifamily Mortgage Program and its Single Family Mortgage Purchase Program which are paid through mortgage receipts from the underlying real estate properties or individual borrowers. The bonds do not constitute a liability or obligation, direct or indirect, of the County, the State of Maryland, or any political subdivision thereof and are not backed by the full faith and credit of the County or HOC; however, Montgomery County guarantees a relatively small portion of HOC's debt (up to \$50,000,000). Any projects financed from bond proceeds and guaranteed by the County's general obligation pledge are evaluated and approved on a project basis by the County Council. Title 16-205 of the Housing and Community Article in the Code provides the method by which the County implemented the guarantee.

### **Montgomery County Revenue Authority**

The Montgomery County Revenue Authority (MCRA) has authority to issue revenue bonds and to otherwise finance projects through notes and mortgages with land and improvements serving as collateral. These are paid through revenues of MCRA's several enterprises, which include golf courses and the Montgomery County Airpark. The County also uses MCRA as a conduit for alternative capital project funding arrangements. These include financing for several County aquatic facilities and the Montgomery County Conference Center. For these projects, the MCRA issues the bonds and the debt service is paid through revenues from long-term lease agreements with the County. See "County Facility Lease Obligations" below.

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

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

## **Special Taxing Districts**

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

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

On August 13, 2014, the County issued \$12.0 million of bonds to refund West Germantown Development District Series 2002A, 2004A, and 2004B bonds at a true interest rate of 2.8 percent for a net present value savings of \$2.8 million, or 21.7 percent savings of refunded bonds through 2027. The outstanding principal balance as of June 30, 2016 was \$11.4 million. On August 26, 2014, the County issued \$1.4 million of bonds to refund the 1999 Series Kingsview Village Center Development District bonds at a true interest rate of 3.0 percent for a net present value savings of \$0.17 million, or 11.6 percent savings of refunded bonds through 2021. The outstanding principal balance as of June 30, 2016 was \$1.1 million. The district tax payers will benefit from these refundings as lower debt service costs translate into lower tax burden needed to support the debt service payments.

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

In March 2010, the County adopted a new sector plan for the White Flint area of north Bethesda. This smart- growth master plan transforms 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), in 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). Bill 50-10 creates the White Flint Taxing District (Chapter 68C of the County Code) in order to collect ad valorem tax revenue that will provide a stable, reliable and consistent revenue stream. The revenue collected will fund the transportation infrastructure improvements identified in the implementation and strategy Resolution by facilitating repayment of bonds authorized by the legislation.

## **Towns and Cities**

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

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## County Facility Lease Obligations

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately \$24.8 million for FY16. In addition, long-term leases with the Montgomery County Revenue Authority (MCRA) are subject to annual appropriations, but are related to the debt service on bonds that MCRA issued on the County's behalf.

Following is a listing of significant lease agreements for FY16:

<u>Payee</u>	<u>Location</u>	<u>Use</u>	<u>Total Rent For FY16</u>
Eldridge, Inc.	255 Rockville Pike, Rockville	Various Agencies	\$6,362,964
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	\$1,525,040
Montgomery County Revenue Authority	5701 Marinelli Drive, Rockville	Conference Center	\$985,034
FDR Srour Partnership	14935 Southlawn Lane, Rockville	Public Safety	\$1,907,032
FP Gude LLC	7300 Calhoun Drive, Derwood	Juvenile Assessment Center	\$1,596,053
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public facilities/Family Justice Center	\$1,015,875
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	\$937,545
Felland Limited Partnership	4901-43 Nicholson Ct., Kensington	DOT/Transit Services	\$895,504
Seneca Center II, LLC	18753 N. Frederick Ave.	Board of Elections	\$1,122,955
Fanaroff & Steppa c/o HBW Group	981 Rollins Avenue, Rockville	HHS-OAS Clinic	\$767,786
1335 Piccard LLC, c/o Wellstone Corp.	1335 Piccard Drive, Rockville	Health Center	\$745,673
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	\$394,376
Investment Properties, Inc.	701-C Dover Road, Rockville	Fire & Rescue Warehouse	\$563,191
The Gudelsky Company	8630 Fenton Street, Silver Spring	Health Center	\$543,928
Williamson, Harry E. and Helga R.	12500 Ardennes Avenue, Rockville	Corrections	\$782,636
Rockville Metro Plaza I, LLP	111 Rockville Pike, Rockville	Economic Development	\$518,256
Investment Properties, Inc.	11 North Washington St. 4 <sup>th</sup> Floor Rockville	HHS Community Support Network	\$234,748
ARE 25/35/45 W. Watkins Corp.	45 West Watkins Mill Rd, Gaithersburg	Public Safety	\$416,583
Betty B. Casey Trust	8516-40 Anniversary Circle, Rockville	Records Center/Warehouse	\$402,483
Halcyon Associates	8434 Helgerman Court, Gaithersburg	Public Safety	\$90,749
Green Squad LLC	11435 Grandview Ave	Fire & Rescue	\$232,979

## **GENERAL FINANCIAL POLICIES**

### **Financial Reporting Standard**

Montgomery County seeks to continually maintain best practices in its financial reporting operation. The County received the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report (CAFR) for FY15 and for more times than any other county in the nation. Since 1951, the County received the award 46 times and in 44 consecutive years since 1972. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The County believes the FY16 CAFR will again meet the Certificate of Achievement Program's requirements and submitted it to the GFOA to determine its eligibility for another certificate.

### **Reporting Entity**

The County reporting entity is determined by criteria set forth in promulgations of the Governmental Accounting Standards Board. The reporting entity includes the fiscal activities of Montgomery County Government, as the primary government, and Montgomery County Public Schools (MCPS), Montgomery College ("the College"), Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, and the Bethesda Urban Partnership, Inc., as component units. Not included within the reporting entity are the Montgomery County portion of Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Washington Suburban Transit Commission, Washington Metropolitan Area Transit Authority, Metropolitan Washington Council of Governments, and the Northeast Maryland Waste Disposal Authority. These entities are considered joint ventures and disclosure of the County's participation in these joint ventures is presented as a footnote to the County's financial statements included in its Basic Financial Statements (refer to Appendix A for statements as of June 30, 2016).

### **Basis of Accounting**

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflow, liabilities, deferred inflow, fund balance/net position, revenues, and expenditures/expenses. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The basis of accounting for both types of statements is presented below. The balance sheet categories of deferred inflows and deferred outflows are currently unique to governmental generally accepted accounting principles. Deferred outflows are consumption of net assets in one period that are applicable to a future period. Deferred inflows are acquisition of net assets in one period that are applicable to a future period.

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

Governmental fund (i.e., General, Debt Service, Capital Projects, Special Revenue, and Permanent) financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Expenditures generally are recorded when a liability is incurred, as under accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and judgments, and compensated absences, are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

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

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

## **Basis of Budgeting**

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

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

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## **The Montgomery County Results**

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

## **County Stat**

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

## **Legal Framework for Budgeting**

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

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

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

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

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

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

The cost criterion for projects in the FY17 Capital Budget and the Approved FY17-22 CIP is \$15.1 million. The Charter also requires approval of the aggregate operating budget by the affirmative vote of six Council members, as opposed to a simple majority, when it exceeds the budget for the preceding year by a percentage which is greater than the percentage increase in the Consumer Price Index for all urban consumers for the Washington-Baltimore combined metropolitan statistical area (CMSA) for the 12 months preceding December 1 of each year, as published by the U.S. Department of Labor. In addition, a Charter amendment adopted at the November 1990 general election requires the County Council to annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and operating budgets. Any aggregate capital budget or aggregate operating budget that exceeds the guidelines then in effect requires the affirmative vote of seven of the nine council members for approval.

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## **ANNUAL BUDGETS**

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

On May 26, 2016 the County Council approved the FY17 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating \$5.302 billion. This budgetary level represents an increase of 4.3 percent over the adopted budget for FY16.

The FY17 operating budget provides the greatest share (49.8 percent) of total tax supported resources to Montgomery County Public Schools (MCPS). Funding for MCPS addresses the achievement gap and reducing class size. In addition, the budget increases reserves, fully funds the annual requirement for retiree health insurance, and funds critical services in public safety and services to vulnerable populations.

The approved FY17 budget provided for an unassigned surplus of \$135.5 million in the General Fund and \$147.1 million across all tax supported funds. For FY17, the estimated weighted real property tax rate for the County is \$1.0264 per \$100 of assessed value.

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

The County Council approved the FY17 Capital Budget and FY17-22 Capital Improvements Program (CIP) for the County government and the required agencies, except for WSSC, aggregating \$4.621 billion for the Approved FY17-22. The Approved FY17-22 program provided for County bond funding aggregating 1.771 billion over the FY17-22 six-year period. The Council approved a Capital Improvements Program for WSSC totaling \$1.595 billion for FY17-22. (WSSC is governed by State Law and is the only agency for which the County Council adopts an annual CIP).

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## **SELECTED FINANCIAL INFORMATION**

### **GENERAL FUND AND MAJOR SOURCES OF REVENUE**

#### **General Fund Revenues**

Actual revenues for the General Fund totaled \$3,094.2 million and were 0.2 percent below the budget estimate for the fiscal year but 5.4 percent above actual tax revenues for FY15. The two largest contributors to the variance in dollars between the budget estimate and actual revenues were the income tax which decreased \$11.0 million and the fuel and energy tax which decreased \$12.9 million. Revenues from the property tax amounted to \$1,126.7 million, which was up \$10.0 million, or 0.9 percent above the budget estimate and 3.5 percent above actual tax revenues from FY15. Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and other taxes were \$266.3 million in FY16. That amount was \$14.0 million or 5.0 percent below the budget estimate and that decrease was driven by the fuel/energy tax, a decrease of \$12.9 million or 6.3%, the hotel-motel tax a decrease of \$0.9 million or 4.4 percent below the budget estimate, and telephone tax a decrease of \$0.7 million or 1.4 percent below the budget estimate. Investment income was \$0.7 million below the budget estimate. Licenses and permits came in below the budget estimate by 6.4 percent, while charges for services also came in below the budget estimate by 3.6 percent. Intergovernmental revenues were \$0.4 million or 0.7 percent below the budget estimate. This decrease was attributed to federal and other (non-state) reimbursements, which came in 15.6 percent and 8.7 percent below budget estimates, respectively.

#### **Major Sources of General Fund Revenue**

Three of the largest revenue sources for the General Fund are income taxes, property tax collections, and real property transfer and recordation taxes. Revenues from the income tax were \$1,422.4 million and represented 47.8 percent of actual tax revenues in FY16 and 46.0 percent of total actual revenues. Property taxes amounted to \$1,126.7 million in FY16, which were \$9.97 million or 0.9 percent above the budget estimate and 3.4 percent above actual revenues in FY15. The combined tax receipts from the County's real property transfer and recordation tax were \$161.7 million in FY16, which were 5.1 percent above the budget estimate and 9.6 percent above FY15. The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and other taxes – totaled \$266.3 million in FY16 and were \$14.0 million or 5.0 percent below the budget estimate and 4.2 percent below actual revenues in FY15.

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

Expenditure savings in FY16 amounted to \$12.1 million. Savings occurred in both departmental expenditures (\$10.11 million) and non-departmental expenditures (\$2.03 million). Even though all departmental and non-departmental units recognized some savings this year, the majority of the savings occurred in lower than projected operating costs for Health and Human Services (\$4.26 million), Libraries (\$1.64 million), and Technology Services (\$1.41 million).

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**Table 16**  
**Montgomery County, Maryland**  
**Schedule of General Fund Revenues, Expenditures, & Transfers In (Out)**  
**(Budgetary, Non-GAAP Basis)**

	Fiscal Year Actual				Fiscal Year Budget 2017
Revenues	2013	2014	2015	2016	
Taxes:					
Property, including interest & penalty	\$1,036,227,629	\$1,108,735,671	\$1,088,396,848	1,126,665,990	\$1,271,864,533
Transfer tax and recordation tax	142,027,055	144,458,634	147,599,257	161,708,395	165,800,678
County income tax	1,317,533,090	1,376,763,653	1,310,821,061	1,422,428,435	1,487,577,240
Other taxes	<u>292,007,596</u>	<u>284,844,756</u>	<u>278,098,839</u>	<u>266,344,615</u>	<u>278,340,693</u>
Total Taxes	2,787,795,370	2,914,802,714	2,824,916,005	2,977,147,435	3,203,583,144
Licenses and permits	9,703,745	10,585,333	10,315,894	11,144,883	11,931,340
Intergovernmental revenue	51,799,202	65,386,079	60,699,770	59,554,943	74,523,416
Charges for services	10,552,028	8,911,416	9,230,851	9,267,988	9,609,043
Fines and forfeitures	23,160,668	23,993,497	27,538,162	27,327,136	24,222,150
Investment income	66,215	5,572	105,948	352,107	144,540
Miscellaneous	<u>14,449,088</u>	<u>14,406,470</u>	<u>13,556,323</u>	<u>11,159,904</u>	<u>9,769,993</u>
Total Revenues	<u>2,897,526,316</u>	<u>3,038,091,081</u>	<u>2,946,362,953</u>	<u>3,095,954,396</u>	<u>3,333,783,626</u>
Expenditures (including encumbrances):					
General County:					
General government	348,045,120	403,689,920	406,534,123	399,833,772	425,508,887
Public safety	367,638,180	386,799,315	404,811,041	403,313,408	386,521,952
Transportation and public works	68,700,317	82,090,135	77,680,747	90,201,866	58,180,549
Health and human services	196,376,879	216,191,464	229,901,709	223,483,341	244,715,542
Culture and recreation	35,568,206	38,749,757	42,353,242	45,438,915	46,990,807
Housing and community development	4,439,750	4,699,773	5,096,032	5,472,449	12,491,617
Environment	<u>2,371,515</u>	<u>2,247,029</u>	<u>1,861,807</u>	<u>2,519,854</u>	<u>2,737,274</u>
Total Expenditures	<u>1,023,139,967</u>	<u>1,134,467,393</u>	<u>1,168,238,701</u>	<u>1,170,263,605</u>	<u>1,177,146,628</u>
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	24,504,717	26,552,919	24,313,710	25,866,675	29,541,456
Enterprise Funds	28,400,910	28,253,518	36,253,942	34,647,926	30,024,688
Internal Service Funds	19,034,302	8,682,636	10,745,911	--	4,312
Component Units	<u>232,538</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Operating Transfers In (Out)	<u>72,172,467</u>	<u>63,489,073</u>	<u>71,313,563</u>	<u>60,514,601</u>	<u>59,570,456</u>
Transfers Out:					
Special Revenue Funds	(57,842,563)	(49,557,407)	(45,240,340)	(52,762,042)	(54,762,166)
Debt Service Fund	(252,311,377)	(256,222,429)	(281,282,150)	(273,627,904)	(319,884,710)
Capital Projects Fund	(45,695,781)	(42,493,960)	(54,521,679)	(45,791,407)	(51,379,000)
Enterprise Funds	(2,873,089)	(2,608,209)	(1,708,890)	(1,617,930)	(1,811,280)
Internal Service Funds	(1,597,958)	(1,143,657)	(576,813)	(39,184)	--
Component Units	<u>(1,547,788,358)</u>	<u>(1,576,615,732)</u>	<u>(1,623,531,989)</u>	<u>(1,681,143,451)</u>	<u>(1,772,066,047)</u>
Total Transfers Out	<u>(1,908,109,126)</u>	<u>(1,928,641,394)</u>	<u>(2,006,861,861)</u>	<u>(2,054,981,918)</u>	<u>(2,199,903,203)</u>
Net Transfers In (Out)	<u>(1,835,936,659)</u>	<u>(1,865,152,321)</u>	<u>(1,935,548,298)</u>	<u>(1,994,467,317)</u>	<u>(2,140,332,747)</u>
Excess of revenues and operating transfers in over/ (under) expenditures, encumbrances and operating transfers out	<u>38,449,690</u>	<u>38,471,367</u>	<u>(157,424,046)</u>	<u>(68,776,526)</u>	<u>16,304,251</u>
Fund Balances, July 1 as previously stated	235,497,305	289,598,811	352,940,120	228,809,810	186,608,478
Adjustment for previous year encumbrances	<u>15,651,816</u>	<u>24,869,942</u>	<u>33,293,736</u>	<u>26,575,194</u>	<u>--</u>
Fund Balances, July 1 restated	251,149,121	314,468,753	386,233,856	255,385,004	186,608,478
Equity transfers in (out)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Budgetary Fund Balance, June 30	<u>\$ 289,598,811</u>	<u>\$ 352,940,120</u>	<u>\$ 228,809,810</u>	<u>\$ 186,608,478</u>	<u>\$ 202,912,729</u>

**Table 17**  
**General Fund**  
**Schedule of Budgetary Fund Balance to**  
**GAAP Fund Balance Reconciliation**

	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above <sup>(2)</sup>	\$ 289,598,811	\$ 352,940,120	\$ 228,809,810	\$ 186,608,478
Encumbrances outstanding	29,344,177	33,293,736	26,575,194	27,035,009
Cumulative Marriot Conference Center	4,719,357	5,578,374	6,451,379	7,447,589
Unrealized investment gain (loss) <sup>(1)</sup>	(301,087)	(326,213)	(300,987)	(307,954)
Net differences between beginning fund balances	<u>274,877</u>	<u>271,653</u>	<u>(449,973)</u>	<u>285,124</u>
GAAP Fund Balance as Reported	<u>\$ 323,636,135</u>	<u>\$ 391,757,670</u>	<u>\$ 261,085,423</u>	<u>\$ 221,068,246</u>
Elements of GAAP Fund Balance:				
Nonspendable	\$ 5,649,319	\$ 6,159,553	\$ 6,799,926	\$ 7,275,055
Restricted	--	14,500	585,905	2,045,735
Committed	49,695,245	68,078,344	70,586,279	71,684,134
Assigned	29,344,177	33,293,736	26,575,194	27,035,009
Unassigned	<u>238,947,394</u>	<u>284,211,537</u>	<u>156,538,119</u>	<u>113,028,313</u>
Total Fund Balance	<u>\$ 323,636,135</u>	<u>\$ 391,757,670</u>	<u>\$ 261,085,423</u>	<u>\$ 221,068,246</u>

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

(1) Amount restated to break out impact of unrealized investment gains (losses).

(2) Amounts consistent with prior year budget ending fund balance but does not equal CAFR RSI-1.

## Revenue Stabilization Fund

The State of Maryland enacted legislation in 1992 authorizing political subdivisions in Maryland to establish “rainy day” or reserve funds to accommodate future funding shortfalls. Pursuant to this State law, Montgomery County, under Section 20-64 of Article XII of the Montgomery County Code, established a Revenue Stabilization Fund (the “Fund”) effective July 1, 1994. The Fund supplements the reserve or operating margin the County annually sets aside, and provides a mechanism to level out the revenue stream by adjusting for year-to-year fluctuations beyond a certain baseline level.

Effective FY11, the mandatory annual contribution to the Fund must equal the greater of 50 percent of any excess revenue or an annual amount equal to the lesser of 0.5 percent of the Adjusted Governmental Revenues or the amount needed to obtain a total reserve of 10 percent of the Adjusted Governmental Revenues. Excess revenue is the amount, if positive, by which total revenues from the income tax, real property transfer tax, recordation tax, and investment income for the General Fund for the fiscal year exceed the original projections for these amounts. Adjusted Governmental Revenues means tax-supported County Governmental Funds revenues, plus revenues of the County Grants Fund, County Capital Projects Fund, tax-supported funds of the Montgomery County Public Schools, not including the County’s local contribution, tax-supported funds of Montgomery College, not including the County’s local tax contribution, and tax-supported funds of the Montgomery County portion of the Maryland-National Capital Park and Planning Commission.

In FY14, the fund balance in the Revenue Stabilization Fund (RSF) was combined with the General Fund in the Comprehensive Annual Financial Report (CAFR). The required mandatory contribution for FY14 was \$23.0 million. This amount was transferred to the RSF as required. As of June 30, 2014, the ending fund balance in the Revenue Stabilization Fund was \$208.0 million. This amount is reported as restricted fund balance in the General Fund for FY14. The County is phasing in a 10 percent reserve requirement for Adjusted Governmental Revenues and expects to obtain this level of funding by FY20.

In FY15, the required mandatory contribution for the fiscal year was \$22.4 million; accordingly, the required amount was transferred to the RSF. As of June 30, 2015, the ending fund balance in the Revenue Stabilization Fund was \$230.6 million. This amount is reported as restricted fund balance in the General Fund for FY 15.

In FY16, the required mandatory contribution for the fiscal year was \$23.2 million; accordingly, the required amount was transferred to the RSF. As of June 30, 2016, the ending fund balance in the Revenue Stabilization Fund was \$254.4 million. This amount is reported as restricted fund balance in the General Fund for FY16.

**Table 18**  
**Revenue Stabilization Fund**  
**Transfers In and Fund Balance**

<u>Fiscal</u> <u>Year</u>	<u>Transfers</u> <u>(millions)</u>	<u>Fund Balance</u> <u>(millions)</u>
2016	\$23.2	\$254.4
2015	22.4	230.6
2014	23.0	208.0
2013	29.6	184.9
2012	60.7	155.2
2011	19.6	94.5
2010	(44.8)	74.9
2009	--	119.6
2008	--	119.6
2007	11.9	119.6
2006	6.6	107.8
2005	5.2	101.2
2004	8.8	95.9
2003	--	87.2
2002	7.7	87.2

Note: Fund Balances include transfers in and investment income.

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## Enterprise Funds

The County has three major enterprise funds, liquor control, solid waste activities, and parking lot districts, which are accounted for and operated in a manner similar to private business enterprises. The results of operations for Fiscal Years 2012 – 2016 are shown in the table below.

**Table 19**  
**Enterprise Funds Paying Debt Service**  
**Results of Operations**

<u>Funds</u>	<u>Fiscal Year</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Liquor Control</u>					
Operating Revenues	\$ 252,325,417	\$ 258,876,654	\$ 268,655,339	\$ 278,622,540	\$ 294,574,193
Operating Expenses	<u>218,758,812</u>	<u>224,306,626</u>	<u>237,434,727</u>	<u>247,294,596</u>	<u>263,388,201</u>
Operating Income	<u>\$ 33,566,605</u>	<u>\$ 34,570,028</u>	<u>\$ 31,220,612</u>	<u>\$ 31,327,944</u>	<u>\$ 31,185,992</u>
<u>Solid Waste Activities</u>					
Operating Revenues	\$ 107,772,792	\$ 108,248,910	\$ 109,211,815	\$ 111,530,484	\$ 109,412,973
Operating Expenses	<u>98,781,876</u>	<u>105,868,485</u>	<u>129,648,505</u>	<u>109,371,699</u>	<u>106,039,726</u>
Operating Income (Loss)	<u>\$ 8,990,916</u>	<u>\$ 2,380,425</u>	<u>\$ (20,436,690)</u>	<u>\$ 2,158,785</u>	<u>\$ 3,373,247</u>
<u>Parking Lot Districts</u>					
Operating Revenues	\$ 28,916,500	\$ 31,054,372	\$ 30,896,632	\$ 33,903,942	\$ 31,941,706
Operating Expenses	<u>28,436,826</u>	<u>28,750,317</u>	<u>28,774,524</u>	<u>35,753,524</u>	<u>32,335,299</u>
Operating Income (Loss)	<u>\$ 479,674</u>	<u>\$ 2,304,055</u>	<u>\$ 2,122,108</u>	<u>\$ (1,849,582)</u>	<u>\$ (393,593)</u>

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## Self-Insurance Funds

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

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

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

In addition to the self-insured coverage, Risk Management coordinates the purchase of commercial insurance for such coverage as All Risk Property Insurance, Boiler and Machinery, Public Official and Employee Bonds, Electronic Data Processing, Fiduciary Liability, and others. Beginning March 15, 2007, Commercial Excess Liability insurance was purchased, and is effective through June 30, 2017. It is expected that this coverage will be maintained, but it is dependent on market conditions and price at the time of the policy renewal.

A summary of FY16 operations of the program is outlined below:

	(\$000's)
<u>Revenues:</u>	
Contributions from participating agencies	\$ 64,759
Interest on investments	463
Recovered losses	575
Other income	861
Total Revenues	<u>66,658</u>
<u>Expenses:</u>	
Claims expense	49,672
Claims administration, loss control, external insurance, and other administrative expenses	<u>17,216</u>
Total Expenses	<u>66,888</u>
Net Gain / (Loss)	(229)
Net Position, July 1, 2015	<u>12,901</u>
Net Position, June 30, 2016	<u>\$ 12,672</u>

By State law effective July 1, 1987, local government employees are protected by the Local Government Tort Claims Act. Under this legislation, the liability of the employees of local governments for common law torts, such as negligence, is limited to \$400,000 for an individual claim, and \$800,000 for all claims arising from one occurrence. This act, combined with the law limiting the public school system's liability to \$400,000 effective Oct 1, 2016, significantly decreases the exposure of the program to large losses.

The County is also self-insured for unemployment benefits and maintains a minimum premium funding arrangement for employee health insurance. The FY16 operations for these two elements of the insurance program are not reflected above.

## County Employee Retirement Plans

### *General*

The County maintains a defined benefit pension plan and several other employee retirement plans. The Employees' Retirement System (the "System") is a cost-sharing, multiple employer defined benefit pension plan established in 1965. In addition to the County, other agencies and political subdivisions have elected to participate in the System, including Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, Town of Chevy Chase, Strathmore Hall Foundation, Inc., Washington Suburban Transit Commission, Montgomery County Employees Federal Credit Union and with respect to certain employees, the Maryland State Department of Assessments and Taxation and the District Court of Maryland (collectively, the "Participating Employers"). The System is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification. The County and each other Participating Employer contribute the remaining amounts necessary to fund the System on an actuarial basis. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and Guaranteed Retirement Income Plan (the "GRIP") participants. Substantially all employees of the Participating Employers hired prior to October 1, 1994 are provided retirement benefits under the System. All covered full-time employees of the County and other Participating Employers must become members of the System as a condition of employment. All covered career part-time employees of the County and other Participating Employers may become members on an individual basis.

The County has established a Board of Investment Trustees (the "Board") to be responsible for the investment management of the System assets. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

The Montgomery County Council passed legislation in fiscal year 2009 enabling the County to establish and maintain the GRIP, a cash balance plan that is part of the System, for employees. During fiscal year 2010, eligible County employees who were members of the Retirement Savings Plan (the "RSP") were granted the option to elect to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP. As of June 30, 2016, 5,513 active members, 6,453 retirees and beneficiaries receiving benefits and 395 terminated plan members entitled to but not yet receiving benefits were participating in the System.

Deferred Retirement Option Plans (the "DROP"), established in fiscal year 2000, allow any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to retire but continue to work for the County for a specified time period, during which pension payments are deferred. When the member's participation in the DROP ends, the member must stop working for the County, draw a pension based on the member's credited service and earnings as of the date that the member began to participate in the DROP and receive the value of the DROP payoff. As of June 30, 2016, the balance of amounts held by the System pursuant to DROP was \$17.58 million.

The RSP is a cost-sharing, multiple employer defined contribution plan established in 1994. The RSP covers all non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994 unless they elect to participate in the GRIP. Employees covered by the System may make an irrevocable decision to transfer to the RSP. As of June 30, 2016, 3,670 active members and 954 inactive plan members were participating in the RSP with a net position of \$335.96 million. The Board establishes for the RSP members a diversified slate of mutual and commingled investment funds from which participants may select their investment options.

The Deferred Compensation Plan (the "DCP") was established pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. All County non-represented employees, those County represented employees who elected to participate and employees who were retired at the time of transfer, continue to participate in the DCP. As of June 30, 2016, the DCP had a net position of \$348.97 million. The Board establishes for the DCP a diversified slate of mutual and commingled investment funds from which participants may select their investment options.

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### ***Employees' Retirement System***

System benefit provisions are established under the County Code. All benefits vest at five years of service. The System contains different retirement groups and retirement membership classes. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. There are different retirement membership classes within the groups that are assigned based upon the job classification of the member. Normal and early retirement eligibility, the formula for determining the amount of benefit and the cost of living adjustment vary depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the highest 12 months and for mandatory integrated group members, the highest 36 months. The percentage of earnings and the maximum years of credited service vary depending on the retirement class and group.

Required employee contribution rates to the System vary from 4% to 11.25% of regular earnings as specified under the County Code. Each Participating Employer is required to contribute the remaining amount necessary to fund the System using the actuarial basis specified in the County Code.

The County retains an actuary (currently Gabriel Roeder Smith & Company) to conduct an actuarial valuation of the System at the end of each fiscal year. The purpose of the actuarial valuation is to determine the funding status and annual contribution requirements of the System. The actuary calculates the total pension liability of the System, based on the demographic and economic assumptions, compared to the Plan's fiduciary net position, to determine the funded ratio of the System.

An actuarial valuation will also state an actuarially recommended contribution rate. The actuarially recommended contribution consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service and (2) an amortization of the unfunded liability as a level percentage of payroll. The unfunded liability as of June 30, 2010 was amortized over an initial closed period of 18 years and with all future amortization bases being amortized over 20 years. Beginning with the actuarial valuation as of July 1, 2015, the unfunded liability is amortized over an initial period of 20 years. For Public Safety and the GRIP, a single closed amortization period of 20 years will be used. For non-Public Safety groups, a single closed amortization period of 9 years will be used. The average amortization period for the total ERS is 11.7 years.

The System uses an asset valuation method of smoothing the difference between the market value of assets and actuarial value of assets over a five-year period which dampens the volatility of asset values that could occur because of short-term fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process and prevents volatility in employer contribution rates due to short-term fluctuations in the investment markets. Assets are valued at market value but with a phase-in of investment gains and losses arising over a five-year period. As of June 30, 2016, the aggregate market value of net assets of the System was \$3,641.60 million and the aggregate actuarial value of net assets of the System was \$3,798.56 million.

During the past five fiscal years, the County has made the actuarially recommended contributions to the System. The actuarially recommended contribution to the System for fiscal year ended June 30, 2016 was \$134.81 million and was based on the actuarial valuation as of June 30, 2014. The County intends to make the actuarially recommended contribution to the System for the next fiscal year.

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The following tables show the historical funded status for the System for the ten year period ending June 30, 2016 and the projected funded status for the System for the five year period ending June 30, 2016.

**Table 20**  
**Historical Funded Status**

Valuation Date (June 30)	Net Market Value of Assets	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	
2007	\$ 2,714,267,659	\$ 2,469,933,200	\$ 3,100,637,723	\$ 630,704,523	79.7	%
2008	2,618,801,439	2,701,119,470	3,341,549,425	640,429,955	80.8	
2009	2,145,999,195	2,736,010,144	3,489,057,559	753,047,415	78.4	
2010	2,442,692,323	2,791,144,974	3,645,576,341	854,431,367	76.6	
2011	2,897,207,710	2,869,422,276	3,744,713,474	875,291,198	76.6	
2012	2,936,773,694	2,891,435,563	3,768,745,962	877,310,399	76.7	
2013	3,184,245,211	3,012,547,244	3,821,380,732	808,833,488	78.8	
2014	3,652,867,097	3,333,484,724	3,958,929,718	625,444,994	84.2	
2015	3,661,661,244	3,630,075,610	4,050,736,852	420,661,242	89.6	
2016	3,641,602,614	3,798,555,275	4,141,060,968	342,505,693	91.7	

### ***Investments***

The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing.

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The following was the Board's adopted asset allocation policy as of June 30, 2016:

Asset Class	Target Allocation	
Long Duration Fixed Income	10.50	%
High Yield Fixed Income	8.00	
Credit Opportunities	4.00	
Private Real Assets	10.00	
Domestic Equity	14.40	
International Equity	11.50	
Emerging Equity	2.90	
Global Equity	3.20	
Private Equity	11.00	
Global ILs	12.00	
Public Real Assets	6.50	
Cash	1.00	
Hedge Funds	5.00	
Total	100.00	%

The value of the securities and assets in the investment portfolio can change from year to year which can cause increases or decreases in the System Unfunded Actuarial Accrued Liability (UAAL). The actuarial assumed rate of return of System investments is currently 7.5%. The actual rate of return earned depends on the performance of the investment portfolio. The following table shows the annual rates of return for the System investments on a market and actuarial basis and the actuarial assumed rate of return.

**System  
Annual Rates of Return**

Valuation Date (June 30)	Market Value*	Actuarial Value	Assumed Rate of Return
2016	1.90%	6.73%	7.50%

\* Time-weighted returns

**Additional Information**

For additional information regarding the County employee retirement plans, see the County Employee Retirement Plans Comprehensive Annual Financial Report which can be found at [http://www.montgomerycountymd.gov/mcerp/ers/ers\\_reports.html](http://www.montgomerycountymd.gov/mcerp/ers/ers_reports.html)

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## Other Post Employment Benefits

The County administers a cost-sharing multiple-employer defined benefit healthcare plan. Substantially retirees of the County and retirees of other participating employers are provided post-employment benefits such as medical, life, dental, vision, and prescription coverage under the plan. Retirees may also elect coverage for their eligible dependents. As of June 30, 2014, the most recent actuarial valuation, plan membership consisted of 17,505 members, consisting of 7,563 retirees and beneficiaries receiving benefits and 9,942 active plan members. The plan is a contributory plan in which the County and the plan members contribute, based on an actuarial valuation, certain amounts toward the current cost of healthcare benefits. During FY16, plan members and beneficiaries receiving benefits contributed \$24.66 million and the County and other participating employers contributed \$101.65 million.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, Accounting and Financial Reporting for Employers for Postemployment Benefits Other than Pensions (GASB 45), which addresses how state and local governments should account for and report their costs and obligations related to other post employment benefits (OPEB). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The County implemented GASB 45 as required in FY08.

The County has retained the actuary Aon Hewitt to conduct actuarial valuations for the plan. As of June 30, 2016, the plan had an actuarial accrued liability of \$1,320.88 million and plan assets of \$303.63 million on an actuarial basis. The unfunded actuarial accrued liability of the plan was \$1,017.25 million as of June 30, 2016.

Prior to the County's implementation of GASB 45 in FY08, the County contributed to the plan for benefits thereunder on a pay-as-you go basis. In FY08, the County determined to contribute to the plan based on annual required contributions but with an initial eight-year phase-in period. For fiscal year 2016, the annual OPEB cost was \$118.91 million and the County made total contributions of \$110.31 million. Additional information regarding the plan's annual OPEB cost and net OPEB Obligation can be found in the notes to the County's financial statements contained at Appendix A.

The actuarial valuations are subject to a number of actuarial and economic assumptions similar to the assumptions used in evaluating the County's pension fund liabilities. The valuation uses a 30 year amortization period utilizing the project unit credit actuarial method. The assumed investment rate of return for the plan is 7.50%. The actual rate of return fluctuates depending upon market conditions.

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## Property Tax Assessments

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

As the level of new construction was less than \$1.7 billion in FY10, less than \$1.0 billion in FY11, less than \$0.6 billion in FY12, and less than \$1.5 billion in FY13, coupled with a decline in the valuation of properties, the real property taxable base decreased at an average annual rate of 2.9 percent, measured from FY11 to FY13, compared to a modest growth rate of 0.4 percent from FY10 to FY11. That two-year decline was attributed to the dramatic decreases in the reassessment rates in FY10, FY11, and FY12. As such real property taxable assessments declined 3.3 percent in FY12 and 2.4 percent in FY13. However, in FY14, real property taxable assessment increased 1.0 percent and 2.4 percent in FY15. Due to a decline in business investment in personal property between FY10 and FY13, attributed to an adjustment by the SDAT to assessments of individual personal property, the personal property base decreased at an average annual rate of 4.4 percent during the four-year period (from FY10 to FY13). In FY14, personal property taxable assessment increased 2.9 percent but decreased 1.5 percent in FY15. In FY16, real property taxable assessment increased 4.0 percent and personal property taxable assessment increased 6.3 percent. The increase in real property taxable assessment is due to the increase in the triennial reassessment rates for residential and commercial properties in Group Three.

**Table 21**  
**Assessed Value of All Taxable**  
**Property by Class and Fiscal Year**

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Assessed Value</u>	<u>Percent Change From Prior Year</u>	<u>Ratio of Assessment to Full Market Value</u>
2016	\$170,176,446,052	\$3,884,349,017	\$174,060,795,069	4.03%	92.56%
2015	163,656,758,206	3,655,133,210	167,311,891,416	2.27	92.55
2014	159,891,865,334	3,709,327,508	163,601,192,842	1.06	91.77
2013	158,272,830,848	3,604,478,750	161,877,309,598	-2.43	93.05
2012	162,197,149,758	3,718,945,710	165,916,095,468	-3.34	93.05

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

Tax-exempt properties are excluded from the above figures. In FY16, such exemptions for real property owned by Federal, State, County, and other governmental units, and certain non-profit organizations totaled nearly 21,000 accounts at the beginning of the fiscal year based on data from the State Department of Assessments and Taxation. Tax-exempt real property constitutes 6.1 percent of the total number of accounts for the real property assessable base. The SDAT grants exemptions from property taxes, pursuant to State law. The ratio of total assessed value to total full market value is based on studies conducted by the SDAT.

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**Table 22**  
**Tax Levies and Revenue**

<u>Fiscal Year</u>	<u>General County Tax Levy</u>	<u>Revenue From Current Year Assessment</u>	<u>Ratio of Current Yr Revenue to Tax Levy</u>	<u>Revenue From Prior Year Assessment</u>	<u>Total Revenue</u>	<u>Ratio Of Total Revenue to Tax Levy</u>	<u>Accumulated Delinquent Taxes</u>	<u>Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy</u>
2016	\$1,172,889,804	\$1,148,375,647	97.91%	(\$21,380,048)	\$1,125,995,599	96.00%	\$13,853,525	1.18%
2015	1,133,030,658	1,108,320,647	97.82	(21,354,590)	1,086,966,057	95.93	15,573,609	1.37
2014	1,148,085,538	1,126,029,910	98.08	(18,755,733)	1,107,274,177	96.45	14,453,739	1.26
2013	1,081,306,701	1,056,688,995	97.72	(23,627,793)	1,033,061,202	95.54	18,400,655	1.70
2012	1,089,656,756	1,068,630,086	98.07	(26,293,427)	1,042,336,659	95.66	16,292,469	1.50

**Table 23**  
**Tax Rates and Tax Levies, by Purpose**

<u>Fiscal Year</u>	<u>General County (including Education)</u>		<u>Transit</u>		<u>State</u>		<u>Total</u>	
	<u>Rate</u>	<u>Levy</u>	<u>Rate</u>	<u>Levy</u>	<u>Rate</u>	<u>Levy</u>	<u>Rate</u>	<u>Levy</u>
2016	\$0.723	\$1,171,363,784	\$0.060	\$96,861,676	\$0.112	\$191,350,411	\$0.895	\$1,459,575,871
2015	0.732	1,133,030,658	0.040	61,702,899	0.112	183,907,978	0.884	1,378,641,535
2014	0.759	1,148,085,538	0.042	63,303,304	0.112	179,561,927	0.913	1,390,950,769
2013	0.724	1,081,306,701	0.048	71,440,950	0.112	177,724,401	0.884	1,330,472,052
2012	0.713	1,089,656,756	0.038	57,868,221	0.112	182,298,673	0.863	1,329,823,650

Note: Rates are per \$100 of assessed value. Tax rates shown are for real property only, and tax levies are based upon a 100% of full cash value assessment. The personal property rate for General County was \$1.8075 in FY16, \$1.8300 in FY15, \$1.898 in FY14, \$1.810 in FY13, \$1.783 in FY2012; the personal property rate for Transit was \$0.15 in FY16, \$0.1 in FY15, \$0.105 in FY14, \$0.120 in FY13, \$0.095 in FY12(the State does not tax personal property).

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**Table 24**  
**Ten Highest Commercial Property Taxpayers Assessable Base**  
**As of June 30, 2016**

<u>Taxpayer</u>	<u>Total</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Ratio: Taxpayer Base Total Assessable</u>
Potomac Electric Power Co	\$825,783,493	\$5,521,133	\$820,262,360	0.47%
Federal Realty Investment Trust	577,517,398	574,334,768	3,182,630	0.33
WMATA	352,330,267	352,330,267	-	0.20
Verizon - Maryland	336,926,560	-	336,926,560	0.19
Montgomery Mall LLC	335,389,300	335,389,300	-	0.19
Street Retail Inc.	299,542,445	299,542,445	-	0.17
Chevy Chase Land Co	298,395,235	298,395,235	-	0.17
Washington Gas Light Co.	277,048,240	-	277,048,240	0.16
W P Project Developer LLC	254,225,902	254,225,902	-	0.15
Wheaton Plaza Reg Shopping Ctr	<u>226,272,500</u>	<u>226,272,500</u>	<u>-</u>	<u>0.13</u>
Total	<u>\$3,783,431,340</u>	<u>\$2,346,011,550</u>	<u>\$1,437,419,790</u>	2.16%
Assessable Base (June 30, 2016)	<u>\$174,060,795,069</u>			

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

## Impact Tax

Development is occurring throughout Montgomery County, placing great demands on the County to provide for transportation improvements, public schools and other public facilities. Effective March 1, 2004, and pursuant to Articles VII and XII of Chapter 52 of the Montgomery County Code (“Development Impact Tax for Transportation Improvements,” and “Development Impact Tax for Public School Improvements,” respectively), most new residential development within Montgomery County is required to pay impact taxes. These impact taxes are a means of transferring a share of the costs of additional transportation improvements and additional classrooms in public schools to the new development that is primarily responsible for creating these needs. Prior to Bill 26-11, which became effective December 1, 2011, the tax was imposed prior to the issuance of a building permit. Under Bill 26-11 the payment of the tax is now due at the earlier of (A) the final inspection by the Department of Permitting Services; or either (B1) 6 months for single family residential; or (B2) 12 months for multi-family residential and non-residential.

The original impact tax law was enacted in 1990, and applied to transportation improvements only, and affected two outlying geographic areas of the County: Germantown, in the northern section of the County, and an eastern section of the County. The law was amended in 2001 to add another northern section of the County (Clarksburg), and again in 2002 to extend the impact tax for transportation improvements to the remainder of the County. Amendments in 2004 added the schools impact tax, and 2007 amendments (effective during FY08) substantially increased tax rates, and required the County to increase tax rates by the rate of construction inflation (for the two previous years) in every odd year, for a two year period. In December 2010 the law exempted properties within the White Flint Sector Plan area from paying impact taxes, and in December 2011 the law changed the timing of the payments (see paragraph above).

In November of 2016 Bill 37-16 was enacted. Effective March 1, 2017, the legislation will (1) modify the method of calculating the transportation and public school impact tax; (2) create new transportation tax districts associated with the policy area categories; (3) adjust the transportation impact tax for residential use based on Non-Auto Driver Model Share associated with each tax district; (4) adjust the transportation impact tax for non-residential use based on Vehicle Miles of Travel associated with each tax district; (5) exempt certain student-built houses from the impact tax; (6) eliminate the transportation mitigation payments for certain projects; eliminate the school facilities payments for certain projects; (8) exempt certain farm tenant dwelling units from the impact tax for certain transportation improvements; and (9) generally amend County law concerning the development impact tax for transportation and public school improvements.

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

**Table 25**  
**Impact Tax Collections**

<u>Fiscal Year</u>	<u>Transportation Impact Tax</u>	<u>Schools Impact Tax</u>
2016	\$ 8,591,461	\$23,349,333
2015	16,643,380	32,676,773
2014	20,274,781	45,837,274
2013	13,179,898	27,907,753
2012	6,352,401	16,462,394
2011	6,191,216	14,480,846
2010	3,812,000	11,473,000
2009	2,398,000	7,925,000
2008	9,744,000	6,767,000
2007	11,501,000	9,563,000

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## **DEMOGRAPHIC INFORMATION**

### **Population**

The population of the County, according to the 2010 Census, was 971,777, an increase of 10.6 percent since the 2000 Census and exceeded 1 million in 2012.

**Table 26**  
**Households and Population**

	<u>Households</u>	<u>Population</u>	<u>Population Percent Change from Prior Census</u>
2016 (est.)	375,173	1,049,477	8.0%
2015	371,468	1,040,116	7.0
2014	364,854	1,030,447	6.0
2013	364,743	1,016,677	4.6
2012	361,116	1,004,709	3.4
2011	359,496	989,794	1.9
2010 (U.S. Census)	357,086	971,777	10.6
2009	345,301	959,013	9.1
2008	341,812	942,748	7.3
2007	343,540	931,694	6.0
2006	341,438	926,492	5.4
2005	339,628	921,531	4.9
2004	337,838	914,991	4.1
2000 (U.S. Census)	324,565	878,683	15.7

Note: Data for households and total population from 2011 to 2015 from the American Community Survey, U.S. Census Bureau. Data for households from the American Community Survey are defined as occupied housing units. The estimate of households and population in 2016 derived by the Montgomery County Department of Finance from using average annual rate from 2010 to 2015 from MWCOG (Round 8.4).

**Table 27**  
**Median Age**

	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2015</u>
Median Age	28.1	27.9	32.1	33.9	36.8	38.5	38.9

Sources: For 2010 and 2015 the American Community Survey, U.S. Bureau of the Census. For previous years, Decennial Census, U.S. Bureau of the Census

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## Employment

The County's economic structure reveals a diversified economy with a strong service sector. The total private sector (trade, information services, financial activities, professional services, education and health, and hospitality) employed 80.5 percent of the total workforce in 2015, the latest available annual data. The following tables present the County's employment by industrial sector.

**Table 28**  
**Payroll Employment**

	<u>2010</u>	<u>2014</u>	<u>2015</u>
Total Private Sector	358,172	365,763	369,541
Public Sector Employment:			
Federal	45,072	46,678	47,321
State	1,199	1,207	1,249
Local	<u>37,140</u>	<u>41,695</u>	<u>40,774</u>
Total Public Sector	<u>83,411</u>	<u>89,580</u>	<u>89,344</u>
Grand Total	<u>441,583</u>	<u>455,343</u>	<u>458,885</u>

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

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

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

**Table 29**  
**Payroll Employment Shares by Industry**

	<u>2014</u>	<u>2015</u>
Total Private Sector	80.3%	80.5%
Public Sector Employment:		
Federal	10.3	10.3
State	0.2	0.3
Local	<u>9.2</u>	<u>8.9</u>
Total Public Sector	<u>19.7</u>	<u>19.5</u>
Grand Total	<u>100.0%</u>	<u>100.0%</u>

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

Table 30 provides a comparison of the payroll employment data for 2014 and 2015 based on the new classification system which shows that the County had a slight overall percentage gain in employment in 2015.

**Table 30**  
**Payroll Employment**  
**(NAICS Series)\***

	<u>2014</u>	<u>2015</u>	<u>Difference</u>	<u>Percent Change</u>
Total Private Sector	365,763	369,541	3,778	1.0%
Goods-Producing	35,270	35,559	289	0.8%
Natural Resources and Mining	304	308	4	1.3%
Construction	23,662	23,585	(77)	-0.3%
Manufacturing	11,304	11,666	362	3.2%
Service-Providing	330,493	333,982	3,489	1.1%
Trade, Transportation, and Utilities	57,824	57,695	(129)	-0.2%
Information	12,608	12,354	(254)	-2.0%
Financial Activities	30,040	30,607	567	1.9%
Professional and Business Services	98,782	99,022	240	0.2%
Education and Health Services	67,618	69,925	2,307	3.4%
Leisure and Hospitality	41,005	41,827	822	2.0%
Other Services	22,616	22,552	(64)	-0.3%
Public Sector Employment	89,580	89,344	(236)	-0.3%
Federal Government	46,678	47,321	643	1.4%
State Government	1,207	1,249	42	3.5%
Local Government	41,695	40,774	(921)	-2.2%
Grand Total	455,343	458,885	3,542	0.8%

\* North American Industrial Classification System

During calendar year 2015 the County's unemployment rate averaged 3.4 percent.

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Table 31 presents the County's labor force, employment and unemployment for the calendar years 2007 through 2016.

**Table 31**  
**Montgomery County's Resident Labor Force**  
**Employment & Unemployment**

	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
2016*	549,900	531,400	18,500	3.4%
2015**	549,287	527,510	21,777	4.0%
2014**	544,718	520,811	23,907	4.4%
2013**	542,828	515,888	26,939	5.0%
2012**	540,621	512,679	27,942	5.2%
2011**	536,832	508,549	28,283	5.3%
2010	532,549	502,710	29,839	5.6%
2009	522,421	494,565	27,856	5.3%
2008	515,987	499,705	16,282	3.2%
2007	509,769	496,401	13,368	2.6%

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

\* Estimated by the Montgomery County Department of Finance

\*\* Data for 2011 through 2015 were revised by BLS

## Federal Government Employment

The County is home to 18 Federal agencies in which over 55,500 civilians are employed. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation's premier centers of medical research. The following is a partial list of federal agencies in the County and their estimated employment in 2015.

Department of Health and Human Services (HHS)	30,430
National Institutes of Health	
Food and Drug Administration	
Department of Defense	13,270
Walter Reed National Military Center	
Carderock Naval Surface Warfare Center	
Department of Commerce	7,330
National Oceanic & Atmospheric Administration	
National Institute of Standards & Technology	
Nuclear Regulatory Commission	2,700
Department of Energy	1,800

Source: Maryland Department of Commerce

## Private Sector Employment

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

<u>Name of Firm</u>	<u>Est. No. of Employees</u>
Marriott International, Inc.	5,500
Lockheed Martin	4,690
Adventist Hospital	4,290
Holy Cross Hospital	3,900
Giant Food Corporation	3,150
Verizon	2,870
Kaiser Permanente of the Mid-Atlantic States	2,640
MedImmune/Astra Zeneca	2,290
Westat, Inc.	2,280
Government Employee Insurance Company (GEICO)	2,270
Henry M. Jackson Foundation	1,780
Suburban Hospital	1,770
Red Coats/Admiral Security Services	1,640

Source: Maryland Department of Commerce

## Personal Income

Actual personal income of County residents reached \$79.9 billion in calendar year 2015 which is an increase over the 2014 amount of \$75.8 billion. The County's total personal income experienced an increase of 5.4 percent in 2015, greater than the nation's increase of 4.5 percent, and greater than the State's rate of 4.1 percent. The County's total personal income increase of 5.4 percent is greater than the ten-year (2005-2014) annual average growth rate of 3.1 percent.

The County accounts for 23.8 percent of the State's personal income in 2015, which is a percentage that has ranged from a low of 23.5 percent in 2014 to a high of 24.5 percent in 2012.

**Table 32**  
**Total Personal Income**  
**(\$ millions)**

<u>Calendar Year</u>	<u>Montgomery County</u>	<u>Maryland</u>	<u>U.S.</u>	<u>Montgomery County as Percent of Maryland</u>
2015	\$79,946	\$336,187	\$15,463,981	23.8 %
2014	75,841	322,885	14,801,624	23.5
2013	74,018	312,370	14,068,960	23.7
2012	76,994	314,160	13,904,485	24.5
2011	73,818	304,388	13,233,436	24.3
2010	69,149	288,737	12,459,613	23.9
2009	66,148	279,901	12,079,444	23.6
2008	67,564	280,995	12,492,705	24.0
2007	63,700	267,774	11,995,419	23.8
2006	62,576	257,913	11,381,350	24.3
2005	58,924	242,159	10,610,320	24.3

Notes: Data for 2005 to 2015 from U.S. Department of Commerce, Bureau of Economic Analysis, revised November 2016 (County, State, and U.S.)

## Average Household and Per Capita Personal Income

According the Bureau of Economic Analysis, U.S. Department of Commerce, the County's total personal income reached \$79.9 billion in calendar year 2015, up from \$75.8 billion in 2014, while per capita income reached \$76,863 in 2015, up from \$73,598 in 2014. Average household income increased from a revised \$207,870 in 2014 to \$215,223 in 2015.

**Table 33**  
**Per Capita and Average Household Income, 2015**

<u>County</u>	<u>Per Capita Income</u>	<u>County</u>	<u>Average Household Income</u>
Marin, CA	\$109,076	Fairfield, CT	\$302,392
Fairfield, CT	106,382	San Mateo, CA	283,505
San Mateo, CA	97,553	Marin, CA	269,087
Westchester, NY	93,229	Westchester, NY	269,062
Williamson, TN	87,419	Williamson, TN	254,019
Morris, NJ	86,582	Santa Clara, CA	250,445
Somerset, NJ	86,468	Somerset, NJ	246,167
Arlington, VA	86,161	Nassau, NY	242,484
Santa Clara, CA	82,756	Morris, NJ	240,965
Norfolk, MA	80,711	Fairfax, VA	225,088
Collier, FL	78,473	Loudon, VA	217,774
Nassau, NY	77,762	Norfolk, MA	215,720
<b>Montgomery, MD</b>	<b>76,863</b>	<b>Montgomery, MD</b>	<b>215,223</b>
Bergen, NJ	75,849	Bergen, NJ	211,434
Fairfax, VA	74,923	Collier, FL	207,840
Chester, PA	73,803	Lake, IL	202,957
Middlesex, MA	73,265	Chester, PA	202,412
Montgomery, PA	71,306	Howard, MD	198,841
Howard, MD	69,991	Middlesex, MA	198,695
Loudon, VA	69,895	Arlington, VA	190,942

Notes: A major affluent suburban county is defined as a county in either a Metropolitan Statistical Area (MSA) or a Primary Metropolitan Statistical Area (PMSA) with a population of at least 200,000 where income levels are considerably higher than in the central city and other jurisdictions in the area.

Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA), November 2016, for total personal income and per capita data; the Department of Finance used the number of households from the American Community Survey, U.S. Census Bureau., and the total personal income from BEA.

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## **ECONOMY**

### **Agriculture**

Agriculture in Montgomery County is a diverse industry that occupies about one-quarter of the County land area. The County's agriculture industry contributes over \$287 million to the local economy. Over \$85 million comes from the County's thriving equine industry, about \$154 million from horticulture, and \$48 million from traditional agriculture. There are more than 540 farms and 350 horticultural enterprises in the County. Forty-two (42) percent of the County's 540 farms are farmed as a primary occupation. Cash grain farms are the predominant agricultural use in the County covering over 45,000 acres. There are 219 farms, or forty (40) percent, that produce table food crops-products for direct human consumption. The majority of farms are family-run operations, most having been in the same family for several generations. The industry as a whole employs more than 10,000 residents.

Preservation of rural land for agricultural use is a high priority in the County. Farmland preservation efforts consist of a variety of strategic programs offered by the County and State. The County received a total of \$19.7 million in Rural Legacy Program grant awards.

Since its creation in 1980, the 93,000 acre Agricultural Reserve controlled farmland development in the County. There are approximately 70,000 acres of farmland in the Reserve, and another 20,000 acres within the Reserve are publicly owned (parkland) or previously developed land (rural villages). Currently, Montgomery County is ranked second nationally in acres of farmland protected through easements (72,479 acres), and has the highest percentage of land in farms preserved in the nation (94 percent).

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

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

Major capital assets acquired during the current fiscal year included approximately \$472,000 for purchasing preservation easements on farmland in agricultural zones. These assets enhance the preservation of farmland protected by Transferable Development Rights easements (TDRs) including other agricultural lands not protected by agricultural easements. An additional \$1.2 Million is earmarked for pending FY17 easement settlements in association with the County and State Agricultural Easement Programs.

### **New Construction**

Between FY15 and FY16, the number of new construction projects decreased 0.5 percent. At the same time, the value of new construction added to the real property tax base increased 6.7 percent to \$1.514 billion. Over the prior nine-year period (from FY07 to FY15), the number of projects, both residential and non-residential increased from 985 to 1,819. During that same period, the value of new construction averaged \$1.281 billion between FY07 and FY15 and ranging from a high of \$1.605 billion in FY07 to a low of \$0.586 billion in FY12. The decline in the construction of residential properties beginning in FY07 and ending in FY12 reached its lowest level in seven fiscal years. Because of the depressed housing market beginning in late 2005, the value of new residential construction declined at an average annual rate of 25.3 percent between the peak in 2007 and 2012, but since 2012, new residential construction increased at an average annual rate of 28.7 percent.

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**Table 34**  
**New Construction Added to Real Property Tax Base**  
**Montgomery County**  
**(\$ millions)**

<u>Fiscal Year</u>	Construction				Commercial/	All	<u>Total</u>
	<u>Starts</u>	<u>Residential</u>	<u>Apartments</u>	<u>Condominiums</u>	<u>Industrial</u>	<u>Other</u>	
2016	1,809	\$663.3	\$136.6	\$117.2	\$593.1	\$2.4	\$1,514.6
2015*	1,819	660.2	30.9	27.6	696.6	4.2	1,419.5
2014	1,775	652.4	73.5	59.1	517.6	6.8	1,309.4
2013	1,497	537.2	91.9	123.8	651.8	3.0	1,407.7
2012	839	241.5	39.0	60.7	241.3	3.1	585.6
2011	863	540.2	20.6	56.6	226.9	75.5	919.8
2010	833	599.4	19.7	180.3	354.7	226.6	1,380.7
2009	738	724.1	5.8	455.4	229.5	0.0	1,414.8
2008	952	882.7	25.8	318.5	256.6	0.0	1,483.6
2007	985	1,040.1	22.0	211.4	312.6	19.5	1,605.6
10-Year Summary		\$6,541.1	\$467.8	\$1,610.6	\$4,080.7	\$341.1	\$13,041.3
Categories as Percent of Total		50.2%	3.6%	12.3%	31.3%	2.6%	100.0%

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

\*2015 data was revised based on MacGraw-Hill Construction revision.

## Development Districts

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

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

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

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## **Economic Development Initiatives**

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

### ***Overview of Montgomery County***

The County is divided into two major commercial real estate areas: the core and non-core markets. The core markets include the Bethesda/Chevy Chase and Silver Spring submarkets. These two are characterized by high-density, mass transit-served areas. Historically, they are some of the most highly demanded areas in Suburban Maryland.

The non-core markets include all of the remaining submarkets in Montgomery County including the technology based I-270 corridor. Each of the submarkets is outside of the Capital Beltway and generally exhibits more suburban traits, although, this trait is changing as companies are requiring more amenities for their employees.

The I-270 Technology Corridor is an internationally recognized life sciences and advanced technology center. It is home to over 1,000 biotechnology and advanced technology companies, including GlaxoSmithKline (formerly Human Genome Sciences), Lockheed Martin, MedImmune/Astra-Zeneca, IBM and Hughes Communications.

The White Flint Sector Master Plan, with the development clustered within 430 acres around the Metro Station, increased development capacity dramatically. With 9,800 new residential units and almost 6 million square feet of additional commercial development allowed to be phased in within a ten-minute walk from Metro, this area is transitioning from a tired transportation corridor full of strip centers to a vibrant, mixed use urban neighborhood. By the end of the year, the award-winning Pike & Rose project will have delivered almost 900 new residential units, a new hotel, and over 350,000 square feet of commercial space. Construction has also begun on new public streets and separated bike lanes in White Flint to allow for better local mobility and connections, and final site plans for two more mixed use projects were recently approved with construction expected to begin late 2017.

The U.S. Route 29 Corridor in eastern Montgomery County continues its steady transformation into the County's other major technology and business center, with more than 100 major employers, most notably the FDA Headquarters campus that includes over 2.1 million square feet of office, lab and support facilities.

### ***Central Business Districts***

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

### ***Downtown Silver Spring***

Since 1998, the State and Montgomery County invested a total of approximately \$200 million in the redevelopment of downtown Silver Spring. Downtown Silver Spring transformed into a vibrant business, retail and entertainment hub with the American Film Institute (AFI) and Discovery Communications leading the way. Other prominent locations in this district are:

- The Fillmore Silver Spring has been a huge success and brings the tradition of legendary and diverse lineups of performers across many genres of music to the 23,000 square foot venue that can host 2,000 patrons.
- The Silver Spring Civic Building and Veterans Plaza add a new dimension to the arts & entertainment economy in the area. The facility has transformed what it means to be in a public space in Silver Spring and is an economic engine for the nearby retail community.
- The new Silver Spring Library is 63,000 square feet, almost four times bigger than the current Silver Spring Library, and is designed to allow for a Purple Line station.

- Public transportation is being bolstered with the planned Purple Line light rail, which will add new transit options to the region, with two stations in downtown Silver Spring – and nine in the Silver Spring Regional Area.

### ***Wheaton***

The limited size of Wheaton’s Central Business District (CBD), 76 acres, combined with the number of small commercial property parcels and multiple property owners, presents a challenge in redeveloping Wheaton, given the cost of land aggregation necessary for larger-scale development. The County recognized that it and other public entities held enough real estate assets in Wheaton that were capable of accommodating larger development projects. The County determined that some of these assets might be used to stimulate redevelopment in Wheaton as listed below:

- The Wheaton CBD and Vicinity Sector Plan, promotes transit-oriented, “smart growth” development in downtown Wheaton. Such development will enhance Wheaton’s strong retail base, which includes a newly renovated Westfield Wheaton regional shopping mall and over 300 locally owned and operated small businesses, including more than 80 restaurants. A 148,000 square foot Costco Wholesale opened alongside the Westfield shopping mall in 2013.
- Patriot Realty Co., Foulger-Pratt Construction and Safeway, Inc. have constructed an 800,000 square foot mixed-use residential/retail project – The Exchange at Wheaton Station – directly across from the WMATA Red Line subway station.

### ***Bethesda***

Downtown Bethesda is one of the County’s major urban business and entertainment centers, with nearly 200 restaurants combined with the density of both high-rise office and residential buildings. Downtown Bethesda is a thriving destination offering residents, visitors, and its workforce multi-cultural dining, live theater, cinema, unique shops, and numerous special events and festivals.

- Residents and visitors alike continue to enjoy the artistic and enriching performances provided at the Bethesda Round House Theatre, Imagination Stage, Bethesda Row Landmark Theatre, and Bethesda Blues and Jazz Super Club. These marquee entertainment organizations highlight classical plays, children’s theatre, live music, and independent and foreign films.
- Bethesda has a workforce of nearly 44,000 and includes employees who work for some of the region’s most notable employers, including Capital One (formerly Chevy Chase Bank), Clark Construction Group, Calvert Investments, and Cohn Reznick.
- In the popular Bethesda Row section of downtown Bethesda, StonebridgeCarras completed the redevelopment of County Parking Lot 31. The development, which added 250 residential units in two buildings and a new 940-space underground County parking garage, was a joint venture with PN Hoffman. Across the street from Lot 31, JBG has plans to break ground on a 230-room boutique hotel, 25,000 square feet of shops and cafes, and nearly 270,000 square feet of office space.
- The \$300 million, 40-acre Intelligence Community Campus-Bethesda celebrated its grand opening in October 2015. The site will be home to roughly 3,000 employees from the federal government’s intelligence gathering agencies, including the Office of the Director of National Intelligence in the Washington National Capital area. The building will consume 69 percent less energy than it did before renovation and can also be zero-net energy, meaning it could produce as much energy as it consumes during a year. Running off photovoltaic solar panels, the garage, Vehicle Control Center and Vehicle Inspection Station at ICC-B already operate as zero-net energy buildings. The VCC uses groundwater heat pumps, temperature control and energy-efficient glass. The facility’s garage is net-positive, meaning it generates more power than it needs. Overall, the entire campus is expected to use 31 percent less energy than before renovation.
- Marriott International will move its headquarters to a new \$600 million complex in downtown Bethesda and is considering plans to build a new 200-plus room hotel.

### ***Friendship Heights***

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

- The Friendship Heights area has the first top-tier luxury shopping center on the east coast outside of New York City. The Collection at Chevy Chase, part of the Chevy Chase Center mixed-used development, is a 112,000 square foot project facing Wisconsin Avenue.
- The second and third components of Chevy Chase Center consist of 100,000 square feet of neighborhood-oriented retail, and a 200,000 square foot office tower.
- The final project in Friendship Heights, completed in 2009, is Wisconsin Place, a one million square foot mixed-used development on Wisconsin Avenue. Wisconsin Place consists of 305,000 square feet of retail (Bloomingdale's and Whole Foods are the anchor tenants), 432 luxury apartments, 295,000 square feet of office space, a 20,500 square foot community center and a 1,765 space underground parking garage.

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

As of October 2016, Montgomery County has more than 139 million square feet of commercial real estate space (office, flex, industrial, and retail).

Most of Montgomery County's office space is located along two "Technology Corridors", the I-270 corridor and the Route 29 corridor. The I-270 corridor includes the Bethesda, Rockville, Gaithersburg and Germantown markets and features over 104 million square feet of commercial space. Notable buildings along the I-270 corridor include the 1.2 million square foot MedImmune building in Gaithersburg and 800,000 square foot Marriott headquarters in North Bethesda. The Route 29 corridor connects Silver Spring to Burtonsville and includes over 14 million square feet of commercial space. Discovery Communications' 550,000 square foot corporate headquarters in downtown Silver Spring is the signature building in the corridor. Also featured along Route 29 is the WesTech Business Park, which includes over three million square feet of office, R&D, light industrial and retail development.

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**Table 35**  
**Office/Flex/Industrial/Retail Space Availability by Major Submarkets**  
**as of October 2016**

	Total Inventory (Square Feet)	Direct Vacant (Square Feet)	Direct Vacancy Rate	Vacancy Rate w/Sublet
<u>Montgomery County Market</u>				
Bethesda/Chevy Chase	16,290,149	1,240,873	7.4%	8.1%
Gaithersburg	21,989,600	2,285,285	10.4	10.6
Germantown	9,351,899	647,960	6.9	7.1
Kensington/Wheaton	7,027,615	589,358	8.4	8.4
North Bethesda/Potomac	16,361,344	2,625,916	16.0	16.3
North Rockville	22,741,792	2,818,088	12.4	13.2
North Silver Spring/Rt 29	8,886,196	612,733	6.9	7.7
Rockville	19,463,947	1,897,316	9.7	10.0
Silver Spring	11,822,335	873,196	7.4	7.4
Other Markets*	<u>5,587,860</u>	<u>739,339</u>	<u>13.3</u>	<u>13.3</u>
Total County	139,522,737	14,330,064	10.2	10.6

Source: CoStar Property - the County's source for commercial real estate information.

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

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## **Office/Industrial Projects**

A few large commercial projects continued in Montgomery County in 2016. Construction was completed on NIH's National Institute of Allergy and Infectious Diseases (NIAID). Additionally, Montgomery County continued to make significant progress developing two strategic Science and Technology Centers. Details on these projects appear below.

Developers and local government officials broke ground on the Crown project in October 2012. The 182-acre tract is now the site of 320,000 square feet of retail and commercial space, plus 2,250 residential units, being built by Buzzuto Group and called "Cadence at Crown". In June 2015, the retail portion of Downtown Crown was sold for \$162.8 million.

## **Public/Private Projects**

### ***Viva White Oak (formerly LifSci Village)***

The White Oak Science Gateway Master Plan is also being developed, which will provide a unique opportunity to capitalize on the presence of U.S. Food and Drug Administration (FDA), and transform this region of the County into a vibrant hub for technological advancement.

The proposed 300-acre mixed use development is a public-private partnership between the County and Percontee, Inc. The goal is to create a world-class life sciences, education and research campus that will be an economic engine in the eastern portion of the County, and complement nearby Federal agencies, most notably the consolidated FDA headquarters. The County enrolled the property in the State's Voluntary Clean-Up Program; environmental remediation was completed in late 2014. Infrastructure planning is now underway.

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

In early 2003, Montgomery College settled on the purchase of a 20-acre site adjacent to the College's Germantown campus. This property was combined with 20 acres of existing undeveloped land on the campus to form a 40-acre site on which a one million square foot Science and Technology Park will be constructed. The purchase of the 20-acre site was made possible by a total of \$6.1 million in funding appropriations to the College from the State and County. The preliminary plan for the Science and Technology Park calls for primarily high technology research and development space, with a focus on the life sciences, which will complement the biotechnology programs and curriculum already offered at the Germantown Campus. Once built out, the Science and Technology Park will be home to nearly 4,000 employees. As the anchor tenant of the Montgomery College Science & Technology Park, Holy Cross Germantown serves as a valuable educational resource for aspiring health care workers. To complement the Science and Technology Park, the College provided space for a 35,000 square foot County-operated business incubator on campus, which is fully occupied with science and technology early stage companies. To complete this three part science and technology project, the 127,000 square foot Bioscience Education Center opened September 2014.

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

The Montgomery County Business Innovation Network is a program of three business incubator facilities and one virtual facility less program called Incubator without Walls, that has successfully assisted start-up technology and professional services companies to grow and expand in the County. To date, over 240 companies have graduated from the County's incubators, with over 80% of those graduates successfully transitioning to commercial spaces within Montgomery County. The Maryland Technology Development Center opened its doors in 1998. After helping over 100 start-up companies to grow, the center has been successfully converted into the coveted National Cybersecurity Center of Excellence that began operations in January 2016 and functions as a regional hub for civilian cybersecurity initiatives. The County opened a second incubator in 2004, called the Silver Spring Innovation Center (SSIC). The SSIC is nearly fully leased to start-up information technology companies. The success of and demand for the incubator program spurred the County to develop three additional incubators since the opening of the SSIC. In July 2016, the Wheaton Business Innovation Center (WBIC) that opened in 2006 has been converted to an Incubator without Walls program to reach out and nurture more than 300 small businesses in Wheaton and Down County area. The Rockville Innovation Center (RIC), which opened in 2007, and the Germantown Innovation Center (GIC), the latest addition to the incubator program that opened in October 2008, now have a life sciences industry expert (BioHealth Innovations, Inc) managing the programs to further the facilities' economic outputs.

### ***National Institute of Allergy and Infectious Diseases***

The National Institute of Allergy and Infectious Diseases (NIAID) brought a projected 2,000 workers to a new 491,000 square-foot building on Fishers Lane in Twinbrook, under a lease signed by the U.S. General Services Administration. Chevy Chase-based JBG Companies constructed and leased the 10-story office at 5601 Fishers Lane, near where NIAID already had 150,000 square feet of laboratory space. There is also a 5-story, concrete parking garage located adjacent to the building. NIAID signed a 15-year lease for its new quarters, which was completed in 2014.

### ***Downtown Rockville***

Construction was completed on a new mixed-use development project in Rockville Town Center. The \$100 million development includes approximately 17,000 square feet of retail space, 465 apartments, a 140-room Cambria Suites Hotel and 600 parking spaces. The project is expected to generate \$10.18 million in revenue for the county and nearly \$3.8 million for the city during the next 15 years. The property is across the street from Choice Hotels International's new headquarters thus realizing the long-time vision for the headquarters and the flagship hotel brand to be located in close proximity.

## **New Business Additions and Expansions**

Montgomery County continues to work with companies interested in starting-up, expanding, or relocating to the County. Highlights of this activity include:

- Marriott International – Retention of Global Headquarters and its 4000+ employees
- Abt Associates – Attraction of global headquarters, retention of 450 jobs and creation of 50 jobs.
- WeddingWire – Retention of 300 jobs and creation of 210 jobs.
- GlaxoSmithKline – Attraction of Global Center for Vaccines Research and Development, retention of 350 jobs and creation of 450 jobs.
- InfoZen – Retention of 35 jobs and creation of 230 jobs.
- Donohoe Construction – Headquarters attraction and 200 jobs, in addition to the creation of 80 jobs.
- Rain King – Retention of 132 jobs and creation of 66 jobs.
- HMS Host – Retention of 350 jobs and its headquarters operations in the County.
- Donohoe Companies – Attraction of its headquarters and 240 employees to the County.

## **Retail Sales**

Retail sales, measured by sales tax data collected in FY2016, increased in Maryland and in Montgomery County. Compared to the prior fiscal year when retail sales in the County increased 4.2 percent, sales increased a modest 1.0 percent in FY2016. The increase was attributed to purchases of food and beverage items which increased 2.1%, purchases of building and industrial supplies were up 8.6%, hardware, machinery, and equipment which were up 1.5%, and automotive was up 3.6%.

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## **Major Retail Centers**

Montgomery County is served by three regional shopping malls and one premium outlet mall. They are Lakeforest Mall in Gaithersburg, Westfield Montgomery Shopping Mall in Bethesda, Westfield Wheaton Shopping Mall in Silver Spring, and Clarksburg Premium Outlet.

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

Westfield Montgomery Shopping Mall opened in 1968, and covers 1.6 million square feet of space. It features Nordstrom, Macy's, Macy's Furniture Gallery, Sears Roebuck & Co., 211 other stores, and three parking garages. The shopping center recently expanded by enlarging the Macy's, moving the Sears Automotive Center, adding a promenade with shops and restaurants with outdoor seating, and includes a Montgomery County Transit Center.

Westfield Wheaton Shopping Mall is located adjacent to the Wheaton Metro Center at the intersection of Georgia Avenue and Veirs Mill Road in the Wheaton Central Business District. This was the County's first shopping mall (opened in 1960) and was enclosed and remodeled in 1987. JC Penney, Macy's, and Target anchor the mall, which includes 195 stores, with an expansion that includes Costco, which opened in 2013.

Clarksburg Premium Outlets, a 392,000 square foot, two-story LEED-certified venue, opened in October 2016. The outlet is located right off I-270 Exit 18 in Clarksburg, and includes more than 90 top brand stores such as Banana Republic Factory Store, Coach, kate spade new york, Nike Factory Store, Polo Ralph Lauren Factory Store, Saks Fifth Avenue Off 5th, Steve Madden, Tory Burch, and Under Armour.





**APPENDIX A**

**BASIC FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITORS' REPORT

The Honorable County Council  
of Montgomery County, Maryland

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., which represent 16 percent, 6 percent, and 6 percent, respectively, of the assets, net position and revenues of the non-major component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Bethesda Urban Partnership, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining

The Honorable County Council  
of Montgomery County, Maryland

fund information of Montgomery County, Maryland as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 25 and the budgetary comparison information for the general, housing initiative and grants funds, the Consolidated Retiree Health Benefits Trust, Employees' Retirement System, Maryland State Retirement and Pension System, and the notes to required supplementary information on pages 137 through 152 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
December 9, 2016

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Introduction

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

## Financial Highlights

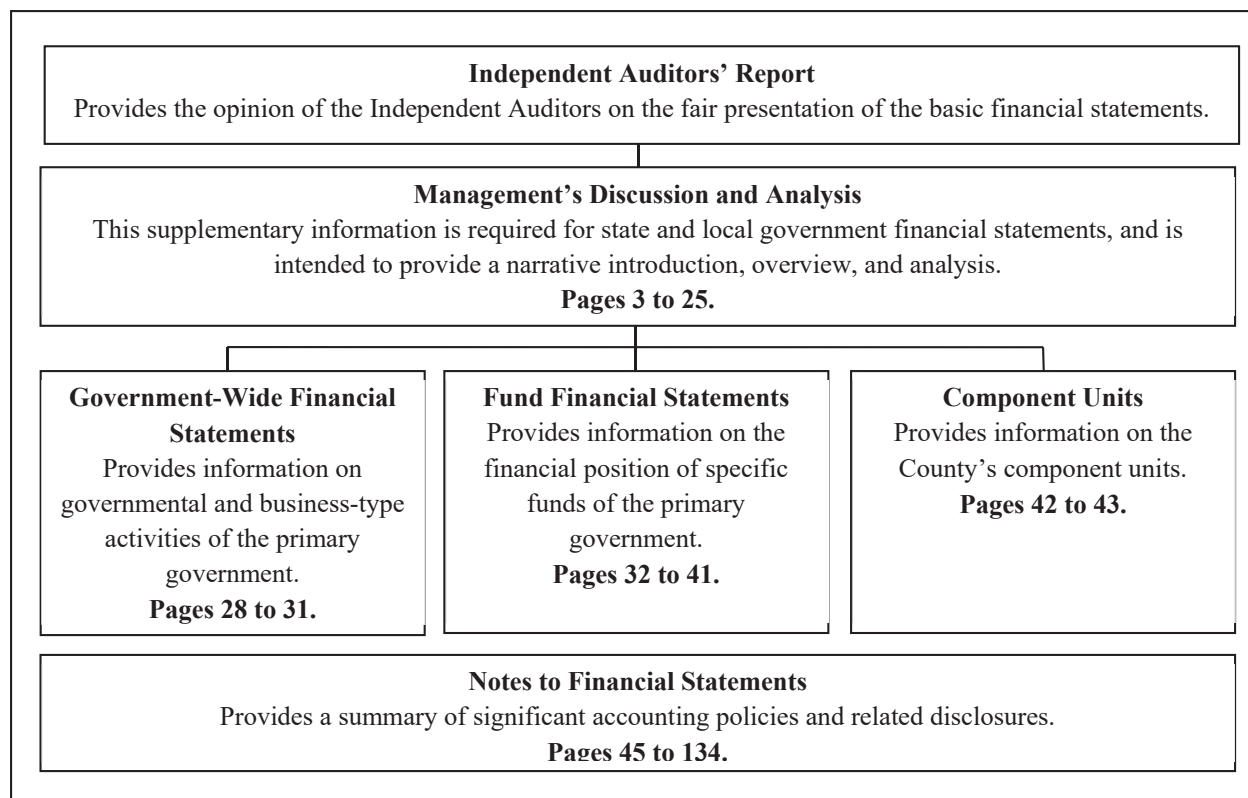
- The government-wide assets and deferred outflows of the County exceeded its liabilities and deferred inflows of resources at the close of FY16 by \$1,019.7 million. That amount is net of a \$1,903.3 million unrestricted deficit. The deficit occurs mainly because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery College (MC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to \$1,665.0 million at June 30, 2016. Absent the effect of this relationship, the County would have reported a deficit government-wide unrestricted net position of \$238.3 million.
- The County's total government-wide net position increased by \$18.0 million.
- As of the close of FY16, the County's governmental funds reported combined ending fund balances of \$895.6 million; a decrease of \$89.4 million over the prior year's ending fund balances. Of the total ending fund balances, \$113.0 million is available for spending at the County's discretion.
- At the end of FY16, unassigned fund balance for the General Fund was \$113.0 million, or 4.0 percent of total General Fund expenditures.
- The County's government-wide long-term debt and obligations increased by \$248.8 million during FY16. The key factors in this increase are:
  - The issuance of \$300 million in general obligation (GO) bonds, used to refund \$300 million in bond anticipation notes (BANS). Included in this issuance was an addition of \$26.7 in GO premiums.
  - The issuance of an additional \$300 million in BANS.
  - The issuance of \$46.5 million in Water Quality Protection Charge revenue bonds. Included in this issuance was an addition of \$2.0 million in revenue bond premium.
  - The issuance of \$9.2 million in Parking Lot District (PLD) revenue refunding bonds, used to refund \$10.2 million of existing PLD revenue bonds.
  - An increase in the Net Pension Liability of \$115.6 million.
  - The retirement of \$187.5 million in GO bond principal and amortization of related premiums of \$39.5 million

## Overview of the Financial Statements

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

financial conditions. The structure of the financial statements is presented below. This MD&A is intended to be an introduction to Montgomery County’s basic financial statements. Montgomery County’s basic financial statements comprise three components, including government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

## Organization and Flow of Financial Section Information



### Government-Wide Financial Statements

The government-wide financial statements report information about the County as a whole using accounting methods similar to those used by private-sector businesses. In addition, they report the County’s net position and how they have changed during the fiscal year.

The first government-wide statement - the statement of net position - presents information on all of the County’s assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Additionally, nonfinancial factors, such as a change in the County’s property tax base or the condition of County facilities and infrastructure, should be considered to assess the overall health of the County.

The second statement – the statement of activities – presents information showing how the County’s net position changed during the fiscal year. All of the current year’s revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid. The information on governmental activities included in the statement reflect the County’s basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and



permit fees, intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations, including: liquor control, solid waste activities, four parking lot districts, permitting services, and community use of public facilities, where fees for services or products are required or designed to recover the cost of operation, including depreciation.

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

## **Fund Financial Statements**

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

### **Governmental Funds**

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

### **Proprietary Funds**

Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County's enterprise funds. The County has three major enterprise funds – liquor control, solid waste activities, and parking lot districts – and two non-major funds. The internal service funds, which are presented in a single, aggregated column in the proprietary fund financial statements, are used to account for the provision of liability and property insurance coverage, employee health benefits, motor pool services, and central duplicating services, to County departments on a cost

reimbursement basis. Although both the fund and government-wide financial statements provide a long-term and short-term focus, reconciliations between these two sets of statements are still required. This is due to the fact that the excess income/loss for the internal service funds has been redistributed to the customers, including business-type activities; such reconciliations are reflected on the bottom of the proprietary fund financial statements.

## Fiduciary Funds

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

## Financial Analysis of Montgomery County, Maryland: Government-Wide Financial Statements

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

### Statement of Net Position

The following presents a summary of the Statements of Net position for the County as of June 30, 2016 and 2015:

Summary of Net Position *						
June 30, 2016 and 2015						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets and Deferred Outflows of Resources:						
Current and other assets	\$ 1,746,800,903	\$ 1,696,582,643	\$ 225,735,790	\$ 220,135,223	\$ 1,972,536,693	\$ 1,916,717,866
Capital assets, net	4,317,030,553	4,075,212,346	272,409,833	280,760,328	4,589,440,386	4,355,972,674
Deferred outflows of resources	322,344,019	188,194,999	13,009,404	6,369,148	335,353,423	194,564,147
Total Assets and Deferred Outflows of Resources	6,386,175,475	5,959,989,988	511,155,027	507,264,699	6,897,330,502	6,467,254,687
Liabilities and Deferred Inflows of Resources:						
Long-term liabilities outstanding	4,931,691,883	4,681,801,356	160,944,227	162,056,261	5,092,636,110	4,843,857,617
Other liabilities	552,978,496	343,067,659	43,810,425	43,564,919	596,788,921	386,632,578
Deferred inflows of resources	180,450,501	225,285,936	7,749,588	9,803,898	188,200,089	235,089,834
Total Liabilities and Deferred Inflows of Resources	5,665,120,880	5,250,154,951	212,504,240	215,425,078	5,877,625,120	5,465,580,029
Net position:						
Net investment in capital assets	2,280,466,863	2,099,290,326	139,122,346	186,001,533	2,419,589,209	2,285,291,859
Restricted	415,275,255	493,320,702	88,115,316	48,386,118	503,390,571	541,706,820
Unrestricted (deficit)	(1,974,687,523)	(1,882,775,991)	71,413,125	57,451,970	(1,903,274,398)	(1,825,324,021)
Total Net Position	\$ 721,054,595	\$ 709,835,037	\$ 298,650,787	\$ 291,839,621	\$ 1,019,705,382	\$ 1,001,674,658
* Primary Government						

The County's current and other assets increased by \$55.8 million or 2.9 percent from FY15. The County's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of FY16 by \$1,019.7 million. By far the largest portion of the County's net position reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to \$1,665.0 million at June 30, 2016. Absent the effect of this relationship, the County would have reported a deficit government-wide unrestricted net position of \$238.3 million. An additional portion of the County's net position (\$503.4 million or 49.4 percent) represents resources that are subject to restrictions on how they may be used.

The County's total net position increased by \$18.0 million for FY16 or 1.8 percent over FY15.

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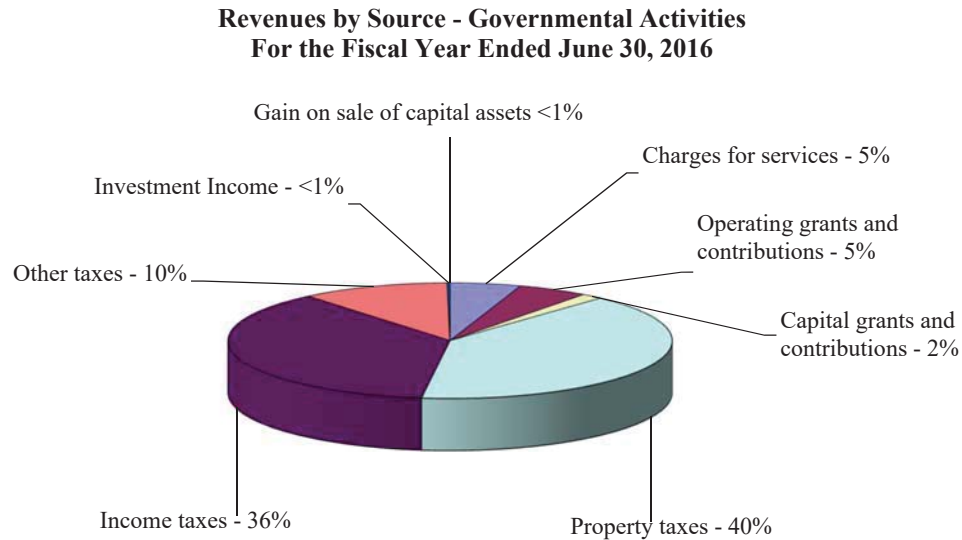
## Statement of Activities

The following table summarizes the County's change in net position for the years ended June 30, 2016 and 2015:

Summary of Changes in Net Position *						
For the Fiscal Years Ended June 30, 2016 and 2015						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>REVENUES</b>						
Program Revenues:						
Charges for services	\$ 204,117,528	\$ 237,757,263	\$ 491,983,515	\$ 474,835,325	\$ 696,101,043	\$ 712,592,588
Operating grants and contributions	204,015,609	201,925,033	-	-	204,015,609	201,925,033
Capital grants and contributions	62,338,151	34,370,853	-	-	62,338,151	34,370,853
General revenues:						
Property taxes	1,593,880,896	1,528,093,085	(657,506)	10,903,699	1,593,223,390	1,538,996,784
Income taxes	1,464,946,447	1,276,415,595	-	-	1,464,946,447	1,276,415,595
Other taxes	429,329,869	423,734,468	-	-	429,329,869	423,734,468
Investment income	7,907,133	6,787,434	415,329	215,823	8,322,462	7,003,257
Gain/(loss) on sale of capital assets	172,639	3,882,648	9,855,423	175,100	10,028,062	4,057,748
Total Revenues	<u>3,966,708,272</u>	<u>3,712,966,379</u>	<u>501,596,761</u>	<u>486,129,947</u>	<u>4,468,305,033</u>	<u>4,199,096,326</u>
<b>EXPENSES</b>						
Governmental Activities:						
General government	624,551,802	470,405,790	-	-	624,551,802	470,405,790
Public safety	620,407,666	591,702,869	-	-	620,407,666	591,702,869
Public works and transportation	279,744,940	288,226,716	-	-	279,744,940	288,226,716
Health and human services	292,252,497	296,567,081	-	-	292,252,497	296,567,081
Culture and recreation	116,004,130	95,703,122	-	-	116,004,130	95,703,122
Community development and housing	42,140,359	32,001,034	-	-	42,140,359	32,001,034
Environment	29,886,401	30,905,863	-	-	29,886,401	30,905,863
Education	1,899,997,038	1,826,117,289	-	-	1,899,997,038	1,826,117,289
Interest on long-term debt	99,889,037	112,420,639	-	-	99,889,037	112,420,639
Business-type Activities:						
Liquor control	-	-	264,763,943	248,982,109	264,763,943	248,982,109
Solid waste activities	-	-	105,838,154	109,351,706	105,838,154	109,351,706
Parking lot districts	-	-	33,453,769	37,103,525	33,453,769	37,103,525
Permitting services	-	-	31,042,939	29,002,673	31,042,939	29,002,673
Community use of public facilities	-	-	10,301,634	9,444,551	10,301,634	9,444,551
Total Expenses	<u>4,004,873,870</u>	<u>3,744,050,403</u>	<u>445,400,439</u>	<u>433,884,564</u>	<u>4,450,274,309</u>	<u>4,177,934,967</u>
Net Position Before Transfers	(38,165,598)	(31,084,024)	56,196,322	52,245,383	18,030,724	21,161,359
Transfers	<u>49,385,156</u>	<u>55,489,227</u>	<u>(49,385,156)</u>	<u>(55,489,227)</u>	<u>-</u>	<u>-</u>
Change in Net Position	11,219,558	24,405,203	6,811,166	(3,243,844)	18,030,724	21,161,359
Net Position, beginning of year	<u>709,835,037</u>	<u>685,429,834</u>	<u>291,839,621</u>	<u>295,083,465</u>	<u>1,001,674,658</u>	<u>980,513,299</u>
Net Position, end of year	<u>\$ 721,054,595</u>	<u>\$ 709,835,037</u>	<u>\$ 298,650,787</u>	<u>\$ 291,839,621</u>	<u>\$ 1,019,705,382</u>	<u>\$ 1,001,674,658</u>
* Primary Government						

## Governmental Activities

Revenues for the County's governmental activities were \$3,966.7 million for FY16. Sources of revenue are comprised of the following items:

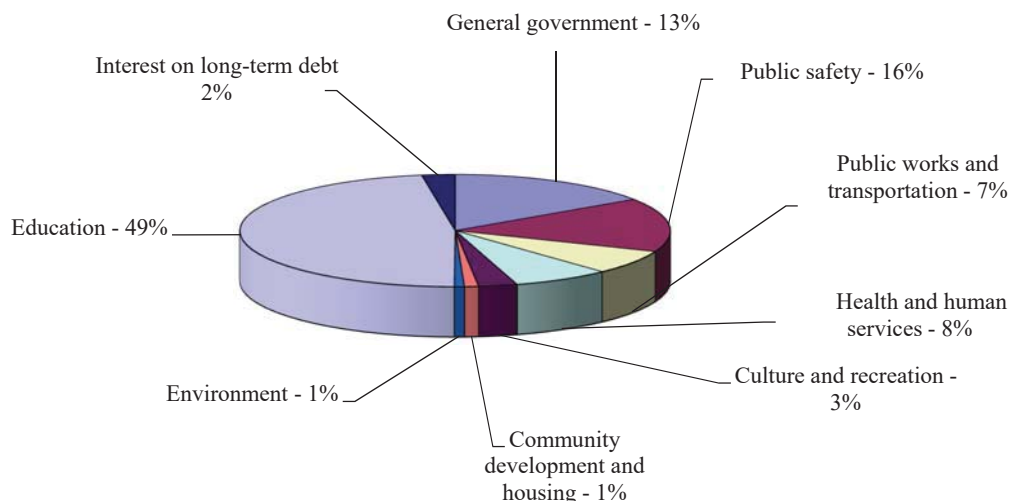


- Taxes constitute the largest source of County revenues, amounting to \$3,488.2 million for FY16.
- Property and local income tax combined comprise 77.1 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2016 and 2015. There is no local sales tax in the State of Maryland.
- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: health and human services (\$103.1 million or 50.6 percent), public works and transportation (\$48.0 million or 23.5 percent) and public safety (\$38.0 million or 18.6 percent).

A more detailed discussion of the County's revenue results for FY16 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY16 was \$4,004.9 million. As the chart on the next page indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1,899.9 million. Public safety expenses totaled \$620.4 million, general government services totaled \$624.4 million, and health and human services, the fourth largest expense for the County, totaled \$292.3 million.

**Expenses by Function - Governmental Activities  
For the Fiscal Year Ended June 30, 2016**



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

Net Cost of County's Governmental Activities						
For the Fiscal Years Ended June 30, 2016 and 2015						
	Expenses		Revenues		Net Cost of Services	
	2016	2015	2016	2015	2016	2015
Education	\$ 1,899,997,038	\$ 1,826,117,289	\$ -	\$ -	\$ 1,899,997,038	\$ 1,826,117,289
Public safety	620,407,666	591,702,869	95,505,531	88,107,998	524,902,135	503,594,871
General government	624,551,802	470,405,790	81,021,166	89,903,682	543,530,636	380,502,108
Public works and transportation	279,744,940	288,226,716	125,931,857	91,011,178	153,813,083	197,215,538
Health and human services	292,252,497	296,567,081	107,349,912	117,357,408	184,902,585	179,209,673
Culture and recreation	116,004,130	95,703,122	44,982,761	49,774,679	71,021,369	45,928,443
Other	171,915,797	175,327,536	15,680,061	37,898,204	156,235,736	137,429,332
Total	<u>\$ 4,004,873,870</u>	<u>\$ 3,744,050,403</u>	<u>\$ 470,471,288</u>	<u>\$ 474,053,149</u>	<u>\$ 3,534,402,582</u>	<u>\$ 3,269,997,254</u>

Of the total cost of governmental activities of \$4,004.9 million, \$470.4 million was paid by those who directly benefited from the programs (\$204.1 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$266.4 million). Of the \$3,534.4 million net cost of services, our taxpayers paid for these activities through County taxes which totaled \$3,488.2 million; also available to contribute towards such net costs were investment income and other contributions not restricted to a specific program.

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

- Education:  
\$73.9 million increase in resources spent on education.
- Public Safety:  
\$28.7 million increased in expenses primarily due to an increase in pension expenses. Pension expenses are expected to fluctuate based on the calculation of the net pension liability.
- Culture and Recreation:  
\$20.3 million increase in expenses is due to an increase in reimbursement requests from M-NCPPC.

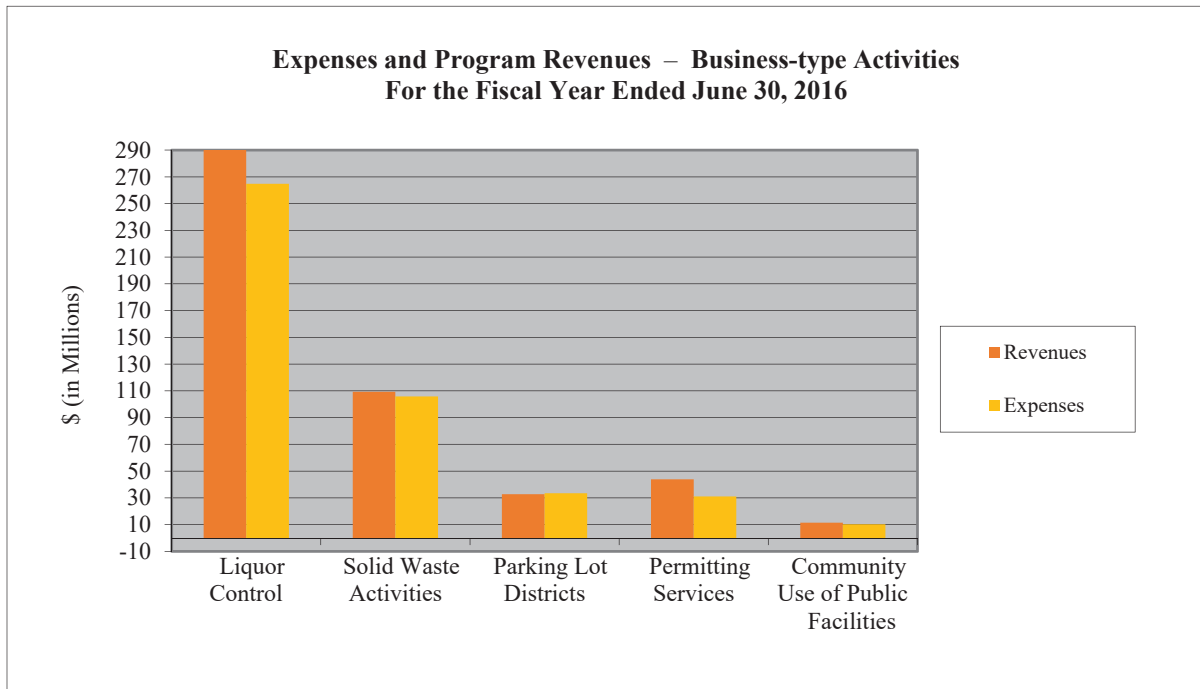
### **Business-type Activities**

Highlights of the County's business-type activities for FY16 are as follows:

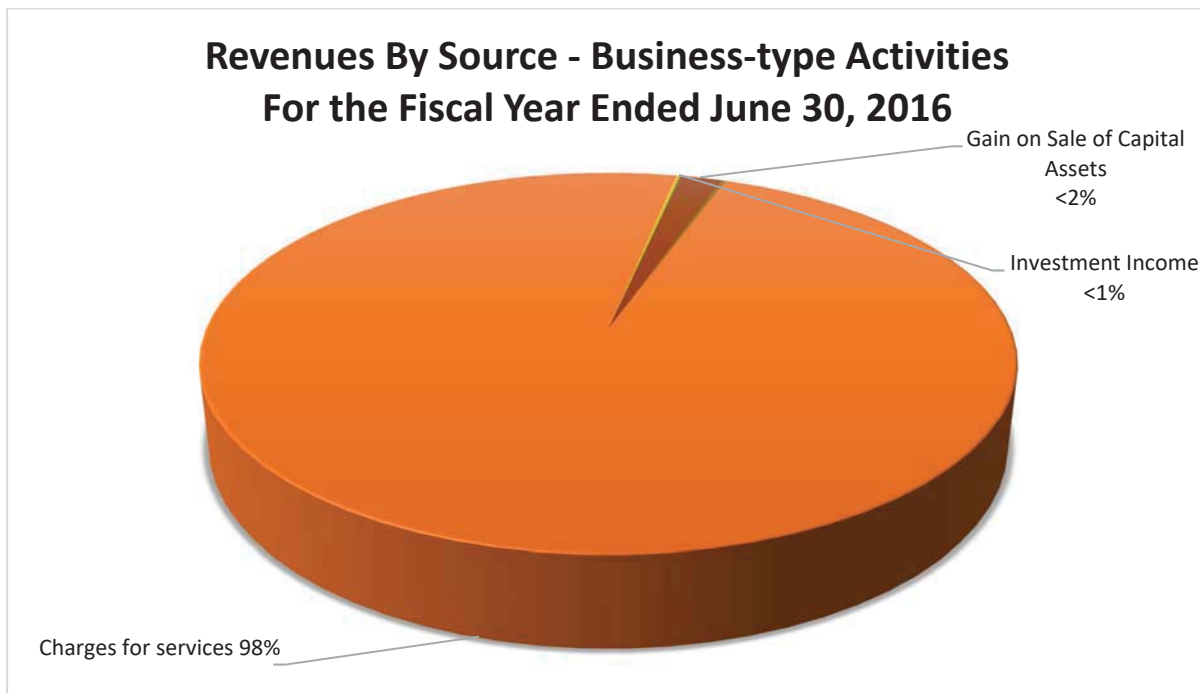
- Business-type activities experienced an increase in net position of \$6.8 million for FY16. This amount is reported after total net transfers out of \$49.4 million. The most significant components of the change include:
  - \$1.0 million decrease in net position related to liquor control,
  - \$2.5 million decrease in net position related to parking lot districts; and
  - \$8.6 million increase related to permitting services.
- Charges for services to users comprise 98.1 percent of revenues, with \$294.6 million (60.0 percent of charges for services revenue) attributable to liquor control operations and \$109.3 million (22.2 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.
- Investment income of \$0.42 million reflects an increase of \$0.2 million or 92.4 percent from FY15, primarily because of the increase in pooled cash and investments during the year.

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



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



## Financial Analysis of the Government's Funds

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



## **Governmental Funds**

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

At the end of FY16, the County's governmental funds reported combined ending fund balances of \$895.6 million, a decrease of \$89.4 million from the end of FY15. Of the total ending fund balances, \$113.0 million constitutes the unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$782.6 million is unavailable for new spending because it has been set aside for prior period commitments and legal restrictions.

### **The General Fund**

The General Fund is the primary operating fund of the County. At the end of FY16, the General Fund had \$113.0 million of unassigned fund balance and total fund balance was \$480.3 million. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 16.8 percent of total General Fund expenditures.

The fund balance of the County's General Fund decreased by \$15.2 million during FY16, primarily due to unplanned snow related costs not fully offset by mid-year expenditure savings.

### **Housing Initiative Fund**

The Housing Initiative Fund (HI) is used to account for the fiscal activity of financing, supplementing, and constructing affordable residential facilities for eligible participants. At the end of FY16, HI had a fund balance of \$253.9 million, which is entirely restricted for legal reasons. The HI fund balance represents an increase of \$10.2 million over FY15. Mortgage Receivables for this fund, which is a measure of its financing activities, increased \$5.5 million or 3.0 percent over FY15.

### **Grants Fund**

The Grants Fund is used to account for Federal and State grant-funded activities of the tax-supported General and special revenue funds. The Grants Fund normally does not have fund balance at the end of each fiscal year as revenues equal expenditures - that is, expenditures of this fund are either billable to one or more federal or state agencies or paid via a transfer from another fund. However, the Grants Fund has a fund balance of \$216,033 which represents restricted assets held by the County pursuant to a grant agreement. Grants Fund received \$105.6 million in revenues for FY16. This is a \$2.1 million decrease from FY15.

### **Debt Service Fund**

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain an unassigned fund balance; the restricted fund balance of \$26.4 million represents a debt service reserve account.

## **Capital Projects Fund**

The Capital Projects Fund (CIP) has a total fund balance of \$49.0 million, a decrease of \$101.2 million from the end of FY15. The fund balance of this fund can increase or decrease significantly depending on the timing of source of funds for larger capital projects. In FY15 the fund received \$583.0 million in new debt proceeds and only \$357.0 million in FY16. The expenditures in FY16 also increased by \$47.0 million.

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

## **Proprietary Funds**

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

The unrestricted net position of the Liquor Fund at the end of FY16 amounted to \$16.2 million, and operating income was \$31.2 million. After a subsidy transfer to the General Fund of \$30.4 million, the fund ended FY16 with a decrease in net position of \$1.0 million.

The Solid Waste Activities Fund total net position amounted to \$52.7 million, of which the unrestricted net position was \$13.0 million. Restricted net position of \$39.7 million is attributable to the net investment of capital assets.

The Parking Lot Districts Fund decrease in net position amounted to \$2.5 million in FY16, resulting in a total ending net position of \$174.0 million. Of this amount, \$138.5 million (79.6 percent) represents the net investment in capital assets; \$6.6 million (3.8 percent) is restricted for debt service on revenue bonds; and \$28.9 million (16.6 percent) is unrestricted.

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

## **General Fund Budgetary Highlights**

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to \$49.2 million, which included County Council approved supplemental and special appropriations and the year-end County Council transfer and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- \$31 million increase for snow removal and wind and rain storm cleanup relating to 14 snow/ice events with a total accumulation of approximately 53.5 inches.
- \$1.3 million to implement State mandated changes for a new paper-based voting system implemented in the State of Maryland.
- \$.8 million for the Children's Opportunity Fund Non-Departmental Account to participate in the Building Educated Leaders for Life (BELL) program.

Actual revenues were less than budget amounts by \$6.5 million, while actual expenditures and net transfers out were less than final budget by \$12.1 million and \$46.0 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2016, include the following:

- Actual expenditures of \$1,170.3 million were \$12.1 million less than the final budget, which represents 1.0 percent of the final budget, and is attributable to savings achieved across numerous departments.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by \$71.7 million. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

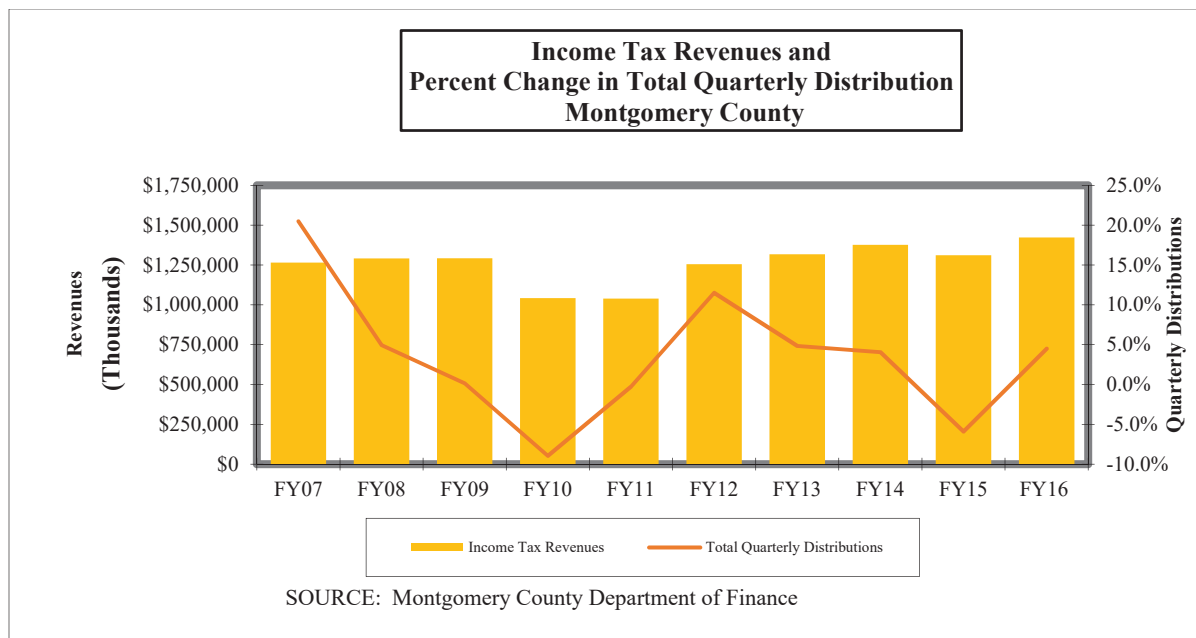
A more detailed comparison of final budget to actual figures for revenues is presented below:

## **Overview**

Actual revenues for the General Fund totaled \$3,094.2 million and were 0.2 percent below the budget estimate for the fiscal year but 5.4 percent above actual tax revenues for FY15. The two largest contributors to the decline between the budget estimate and actual revenues were the income tax (\$11.0 million) and the fuel and energy tax (\$12.9 million). Revenues from the property tax amounted to \$1,126.7 million (\$10.0 million), or 0.9 percent, above the budget estimate and 3.5 percent above actual tax revenues for FY15. Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and other taxes, were \$266.3 million in FY16. That amount was \$14.0 million or 5.0 percent below the budget estimate and that decrease was driven by the fuel and energy tax (\$12.9 million or 6.3%) below the budget estimate, hotel-motel tax (\$0.9 million or 4.4%) and the telephone tax (\$0.7 million or 1.4%). Investment income was \$0.7 million below the budget estimate. Licenses and Permits came in below the budget estimate (6.4%), while Charges for Services also came in below the budget estimate (3.6%). Intergovernmental revenues were \$0.4 million (or 0.7%) below the budget estimate. This decrease was attributed to federal and other (non-state) reimbursements, which came in 15.6 percent and 8.7 percent below budget estimates, respectively.

## **Income Taxes**

One of the largest revenue sources for the General Fund is the County income tax. Revenues from the income tax were \$1,422.4 million and represented 47.8 percent of actual tax revenues in FY16 and 46.0 percent of total actual revenues. The increased reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: growth in the employment base as reflected in resident employment, steady increases in wage and salary income in the County, and growth in capital gains. This contrasts with the County's second largest revenue source – property taxes – which is held at the Charter Limit and thus generally represents revenue growth limited to the rate of inflation. However, while capital gains, on average, increases over time, the Standard & Poor's 500 index, representing a proxy for capital gains, experienced significant volatility over the past ten calendar years (2006 – 2015) - ranging from a decrease of 38.5 percent in 2008 to an increase of 29.6 percent in 2013. In addition, resident employment experienced volatility during this period - an average annual rate of decline of 1.0 percent in the County's resident employment during the 2006-2009 period followed by an increase of 1.1 percent between 2009 and 2015. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 4.5 percent in FY16, which followed a decrease of 5.9 percent in FY15, an increase of 4.1 percent in FY14, an increase of 4.9 percent in FY13, an increase of 11.5 percent in FY12, a decrease of 0.3 percent in FY11, another decrease of 9.0 percent in FY10, and an increase of 0.2 percent in FY09.



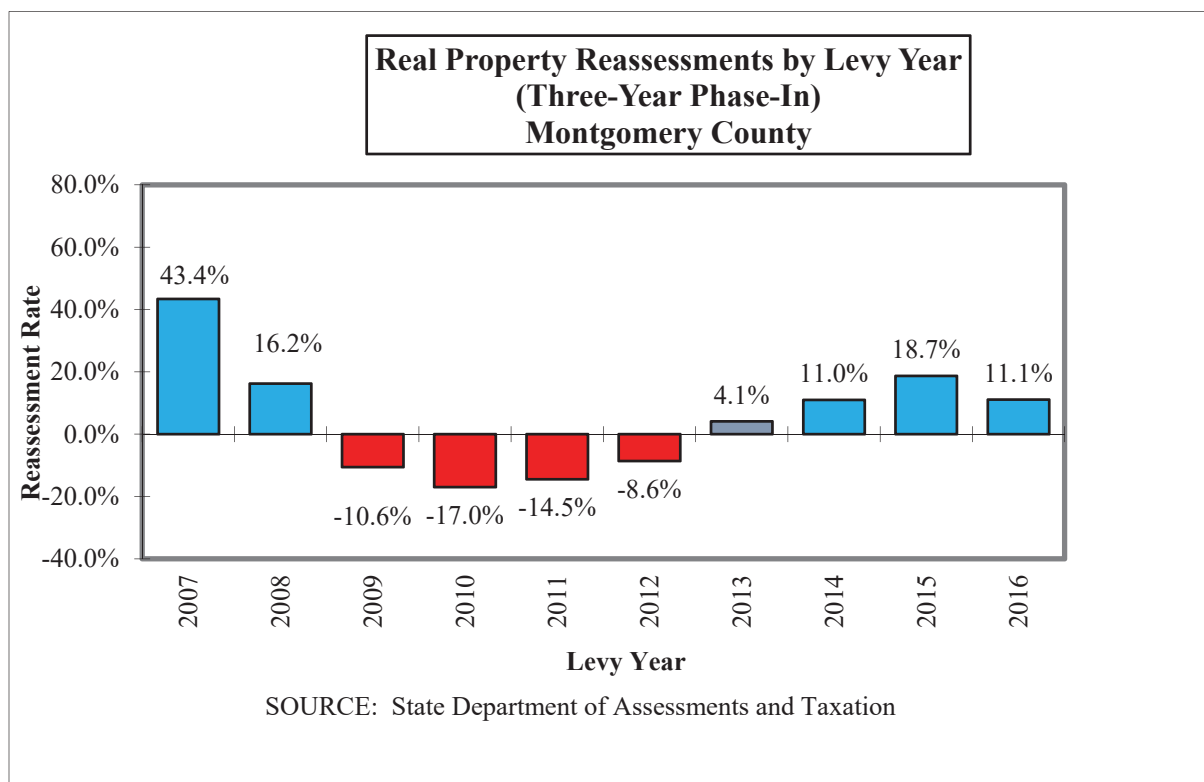
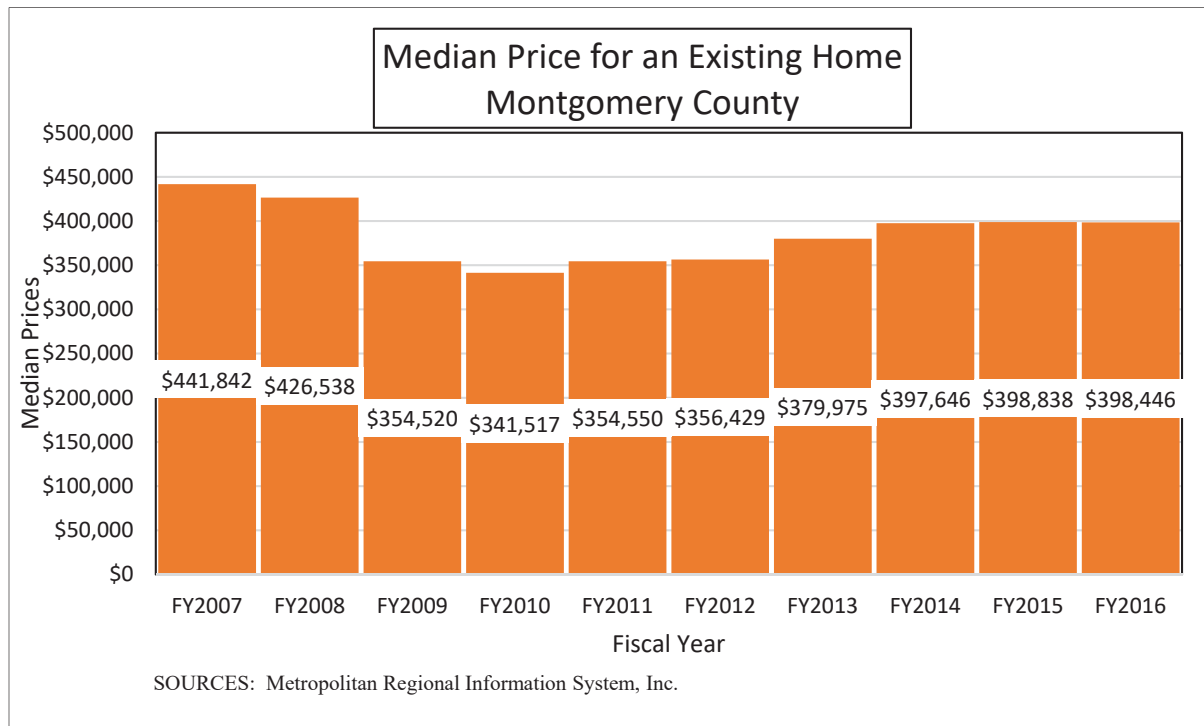
On May 18, 2015, the U.S. Supreme Court made a final ruling in the long-standing court case of *Comptroller of the Treasury of Maryland v. Wynne et. ux.* The case involved a dispute over the credit a state taxpayer should get for taxes paid to other states for income earned in those states. While the State of Maryland allowed a credit against the State income tax, it did not allow a credit against local (county and municipal) income taxes. The U.S. Supreme Court ruled in favor of the litigants. As a result, the State of Maryland owes refunds to all taxpayers who filed amended returns requesting the additional credit against the local income tax. Based on data provided by the Revenue Administration Division, Comptroller of Maryland (Comptroller), as of October 2016, the total amount of income tax refunds for tax years 2007 through 2014, including interest that have been processed by the State and are attributable to the Wynne case is \$132.6 million. As the Comptroller issues refunds to eligible taxpayers, the refunds are paid from the Local Reserve Account (Account) which is maintained by the State, and the State will replenish the fund through financial transactions with counties and municipalities. In 2016, the Maryland General Assembly passed legislation that will allow counties and municipalities to replenish the fund by reducing quarterly income tax distributions to the counties and municipalities starting with the third distribution (May) in FY19 with a total of twenty equal installments ending in FY24. Although the majority of refund claims have been processed and issued, refund claims are still pending and amended returns for the most recent tax years can still be filed. Also, starting with tax year 2015 taxpayers have been reducing their tax payments to reflect the new credit.

## Property Taxes

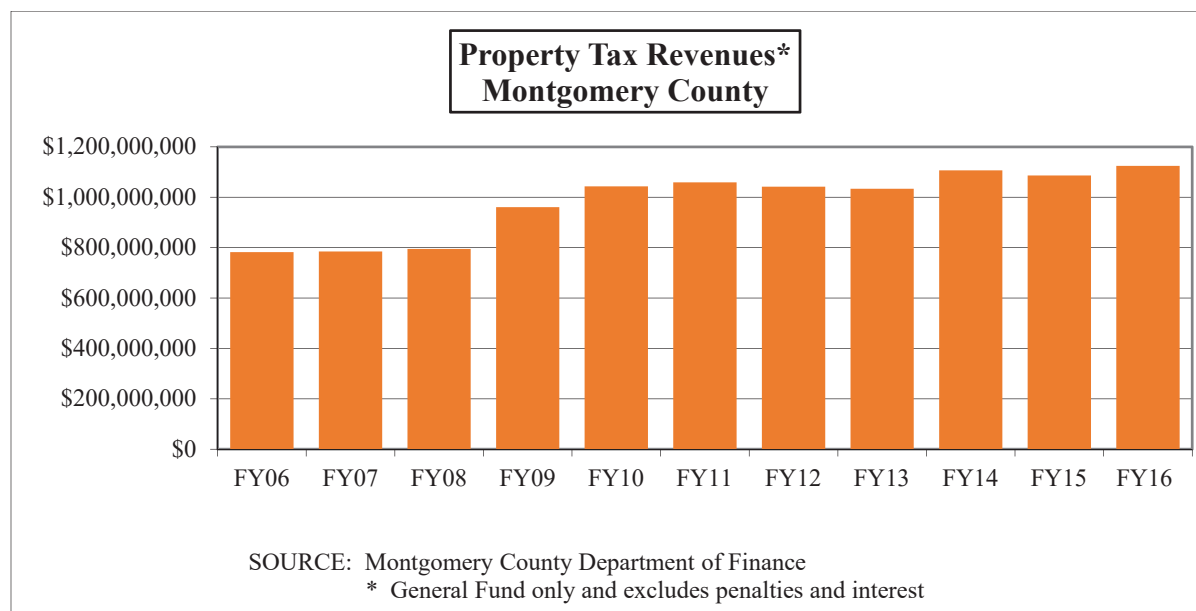
Property tax collections, which represent another major contributor of actual tax revenues to the General Fund and the second largest in FY16, amounted to \$1,126.7 million in FY16, which were only \$9.971 million (0.9%) above the budget estimate and 3.4 percent above actual revenues in FY15. Actual property taxes, excluding penalties and interest and other items, were \$1,124.5 million in FY16 – an increase of 3.5 percent from the previous fiscal year. Collections from penalties and interest and other items were \$2.2 million – a 40.1 percent increase from FY15.

The taxable assessments for real property increased 4.0 percent from FY15 to FY16. This was the third consecutive increase starting in FY14. Following the real estate market boom and bust cycle in the previous

decade, the triennial reassessment rates experienced the same trend albeit with a lag. The recent residential and commercial real estate market recovery resulted also in a recovery of property assessments. After an unprecedented four-year decline in triennial reassessment rates (LY09 - LY12), reassessments increased 4.1 percent (LY13 or LY14), 11.0 percent in LY14, 18.7 percent in LY15, and 11.1 percent in LY16.



The homestead tax credit limits annual increases in homeowners' taxable assessments to 10 percent per year although other taxable assessments such as for commercial and investment residential properties are not limited by this credit. The homestead credit is the amount of annual assessment growth above the 10 percent limit. Following several years of declining reassessments, most properties that had built up a significant amount of homestead credit during the housing boom cycle, used up their homestead credit during the housing bust cycle. As a result, the remaining amount of the aggregate homestead credit added only \$17.8 million to the assessable base in FY16 down from \$26.6 million in FY15.

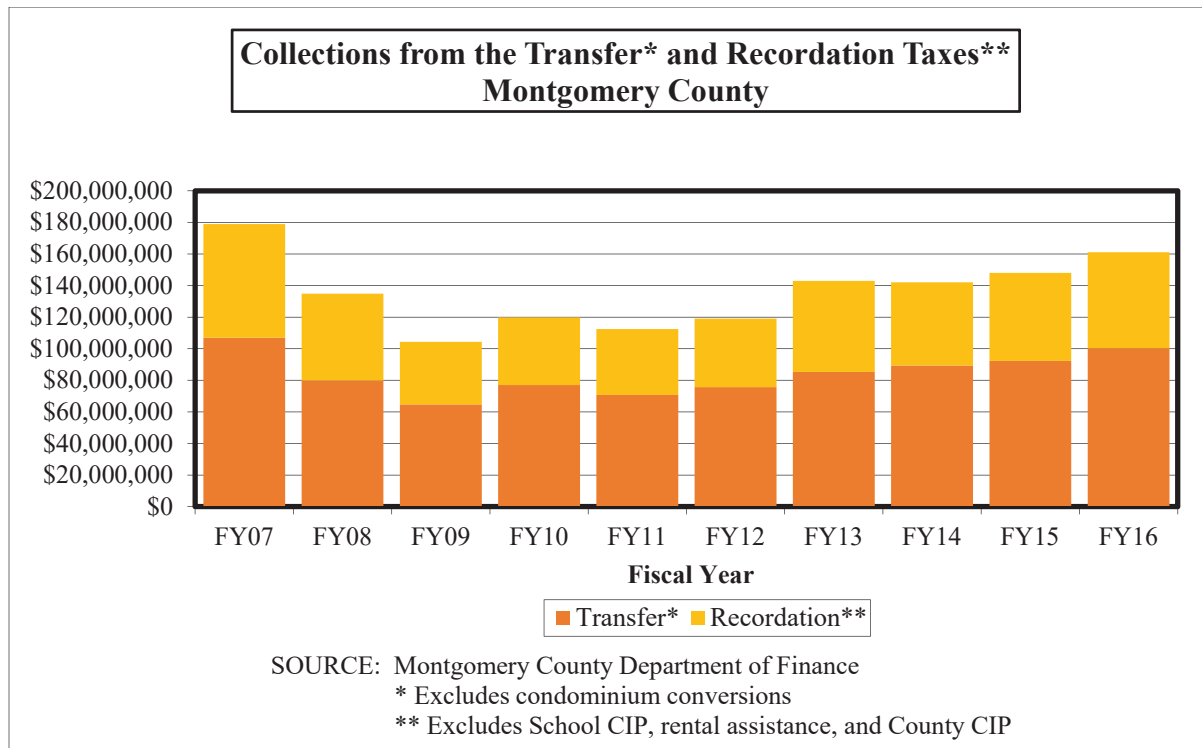


Assessments of personal property increased 6.3 percent in FY16 due to increases in all three categories: individual, public utility, and corporate to \$3.884 billion. Assessments in personal property experienced declines in FY09 and between FY11 and FY13. Due to a rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. However, because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09 rebounding in FY10 (5.2%) attributed to increases in corporate and public utility assessments, declined 6.5 percent in FY11 to \$3.856 billion, declined again in FY12 to \$3.719 billion, and declined further in FY13 to \$3.605 billion attributed to declines in corporate and utility personal property, but increased 2.9 percent in FY14 to \$3.709 billion, then decreased 1.5 percent in FY15 to \$3.655 billion. For the previous five fiscal years (FY11 – FY15), taxable assessments for personal property averaged \$3.708 billion ranging from a low of \$3.605 billion in FY13 to a high of \$3.856 billion in FY11.

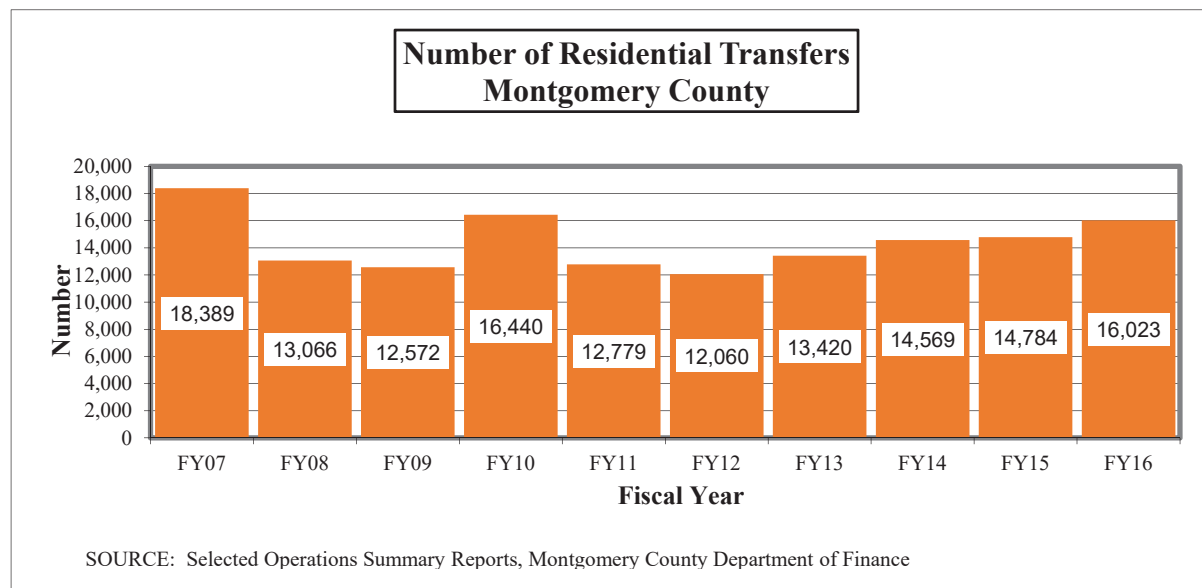
## Transfer and Recordation Taxes

Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY16 were \$161.7 million (excluding recordation tax revenues earmarked for CIP funding of school construction, rental assistance, and CIP funding for the County; and transfer tax revenues from condominium conversions). While actual revenues increased in FY16, they were also 5.1 percent above the budget estimate. As the accompanying chart illustrates, the total amount collected from these taxes increased to a peak of \$241.7 million in FY06 before declining to \$107.2 million in FY09. In FY10, taxes from the combined transfer and recordation taxes rebounded to \$122.0 million, increased further to

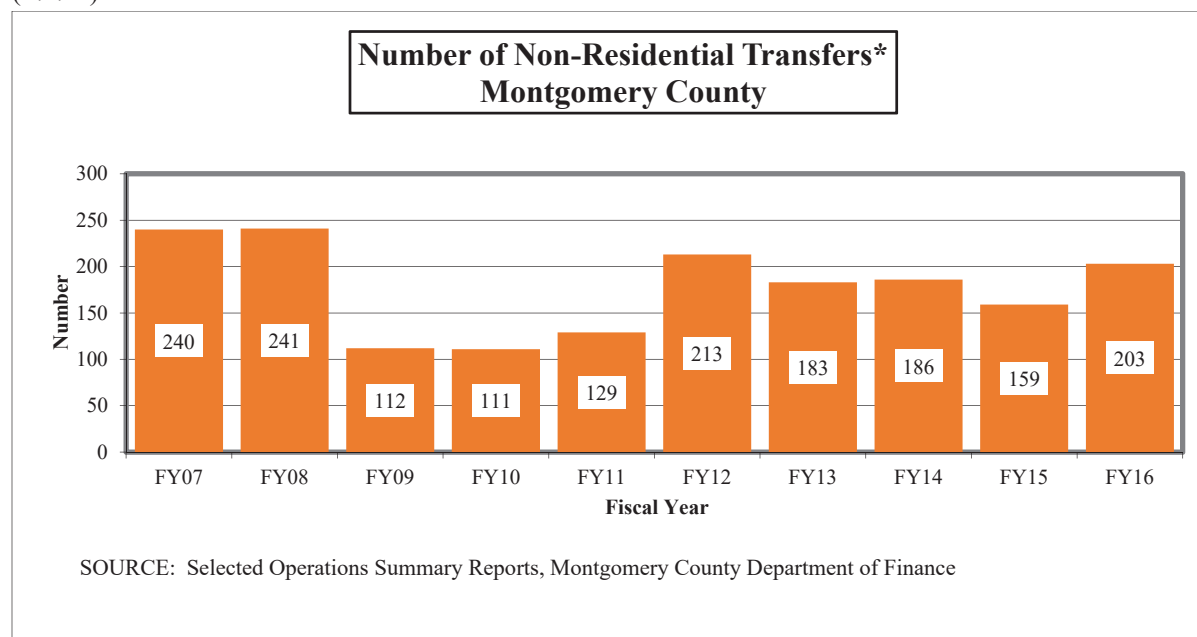
\$129.5 million in FY11, declined to \$127.3 million in FY12, and began a steady increase to \$142.0 million in FY13, \$144.5 million in FY14, \$147.6 million in FY15, and \$161.7 million FY16.



General Fund revenues from the transfer tax experienced an increase of 9.2 percent in FY16 and a 10.1 percent increase in the recordation tax from FY15. Because of the increase in existing home sales in FY16 (10.4%), revenues from the residential sector for both taxes were \$113.9 million, an increase of 8.1 percent from FY15. The number of residential transfers increased to 16,023 (8.4%).



Based on the amount of revenues from the non-residential transfer tax, the commercial market increased 12.6 percent in FY16 from FY15 with revenues at \$19.7 million. The increase in revenues from the commercial market was attributed to strong growth in the number of transactions which increased from 159 in FY15 to 203 in FY16 (27.7%).



## Other Revenues

The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and other taxes – totaled \$266.3 million and were \$14.0 million, or 5.0 percent, below the budget estimate and 4.2 percent below actual revenues in FY15. Revenues from the fuel/energy tax were \$193.3 million in FY16 and down from the budget estimate (\$12.9 million) as well as a decrease of 6.7 percent from actual revenues in FY15. The decline in actual revenues from FY15 was attributed to reductions in both the residential and non-residential usages of natural gas and a decrease in residential usage of electricity.

Revenues from the telephone tax were 1.4 percent below the budget estimate but 1.8 percent above actual revenues in FY15. Revenues from the hotel/motel industry of \$19.4 million in FY16 were 4.4 percent below the budget estimate but 2.3 percent above actual revenues in FY15. Other tax revenues were 16.3 percent above the budget estimate and 28.4 percent above actual revenues in FY15. That increase was attributed to the adoption by the County Council of the E-Cigarette tax in FY16 which yielded approximately \$372,930 in revenues. Excluding revenues from the E-Cigarette tax, other tax revenues increased 16.2 percent above actual revenues in FY15.

In the General Fund, actual investment income increased from \$105,948 in FY15 to \$352,107 in FY16 but was \$731,383 lower than the budget estimate. The shortfall in FY16 from the budget estimate was the result of the continued accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve. Between September 2007 and December 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to a range of between 0.00 and 0.25 percent — a decline of 500-525 basis points. In December 2015, the FOMC increased the range for the target federal funds rate to between 0.25 and 0.50 percent which was the only rate increase in FY16. The justification for such low rate monetary policy has been the global economic and financial crises, the Great Recession from December 2007 to June 2009, and the FOMC's monetary policy of stimulating investment and reducing the national unemployment rate. The expectation of many forecasters and specific members of the FOMC was that interest rates would steadily increase during FY16 with a concomitant



increase in the County's investment yield rates. That did not occur. Because of this low level of interest rate environment during FY16, short-term or money market rates remained at historic low levels as well, hence the average portfolio yield for the County increased from 0.18 percent in FY15 to 0.39 percent in FY16. The average daily portfolio balance increased from \$705.2 million in FY15 to \$729.6 million in FY16.

## Capital Asset and Debt Administration

### Capital Assets

The County's investment in capital assets at June 30, 2016, amounted to \$4,589.4 million (net of accumulated depreciation and amortization), as summarized below:

<b>Capital Assets, Net of Depreciation</b>				
<b>June 30, 2016</b>				
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total FY16</b>	<b>Total FY15</b>
Land	\$ 930,232,831	\$ 58,816,802	\$ 989,049,633	\$ 967,098,526
Buildings	444,672,864	150,670,986	595,343,850	585,708,074
Improvements other than buildings	25,128,548	47,255,853	72,384,401	80,605,052
Furniture, fixtures, equipment and machinery	42,490,163	14,257,303	56,747,466	61,096,797
Leasehold improvements	4,488,278	-	4,488,278	5,046,547
Automobiles and trucks	144,235,358	1,117,763	145,353,121	124,764,148
Infrastructure	1,167,587,379	8,754	1,167,596,133	1,149,033,303
Other assets	20,477,885	-	20,477,885	24,506,321
Construction in progress	1,537,717,247	282,372	1,537,999,619	1,358,113,906
Total	<u>\$ 4,317,030,553</u>	<u>\$ 272,409,833</u>	<u>\$ 4,589,440,386</u>	<u>\$ 4,355,972,674</u>

Changes in the County's capital assets for FY16 are summarized as follows:

<b>Change in Capital Assets</b>				
<b>For the Fiscal Year Ended June 30, 2016</b>				
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total FY16</b>	<b>Total FY15</b>
Beginning Balance	\$ 4,075,212,346	\$ 280,760,328	\$ 4,355,972,674	\$ 4,144,146,789
Additions*	350,588,661	8,418,703	359,007,364	317,144,682
Retirements, net*	16,828,800	1,108,893	17,937,693	1,018,757
Depreciation expense	91,941,654	15,660,305	107,601,959	104,300,040
Ending Balance	<u>\$ 4,317,030,553</u>	<u>\$ 272,409,833</u>	<u>\$ 4,589,440,386</u>	<u>\$ 4,355,972,674</u>
* Presented net of transfers from construction in progress; retirements are also net of related accumulated depreciation.				

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

- Roads, including the underlying land, valued at \$22.8 million were transferred to the County by various developers.

- The Public Safety Training Academy (PSTA) Relocation project accumulated \$51.9 million in cost this fiscal year. This project relocates the PSTA from its current location at the intersection of Great Seneca Highway and Darnestown Road to a site on Snouffer School Road known as the Webb Tract.
- The Montgomery County Public Schools and Maryland-National Park and Planning Maintenance Facilities Relocation project accumulated \$24.8 million in cost this fiscal year. This project is part of the County Executive's comprehensive Smart Growth Initiative and provides for the design and construction of new facilities to accommodate the relocation of the Montgomery County Public Schools and Maryland-National Park and Planning Maintenance facilities from the County Service Park on Crabbs Branch Way to a site on Snouffer School Road in Gaithersburg known as the Webb Tract.
- The Universities at Shady Grove Expansion accumulated \$10 million in cost this fiscal year. This project provides funding for the construction of a parking garage and related site modifications at the Universities at Shady Grove Campus.
- Montgomery County funded Montgomery County Public School \$189.4 million, and Montgomery College \$36.5 million for construction, renovations of school facilities, and other capital expenditures.

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

## Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2016:

Long-Term Debt June 30, 2016				
	Governmental Activities	Business-type Activities	Total FY16	Total FY15
General obligation bonds	\$ 2,657,290,000	\$ -	\$ 2,657,290,000	\$ 2,544,750,000
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	500,000,000	-	500,000,000	500,000,000
Revenue bonds	143,181,716	80,532,284	223,714,000	187,775,000
Lease revenue bonds	25,065,000	-	25,065,000	27,225,000
Other lease and notes payable	17,552,909	-	17,552,909	14,085,125
Equipment notes	36,432,917	5,756,247	42,189,164	51,069,335
Certificates of participation	10,800,000	-	10,800,000	17,685,000
Capital leases	11,158,430	-	11,158,430	13,817,910
Taxable Ltd. Obligation Certificates	82,535,000	-	82,535,000	86,320,000
Compensated absences	76,130,255	6,308,309	82,438,564	82,830,105
Other Postemployment Benefits	445,089,913	3,965,222	449,055,135	440,459,637
Claims payable self-insurance	150,256,294	-	150,256,294	141,444,612
Claims and judgments	1,003,200	-	1,003,200	1,116,395
Net Pension Liability - County	390,909,835	16,945,152	407,854,987	298,751,284
Net Pension Liability - State	24,421,562	-	24,421,562	17,878,357
Landfill closure costs	-	15,539,478	15,539,478	15,405,918
Gude landfill remediation	-	28,500,000	28,500,000	28,500,000
Total	<u>\$ 4,671,827,031</u>	<u>\$ 157,546,692</u>	<u>\$ 4,829,373,723</u>	<u>\$ 4,569,113,678</u>

At June 30, 2016, the County had outstanding general obligation (GO) bonds of \$2,657.3 million, with outstanding variable rate demand obligations (VRDOs) of \$100 million and bond anticipation notes (BANs) of

\$500 million. Over the last ten years, the County issued its GO bonds once a year, with the exception of FY08, when no GO “new money” bonds were issued. The County currently finances capital construction projects with BANs. BANs are subsequently paid off by the issuance of the County’s GO bonds. Montgomery County also issues bonds to finance the capital construction of MCPS, MC, and M-NCPPC not otherwise financed by the State of Maryland.

The County continues to maintain its status as a top rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its GO bonds, the County is a ‘Triple AAA’ rated County, and received ratings of Aaa from Moody’s Investors Service, Inc., AAA from Standard and Poor’s, and AAA from Fitch Ratings. County GO bonds have been consistently awarded the highest credit rating from Moody’s and Standard and Poor’s since 1973 and 1976, respectively, and from Fitch since 1991. Montgomery County is one of only 15 ‘Triple AAA’ rated counties in the nation with a population greater than 900,000.

In November 2015, the County received its annual credit ratings. Fitch cited “key rating drivers” of healthy financial fundamentals, solid operating performance, a balanced fiscal plan, a strong economic core and moderate debt ratios. Fitch also reported that the County continues to exhibit very impressive economic growth, has sound fiscal management and has prudently managed its exposure to long-term liabilities including those related to pension and OPEB.

Moody’s stated that their ratings rationale reflected the County’s sizeable, strong and diverse tax base, strong socio-economic profile, and manageable debt and pension burdens. Moody’s also cited the County’s healthy reserve position, structural budget balance, positive revenue performance and improved liquidity position.

Standard and Poor’s rating reflected their opinion of the County’s strong economy, budgetary flexibility, budgetary performance, liquidity, management and financial policies. Standard and Poor’s also cited the strength of the County’s debt and contingent liability profile, demonstrated resilience to economic pressure and strong management conditions.

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

**Significant bond-related debt activities during FY16 were:**

- **General Obligation Bonds** – In November 2015, the County’s annual general obligation bond issue was in the amount of \$300.0 million. The proceeds of this bond issue were used to pay off an equivalent amount of the County’s BANs which funded capital expenditures for transportation, education, and other County facilities.
- **Bond Anticipation Notes (BANs)** – Over the course of FY16, the County retired \$300.0 million in BANs with general obligation bond proceeds and issued \$300.0 million in BANs.
- **Bethesda Parking Lot District (PLD) Bonds** – In October 2015, the County issued \$9.2 million of PLD bonds via direct bank placement to refund the outstanding 2005 Bethesda PLD bonds for debt service savings.
- **Water Quality Protection Charge (WQPC) Revenue Bonds** – In April 2016, the County issued \$46.5 million in WQPC revenue bonds to fund stormwater management facilities.

- **Qualified Energy Conservation Bonds (QECBs)** – In May 2016, the County entered into a 19-year lease purchase agreement with Bank of America Leasing & Capital LLC in the amount of \$3.6 million to finance energy systems modernization on the County’s Health and Human Services buildings. The project is to be implemented under an Energy Performance Contract. The lease purchase qualified as financing under the County’s QECB allocation which provided a federal tax credit that will reduce the net effective interest rate to approximately .21%.
- Additional information pertaining to the County’s long-term debt can be found in Notes to Financial Statements, Notes I-D8, III-E3, and III-F.

## **Economic Factors and Next Year’s Budgets and Rates**

The following economic factors are reflected in the County’s FY17 budget with updates based on revised economic data subsequent to the approval of the County’s budget:

- Montgomery County experienced positive economic performance during fiscal year FY16 compared to FY15. The major reasons for this were a decrease in the unemployment rate, an increase in resident employment (labor force series), an increase in payroll employment (establishment series), and an increase in the sales of existing homes.
- The County’s economic projections in the FY17 budget assume a modest, yet improving, economic performance in CY16 with the County continuing to experience a decline in the unemployment rate in CY16. On the same calendar basis, the County projects a modest increase in total resident employment (0.7%) and stronger growth in payroll employment (1.8%).
- During the past ten years (CY06 – CY15), total payroll employment in Montgomery County, which is based on the survey of establishments and derived by the Department of Finance, experienced two distinct cycles: a decline from CY06 to CY10 at an average annual rate of 0.9 percent, but an increase at an average annual rate of 0.8 percent from CY11 to CY15. The Department of Finance estimates that total payroll employment is expected to increase 1.8 percent in CY16.
- Resident employment in the County, which is based on a survey of County households, provides a slightly different picture of employment growth. For example, resident employment grew at an average annual rate of 0.3 percent between CY06 and CY10 and increased at an average annual rate of 1.0 percent from CY10 to CY15. Resident employment is expected to increase 0.7 percent in CY16.
- Based in part on employment projection for CY16, personal income will increase 4.9 percent in CY16 with per capita income increasing 4.0 percent. Income data for CY16 are based on estimates derived by the Department of Finance.
- The estimated increases in employment and personal income in CY16 along with the decline in the unemployment rate reflect a positive performance in the County’s economy in FY16 which is expected to continue into FY17.
- The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System is expected to increase the targeted federal funds rate from the range of 0.25-0.05 percent to 0.50-0.75 percent before the end of CY16 should economic data on employment and inflation warrant such an increase. Because of that expectation by the FOMC, the County’s budget projections include an increase in the yield on its investments from 0.39 percent in FY16 to 0.50 percent in FY17.
- Inflation, as measured by the Consumer Price Index, is expected to increase 1.80 percent in FY17.

## **Other Significant Matters**

The Department of Economic Development was eliminated during FY16 and a majority of its functions were delegated to the newly created 501(c)(3) non-profit Montgomery County Economic Development Corporation, which will now be responsible for business attraction, business retention and growth, marketing entrepreneurship and innovation programs, and for federal and state grant funded programs related to workforce development. Functions retained by the County and transferred to other County agencies include Finance, Special Projects, Small Business Navigation, marketing of the Small Business Reserve Program and Agricultural Services. The County will fund the new Corporation, and each member of the Corporation's 11-member Board of Directors is appointed by the County Executive and confirmed by the Council, but the Corporation is not an entity or component unit of the County. This type of private economic development organization is common in the National Capital Region, including Fairfax County Economic Development Authority, the Washington DC Economic Partnership, Prince George's County Economic Development Corporation, the Baltimore Development Corporation, the Howard County Economic Development Authority, and the Anne Arundel Economic Development Corporation.

For the status of, and impact to, the County in the case of *Comptroller of the Treasury of Maryland v. Wynne et ux.*, see the Income Taxes section of this Management's Discussion and Analysis. As a result, \$132.6 million has been reflected as a liability to the State of Maryland in the accompanying financial statements.

## **Requests for Information**

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

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## **BASIC FINANCIAL STATEMENTS**

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET POSITION  
JUNE 30, 2016  
**Exhibit A-1**

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		Total
ASSETS				
Equity in pooled cash and investments	\$ 869,403,290	\$ 141,020,426	\$ 1,010,423,716	\$ 71,109,202
Cash with fiscal agents	96,399,352	4,975,144	101,374,496	82,816,642
Cash	420,964	135,933	556,897	13,959,076
Investments - cash equivalents	-	-	-	61,360,022
Investments	-	-	-	44,877,433
Receivables (net of allowance for uncollectibles):				
Income taxes	330,324,050	-	330,324,050	-
Property taxes	17,626,486	422,535	18,049,021	-
Capital leases	25,065,000	-	25,065,000	11,898,895
Accounts	24,758,002	11,639,918	36,397,920	41,379,940
Notes	2,729,597	-	2,729,597	65,038,705
Parking violations	1,246,328	1,447,701	2,694,029	-
Mortgage	227,067,646	-	227,067,646	314,660,325
Interest	-	-	-	4,885,121
Other	-	-	-	58,099,166
Internal balances	(1,026,702)	1,026,702	-	-
Due from primary government	-	-	-	75,838,197
Due from component units	70,806,806	503,465	71,310,271	-
Due from other governments	68,656,363	253,185	68,909,548	45,858,539
Inventory of supplies	12,855,533	31,456,841	44,312,374	10,461,840
Prepays	468,188	205,911	674,099	6,239,903
Other assets	-	-	-	37,967,036
Restricted Assets:				
Equity in pooled cash and investments	-	29,547,358	29,547,358	4,955,646
Cash with fiscal agents	-	-	-	22,878,957
Cash	-	-	-	21,881,064
Investments - cash equivalents	-	-	-	191,013,840
Investments	-	3,100,671	3,100,671	66,692,439
Capital Assets:				
Nondepreciable assets	2,467,950,078	59,099,174	2,527,049,252	287,771,237
Depreciable assets, net	1,849,080,475	213,310,659	2,062,391,134	3,530,184,813
Total Assets	6,063,831,456	498,145,623	6,561,977,079	5,071,828,038
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding of debt	33,494,175	130,724	33,624,899	918,791
Pension deferrals	288,849,844	12,878,680	301,728,524	229,194,392
Accumulated decrease in fair value of hedging derivatives	-	-	-	11,383,399
Total Deferred Outflows of Resources	322,344,019	13,009,404	335,353,423	241,496,582

(Continued)



MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET POSITION  
JUNE 30, 2016  
**Exhibit A-1 (Concluded)**

	Primary Government			Component Units Total
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Accounts payable	85,905,780	4,873,790	90,779,570	105,558,087
Interest payable	43,124,208	668,581	43,792,789	16,308,063
Retainage payable	29,720,700	177,609	29,898,309	9,085,109
Accrued liabilities	105,375,086	21,143,689	126,518,775	91,988,650
Deposits	164,554	9,185,749	9,350,303	20,200,555
Due to primary government	-	-	-	71,495,613
Due to component units	75,053,471	784,726	75,838,197	-
Due to other governments	139,999,282	3,557,984	143,557,266	373,939
Unearned revenue	73,635,415	3,318,297	76,953,712	43,661,499
Other liabilities	-	100,000	100,000	60,284,825
Noncurrent Liabilities:				
Due within one year	841,298,100	11,561,296	852,859,396	183,419,012
Due in more than one year	4,090,393,783	149,382,931	4,239,776,714	2,128,557,695
Total Liabilities	5,484,670,379	204,754,652	5,689,425,031	2,730,933,047
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred gain on refunding of debt	-	-	-	1,136,239
Pension deferrals	180,450,501	7,749,588	188,200,089	119,164,825
Total Deferred Outflows of Resources	180,450,501	7,749,588	188,200,089	120,301,064
<b>NET POSITION</b>				
Net investment in capital assets	2,280,466,863	139,122,346	2,419,589,209	3,117,863,917
Restricted for:				
Capital projects	48,988,297	-	48,988,297	142,923
General government	3,550,217	-	3,550,217	-
Public safety	11,937,032	-	11,937,032	-
Public works and transportation	31,761,887	-	31,761,887	-
Recreation	13,354,303	-	13,354,303	-
Community development and housing	258,536,592	-	258,536,592	-
Environment	20,771,961	-	20,771,961	-
Debt service	26,374,966	88,115,316	114,490,282	92,397,256
Other purposes	-	-	-	37,274,041
Unrestricted (deficit)	(1,974,687,523)	71,413,125	(1,903,274,398)	(785,587,628)
Total Net Position	\$ 721,054,595	\$ 298,650,787	\$ 1,019,705,382	\$ 2,462,090,509

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

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
Exhibit A-2

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities				
General government	\$ 624,379,163	\$ 67,180,168	\$ 5,783,686	\$ 8,057,312
Public safety	620,407,666	56,419,015	38,001,429	1,085,087
Public works and transportation	279,744,940	31,222,409	48,018,142	46,691,306
Health and human services	292,252,497	4,210,725	103,139,187	-
Culture and recreation	116,004,130	39,033,846	5,564,089	384,826
Community development and housing	42,140,359	5,943,869	3,382,444	536,830
Environment	29,886,401	107,496	126,632	5,582,790
Education	1,899,997,038	-	-	-
Interest on long term debt	99,889,037	-	-	-
Total Governmental Activities	4,004,701,231	204,117,528	204,015,609	62,338,151
Business-type Activities				
Liquor control	264,763,943	294,593,991	-	-
Solid waste disposal and collection	105,838,154	109,338,285	-	-
Parking lot districts	33,453,769	32,731,451	-	-
Permitting services	31,042,939	43,882,689	-	-
Community use of public facilities	10,301,634	11,437,099	-	-
Total Business-type Activities	445,400,439	491,983,515	-	-
Total Primary Government	\$ 4,450,101,670	\$ 696,101,043	\$ 204,015,609	\$ 62,338,151
Component Units:				
General government (BUP)	\$ 4,881,463	\$ 4,685,640	\$ 187,760	\$ -
Culture and recreation (MCRA)	18,761,380	16,711,082	-	1,170,300
Community development and housing (HOC)	230,490,766	117,159,375	116,149,154	9,349,632
Education:				
Elementary and secondary education (MCPS)	2,699,114,548	28,069,566	121,173,191	54,665,675
Higher education (MC)	350,557,109	78,168,637	20,392,373	-
Total Component Units	\$ 3,303,805,266	\$ 244,794,300	\$ 257,902,478	\$ 65,185,607
General Revenues:				
Property taxes				
County income taxes				
Real property transfer taxes				
Recordation taxes				
Fuel energy taxes				
Hotel-motel taxes				
Telephone taxes				
Other taxes				
Grants and contributions not restricted to specific programs				
Investment income				
Gain on sale of capital assets				
Transfers				
Total General Revenues and Transfers				
Change in Net Positon				
Net Position - Beginning				
Net Position - Ending				

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

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
\$ (543,357,997)	\$ -	\$ (543,357,997)	\$ -	
(524,902,135)	-	(524,902,135)	-	
(153,813,083)	-	(153,813,083)	-	
(184,902,585)	-	(184,902,585)	-	
(71,021,369)	-	(71,021,369)	-	
(32,277,216)	-	(32,277,216)	-	
(24,069,483)	-	(24,069,483)	-	
(1,899,997,038)	-	(1,899,997,038)	-	
(99,889,037)	-	(99,889,037)	-	
(3,534,229,943)	-	(3,534,229,943)	-	
-	29,830,048	29,830,048	-	
-	3,500,131	3,500,131	-	
-	(722,318)	(722,318)	-	
-	12,839,750	12,839,750	-	
-	1,135,465	1,135,465	-	
-	46,583,076	46,583,076	-	
\$ (3,534,229,943)	\$ 46,583,076	\$ (3,487,646,867)	\$ -	
\$ -	\$ -	\$ -	\$ (8,063)	
-	-	-	(879,998)	
-	-	-	12,167,395	
-	-	-	(2,495,206,116)	
-	-	-	(251,996,099)	
\$ -	\$ -	\$ -	\$ (2,735,922,881)	
1,593,880,896	(657,506)	1,593,223,390	-	
1,464,946,447	-	1,464,946,447	-	
100,566,864	-	100,566,864	-	
61,141,531	-	61,141,531	-	
193,281,367	-	193,281,367	-	
19,444,152	-	19,444,152	-	
49,694,945	-	49,694,945	-	
5,201,010	-	5,201,010	-	
-	-	-	2,816,890,209	
7,907,133	415,329	8,322,462	5,298,766	
-	9,855,423	9,855,423	28,126,902	
49,385,156	(49,385,156)	-	-	
3,545,449,501	(39,771,910)	3,505,677,591	2,850,315,877	
11,219,558	6,811,166	18,030,724	114,392,996	
709,835,037	291,839,621	1,001,674,658	2,347,697,513	
\$ 721,054,595	\$ 298,650,787	\$ 1,019,705,382	\$ 2,462,090,509	

MONTGOMERY COUNTY, MARYLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016  
Exhibit A-3

	General Fund	Housing Initiative	Grants	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Equity in pooled cash and investments	\$ 369,469,565	\$ 23,347,984	\$ 1,207,398	\$ 16,032,300	\$ 160,498,919	\$ 94,945,661	\$ 665,501,827
Cash with fiscal agents	6,665,431	-	-	10,851,234	78,882,687	-	96,399,352
Cash	170,464	212,450	-	-	-	37,750	420,664
Receivables (net of allowances for uncollectibles):							
Income taxes	330,324,050	-	-	-	-	-	330,324,050
Property taxes	13,853,524	-	-	-	36	3,772,926	17,626,486
Capital leases	-	-	-	25,065,000	-	-	25,065,000
Accounts	8,078,216	-	-	-	429,860	14,369,248	22,877,324
Notes	651,488	-	2,078,109	-	-	-	2,729,597
Parking violations	925,222	-	-	-	-	321,106	1,246,328
Mortgages	587,265	188,565,054	34,935,202	-	300,000	2,680,125	227,067,646
Due from other funds	123,988,491	-	-	-	-	1,174,577	125,163,068
Due from component units	90,913	47,587,819	10,935,022	-	10,571,925	419,333	69,605,012
Due from other governments	25,978,363	-	24,903,945	-	16,048,153	1,630,315	68,560,776
Inventory of supplies	6,842,287	-	-	-	1,487,983	-	8,330,270
Prepays	432,768	-	1,297	-	-	-	434,065
Total Assets	<u>\$ 888,058,047</u>	<u>\$ 259,713,307</u>	<u>\$ 74,060,973</u>	<u>\$ 51,948,534</u>	<u>\$ 268,219,563</u>	<u>\$ 119,351,041</u>	<u>\$ 1,661,351,465</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 45,873,010	\$ 673,435	\$ 7,799,307	\$ 508,568	\$ 13,683,008	\$ 3,830,704	\$ 72,368,032
Retainage payable	460,826	-	24,323	-	29,157,498	78,053	29,720,700
Accrued liabilities	62,748,206	239,060	1,015,424	-	10,800,093	13,468,336	88,271,119
Deposits	-	-	-	-	-	164,554	164,554
Due to other funds	10,839,409	30,602	11,638,456	-	114,298,538	4,718,347	141,525,352
Due to component units	25,615,368	544,679	11,078	-	48,811,068	53,356	75,035,549
Due to other governments	1,005,053	1,545	5,408,018	-	298,352	549,591	7,262,559
Unearned revenue	-	-	47,948,334	25,065,000	743,290	12,669	73,769,293
Total Liabilities	<u>146,541,872</u>	<u>1,489,321</u>	<u>73,844,940</u>	<u>25,573,568</u>	<u>217,791,847</u>	<u>22,875,610</u>	<u>488,117,158</u>
<b>Deferred Inflows of Resources:</b>							
Unavailable income taxes	243,957,406	-	-	-	-	-	243,957,406
Unavailable property taxes	13,363,873	-	-	-	-	4,284,451	17,648,324
Unavailable revenues	3,858,533	4,360,996	-	-	1,439,419	6,358,011	16,016,959
Total Deferred Inflows of Resources	<u>261,179,812</u>	<u>4,360,996</u>	<u>-</u>	<u>-</u>	<u>1,439,419</u>	<u>10,642,462</u>	<u>277,622,689</u>
<b>Fund Balances:</b>							
Nonspendable	7,275,055	-	1,297	-	1,487,983	-	8,764,335
Restricted	261,313,852	253,862,990	214,736	26,374,966	47,500,314	85,832,969	675,099,827
Committed	71,684,134	-	-	-	-	-	71,684,134
Assigned	27,035,009	-	-	-	-	-	27,035,009
Unassigned	113,028,313	-	-	-	-	-	113,028,313
Total Fund Balances	<u>480,336,363</u>	<u>253,862,990</u>	<u>216,033</u>	<u>26,374,966</u>	<u>48,988,297</u>	<u>85,832,969</u>	<u>895,611,618</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 888,058,047</u>	<u>\$ 259,713,307</u>	<u>\$ 74,060,973</u>	<u>\$ 51,948,534</u>	<u>\$ 268,219,563</u>	<u>\$ 119,351,041</u>	<u>\$ 1,661,351,465</u>

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

MONTGOMERY COUNTY, MARYLAND  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016  
**Exhibit A-4**

Total fund balance - governmental funds (see Exhibit A-3)	\$	895,611,618
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Amounts reported for governmental activities in the statement of net position are difference because:

Capital assets uses in governmental fund activities are not financial resources  
and therefore not reported in the funds:

Nondepreciable capital assets:

Land	\$	930,210,325
Construction in progress		1,537,717,247

Depreciable capital assets:

Buildings	861,825,338
Improvements other than buildings	46,378,707
Furniture, fixtures, equipment and machinery	231,580,238
Automobiles and trucks	221,982,154
Infrastructure	1,894,285,193
Other capital assets	40,359,973

Total capital assets	5,764,339,175	
Less accumulated depreciation	<u>(1,480,804,782)</u>	4,283,534,393

Long-term liabilities related to governmental fund activities are not due and  
payable in the current period and therefore not reported in the funds:

General obligation bonds payable	(2,657,290,000)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(500,000,000)	
Lease revenue bonds payable	(25,065,000)	
Accrued interest payable	(43,124,208)	
Capital leases payable	(11,158,430)	
Taxable limited obligation	(82,535,000)	
Certificates of participation	(10,800,000)	
Notes payable	(53,985,826)	
Revenue bonds	(143,181,716)	
Net pension liability	(411,539,978)	
Other postemployment benefits	(443,948,699)	
Claims and judgements	(1,003,200)	
Compensated absences	<u>(73,880,043)</u>	(4,557,512,100)

Due to other governments - long term debt due to state government not expected to be repaid with current financial reserves	<u>(132,573,470)</u>	(132,573,470)
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Certain costs related to long-term liabilities are recognized as expenditures  
in the fund statements, but are deferred in the government-wide statements:

Unamortized premiums	(259,864,851)	
Unrecognized amount on refunding	33,494,175	
Pension related deferrals, net	<u>107,219,847</u>	(119,150,829)

Internal service funds are used by management to provide certain goods and  
services to governmental funds. The assets and liabilities of internal service  
funds are included in the government-wide statement of net position:

Assets:

Current and non current assets	219,124,012
Capital assets	92,015,439
Less accumulated depreciation	(58,519,279)
Deferred outflows of resources	2,913,441
Liabilities	(178,793,398)
Deferred inflows of resources	(1,733,945)

Cumulative gain/loss for certain activities of internal service funds that are reported with business-type activities	<u>(1,652,671)</u>	73,353,599
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Revenues in the statement of activities that do not provide current financial  
resources are not reported as revenues in the funds:

Income taxes	243,957,406	
Property taxes	17,648,324	
Intergovernmental revenue	8,540,720	
Other revenue	<u>7,644,934</u>	277,791,384

Net position of governmental activities (See Exhibit A-1)	<u>\$</u>	<u>721,054,595</u>
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Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
**Exhibit A-5**

	General	Housing Initiative	Grants	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes	\$ 2,978,657,888	\$ 9,652,497	\$ -	\$ -	\$ 73,036,420	\$ 386,517,557	\$ 3,447,864,362
Licenses and permits	11,144,883	-	-	-	-	1,120,502	12,265,385
Intergovernmental	61,733,732	-	104,480,291	8,057,312	27,173,402	42,339,054	243,783,791
Charges for services	29,143,713	90	129,608	-	641,675	88,552,286	118,467,372
Fines and forfeitures	27,327,136	-	-	-	-	1,680,086	29,007,222
Investment income (loss)	992,786	2,086,730	127,078	18,416	405,944	350,109	3,981,063
Miscellaneous	8,601,100	1,960,478	871,230	3,494,216	2,946,090	881,666	18,754,780
Total Revenues	3,117,601,238	13,699,795	105,608,207	11,569,944	104,203,531	521,441,260	3,874,123,975
<b>EXPENDITURES</b>							
Current:							
General government	417,800,628	-	5,310,478	-	-	877,491	423,988,597
Public safety	400,082,511	-	11,467,129	-	-	242,993,223	654,542,863
Public works and transportation	87,062,413	-	4,340,353	-	-	119,397,315	210,800,081
Health and human services	217,471,067	-	81,101,075	-	-	-	298,572,142
Culture and recreation	45,043,237	-	169,467	-	-	46,944,994	92,157,698
Community development and housing	11,623,439	22,317,420	3,431,453	-	-	-	37,372,312
Environment	2,054,109	-	128,252	-	-	21,232,629	23,414,990
Education	1,674,058,571	-	-	-	-	-	1,674,058,571
Debt Service:							
Principal retirement	-	-	-	192,160,354	-	-	192,160,354
Leases and other obligations	-	-	-	29,873,326	-	-	29,873,326
Interest	-	-	-	133,478,302	-	-	133,478,302
Issuing costs	-	-	-	3,715,273	-	-	3,715,273
Capital projects	-	-	-	-	624,096,406	-	624,096,406
Total Expenditures	2,855,195,975	22,317,420	105,948,207	359,227,255	624,096,406	431,445,652	4,398,230,915
Excess (Deficiency) of Revenues over (under) Expenditures	262,405,263	(8,617,625)	(340,000)	(347,657,311)	(519,892,875)	89,995,608	(524,106,940)
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	65,108,335	28,043,890	340,000	331,829,689	67,643,225	5,669,117	498,634,256
Transfers (out)	(344,412,390)	(10,442,461)	-	-	(6,222,949)	(87,660,484)	(448,738,284)
Sale of property	-	1,181,222	-	-	10,848	-	1,192,070
Financing under notes and leases payable	1,739,803	-	-	-	6,620,939	-	8,360,742
Debt Issued (Retired):							
General obligation bonds	-	-	-	300,000,000	-	-	300,000,000
Premium on original issue debt	-	-	-	21,431,680	5,274,770	-	26,706,450
Bond anticipation notes	-	-	-	(300,000,000)	300,000,000	-	-
Revenue bonds	-	-	-	3,133,388	43,366,612	-	46,500,000
Premium on revenue bonds	-	-	-	-	2,009,534	-	2,009,534
Total Other Financing Sources (Uses)	(277,564,252)	18,782,651	340,000	356,394,757	418,702,979	(81,991,367)	434,664,768
Net Change in Fund Balances	(15,158,989)	10,165,026	-	8,737,446	(101,189,896)	8,004,241	(89,442,172)
Fund Balances - Beginning of Year	495,495,352	243,697,964	216,033	17,637,520	150,178,193	77,828,728	985,053,790
Fund Balances - End of Year	\$ 480,336,363	\$ 253,862,990	\$ 216,033	\$ 26,374,966	\$ 48,988,297	\$ 85,832,969	\$ 895,611,618

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

MONTGOMERY COUNTY, MARYLAND  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
**Exhibit A-6**

Net change in fund balance - total governmental funds (see Exhibit A-5) \$ (89,442,172)

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

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

Capital outlay	\$ 319,266,895	
Depreciation expense	<u>(85,173,395)</u>	234,093,500

In the statement of activities, only the gain or loss on capital assets is reported. However, in the governmental funds, all proceeds or losses are reported as financial resources. Thus, the change in net position differs from the change in fund balance by the capital assets value.

	(17,007,410)	(17,007,410)
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Donations of capital assets increase net position in the statement of activities but do not appear in the governmental funds because they are not financial resources.

	22,826,260	22,826,260
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Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Unearned revenues increased (decreased) this year, as follows:

Income taxes	42,518,012	
Property taxes	(2,225,162)	
Intergovernmental revenues	(1,153,200)	
Other revenues	<u>(1,387,574)</u>	37,752,076

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

Debt issued or incurred:		
General obligation bonds	(326,706,450)	
Bond anticipation notes	(300,000,000)	
Notes payable	(8,360,742)	
Revenue bonds	(48,509,534)	
Principal repayments:		
General obligation bonds	187,460,000	
Bond anticipation notes	300,000,000	
Taxable limited obligation certificates	3,785,000	
Leases payable	2,160,000	
Capital leases	2,659,480	
Certificates of participation	6,885,000	
Notes payable	14,812,480	
Revenue bonds	<u>4,243,607</u>	(161,571,159)

Cost incurred for past refunds owed as a result of the supreme court decision related to duplicate taxation	<u>(132,573,470)</u>	(132,573,470)
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Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest payable	4,989,192	
Compensated absences	509,381	
Pension expense	73,948,592	
Other postemployment benefits	(8,595,498)	
Claims and judgements	113,195	
Amortization	<u>32,347,655</u>	103,312,517

The current year gain for certain activities of internal service funds is reported with governmental activities.		<u>13,829,416</u>
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Change in net position of governmental activities (see Exhibit A-2)		<u><u>\$ 11,219,558</u></u>
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Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016  
Exhibit A-7

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Nonmajor Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Equity in pooled cash and investments	\$ 2,238,172	\$ 39,312,735	\$ 31,428,854	\$ 68,040,665	\$ 141,020,426	\$ 203,901,463
Cash with fiscal agents	4,950,185	-	24,959	-	4,975,144	-
Cash	52,500	3,600	79,833	-	135,933	300
Receivables (net of allowance for uncollectibles):						
Property taxes	-	-	422,535	-	422,535	-
Accounts	6,490,126	4,908,353	35,595	205,844	11,639,918	1,870,132
Parking violations	-	-	1,447,701	-	1,447,701	-
Due from other funds	-	-	-	-	-	7,495,350
Due from component units	-	65,753	437,712	-	503,465	1,201,794
Due from other governments	-	253,185	-	-	253,185	95,587
Inventory of supplies	31,456,841	-	-	-	31,456,841	4,525,263
Prepays	205,911	-	-	-	205,911	34,123
Total Current Assets	45,393,735	44,543,626	33,877,189	68,246,509	192,061,059	219,124,012
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	26,040,121	3,507,237	-	29,547,358	-
Investments	-	-	3,100,671	-	3,100,671	-
Restricted Assets	-	26,040,121	6,607,908	-	32,648,029	-
Capital Assets:						
Land, improved and unimproved	7,033,656	17,834,755	33,948,391	-	58,816,802	22,506
Improvements other than buildings	15,054,010	81,554,468	79,627,464	-	176,235,942	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	26,404,147	32,750,237	236,042,928	-	295,197,312	-
Furniture, fixtures, equipment, and machinery	13,374,645	15,105,355	1,060,733	1,849,097	31,389,830	3,852,897
Automobiles and trucks	3,928,426	279,688	122,153	440,851	4,771,118	87,871,471
Construction in progress	-	-	282,372	-	282,372	-
Subtotal	65,794,884	147,538,854	351,084,041	2,289,948	566,707,727	92,015,439
Less: Accumulated depreciation	13,620,353	107,798,831	171,184,768	1,693,942	294,297,894	58,519,279
Total Capital Assets (net of accumulated depreciation)	52,174,531	39,740,023	179,899,273	596,006	272,409,833	33,496,160
Total Noncurrent Assets	52,174,531	65,780,144	186,507,181	596,006	305,057,862	33,496,160
Total Assets	97,568,266	110,323,770	220,384,370	68,842,515	497,118,921	252,620,172
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding of debt	-	-	130,724	-	130,724	-
Pension deferrals	3,647,294	2,261,922	865,063	6,104,401	12,878,680	2,913,441
Total Deferred Outflows of Resources	3,647,294	2,261,922	995,787	6,104,401	13,009,404	2,913,441

(Continued)



MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016  
Exhibit A-7 (Concluded)

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Nonmajor Enterprise Funds	Totals	
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	\$ 300,982	\$ 2,955,896	\$ 1,372,904	\$ 244,008	\$ 4,873,790	\$ 13,542,749
Interest payable	470,130	-	198,451	-	668,581	-
Retainage payable	31,950	-	145,659	-	177,609	-
Deposits	-	-	75,000	9,110,749	9,185,749	-
Claims payable	-	-	-	-	-	39,740,099
Accrued liabilities	15,905,246	5,164,367	977,854	2,600,978	24,648,445	4,744,695
Due to other funds	515,652	178,981	79,250	447,733	1,221,616	4,314,726
Due to component units	-	-	824	783,902	784,726	17,922
Due to other governments	1,126,777	2,414,762	-	16,445	3,557,984	158,253
Equipment notes payable	945,740	-	150,689	18,769	1,115,198	-
Unearned revenue	19,718	-	477,380	2,821,199	3,318,297	34,816
Revenue bonds payable	2,106,979	-	3,158,000	-	5,264,979	-
Landfill closure costs	-	1,080,716	-	-	1,080,716	-
Other liabilities	-	-	100,000	-	100,000	-
Total Current Liabilities	21,423,174	11,794,722	6,736,011	16,043,783	55,997,690	62,553,260
Noncurrent Liabilities:						
Claims payable	-	-	-	-	-	110,516,195
Equipment note payable	4,312,708	-	309,354	18,987	4,641,049	-
Revenue bonds payable	40,294,222	-	38,370,616	-	78,664,838	-
Landfill closure costs	-	14,458,762	-	-	14,458,762	-
Gude Landfill remediation costs	-	28,500,000	-	-	28,500,000	-
Compensated absences	886,962	362,664	140,627	817,655	2,207,908	791,310
Net pension liability	4,676,057	2,958,989	1,119,970	8,190,136	16,945,152	3,791,419
Other postemployment benefits	1,838,263	477,233	229,800	1,419,926	3,965,222	1,141,214
Total Noncurrent Liabilities	52,008,212	46,757,648	40,170,367	10,446,704	149,382,931	116,240,138
Total Liabilities	73,431,386	58,552,370	46,906,378	26,490,487	205,380,621	178,793,398
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension deferrals	2,138,519	1,353,246	512,199	3,745,624	7,749,588	1,733,945
Total Deferred Inflows of Resources	2,138,519	1,353,246	512,199	3,745,624	7,749,588	1,733,945
<b>NET POSITION</b>						
Net investment in capital assets	4,514,882	39,740,023	138,526,340	596,006	183,377,251	33,422,584
Restricted for debt service	4,950,185	-	6,607,908	-	11,558,093	-
Unrestricted	16,180,588	12,940,053	28,827,332	44,114,799	102,062,772	41,583,686
Total Net Position	\$ 25,645,655	\$ 52,680,076	\$ 173,961,580	\$ 44,710,805	296,998,116	\$ 75,006,270
<b>ADJUSTMENTS</b>						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					1,652,671	
Net position of business-type activities					\$ 298,650,787	

Notes to Financial Statements are an integral part of this statement

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
Exhibit A-8

	Business-Type Activities - Enterprise Funds				Totals	Governmental Activities- Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Nonmajor Enterprise Funds		
<b>OPERATING REVENUES</b>						
Sales - net	\$ 292,467,049	\$ -	\$ -	\$ -	\$ 292,467,049	\$ -
Charges for services	19,220	109,340,795	26,332,976	13,634,161	149,327,152	292,222,436
Licenses and permits	1,893,522	14,390	-	41,558,083	43,465,995	-
Fines and penalties	194,402	57,788	5,608,730	119,547	5,980,467	2,149,724
Total Operating Revenues	294,574,193	109,412,973	31,941,706	55,311,791	491,240,663	294,372,160
<b>OPERATING EXPENSES</b>						
Cost of goods sold	211,517,189	-	-	-	211,517,189	-
Personnel costs	31,794,062	13,314,464	4,613,787	26,046,812	75,769,125	27,696,040
Other post employment contributions	2,157,840	421,040	273,680	1,205,230	4,057,790	1,273,650
Postage	17,964	94,934	6,379	11,629	130,906	1,248,849
Self-insurance incurred and estimated claims	-	-	-	-	-	156,842,624
Insurance	704,544	1,053,318	26,010	365,378	2,149,250	28,659,472
Supplies and materials	688,424	1,206,962	601,999	568,975	3,066,360	22,429,874
Contractual services	3,732,145	85,021,540	7,944,037	6,758,608	103,456,330	16,016,379
Communications	473,927	178,256	187,976	253,037	1,093,196	545,652
Transportation	1,086,044	2,178,851	277,096	639,431	4,181,422	202,411
Public utility services	738,944	154,689	2,458,434	2,091,200	5,443,267	1,089,543
Rentals	6,568,451	21,842	1,213,370	2,924,083	10,727,746	2,523,693
Maintenance	785,550	613,655	3,174,270	361,113	4,934,588	14,638,576
Depreciation	2,372,241	1,580,920	11,542,100	165,044	15,660,305	6,768,260
Landfill closure expense	-	133,560	-	-	133,560	-
Other	750,876	65,695	16,161	209,450	1,042,182	706,994
Total Operating Expenses	263,388,201	106,039,726	32,335,299	41,599,990	443,363,216	280,642,017
Operating Income (Loss)	31,185,992	3,373,247	(393,593)	13,711,801	47,877,447	13,730,143
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Property taxes	-	-	(657,506)	-	(657,506)	-
Gain (loss) on disposal of capital assets	-	201,967	9,480,997	-	9,682,964	172,639
Investment income	27,920	103,777	94,314	189,318	415,329	558,932
Interest expense	(1,839,210)	-	(1,179,135)	(597)	(3,018,942)	(910)
Other revenue	12,601	97,771	789,745	7,997	908,114	-
Insurance recoveries	7,197	-	-	-	7,197	861,147
Total Nonoperating Revenues (Expenses)	(1,791,492)	403,515	8,528,415	196,718	7,337,156	1,591,808
Income (Loss) Before Capital Contributions and Transfers	29,394,500	3,776,762	8,134,822	13,908,519	55,214,603	15,321,951
Transfers In (Out):						
Transfers in	-	-	-	25,000	25,000	39,184
Transfers out	(30,422,492)	(3,677,330)	(10,635,304)	(4,675,030)	(49,410,156)	(550,000)
Total Transfers In (Out)	(30,422,492)	(3,677,330)	(10,635,304)	(4,650,030)	(49,385,156)	(510,816)
Change in Net Position	(1,027,992)	99,432	(2,500,482)	9,258,489	5,829,447	14,811,135
Total Net Position - Beginning of Year	26,673,647	52,580,644	176,462,062	35,452,316		60,195,135
Total Net Position - End of Year	\$ 25,645,655	\$ 52,680,076	\$ 173,961,580	\$ 44,710,805		\$ 75,006,270
<b>ADJUSTMENTS</b>						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					981,719	
Change in net position of business-type activities					\$ 6,811,166	

Notes to Financial Statements are an integral part of this statement

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
**Exhibit A-9**

	Business Type Activities - Enterprise Funds					Governmental
	Liquor	Solid Waste Activities	Parking Lot Districts	Nonmajor Enterprise Funds	Totals	Activities - Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 294,002,300	\$ 108,931,660	\$ 31,242,280	\$ 55,513,825	\$ 489,690,065	\$ 291,916,305
Payments to suppliers	(225,874,160)	(91,116,522)	(17,037,445)	(15,756,438)	(349,784,565)	(83,259,931)
Payments to employees	(34,979,048)	(12,600,024)	(4,531,055)	(27,657,203)	(79,767,330)	(27,935,701)
Other operating receipts	12,601	-	789,745	4,442,238	5,244,584	-
Other operating payments	(750,876)	-	(16,161)	(5,237,557)	(6,004,594)	-
Claims paid	-	-	-	-	-	(148,431,313)
Other revenue	7,198	97,771	-	7,997	112,966	575,149
Net Cash Provided (Used) by Operating Activities	32,418,015	5,312,885	10,447,364	11,312,862	59,491,126	32,864,509
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Property tax collections	-	-	(657,506)	-	(657,506)	-
Insurance reimbursement claims	-	-	-	-	-	861,147
Operating subsidies and transfers from other funds	-	-	-	25,000	25,000	-
Operating subsidies and transfers to other funds	(30,422,492)	(3,677,330)	(10,635,304)	(4,675,030)	(49,410,156)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(30,422,492)	(3,677,330)	(11,292,810)	(4,650,030)	(50,042,662)	861,147
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from capital debt	-	-	75,611	-	75,611	-
Proceeds from sale of capital assets	1,750	374,425	9,480,997	-	9,857,172	322,750
Retirement of capital assets	-	-	2,309,716	-	2,309,716	-
Acquisition and construction of capital assets	(1,236,572)	(2,983,192)	(5,438,072)	(116,666)	(9,774,502)	(8,824,229)
Proceeds from equipment note payable	2,057,372	-	-	-	-	-
Principal paid on equipment note payable	(789,826)	-	(148,091)	-	(937,917)	-
Interest paid on equipment note payable	(91,255)	-	(9,977)	-	(101,232)	-
Principal paid on capital debt	(2,016,393)	-	(3,245,000)	(18,554)	(5,279,947)	(61,550)
Interest paid on capital debt	(1,968,164)	-	(1,575,467)	(598)	(3,544,229)	(910)
Internal activity - payments from other funds	-	-	-	-	-	(510,816)
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,043,088)	(2,608,767)	1,449,717	(135,818)	(7,395,328)	(9,074,755)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Investment income from pooled investments	27,920	103,777	94,314	189,319	415,330	558,932
Net Cash Provided (Used) by Investing Activities	27,920	103,777	94,314	189,319	415,330	558,932
Net Increase (Decrease) in Cash and Cash Equivalents	(2,019,645)	(869,435)	698,585	6,716,333	2,468,466	25,209,833
Balances - Beginning of Year	9,260,502	66,225,891	34,342,298	61,324,332	171,153,023	178,691,930
Balances - End of Year	\$ 7,240,857	\$ 65,356,456	\$ 35,040,883	\$ 68,040,665	\$ 173,621,489	\$ 203,901,763
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>						
Operating income (loss)	\$ 31,185,992	\$ 3,373,247	\$ (393,593)	\$ 13,711,801	\$ 47,877,447	\$ 13,730,143
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	2,372,241	1,580,920	11,542,100	165,044	15,660,305	6,768,260
Other revenue	12,601	97,771	789,745	8,000	908,117	-
Unearned revenue	426	-	-	-	426	-
Other operating expenses	-	3,100	-	-	3,100	-
Pension expense	(1,418,644)	(739,854)	(232,089)	(1,906,104)	(4,296,691)	(960,357)
Miscellaneous	7,198	-	38,580	-	45,778	-
Effect of changes in operating assets and liabilities:						
Receivables, net	(572,319)	(484,413)	(738,004)	3,182	(1,791,554)	(1,880,706)
Inventories, prepaids and other assets	-	-	-	-	-	219,140
Accounts payable and other liabilities	743,571	37,796	(1,212,888)	(151,981)	(583,502)	5,579,010
Claims payable	-	-	-	-	-	8,725,000
Accrued expenses	86,949	1,444,318	653,513	(517,080)	1,667,700	684,019
Net Cash Provided (Used) by Operating Activities	\$ 32,418,015	\$ 5,312,885	\$ 10,447,364	\$ 11,312,862	\$ 59,491,126	\$ 32,864,509
<b>Noncash investing, capital and financing activities:</b>						
Change in fair value of investments that are not cash and cash equivalents	\$ -	\$ -	\$ 4,434	\$ -	\$ 4,434	\$ -
Capital asset disposals	\$ -	\$ -	\$ 763,659	\$ -	\$ 763,659	\$ -

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

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016  
**Exhibit A-10**

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts	Agency Funds
<b>ASSETS</b>				
Current Assets:				
Equity in pooled cash and investments	\$ 2,841,008	\$ 9,348,109	\$ 60,024	\$ 32,367,391
Cash	-	-	-	130,945
Investments:				
Government and agency obligations	500,301,597	-	-	-
Asset-backed securities	3,713,101	-	-	-
Municipal/Provincial bonds	16,081,574	-	-	-
Corporate bonds	847,623,201	-	-	-
Collateralized mortgage obligations	840,430	-	-	-
Commercial mortgage-backed securities	726,834	-	-	-
Common and preferred stock	1,815,593,836	-	-	-
Mutual and commingled funds	1,156,264,219	-	-	-
Short-term investments	109,016,016	-	-	-
Cash collateral received under securities lending agreements	274,338,071	-	-	-
Real assets	209,199,727	-	-	-
Private equity	305,401,191	-	-	-
Total Investments	5,239,099,797	-	-	-
Receivables (net of allowances for uncollectibles):				
Receivables and accrued interest	35,001,943	-	-	-
Property taxes	-	-	-	5,095,840
Accounts	610,400	-	-	8,768,356
Due from other funds	14,424,254	-	-	-
Due from component units	185,342	-	-	-
Due from other governments	1,016	-	-	-
Total Current Assets	5,292,163,760	9,348,109	60,024	46,362,532
Noncurrent Assets:				
Capital assets:				
Miscellaneous	900,043	-	-	-
Less: Accumulated depreciation	600,028	-	-	-
Total Capital Assets (net of accumulated depreciation)	300,015	-	-	-
Total Assets	5,292,463,775	9,348,109	60,024	\$ 46,362,532
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	278,835,723	-	44,585	361,489
Accrued liabilities	5,229,535	-	-	11,144
Deposits	-	-	-	3,666,894
Claims payable	3,921,873	-	-	-
Due to other funds	20,978	-	-	-
Due to other governments	-	-	-	1,860,898
Uncollected property taxes due to governments	-	-	-	4,771,080
Undistributed taxes and refunds	-	-	-	3,436,551
Unearned revenue	77,121	-	-	-
Tax sale surplus and redemptions payable	-	-	-	4,076,031
Other liabilities	-	-	-	28,178,445
Total Current Liabilities	288,085,230	-	44,585	46,362,532
Noncurrent Liabilities:				
Compensated absences	79,697	-	-	-
Total Liabilities	288,164,927	-	44,585	\$ 46,362,532
<b>NET POSITION</b>				
Held in trust for pension and other postemployment benefits, external investment pool participants, and other purposes	\$ 5,004,298,848	\$ 9,348,109	\$ 15,439	

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

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
**Exhibit A-11**

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts
<b>ADDITIONS</b>			
Contributions:			
Employers	\$ 319,296,191	\$ -	\$ -
Members	81,189,710	-	-
Federal government - Medicare Part D	8,663,516	-	-
Share purchases	-	31,240,151	-
Total Contributions	409,149,417	31,240,151	-
Investment income (loss)	77,774,139	129,482	-
Less: Investment expenses	19,719,710	-	-
Net Investment Income (Loss)	58,054,429	129,482	-
Other income - forfeitures	292,437	-	-
Total Additions, net	467,496,283	31,369,633	-
<b>DEDUCTIONS</b>			
Benefits:			
Annuities:			
Retirees	171,391,248	-	-
Survivors	9,017,219	-	-
Disability	50,287,324	-	-
Claims	106,594,157	-	-
Total Benefits	337,289,948	-	-
Share redemptions	-	55,973,376	-
Member refunds	38,316,045	-	-
Administrative expenses	10,621,876	-	-
Depreciation	300,014	-	-
Total Deductions	386,527,883	55,973,376	-
Net Increase (Decrease)	80,968,400	(24,603,743)	-
Net Position - Beginning of Year	4,923,330,448	33,951,852	15,439
Net Position - End of Year	\$ 5,004,298,848	\$ 9,348,109	\$ 15,439

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

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET POSITION  
COMPONENT UNITS  
JUNE 30, 2016  
Exhibit A-12

	MCPS	HOC	Nonmajor Component Units	Total
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 43,391,009	\$ 940,009	\$ 26,778,184	\$ 71,109,202
Cash with fiscal agents	-	76,561,172	6,255,470	82,816,642
Cash	7,298,183	15,596	6,645,297	13,959,076
Investments - cash equivalents	27,284,370	20,263,832	13,811,820	61,360,022
Investments	-	-	44,877,433	44,877,433
Receivables (net of allowance for uncollectibles):				
Capital leases	-	-	11,898,895	11,898,895
Accounts	31,832,467	369,830	9,177,643	41,379,940
Notes	-	-	65,038,705	65,038,705
Mortgage	-	314,660,325	-	314,660,325
Interest	-	4,885,121	-	4,885,121
Other	151,019	52,669,364	5,278,783	58,099,166
Due from primary government	65,834,642	1,208,476	8,795,079	75,838,197
Due from other governments	37,443,359	2,759,177	5,656,003	45,858,539
Inventory of supplies	9,671,668	330,004	460,168	10,461,840
Prepays	337,779	3,609,683	2,292,441	6,239,903
Other assets	-	32,053,228	5,913,808	37,967,036
Restricted Assets:				
Equity in pooled cash and investments	-	4,407,929	547,717	4,955,646
Cash with fiscal agents	-	22,878,957	-	22,878,957
Cash	-	-	21,881,064	21,881,064
Investments - cash equivalents	-	191,013,840	-	191,013,840
Investments	-	66,692,439	-	66,692,439
Capital Assets:				
Nondepreciable assets	145,703,260	102,401,512	39,666,465	287,771,237
Depreciable assets, net	2,532,182,674	449,141,367	548,860,772	3,530,184,813
Total Assets	<u>2,901,130,430</u>	<u>1,346,861,861</u>	<u>823,835,747</u>	<u>5,071,828,038</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding of debt	-	-	918,791	918,791
Pension deferrals	217,019,075	5,063,652	7,111,665	229,194,392
Accumulated decrease in fair value of hedging derivatives	-	11,208,458	174,941	11,383,399
Total Deferred Outflow of Resources	<u>217,019,075</u>	<u>16,272,110</u>	<u>8,205,397</u>	<u>241,496,582</u>
<b>LIABILITIES</b>				
Accounts payable	79,943,607	18,874,089	6,740,391	105,558,087
Interest payable	-	16,308,063	-	16,308,063
Retainage payable	7,650,158	-	1,434,951	9,085,109
Accrued liabilities	64,709,761	7,223,272	20,055,617	91,988,650
Deposits	-	19,891,276	309,279	20,200,555
Due to primary government	64,316	70,651,953	779,344	71,495,613
Due to other governments	-	-	373,939	373,939
Unearned revenue	8,413,726	27,003,617	8,244,156	43,661,499
Other liabilities	-	58,168,017	2,116,808	60,284,825
Noncurrent Liabilities:				
Due within one year	54,036,618	120,731,241	8,651,153	183,419,012
Due in more than one year	1,148,254,574	795,794,995	184,508,126	2,128,557,695
Total Liabilities	<u>1,363,072,760</u>	<u>1,134,646,523</u>	<u>233,213,764</u>	<u>2,730,933,047</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred gain on refunding of debt	-	-	1,136,239	1,136,239
Pension deferrals	110,414,312	4,625,333	4,125,180	119,164,825
Total Deferred Intflow of Resources	<u>110,414,312</u>	<u>4,625,333</u>	<u>5,261,419</u>	<u>120,301,064</u>
<b>NET POSITION</b>				
Net investment in capital assets	2,643,860,041	(33,775,631)	507,779,507	3,117,863,917
Restricted for:				
Capital projects	-	-	142,923	142,923
Debt service	-	90,923,275	1,473,981	92,397,256
Other purposes	-	6,190,638	31,083,403	37,274,041
Unrestricted (deficit)	(999,197,608)	160,523,833	53,086,147	(785,587,628)
Total Net Position	<u>\$ 1,644,662,433</u>	<u>\$ 223,862,115</u>	<u>\$ 593,565,961</u>	<u>\$ 2,462,090,509</u>

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

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF ACTIVITIES  
COMPONENT UNITS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
**Exhibit A-13**

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	MCPS	HOC	Nonmajor Component Units	Total
Component Units:								
General government	\$ 4,881,463	\$ 4,685,640	\$ 187,760	\$ -	\$ -	\$ -	\$ (8,063)	\$ (8,063)
Culture and recreation	18,761,380	16,711,082	-	1,170,300	-	-	(879,998)	(879,998)
Community development and housing	230,490,766	117,159,375	116,149,154	9,349,632	-	12,167,395	-	12,167,395
Education:								
Secondary education	2,699,114,548	28,069,566	121,173,191	54,665,675	(2,495,206,116)	-	-	(2,495,206,116)
Higher education	350,557,109	78,168,637	20,392,373	-	-	-	(251,996,099)	(251,996,099)
Total component units	<u>\$ 3,303,805,266</u>	<u>\$ 244,794,300</u>	<u>\$ 257,902,478</u>	<u>\$ 65,185,607</u>	<u>(2,495,206,116)</u>	<u>12,167,395</u>	<u>(252,884,160)</u>	<u>(2,735,922,881)</u>
General revenues:								
Grants and contributions not restricted to specific programs					2,553,042,676	-	263,847,533	2,816,890,209
Investment income					11,800	1,104,919	4,182,047	5,298,766
Gain (loss) on sale of capital assets					293,263	27,896,767	(63,128)	28,126,902
Total general revenues					2,553,347,739	29,001,686	267,966,452	2,850,315,877
Change in net assets					58,141,623	41,169,081	15,082,292	114,392,996
Net position - beginning, as restated					1,586,520,810	182,693,034	578,483,669	2,347,697,513
Net position - ending					\$ 1,644,662,433	\$ 223,862,115	\$ 593,565,961	\$ 2,462,090,509

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





**MONTGOMERY COUNTY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2016

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## NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) applicable to local government entities. The following is a summary of significant policies:

### A) Reporting Entity

#### Background

Montgomery County, Maryland (County) is a charter government under the constitution and general laws of the State of Maryland (State). The charter provides for separate legislative and executive branches with legislative responsibility vested in an elected nine-member county council and executive responsibility vested in an elected county executive. The County provides its citizens with services in areas of general government, public safety, public works and transportation, health and human services, education, culture and recreation, community development and housing, and environment.

As required by GAAP, these financial statements present the primary government and its component units, which are entities for which the primary government is considered financially accountable. The County reporting entity is determined by criteria established by the Governmental Accounting Standards Board (GASB). The judgment to include or exclude activities is dependent on evaluation of the GASB criteria. Various departments and agencies governed directly by the County Executive and the County Council of Montgomery County are included in the reporting entity as the primary government and are referred to hereafter as the Primary Government. The component units (as discussed below) are included in the reporting entity because the Primary Government approves the budget requests, provides a significant amount of funding for each of these units, and/or appoints the governing boards.

#### Discretely Presented Component Units

The financial data of the County's component units are discretely presented in a column separate from the financial data of the primary government, to emphasize that the component units are legally separate from the Primary Government. Financial information regarding the component units is included in the component units' combining statements. The following are the County's component units, each of which has a June 30 fiscal year-end:

#### Major Component Units

- Montgomery County Public Schools (MCPS)  
MCPS provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education, including one student member, are elected by the voters. However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.
- Housing Opportunities Commission of Montgomery County (HOC)  
HOC is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of HOC and guarantees a relatively small portion of its debt (up to \$50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though

there is a large dependence on the U.S. Department of Housing and Urban Development (HUD), HOC has sufficient financial accountability to the Primary Government to be included as a component unit.

### **NonMajor Component Units**

- Bethesda Urban Partnership, Inc (BUP)  
BUP has its entire ten-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUP is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUP's funding is granted through the Primary Government's operating budget. The County Council annually approves the BUP operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.
- Montgomery County Revenue Authority (MCRA)  
MCRA is governed by a five-member Board of Directors. All members are appointed by the County Executive subject to the confirmation of the County Council. The County Council approves the capital budget of MCRA. MCRA approves its own operating budget. MCRA is an instrumentality of the Primary Government for the purpose of constructing, improving, and maintaining self-sustaining projects devoted to public use, good or welfare.
- Montgomery College (MC)  
MC provides educational services to County citizens by offering two-year associate degrees and a continuing education program. MC is responsible for post secondary education within the government's jurisdiction. The Montgomery County Board of Community College trustees is the governing authority. The State Governor appoints the trustees from a list of candidates supplied by a nominating committee. The nominating committee is controlled by the County Executive and the County Council. Therefore, essentially the Primary Government and the State Governor must agree upon the trustees to serve on the College's Governing Board. In addition, the County Council reviews and approves both the operating and capital budgets and budgetary amendments of MC. The Primary Government contributes substantial funding for both the operating and capital budgets, as well as issues debt for the construction of college facilities.

Complete financial statements can be obtained at the component units' administrative offices listed below:

Montgomery County Public Schools 45 West Gude Drive, Suite 3200 Rockville, MD 20850	Montgomery College 900 Hungerford Drive Rockville, MD 20850	Bethesda Urban Partnership, Inc. 7700 Old Georgetown Road Bethesda, MD 20814
Housing Opportunities Commission of Montgomery County, Maryland 10400 Detrick Avenue Kensington, MD 20895-2484	Montgomery County Revenue Authority 101 Monroe Street, 4 <sup>th</sup> Floor Rockville, MD 20850	

### **Joint Ventures and Jointly Governed Organizations**

The following organizations are considered joint ventures of the County: Maryland-National Capital Park and Planning Commission (M-NCPPC), Washington Suburban Sanitary Commission (WSSC), Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), and Northeast Maryland Waste Disposal Authority (NEMWDA). Metropolitan Washington Council of Governments (COG) is a jointly governed organization. Disclosure of the County's participation in these joint entities is presented in Note IV-D. Complete financial statements can be obtained at the joint entities' offices as follows:

Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737	Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707	Washington Suburban Transit Commission 4351 Garden City Drive, Suite 305 Hyattsville, MD 20785
Washington Metropolitan Area Transit Authority 600 Fifth Street, NW Washington, DC 20001	Northeast Maryland Waste Disposal Authority 100 South Charles St, Tower II- Suite 402 Baltimore, MD 21201	Metropolitan Washington Council of Governments 777 N. Capitol Street, NE, #300 Washington, DC 20002

## **B) Government-Wide and Fund Financial Statements**

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

The government-wide financial statements report information on all of the nonfiduciary activities of the Primary Government and its component units. Since by definition, assets of fiduciary funds are held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities of the Primary Government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

#### **Statement of Net Position**

This statement is designed to display the financial position of the reporting entity as of year-end. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. Net position is divided into three categories – 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

#### **Statement of Activities**

This statement demonstrates the degree to which the direct expenses of a given function or segment for the fiscal year are offset by program revenues. Therefore, this statement reflects both the gross and net costs per functional category (general government, public safety, public works and transportation, health and human services, culture and recreation, community development and housing, environment, and education) that are otherwise being supported by general revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The County does not allocate indirect expenses. The operating grants column includes operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

### **Fund Financial Statements**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise of assets, liabilities, fund balance/net position, revenues, and expenditures/expenses.

### **Budget-to-Actual Comparison Schedules**

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. Budget-to-actual comparison schedules for the General Fund and the County's major special revenue funds, (Housing Initiative and Grants) are presented as Required Supplementary Information.

## **C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

### **Measurement Focus and Basis of Accounting**

#### **Full Accrual Basis Financial Statements**

The government-wide, proprietary fund, and certain fiduciary fund (pension and other employee benefit trusts, investment trust, and private-purpose trusts) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements. The agency funds, which do not have a measurement focus, use the accrual basis of accounting to recognize assets and liabilities.

#### **Modified Accrual Basis Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In the governmental funds, revenues are recorded as soon as they are susceptible to accrual (both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and judgments and compensated absences are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

In applying the susceptible to accrual concept to income taxes (distributed by the State), property taxes, and intergovernmental revenues other than grants, the County defines "available" to mean received within 30 days after year-end.

In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing those collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. The County records estimated receivables relating to income taxes when the underlying income is earned. Amounts not received within 30 days are reported as deferred inflows. At year-end, unearned revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the County's availability period. Amounts relating to late filers are expected to

be received from the State within the next fiscal year; however, collections related to delinquent returns and audits and unallocated withholding may not occur and be remitted to the County for several years.

In applying the susceptible to accrual concept to operating and capital grants, classified with intergovernmental revenues in the fund financial statements, the County records receivables when the applicable eligibility requirements including time requirements are met. Related revenues are recognized to the extent that cash is expected to be received within one year of year-end. Resources received before the eligibility requirements are met are reported as unearned revenue within the governmental funds and unearned revenue in the government-wide financial statements.

Charges for services, licenses and permits, fines and penalties, and miscellaneous revenues (except earnings on investments) are generally recorded as revenues when received in cash during the year. At year-end, receivables are recorded for significant amounts due. If such amounts are received in cash after year-end within the County's 30 day availability period, they are recognized as revenue; if not, such amounts are reported as unearned revenue.

## **Financial Statement Presentation**

### **Major Governmental Funds**

- General Fund  
This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. For financial reporting purposes, the General Fund also includes amounts maintained in a legally separate Revenue Stabilization Fund. (See Note II-B.) The Revenue Stabilization Fund was created to establish a "rainy day" or reserve account to accommodate future funding shortfalls. It was designed to accrue a balance during periods of economic growth and prosperity, when revenue collections exceed estimates. The Fund may be drawn upon during periods of economic slowdown, when collections fall short of revenue estimates. Beginning in FY16, the Economic Development Fund and the Urban District Funds are reported in the General Fund.
- Housing Initiative Fund  
This fund is used to account for the fiscal activity for financing, supplementing, and constructing affordable residential facilities for eligible participants. The Fund's revenue sources consist of a portion of each County-owned property sold, repayments on loans, and recordation taxes. All of these revenue sources are restricted, as all funds received must be used to finance, supplement, and construct affordable residential housing for eligible participants.
- Grants Fund  
This fund accounts for the Federal and State grant-funded activities of the tax supported General Fund and special revenue funds. These grant funds must be spent according to the restrictions prescribed by the respective funding agencies.
- Debt Service Fund  
This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.
- Capital Projects Fund  
This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

## Major Enterprise Funds

- Liquor Enterprise Fund  
This fund accounts for the operations of twenty-five liquor stores and one Montgomery County liquor warehouse. Under State law, the Montgomery County Department of Liquor Control has sole control of the distribution of alcoholic beverages, and the sale of spirits, within the County.
- Solid Waste Activities Enterprise Fund  
This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling and leaf vacuuming. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements. The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County. The Vacuum Leaf Collection program provides leaf collection services to down county residents during the late fall and winter months.
- Parking Lot Districts Enterprise Fund  
This fund accounts for the fiscal activity related to serving the parking needs of the people who work and shop in the four central business districts zoned for commercial or industrial use identified as Silver Spring, Bethesda, Wheaton, and Montgomery Hills.

## Other Fund Types

- Other Governmental Funds  
The other governmental fund types used by the County are special revenue and permanent. Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. The County periodically uses permanent funds to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs.
- Nonmajor Enterprise Funds  
The nonmajor enterprise funds types used by the County are Permitting Services, which accounts for most of the fiscal activity of permitting programs within the County, and Community Use of Public Facilities, which accounts for the fiscal activity related to renting public facilities to community organizations.
- Internal Service Funds  
These funds are used to account for the financing of goods or services provided by one department or agency to other departments or to other governmental units, on a cost-reimbursement basis. There are four internal service funds reported by the County: Motor Pool, Liability and Property Coverage Self-Insurance, Employee Health Benefits Self-Insurance, and Central Duplicating.

## Fiduciary Fund Types

- Pension and Other Employee Benefit Trust Fund  
This fund is used to account for all activities of the Employees' Retirement System of Montgomery County (defined benefit plan), Employees' Retirement Savings Plan (defined contribution plan), Deferred Compensation Plan, and Retiree Health Benefits Trust, including accumulation of resources for, and payment of, retirement annuities or other benefits and administrative costs.
- Investment Trust Fund  
This fund accounts for the portion of the external investment pool, sponsored by the County that belongs to participating governments that are not part of the County reporting entity.

- Private-Purpose Trust Funds

These funds account for arrangements under which principal and interest are legally held in trust for parties outside of the County and must be expended in accordance with their designated purposes.

- Agency Funds

These funds are used to account for assets, such as property taxes, held in a purely custodial capacity, where the County receives, temporarily invests, and remits such resources to individuals, private organizations, or other governments.

In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds are eliminated or reclassified. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position. The effect of interfund services provided and used between functions has not been eliminated in the Statement of Activities, since to do so would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

## **D) Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity**

### **1) Cash and Investments**

#### **Pooled Cash and Investment**

The County sponsors an external investment pool. Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The portion of pooled cash and investments applicable to other legally separate entities (not included in the County reporting entity) is accounted for in a separate Investment Trust Fund. During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. At year-end, investments in the pool are adjusted to fair value plus accrued interest. See Note III-A for additional information.

#### **Non-pooled Investments**

##### Proprietary Fund Types

The Parking Lot District enterprise fund investments in U.S. Government securities are stated at fair value plus accrued interest.



### Pension and Other Employee Benefit Trust Fiduciary Fund Type

Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2016. Fair value for private investment funds, including private equity and private real assets, is determined using unit values supplied by the fund managers, which are based upon the fund managers' appraisals of the funds' underlying holdings. Such values involve subjective judgment and may differ from amounts which would be realized if such holdings were actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

### **Cash and Cash Equivalents**

For Statement of Cash Flows reporting purposes, "cash equivalents" are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less, at the time of purchase, meet this definition. The balance sheet classification for "cash and cash equivalents" in the Statement of Cash Flows includes the following: "Equity in pooled cash and investments," "Cash," "Cash with fiscal agents," and "Restricted Equity in pooled cash and investments."

## **2) Receivables and Payables**

### **Due From/To Other Funds and Internal Balances**

Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the year and where repayment is expected within a reasonable time are referred to as "due from/to other funds." Such outstanding balances not expected to be repaid within a reasonable time are included in interfund "transfers in/out." Any residual balances of "due from/to other funds" outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

### **Trade Accounts Receivable**

Trade and other receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is calculated based on historical collection data and, in some cases, specific account analysis.

## **3) Inventories and Prepaids**

### **Inventories**

Inventories are valued at the lower of cost (principally first-in, first-out) or market in the Liquor Enterprise Fund and consist of goods held for sale. Inventories valued at cost (principally moving-average) are carried in the Motor Pool Internal Service Fund and the governmental fund types. All inventories are maintained by perpetual records and adjusted by annual physical counts. Inventories in the governmental funds and Motor Pool Internal Service Fund consist of items held for consumption. The cost is recorded as an expenditure at the time individual items are withdrawn for use. In governmental funds, fund balance equivalent to the year-end inventory value is classified as nonspendable to indicate that portion of fund balance which is not available in a spendable form.

### **Prepaids**

The County uses the consumption method to account for prepaids. Prepaids include payments made to vendors for services that will benefit periods beyond the end of the fiscal year.

#### 4) Restricted Assets

Certain proceeds of the County's bonds, as well as certain resources set aside for revenue bond repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

#### 5) Capital Assets

Capital assets, which include property, plant, equipment, computer software, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of \$10,000 or more, and an estimated useful life in excess of one year. Such assets are valued at actual market transactions for identical or similar items, the current cost to replace the service capacity of an asset, or discounting the current value of future cash flows. Donated capital assets are recorded at acquisition value at the date of donation.

An asset's cost basis may be adjusted after acquisition due to improvements or impairments to the asset. However, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	20 – 40
Improvements other than buildings	3 – 40
Infrastructure	20 – 60
Furniture, fixtures, equipment and machinery	3 – 20
Automobiles and trucks	2 – 15
Intangibles	3 – 20

For Statement of Cash Flows reporting purposes, proceeds from insurance on capital assets that are stolen or destroyed are classified as proceeds from sale of capital assets.

#### 6) Deferred Outflows of Resources

Deferred outflows are the consumption of net position by the County that is applicable to a future reporting period. The County's deferred outflows of resources consist of deferred charges on refunding of debt and changes relating to pension expenses. Deferred charges on refunding are being amortized over the term of the respective bonds using the bonds outstanding method which approximates the effective interest method. Deferred outflows of resources relating to pensions are described in Note IV-F1. For the County's Component Units deferred outflows consist of accumulated decreases in fair value of hedging derivatives.

#### 7) Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as

a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer's share of social security and medicare taxes. Based on a historical analysis of leave usage, accrued leave is classified as current and long-term. In the proprietary fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

## **8) Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable in the proprietary fund financial statements and noncurrent liabilities in the government-wide financial statements are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

## **9) Deferred Inflows of Resources**

Deferred inflows are the acquisition of net position by the County that is applicable to a future reporting period. The County's deferred inflows of resources consist of unavailable income taxes, unavailable property taxes, unavailable revenues, and changes relating to pension expenses (see Note IV-F1).

## **10) Fund Equity/Net Position**

In the government-wide financial statements, the County has reported negative unrestricted net position. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MC, and M-NCPPC. The related capital assets are reported on the financial statements of these governments. For MCPS and MC, component units of the County, this amount is also classified as net investment in capital assets in the Component Units column of the government-wide Statement of Net Position (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net position (deficit) in the Governmental Activities column of the government-wide Statement of Net Position. At June 30, 2016, the County has reported outstanding general obligation bond, variable rate demand obligation, and bond anticipation note debt related to MCPS, MC, and M-NCPPC amounting to \$1,664,939,419. Absent the effect of this relationship, the County would have reported a deficit in unrestricted net position of governmental activities in the amount of \$238,334,979.

## **Classification of Fund Balance**

The County classifies fund balance based on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The constraints are a hierarchy of five classifications. First identified are *nonspendable* fund balances including amounts that are not in spendable form or the government is legally or contractually required to maintain the resources intact. The next four classifications are based on the relative strength of the constraints that control how specific amounts can be spent:

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. In the County's case this would be the County Council. The highest act of this body is for it to pass a bill, which becomes a public law.

Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The County Council may make assignments of fund balance or can delegate this authority to the Chief Administrative Officer (CAO). The CAO may then make additional assignments of fund balance, but only at the direction of the County Council.

*Unassigned* fund balance is the residual classification for the County's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification can only be used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The County has established a fund balance spending policy for those instances where an expenditure is incurred for a purpose for which amounts in any of the restricted or unrestricted fund balance classifications (committed, assigned, or unassigned) could be used. The County will apply expenditures against restricted amounts first, followed by committed, assigned and unassigned amounts.

## **11) Property Taxes**

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY16. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of nine members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate adopted for Levy Year 2015 (i.e., FY16), in conjunction with a one-time income tax offset credit, generated revenues below the Charter limit for that year.

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Owner-occupied residential and "small business" property owners pay their tax on a semi-annual schedule, with the first and second installments due on September 30 and December 31, respectively. Taxpayers may opt to make both semi-annual payments on or before September 30. Property tax revenue is reported net of refunds paid.

The County collects delinquent real property taxes through a public tax lien sale. Tax liens, representing delinquent taxes on real property are sold in random groups, utilizing a sealed bid process, on the second Monday in June, when taxes have remained overdue since the preceding October 1 or in the case of a semi-annual schedule, January 1.

## **12) Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans (Plans) and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by Plans. For these purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **E) New Accounting Standards**

The County has adopted GASB Statement No. 72, *Fair Value Measurement and Application*, issued to address accounting and financial reporting issues related to fair value measurements. The required changes are reflected in the County's financial statements.

The County has adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* issued to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for decision making and assessing accountability. Only the portion of the standard amending GASB Statements 67 and 68 is effective for FY16. The required changes are reflected in the County's financial statements. The remaining guidance is effective for FY17.

The County has adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued to identify the hierarchy of generally accepted accounting principles. The hierarchy includes sources of accounting principles used by state and local governments in preparing financial statements. The required changes are reflected in the County's financial statements.

The County has adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, issued to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The required changes are reflected in the County's financial statements.

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## NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A) Additional Fund Information

#### Revenue Stabilization Fund

This fund is used to account for the accumulation of resources at a targeted reserve level sufficient to address unexpected increases or decreases in revenues and expenditures. For financial reporting purposes this fund is included within the General Fund. Below is the change in the Revenue Stabilization Fund (RSF) balance for the fiscal year ended June 30, 2016.

Revenue Stabilization Fund (RSF)	
Balance Beginning of Year	\$ 230,647,665
Investment Income	606,318
FY16 Statutory Contribution	23,152,055
Balance – End of Year	<u>\$ 254,406,038</u>

#### White Flint Special Taxing District

The White Flint Special Taxing District (WFSTD) is used to account for property tax collections and investment income earnings related to the White Flint Sector. These revenues are used to fund transportation infrastructure improvements and other development costs in the WFSTD. This fund is included within the Capital Projects Fund. Below is the change in the WFSTD balance for the fiscal year ended June 30, 2016.

White Flint Special Taxing District (WFSTD)	
Balance Beginning of Year	\$ 3,663,169
Property Taxes	1,802,477
Investment Income	13,214
Balance – End of Year	<u>\$ 5,478,860</u>

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## NOTE III. DETAILED NOTES ON ALL FUNDS

### A) Cash and Investments

#### 1) Overview

The Montgomery County reporting entity total cash and investments as of June 30, 2016, totaled \$7,010,394,734 of which \$6,428,850,412 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

	Primary Government	Component Units *	Total Reporting Entity
<u>Statement of Net Position Amounts:</u>			
Equity in pooled cash and investments	\$ 1,055,040,248	\$ 71,109,202	\$ 1,126,149,450
Cash with fiscal agents	101,374,496	82,816,642	184,191,138
Cash	687,842	13,959,076	14,646,918
Investments - cash equivalents	-	61,360,022	61,360,022
Investments	5,239,099,797	44,877,433	5,283,977,230
Restricted equity in pooled cash and investments	29,547,358	4,955,646	34,503,004
Restricted cash with fiscal agents	-	22,878,957	22,878,957
Restricted cash	-	21,881,064	21,881,064
Restricted investments - cash equivalents	-	191,013,840	191,013,840
Restricted investments	3,100,671	66,692,439	69,793,110
Total	<u>\$ 6,428,850,412</u>	<u>\$ 581,544,321</u>	<u>\$ 7,010,394,733</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 520,662,795	\$ 187,728,893	\$ 708,391,688
Investments	5,806,125,279	182,407,119	5,988,532,398
Cash on hand, fiscal agents, safe deposit escrow	102,062,338	211,408,309	313,470,647
Total	<u>\$ 6,428,850,412</u>	<u>\$ 581,544,321</u>	<u>\$ 7,010,394,733</u>

\* Includes \$382,491 in County Investment Pool

Primary Government cash and investments reconciles to the basic financial statements as follows:

Government-wide	\$ 1,145,003,138
Fiduciary funds	5,283,847,274
Total	<u>\$ 6,428,850,412</u>

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## Primary Government

### 2) External Investment Pool

#### Overview

The County maintains an external investment pool that is subject to oversight by the County's Internal Investment Committee, but is not subject to regulatory oversight by the Securities and Exchange Commission (SEC). Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The equity position of each fund and component unit is reported as an asset by the funds and component units. The external portion of the pool (i.e., participation by legally separate entities) is reported as the Investment Trust Fund in the accompanying financial statements. Participants' shares redeemed during the year are based on actual cost; participants' shares are then adjusted to fair value at year-end. The County has not provided or obtained any legally binding guarantees during the year to support the value of shares.

During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. The fair value of U. S. Government securities, repurchase agreements, commercial paper and bankers' acceptances are provided by the County's custodian, which are based on various industry standard pricing sources. For interest-bearing investments, market value quotations do not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest are typically classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and any adjustment to fair value at year-end, is allocated to pool participants based upon their average equity in the pool. The adjustment to fair value related to all County funds (exclusive of legally separate entities' accounts reflected in the Investment Trust Fund) is typically recorded in the General Fund, since this amount is not material. At year-end, based on the nature of investments held, there was no adjustment to fair value, since fair value was the same as cost.

External investment pool amounts, included in the schedule above, are as follows:

	Primary Government	Component Units	Total Reporting Entity
<u>Statement of Net Position Amounts:</u>			
Equity in pooled cash and investments	\$ 1,055,040,248	\$ 382,491	\$ 1,055,422,739
Restricted equity in pooled cash and investments	29,547,358	-	29,547,358
Total	<u>\$ 1,084,587,606</u>	<u>\$ 382,491</u>	<u>\$ 1,084,970,097</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 520,662,795	\$ -	\$ 520,662,795
Investments, including accrued interest	563,924,811	382,491	564,307,302
Total	<u>\$ 1,084,587,606</u>	<u>\$ 382,491</u>	<u>\$ 1,084,970,097</u>

## Deposits

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statute requires that securities underlying certificates of deposit have a



market value that equals or exceeds the cost of the deposit while County investment policy requires a market value of at least 102 percent of the cost of the deposit. Appropriate sections of these cited statutes also require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County's name at a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

Deposits typically include bank accounts and non-negotiable certificates of deposit; at year-end, the County held no non-negotiable certificates of deposit. Deposits at financial institutions were fully insured or collateralized at year-end. Therefore, the County has no significant exposure to custodial credit risk.

### Investments

The County, through its external investment pool, maintains a cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet financial obligations, and maximization of the investment yield on short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's investment policies as approved by the County Council. At year-end, the investment portfolio was comprised of commercial paper, the Maryland Local Government Investment Pool (MLGIP) and U.S. Government securities (U.S. Treasury and U.S. Agency Securities). The County was in compliance with all applicable investment statutes throughout the fiscal year.

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created the Maryland Local Government Investment Pool within the Annotated Code of Maryland. The Pool's purpose is to assist the public finance officer by providing an investment medium in which the participants may invest their idle balances. A pooled fund strategy is utilized creating a money market fund for municipalities that is a very safe, highly efficient, programmed approach to investing. Participants are provided professional money management, a well-diversified portfolio and reduced cost. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The MLGIP, under the administrative control of the State Treasurer, is managed by PNC Capital Investors, LLC and custodied by PNC Bank, N.A. A MLGIP Advisory Committee of current participants was formed to review, on a semi-annual basis, the activities of the Fund and to provide suggestions to enhance the Pool.

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

All investments below are valued using quoted market prices (Level 1 inputs):

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Maturity Range</u>	<u>Interest Range</u>
U. S. Treasury Securities	\$ 10,001,700	\$ 10,012,180	July 2016-July 2016	0.45%-0.45%
U.S. Government Securities	407,341,732	408,485,758	July 2016-April 2017	0.37%-0.72%
Commercial paper	36,795,040	36,795,040	August 2016-March 2017	0.63%-1.03%
State pool	108,694,533	108,694,533	N/A	0.37%
Total	<u>\$ 562,833,005</u>	<u>\$ 563,987,511</u>		

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment

policy limits investments to maturities of one year or less. However, a portion of the portfolio may be invested in investments with longer maturities (up to two years); any investment with a maturity of over 12 months must be approved by the Director of Finance prior to execution. At June 30, 2016, the County had no investments with a maturity over 12 months.

### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secures. Cited statutes also authorize investments in bankers' acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade, the MLGIP, and money market mutual funds that are registered and operate in accordance with Maryland State Code. State statutes and County policies require that these money market mutual funds invest only in obligations of U.S. Treasuries, U.S. agencies and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities.

The County's investments held at year-end or during the year were rated as follows:

<u>Investment Type:</u>	Ratings		
	Standard & Poor's	Fitch	Moody's
U.S. Treasury Securities	AA+	AAA	Aaa
U.S. Agency Securities <sup>1</sup>			
Short Term Debt/ Discount Notes	A-1+	F1+	P-1
Farmer Mac (FAMCA) Long Term Debt	N/R	N/R	N/R
Federal Farm Credit (FFCB) Long Term Debt	AA+	AAA	Aaa
Federal Home Loan Bank (FHLB) Long Term Debt	AA+	N/R	Aaa
Federal Home Loan Mortgage Corporation "Freddie Mac" (FHLMC) Long Term Debt	AA+	AAA	Aaa
Fannie Mae (FNMA) Long Term Debt	AA+	AAA	Aaa
Commercial Paper <sup>2</sup>	A-1	F1	P-1
Local Government Investment Pool (MLGIP)	AAAm	N/R	N/R

N/R - Not Rated

1 - Implicitly guaranteed by the U.S. Government.

2 - Not all commercial paper issues are rated by all agencies (NRSROs). However, each commercial paper holding is rated by at least two rating agencies (NRSROs). Each such rating is of the highest investment grade.

### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the County will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name.

County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2016, the County's investments were not exposed to custodial credit risk.

### Concentration of Credit Risk

Concentration of credit risk for investments is the risk that, in the event of failure of an issuer, the County will not be able to recover the value of the investment or suffer a loss as a result of the magnitude of the County's investment in that single issuer. It is the County's practice to manage the investment portfolio according to the County's investment policy and the guidelines, as outlined in the Annotated Code of Maryland, to insure diversification by investment type and institution in order to avoid unreasonable and foreseeable risks but in conjunction with the need to ensure safety, liquidity and return in an ever changing economic environment. The County's policy provides the maximum limits as follows:

<u>Diversification by Investment Type:</u>	<u>Maximum percent of Portfolio*</u>
U. S. Treasury obligations	100 %
U. S. Government agencies	75
Repurchase agreements	50
Bankers' acceptances	25
Money market mutual fund	50
Local government investment pool	50
Collateralized certificates of deposit**	25
Commercial paper	10

<u>Diversification by Institution:</u>	<u>Maximum percent of Portfolio*</u>
Approved broker/dealers	30 %
Money market mutual funds by fund	25
Bankers' acceptances by country	15
Commercial Banks (Certificates of Deposit**)	10
U.S. Government agencies by agency	20
Commercial Paper by Issuer	5

\* At time of purchase

\*\* Certificates of deposit are classified as deposits for financial reporting purposes.

The County's investments are all under 5% for any one issuer other than US Agency Debt (10% Federal Loan Banks (FHLB), 30% Farmer Mac (FAMCA), 12% Federal Farm Credit Bank (FFCB), 5% Federal National Mortgage Corporation (FHLMC), 5% Federal National Mortgage Association (FNMA), and 17% MLGIP. However, US Obligations (US Treasury and Agency Debt), mutual funds and external investment pools (MGLIP) are exempt from 5% of any issuer maximum.

**External Investment Pool Condensed Financial Statements:**

The condensed financial statements of the County's external investment pool at June 30, 2016, are as follows:

Statement of Net Position

June 30, 2016

**Assets:**

Investment in securities, at fair value	\$ 562,833,005
Cash	520,662,795
Accrued interest receivable	<u>1,474,297</u>
Total assets and net position	<u><u>\$ 1,084,970,097</u></u>

**Net position consists of:**

Internal participants' units outstanding (\$1.00 par), unrestricted	\$ 1,046,074,630
Internal participants' units outstanding (\$1.00 par), restricted	29,547,358
External participants' units outstanding (\$1.00 par)	<u>9,348,109</u>
Net position	<u><u>\$ 1,084,970,097</u></u>

Participants net position value, offering price and redemption price per share (\$1,084,970,097/1,085,359,214 units)

\$ 1.00

Statement of Changes in Net Position  
For the Fiscal Year Ended June 30, 2016

Investment Income *	\$ 2,812,146
Distributions to participants:	
Distributions paid and payable	(2,812,146)
Share transactions at net position value of \$1.00 per share:	
Purchase of units	\$ 1,505,448,851 *
Redemption of units	<u>(1,557,738,900)</u>
Net increase (decrease) in net position and shares resulting from share transactions	<u>(52,290,049)</u>
Total increase (decrease) in net position	(52,290,049)
Net position, July 1, 2015	<u>1,137,260,146</u>
Net position, June 30, 2016	<u><u>\$ 1,084,970,097</u></u>

\* The pool has no expenses.

**3) Major and Nonmajor Fund Deposit and Investment Risks**

Primary government (non-fiduciary) cash and investments are primarily invested in the County's external investment pool. Funds with significant cash balances other than what is invested in the external investment pool include the following:

**General Fund**

Cash with fiscal agents of \$6,665,431 relates to amounts held by Marriott Hotels, pursuant to a management agreement, for the operation of the Conference Center.

### **Debt Service Fund**

Cash with fiscal agents of \$10,851,234 represents lease revenue bond and revenue bond debt service reserve funds which are held in money market mutual funds and U.S Government securities.

### **Capital Projects Fund**

Cash with fiscal agents of \$78,882,687 is held in money market mutual funds for the purpose of reimbursing construction expenditures incurred for various capital projects in the County.

### **Liquor Fund**

Cash with fiscal agents of \$4,950,185 is held in money market funds for the purpose of reimbursing design, planning and renovation costs for a warehouse and for debt service. At the end of FY16, the County had incurred and paid renovation expenses that were to be reimbursed from cash from fiscal agents which occurred subsequent to year-end.

## **4) Fiduciary Funds**

### **Employees' Retirement System:**

#### Investment Overview

Section 33-61C of the County Code (Code) authorizes the Board of Investment Trustees (Board) (see Note IV-F) to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Employees' Retirement System (System) is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing.

#### Fair Value Measurement

The System categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurement in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table below shows the fair value leveling of the System's investments.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level	June 30, 2016			
<b>Debt Securities</b>				
Government and agency obligations	\$ 145,848,573	\$ -	\$144,450,769	\$ 1,397,804
Municipal/Provincial obligations	15,015,541	-	15,015,541	-
Asset-backed securities	3,713,101	-	3,713,101	-
Corporate bonds	654,995,569	-	636,524,576	18,470,993
Collateralized mortgage obligations	840,430	-	840,430	-
Commercial mortgage-backed securities	726,834	-	726,834	-
Total debt securities	821,140,048	-	801,271,251	19,868,797
<b>Equity Securities</b>				
Consumer goods	177,959,094	177,749,222	208,599	1,273
Energy	62,210,336	62,210,336	-	-
Financial services	282,698,946	282,613,862	27,291	57,793
Health care	116,728,312	116,728,312	-	-
Industrials	145,024,032	145,016,441	-	7,591
Information technology	142,289,316	142,289,316	-	-
Materials	49,848,982	49,838,882	-	10,100
Telecommunication services	11,081,607	11,081,485	122	-
Utilities	9,895,078	9,895,078	-	-
Other	552,571	22,322	-	530,249
Total equity securities	998,288,274	997,445,256	236,012	607,006
Total investments by fair value level	1,819,428,322	\$ 997,445,256	\$801,507,263	\$ 20,475,803
<b>Investments measured at the net asset value (NAV)</b>				
Commingled equity funds	510,235,176			
Commingled bond funds	312,207,520			
Commingled real asset funds	145,794,154			
Commingled funds (other)	2,763,039			
Hedge fund	238,787,579			
Securities lending collateral fund	224,650,451			
Private real assets	283,122,107			
Private equity/debt	196,611,691			
Total investments measured at the NAV	1,914,171,717			
Short-term investments	94,518,574			
Synthetic guaranteed investment contracts measured at contract value	330,755			
Total investments	\$3,828,449,368			

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 and Level 3 are valued using either a bid evaluation, or matrix pricing techniques. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market. Level 3 debt securities use proprietary information or single source pricing. Equity securities classified in Level 2 are securities whose values are derived daily from associated traded securities. Equity securities classified in Level 3 are valued with last trade data having limited trading volume. Short-term investments are cash or cash equivalents and generally include investments in money market-type securities reported at cost plus accrued interest, which approximates market or fair value.

The valuation method for investments measured at the NAV per share, or equivalent, is presented in the table below.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	\$ 510,235,176	\$ -	Daily, Monthly	0-15 days
Commingled bond funds	312,207,520	-	Daily	1-2 days
Commingled real asset funds	145,794,154	-	Daily, Bi-Weekly, Monthly	0-5 days
Commingled funds (other)	2,763,039	-	Daily	None
Hedge fund	238,787,579	-	Monthly, Quarterly	5-125 days
Securities lending collateral fund	224,650,451	-	Daily	None
Private real assets	283,122,107	65,089,315	Not eligible	N/A
Private equity/debt	196,611,691	236,263,149	Not eligible	N/A
Total investments measured at the NAV	<u>\$1,914,171,717</u>	<u>\$ 301,352,464</u>		

#### Commingled Bond Funds, Equity Funds and Real Asset Funds

Three bond funds, five equity funds, and four real asset funds are considered to be commingled in nature. The fair value of the investments in these types of funds has been determined using the NAV per share of the investments.

#### Hedge Fund

The fair values of the investments in this type have been determined using the NAV per share of the investments. Eight funds are categorized in this category. One fund, which represents 4% of the value, is in the lockup period and subject to a redemption restriction as of June 30, 2016. Another fund, which represents 3% of the value, is in the process of redemption over the next nine months. All other funds currently have no redemption restrictions other than the restrictions noted above.

#### Securities Lending Collateral

The System's custodian is the agent in lending the System's securities for collateral and investments are in a commingled fund.

#### Private Real Assets

The portfolio consists of twenty private real asset limited partnerships. Private real asset funds include U.S. real estate, oil and gas, timber, agriculture and other real asset investments. The fair value of these funds have been determined using the net asset values as of June 30, 2016. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 5 to 10 years.

#### Private Equity/Debt

The portfolio consists of fifty-one private equity/debt limited partnerships. Private equity funds include buyout, turnaround, fund-of-funds investments. Private debt funds include distressed and structured equity investments. The fair value of these funds have been determined using the net asset values as of June 30, 2016. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 3 to 10 years.

#### Credit Risk/Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines, for the majority of public fund managers, limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents 5 percent or more of net position held in trust for pension benefits.

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The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2016, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 137,626,607	11.22 %
Foreign Government Obligations	AAA	690,778	0.06
	A	1,890,462	0.15
	B	999,269	0.08
	Unrated	3,243,652	0.27
Asset-Backed Securities	AAA	3,713,100	0.30
Commercial Mortgage Backed	B	726,834	0.06
Non-Government Backed C.M.O.s	Unrated	840,430	0.07
Municipal/Provincial Bonds	AAA	1,846,941	0.15
	AA	11,053,492	0.90
	BBB	1,350,851	0.11
	Unrated	764,257	0.06
Corporate Bonds	AAA	6,532,595	0.53
	AA	28,490,143	2.32
	A	141,792,867	11.56
	BBB	167,060,325	13.62
	BB	121,481,999	9.91
	B	116,177,193	9.47
	CCC	33,645,599	2.74
	CC	1,576,767	0.13
	C	11,375	0.00
	D	4,143,287	0.34
	Unrated	18,443,068	1.51
Fixed Income Pooled Funds	Unrated	328,767,211	26.81
Short-term Investments and Other	Unrated	93,542,556	7.63
Total Fixed Income Securities		<u>\$ 1,226,411,658</u>	<u>100.00 %</u>

\* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent.

As of June 30, 2016, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	18.41	\$ 137,626,607	11.22 %
Foreign Government Obligations	1.68	6,824,161	0.56
Asset-Backed Securities	2.23	3,713,100	0.30
Collateralized Mortgage Obligations	(0.19)	840,430	0.07
Commercial Mortgage-Backed Securities	0.85	726,834	0.06
Municipal/Provincial Obligations	15.93	15,015,541	1.22
Corporate Bonds	8.81	639,355,218	52.13
Fixed Income Pooled Funds	N/A	328,767,211	26.81
Short-term Investments and Other *	N/A	93,542,556	7.63
Total Fixed Income Securities		<u>\$ 1,226,411,658</u>	<u>100.00 %</u>

\* Short-term investments consist of U.S. Treasury and government sponsored securities, money market funds, commercial paper, certificates of deposit, repurchase agreements, asset backed securities, notes and bonds issued by U.S. corporations, and other allowable instruments that meet short-term maturity or average life, diversification, and credit quality restrictions.

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as follows:

International Securities	Equity	Fixed Income	Short-term and Other	Total Non- U.S. Dollar
Euro	\$ 128,603,712	\$ 1,216,355	\$ 48,419,910	\$ 178,239,977
Japanese yen	130,802,220	-	20,931,390	151,733,610
British Pound Sterling	74,814,041	-	25,540,434	100,354,475
Swiss Franc	25,526,291	-	-	25,526,291
Hong Kong Dollar	23,942,652	-	-	23,942,652
Danish Krone	13,270,828	-	-	13,270,828
Mexican Peso	-	4,198,613	-	4,198,613
Canadian Dollar	892,213	-	2,549,221	3,441,434
South Korean Won	2,790,366	-	-	2,790,366
Norwegian Krone	1,465,135	-	573,300	2,038,435
Other Currencies	41,279,508	3,395,784	(127,435,340)	(82,760,048)
Total International Securities	<u>\$ 443,386,966</u>	<u>\$ 8,810,752</u>	<u>\$ (29,421,085)</u>	<u>\$ 422,776,633</u>

#### Derivatives

In accordance with the Board's Statement of Investment Policy and Objectives, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY16, the System invested directly in various derivatives including, exchange-traded future contracts, forward currency contracts, and swaps. Investment managers are prohibited from purchasing

securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Statement of Investment Policy and Objectives seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The system is not a dealer, but an end-user of these instruments.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types of derivative financial instruments and do not measure the System's exposure to credit or market risk and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

As permitted by the Board's policies, the System holds off-financial statements derivatives in the form of exchange-traded financial futures, and foreign currency exchange contracts.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2016, the System held 119 long US Treasury futures contracts with a fair value of \$18,647,023 and 172 short US Treasury futures contracts with a fair value of (\$26,555,219).

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2016, the System held \$686,508,221 buy foreign exchange contracts and (\$722,742,107) sell foreign exchange contracts. The unrealized gain on the System's contracts was \$1,108,942.

#### Securities Lending

Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of fiduciary net position. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2016, the fair value of securities on loan was \$336,136,121. Cash received as collateral and the related liability of \$224,650,451 as of June 30, 2016, is shown on the Statement of Plan Net Position. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the

collateral securities absent borrower default. Securities lending revenues and expenses amounting to \$1,605,465 and \$438,493, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2016:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Non-Cash Collateral Value</u>	<u>Cash Collateral Investment Value</u>
Lent for Cash Collateral:			
Government Obligations	\$ 46,013,506	\$ -	\$ 46,910,056
Corporate Bonds	64,746,372	-	65,752,597
Equities	110,292,060	-	111,987,798
Lent for Non-Cash Collateral:			
Government Obligations	16,823,306	17,996,448	-
Corporate Bonds	147,054	149,013	-
Equities	98,113,823	104,363,052	-
Total	<u>\$ 336,136,121</u>	<u>\$ 122,508,513</u>	<u>\$ 224,650,451</u>

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

#### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2016, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

#### **Employees' Retirement Savings Plan:**

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2016, the fair value of the mutual and commingled investment funds was \$333,662,465. The fair value of the investments in international mutual funds was \$111,128,729.

#### Fair Value Measurement

This Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net assets value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurement in their entirety are categorized based on the lowest level input that is significant to the valuation. The Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table below shows the fair value leveling of the Plan's investments.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level	June 30, 2016			
Equity securities	\$ 4,502,592	\$ 4,502,592	\$ -	\$ -
Total investments by fair value level	\$ 4,502,592	\$ 4,502,592	\$ -	\$ -

Investments measured at the net asset value (NAV)

Commingled equity funds	54,452,950
Commingled bond funds	10,079,192
Commingled funds (other)	258,176,266
Total investments measured at the NAV	322,708,408
Synthetic guaranteed investment contracts measured at contract value	6,451,465
Total investments	\$ 333,662,465

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

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The valuation method for investments measured at the NAV per share, or equivalent, is presented in the table below.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled equity funds	\$ 54,452,950	\$ -	Daily	None
Commingled bond funds	10,079,192	-	Daily	None
Commingled funds (other)	258,176,266	-	Daily	None
Total investments measured at the NAV	<u>\$ 322,708,408</u>	<u>\$ -</u>		

#### Commingled Bond Funds, Equity Funds and Other Funds

Five bond funds and eleven equity funds are considered to be commingled in nature. Other commingled funds include eleven life cycle funds and one other fund. The fair value of the investments in these type of funds have been determined using the NAV per share of the investments.

#### **Employees' Deferred Compensation Plan:**

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2016, the fair value of the mutual and commingled investment funds was \$348,083,230. The fair value of the investments in international mutual funds included in the County Plan was \$52,303,983.

#### Fair Value Measurement

This Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net assets value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurement in their entirety are categorized based on the lowest level input that is significant to the valuation. The Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table below shows the fair value leveling of the Plan's investments.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level	June 30, 2016			
Equity securities	\$ 8,975,950	\$ 8,975,950	\$ -	\$ -
Total investments by fair value level	\$ 8,975,950	\$ 8,975,950	\$ -	\$ -

Investments measured at the net asset value (NAV)

Commingled equity funds	199,500,896
Commingled bond funds	37,196,301
Commingled funds (other)	54,558,616
Total investments measured at the NAV	291,255,813
Synthetic guaranteed investment contracts measured at contract value	47,851,467
Total investments	\$ 348,083,230

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The valuation method for investments measured at the NAV per share, or equivalent, is presented in the table below.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	\$ 199,500,896	\$ -	Daily	None
Commingled bond funds	37,196,301	-	Daily	None
Commingled funds (other)	54,558,616	-	Daily	None
Total investments measured at the NAV	\$ 291,255,813	\$ -		

Commingled Bond Funds, Equity Funds and Other Funds

Five bond funds and eleven equity funds are considered to be commingled in nature. Other commingled funds include eleven life cycle funds and one other fund. The fair value of the investments in these type of funds have been determined using the NAV per share of the investments.

### **Consolidated Retiree Health Benefits Trust:**

Section 33-163 of the Code authorizes the Board of Trustees of the Consolidated Retiree Health Benefits Trust (Trust) to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Trust Fund is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the Trust Fund's asset allocation and the investment managers hired by the Board.

### **Fair Value Measurement**

The Trust categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net assets value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurement in their entirety are categorized based on the lowest level input that is significant to the valuation. The Trust's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table below shows the fair value leveling of the Trust's investments.

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		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level	June 30, 2016			
Debt Securities				
Government and agency obligations	\$ 28,896,974	\$ -	\$ 28,896,974	\$ -
Municipal/Provincial obligations	1,066,033	-	1,066,033	-
Corporate bonds	108,179,574	-	108,179,574	-
Total debt securities	138,142,581	-	138,142,581	-
Equity Securities				
Consumer goods	21,753,290	21,753,290	-	-
Energy	9,051,471	9,051,471	-	-
Financial services	14,159,551	14,159,551	-	-
Health care	19,111,574	19,111,574	-	-
Industrials	14,673,752	14,673,752	-	-
Information technology	25,122,930	25,122,930	-	-
Materials	7,586,300	7,586,300	-	-
Real estate	705,039	705,039	-	-
Telecommunication services	522,771	522,771	-	-
Utilities	609,344	609,344	-	-
Total equity securities	113,296,022	113,296,022	-	-
Total investments by fair value level	\$ 251,438,603	\$ 113,296,022	\$ 138,142,581	\$ -
Investments measured at the net asset value (NAV)				
Commingled equity funds	195,534,556			
Commingled bond funds	98,275,053			
Commingled real asset funds	69,817,732			
Hedge fund	14,786,608			
Private real assets	12,588,036			
Private equity/debt	22,279,084			
Total investments measured at the NAV	413,281,069			
Short-term investments	14,497,442			
Securities lending collateral	49,687,620			
Total investments	\$ 728,904,734			

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 are valued using either a bid evaluation, or matrix pricing techniques. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market. Short-term investments are cash or cash equivalents and generally include investments in money market-type securities reported at cost plus accrued interest, which approximates market or fair value. The Trust's custodian is the agent in lending the Trust's securities for collateral and investments are in a commingled money market fund.

The valuation method for investments measured at the NAV per share, or equivalent, is presented in the table below.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled equity funds	\$ 195,534,556	\$ -	Daily, Monthly	0-15 days
Commingled bond funds	98,275,053	-	Daily	2-5 days
Commingled real asset funds	69,817,732	-	Daily, Bi-Weekly	0-5 days
Hedge fund	14,786,608	-	Monthly	5 days
Private real assets	12,588,036	14,990,685	Not eligible	N/A
Private equity/debt	<u>22,279,084</u>	<u>58,893,715</u>	Not eligible	N/A
Total investments measured at the NAV	<u>\$ 413,281,069</u>	<u>\$ 73,884,400</u>		

#### Commingled Bond Funds, Equity Funds and Real Asset Funds

Two bond funds, eight equity funds, and four real asset funds are considered to be commingled in nature. The fair value of the investments in these type of funds have been determined using the NAV per share of the investments.

#### Hedge Fund

The fair values of the investments in this type have been determined using the NAV per share of the investments. One fund is categorized in this category. There is no redemption restrictions for this fund.

#### Private Real Assets

The portfolio consists of ten private real asset limited partnerships. Private real asset funds include U.S. real estate, oil and gas, timber, agriculture and other real asset investments. The fair value of these funds have been determined using the net asset values as of June 30, 2016. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 5 to 10 years.

#### Private Equity/Debt

The portfolio consists of twenty private equity/debt limited partnerships. Private equity funds include buyout, turnaround, and fund-of-funds investments. Private debt funds include distressed and structured equity investments. The fair value of these funds have been determined using the net asset values as of June 30, 2016. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 3 to 10 years.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in

rates, a bond's price would move down/up by 8 percent. As of June 30, 2016, the Trust's fixed income portfolio had the following sensitivity to changes in interest rates.

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	5.99	\$ 96,790,927	38.58 %
Municipal/Provincial Obligations	12.90	1,066,033	0.42
Corporate Bonds	9.19	108,179,574	43.11
Fixed Income Pooled Funds	N/A	30,381,100	12.11
Short-term Investments and Other *	N/A	14,497,442	5.78
Total Fixed Income Securities		<u>\$ 250,915,076</u>	<u>100.00 %</u>

\* Short-term investments consist of U.S. Treasury and government sponsored securities, money market funds, commercial paper, certificates of deposit, repurchase agreements, asset backed securities, notes and bonds issued by U.S. corporations, and other allowable instruments that meet short-term maturity or average life, diversification, and credit quality restrictions.

#### Credit Risk/Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines, for the majority of public fund managers, limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer, to less than 5 percent of the fair value of the investment manager's account. The Trust does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents 5 percent or more of net assets.

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The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2016 are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 96,790,927	38.58 %
Municipal/Provincial Bonds	AAA	811,646	0.32
	BBB	254,387	0.10
Corporate Bonds	AAA	1,226,679	0.49
	AA	5,515,451	2.20
	A	25,767,080	10.27
	BBB	30,443,744	12.13
	BB	18,362,378	7.32
	B	19,652,027	7.83
	CCC	5,406,680	2.16
	CC	205,375	0.08
	D	236,438	0.09
	Unrated	1,363,722	0.54
Fixed Income Pooled Funds	Unrated	30,381,100	12.11
Short-term Investments and Other	Unrated	14,497,442	5.78
Total Fixed Income Securities		<u>\$ 250,915,076</u>	<u>100.00 %</u>

\* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U. S. equities and bonds. The Trust has indirect exposure to foreign currency risk as follows:

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
Euro	\$ 16,305,822	\$ -	\$ 16,341	\$ 16,322,163
Japanese yen	12,371,067	-	18,264	12,389,331
Swiss franc	3,384,513	-	-	3,384,513
British pound sterling	2,730,553	-	-	2,730,553
Hong Kong dollar	1,733,126	-	-	1,733,126
Swedish krona	1,314,062	-	-	1,314,062
Singapore dollar	915,693	-	-	915,693
Danish krone	856,730	-	-	856,730
Total International Securities	<u>\$ 39,611,566</u>	<u>\$ -</u>	<u>\$ 34,605</u>	<u>\$ 39,646,171</u>

### Securities Lending

Board policy permits the Trust to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Trust's custodian is the agent in lending the Trust's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the Trust or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the Trust, in a short-term investment pool in the name of the Trust, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the Trust's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the Trust cannot determine. The Trust records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of fiduciary net position. The agent indemnifies the Trust by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2016, the fair value of securities on loan was \$64,222,042. Cash received as collateral and the related liability of \$49,687,620 as of June 30, 2016, is shown on the Statement of Plan Net Position. Securities received as collateral are not reported as assets since the Trust does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to \$132,987 and \$29,615, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2016:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Non-Cash Collateral Value</u>	<u>Cash Collateral Investment Value</u>
Lent for Cash Collateral:			
U.S. Government Obligations	\$ 14,381,255	\$ -	\$ 14,641,629
Corporate Bonds	9,858,117	-	10,001,741
Equities	24,694,450	-	25,044,250
Lent for Non-Cash Collateral:			
U.S. Government Obligations	4,252,233	4,305,573	-
Equities	11,035,987	11,758,660	-
Total	<u>\$ 64,222,042</u>	<u>\$ 16,064,233</u>	<u>\$ 49,687,620</u>

At year-end, the Trust has no credit risk exposure to borrowers because the amounts the Trust owes the borrowers exceeded the amounts the borrowers owe the Trust. The Trust is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2016, there were no funds held by a counterparty that was acting as the Trust's agent in securities lending transactions.

## **Component Units**

### **HOC**

At year-end, HOC's cash and investments are significant in relation to the total component unit cash and investments. HOC's cash balances as of June 30, 2016, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

#### Interest Rate Risk

HOC's investment policy which applies to the General Fund, Public Fund and the Opportunity Housing Fund, requires that the majority of HOC's investments must be on a short-term basis (less than one year); however a portion of the portfolio may be invested in investments with longer maturities (up to two years). The investment requirements for the Multi-Family Fund and Single Family Fund are specified within each of the bond trust indentures. The bond trustee is required to invest money in obligations with the objective that sufficient money will be available to pay the interest due on the bonds and will mature or be subject to redemption with the objective that sufficient money will be available for the purposes intended in accordance with the Indenture.

#### Credit Risk

HOC's investment policy for the General Fund, Public Fund and the Opportunity Housing Fund permits the following investment types: U.S. government and federal agencies; repurchase agreements; banker's acceptances; money market mutual funds; Maryland local government investment pool; Montgomery County investment pool; certificates of deposit and time deposits; and commercial paper. Bankers Acceptances of domestic banks and commercial paper must maintain the highest rating from one of the Nationally Recognized Statistical Rating Organizations (NRSRO) as designated by the SEC or State Treasurer. Repurchase agreements require collateralization at 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities provided the collateral is held by a custodian, other than the seller. Certificates of deposit or time deposits must be collateralized at 102% of the fair value and held by a custodian other than the seller. HOC invests in the Maryland State Local Government Investment Pool (MLGIP). The MLGIP is not subject to regulatory oversight by the SEC, however the MGLIP is operated pursuant to the annotated code of Maryland.

The Single Family and Multi-Family Bond Funds require that the trustee invest moneys on deposit under the indenture in investment obligations as defined by the respective bond indenture agreements. Investment obligations are defined as the following: (i) Government obligations; (ii) bond debentures or other obligations issued by government agencies or corporations; (iii) time deposits or certificate of deposits insured by the Federal Deposit Insurance Corporation; (iv) repurchase agreements backed by obligations described in (i) and (ii) above; (v) investment agreements; (vi) tax exempt obligations; and (vii) money market funds.

#### Custodial Risk

Amounts held in trust accounts and other demand accounts are covered by federal depository insurance, or collateralized at a level of at least 102% of fair value of principal and accrued interest. Repurchase agreement collateral for the MLGIP is segregated and held in the name of PNC Bank Safe Deposit and Trust's account at the Federal Reserve Bank. The cash and cash equivalents held by PNC Bank for the General Fund, Housing Opportunity Fund and Public Fund are in bank money market accounts and interest bearing accounts. These amounts are unrated by an independent rating agency. The Moody's rating for PNC Bank short-term deposits as of June 30, 2016 was P-1.

At June 30, 2016, HOC had the following cash, cash equivalents, investments and maturities:

	Fair Value	Rating
<u>Cash Equivalents:</u>		
General Sub-Fund:		
Money Market Accounts	\$ 11,913,897	N/A
Opportunity Housing Sub-Fund:		
Investment in MLGIP	353,343	AAAm
Money Market Accounts	17,165,385	N/A
Public Sub-Fund:		
Investment in MLGIP	3,776,677	AAAm
Multi-Family Sub-Fund:		
Money Market Accounts	64,448,123	N/A
Single Family Fund:		
Money Market Accounts	112,228,911	N/A
Real Estate Limited Partnership:		
Investment in MLGIP	1,217,918	AAAm
Certificate of Deposit	143,670	N/A
Money Market Accounts	5,521,356	N/A
Total cash equivalents	<u>\$ 216,769,280</u>	
<u>Short-term Investments:</u>		
Single Family Sub-Fund:		
GNMA Pass through Certificates	\$ 828,714	AAA
FNMA Pass through Certificates	15,451	AAA
U.S Treasuries	1,946,043	AAA
Total short-term investments	<u>\$ 2,790,208</u>	

	Fair Value	1-5 years	6-10 years	Greater than 10 years	Rating
<u>Long-term Investments:</u>					
Multi-Family Sub-Fund:					
U.S. Treasuries	\$ 2,806,621	\$ 1,299,410	\$ 1,507,211	\$ -	AAA
Fannie Mae	3,412,119	-	-	3,412,119	AAA
Federal Farm Credit Banks	2,744,062	-	707,414	2,036,648	AAA
Federal Home Loan Banks	1,027,180	-	-	1,027,180	AAA
Federal Home Loan Mortgage	989,450	-	-	989,450	AAA
Bank One Investment Agreement	591,525	-	591,525	-	AA/Aa2
Single Family Sub-Fund:					
Federal Farm Credit Banks	7,334,162	-	-	7,334,162	AAA
Federal Home Loan Banks	10,250,881	-	-	10,250,881	AAA
Federal Home Loan Mtg Corp	1,817,889	-	-	1,817,889	AAA
Fannie Mae	1,149,614	-	-	1,149,614	AAA
GNMA Pass-through Certificates	17,204,530	-	-	17,204,530	AAA
FNMA Pass-through Certificates	1,693,660	-	-	1,693,660	AAA
U.S. Treasuries	6,075,476	2,111,869	2,502,694	1,460,913	AAA
Tennessee Valley Authority	6,805,062	2,318,212	-	4,486,850	AAA
Total long-term investments	<u>\$ 63,902,231</u>	<u>\$ 5,729,491</u>	<u>\$ 5,308,844</u>	<u>\$ 52,863,896</u>	
Cash balances	<u>99,312,055</u>				
Total cash, cash equivalents and investments	<u>\$ 382,773,774</u>				

## Fair Value Measurement

HOC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net assets value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurement in their entirety are categorized based on the lowest level input that is significant to the valuation. HOC's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table below shows the fair value leveling of the HOC's investments.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level	June 30, 2016			
Debt Securities				
Fannie Mae	\$ 3,412,119	\$ -	\$ 3,412,119	\$ -
Federal Farm Credit Banks	10,078,224	-	10,078,224	-
Federal Home Loan Banks	11,278,061	-	11,278,061	-
U.S. Treasuries	10,828,140	10,828,140	-	-
FNMA Mortgage-Backed Securities	1,709,111	-	1,709,111	-
GNMA Mortgage-Backed Securities	18,033,244	-	18,033,244	-
Federal Home Loan Mortgage Corp	2,807,339	-	2,807,339	-
Federal National Mortgage Association	1,149,614	-	1,149,614	-
Investment Agreements	591,525	-	591,525	-
Tennessee Valley Authority	6,805,062	-	6,805,062	-
Total debt securities	<u>66,692,439</u>	<u>10,828,140</u>	<u>55,864,299</u>	<u>-</u>
Investment Derivative Instruments				
Interest Rate Swaps		-	11,208,458	-
Total investments by fair value level	<u>\$ 77,900,897</u>	<u>\$ 10,828,140</u>	<u>\$ 67,072,757</u>	<u>\$ -</u>



## B) Receivables

### 1) Accounts Receivable

Receivables at June 30, 2016 for the County's major funds and internal service funds in the aggregate, including the allowances for uncollectible accounts, were as follows:

	General Fund	Housing Initiative	Grants	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Receivables							
Income taxes	\$ 330,324,050	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 330,324,050
Property taxes	13,853,524	-	-	-	36	3,772,926	17,626,486
Capital leases	-	-	-	25,065,000	-	-	25,065,000
Accounts	11,113,083	-	-	-	429,860	14,369,248	25,912,191
Notes	651,488	-	2,078,109	-	-	-	2,729,597
Parking violations	925,222	-	-	-	-	321,106	1,246,328
Mortgages	587,265	198,325,864	37,421,890	-	300,000	2,680,125	239,315,144
Total receivables	357,454,632	198,325,864	39,499,999	25,065,000	729,896	21,143,405	642,218,796
Allowance for uncollectible accounts	(3,034,867)	(9,760,810)	(2,486,688)	-	-	-	(15,282,365)
Total receivable (net)	\$ 354,419,765	\$ 188,565,054	\$ 37,013,311	\$ 25,065,000	\$ 729,896	\$ 21,143,405	\$ 626,936,431
Amounts not scheduled for collection during the subsequent year	\$ 587,265	\$ 198,325,864	\$ 39,499,999	\$ 25,065,000	\$ 300,000	\$ 2,680,125	\$ 266,458,253

	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
Receivables						
Property taxes	\$ -	\$ -	\$ 422,535	\$ -	\$ 422,535	\$ -
Accounts	6,920,833	4,924,016	35,595	256,523	12,136,967	1,871,810
Parking violations	-	-	3,356,264	-	3,356,264	-
Total receivables	6,920,833	4,924,016	3,814,394	256,523	15,915,766	1,871,810
Allowance for uncollectible accounts	(430,707)	(15,663)	(1,908,563)	(50,679)	(2,405,612)	(1,678)
Total receivable (net)	\$ 6,490,126	\$ 4,908,353	\$ 1,905,831	\$ 205,844	\$ 13,510,154	\$ 1,870,132
Amounts not scheduled for collection during the subsequent year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

## 2) Due from/to Component Units

The balances at June 30, 2016, were:

### Due from Component Units / Due to Primary Government:

Due from Component Units:	MCPS	MC	MCRA	HOC	BUP	Total
Due to Primary Government:						
General	\$ 1,020	\$ 3,159	\$ 45,630	\$ 41,104	\$ -	\$ 90,913
Grants	-	-	-	10,935,022	-	10,935,022
Capital Projects	-	-	-	10,571,925	-	10,571,925
Housing Initiative	-	-	-	47,587,819	-	47,587,819
Nonmajor Governmental	-	419,333	-	-	-	419,333
Solid Waste Activities Enterprise	63,243	750	-	135	1,625	65,753
Major Enterprise	-	-	-	437,712	-	437,712
Internal Service	53	6,384	264,223	913,114	18,020	1,201,794
Fiduciary	-	-	20,220	165,122	-	185,342
Total Due to Primary Government	<u>\$ 64,316</u>	<u>\$ 429,626</u>	<u>\$ 330,073</u>	<u>\$70,651,953</u>	<u>\$ 19,645</u>	<u>\$71,495,613</u>

### Due to Component Units / Due from Primary Government:

Due to Component Units:	MCPS	MC	MCRA	HOC	BUP	Total
Due from Primary Government:						
General	\$ 24,925,988	\$ 25,583	\$ -	\$ 663,797	\$ -	\$25,615,368
Grants	11,078	-	-	-	-	11,078
Capital Projects	40,072,769	8,738,299	-	-	-	48,811,068
Housing Initiative	-	-	-	544,679	-	544,679
Nonmajor Governmental	22,983	-	-	-	30,373	53,356
Parking Lot Districts Enterprise	-	-	-	-	824	824
Nonmajor Enterprise	783,902	-	-	-	-	783,902
Internal Service	17,922	-	-	-	-	17,922
Total Due from Primary Government	<u>\$ 65,834,642</u>	<u>\$ 8,763,882</u>	<u>\$ -</u>	<u>\$ 1,208,476</u>	<u>\$ 31,197</u>	<u>\$75,838,197</u>

Primary due from/to component unit balances are due to the following:

- \$10.9 million due from HOC to the Grants Special Revenue Fund and \$10.6 million due from HOC to the Capital Projects Fund represents loan receivables in the Opportunity Housing Development Fund and Moderately Priced Dwelling Unit (MPDU)/Property Acquisition Fund, which are revolving loan funds that are set up between the County and HOC. The County issues loans to HOC to purchase MPDUs or other similar properties which HOC repays to the County based on future cash flows.
- \$47.6 million due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of \$1.7 million, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for \$1 per year for 83 years, amounting to \$56 at year-end. These two loans are offset by unearned revenue. Fund balance has been reserved for the remaining loans.
- \$24.9 million due to MCPS from the General Fund represents remaining appropriation that has not yet been distributed to MCPS by the County.
- \$40.1 million due to MCPS and \$8.7 million due to MC from the Capital Projects Fund represents the amount of capital cash requests that have not yet been paid by the County.

Remaining balances resulted from normal business activities between the County and its component units.

### 3) Due from Other Governments

The total amount due from other governments at June 30, 2016, was comprised of the following:

	General	Grants	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	\$ 51,771	\$ 15,400,557	\$ 11,396,656	\$ 837	\$ -	\$ -	\$ -	\$ 26,849,821
State of Maryland	25,924,156	8,965,792	3,814,364	70,371	379,607	67,776	835	39,222,901
Other	2,436	537,596	837,133	181,977	1,250,708	27,811	181	2,837,842
Total	<u>\$ 25,978,363</u>	<u>\$ 24,903,945</u>	<u>\$ 16,048,153</u>	<u>\$ 253,185</u>	<u>\$ 1,630,315</u>	<u>\$ 95,587</u>	<u>\$ 1,016</u>	<u>\$ 68,910,564</u>

### 4) Due to Other Governments

The total amount due to other governments at June 30, 2016, is \$143,557,266. This amount is comprised mainly of \$132,573,470 due to the State of Maryland for claims processed as a result of the final ruling by the United States Supreme Court in the case of Comptroller of the Treasury of Maryland v Wynne et. ux.. This government-wide amount will be replenished to the State's local reserve account through reduced quarterly income tax distributions starting with the third distribution (May) in FY19 with a total of twenty equal installments ending in FY24.

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## C) Capital Assets

### Primary Government

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
<b>Governmental Activities</b>				
Nondepreciable Capital Assets:				
Land	\$ 907,939,533	\$ 22,620,213	\$ 326,915	\$ 930,232,831
Construction in progress	1,356,285,477	262,981,222	81,549,452	1,537,717,247
Total Nondepreciable Capital Assets	2,264,225,010	285,601,435	81,876,367	2,467,950,078
Depreciable Capital Assets:				
Buildings	825,280,452	45,453,253	8,908,367	861,825,338
Improvements other than buildings	59,262,137	-	12,614,865	46,647,272
Furniture, fixtures, equipment and machinery	236,914,520	3,189,869	17,628,096	222,476,293
Leasehold improvements	12,956,842	-	-	12,956,842
Automobiles and trucks	278,348,162	42,387,377	10,881,914	309,853,625
Infrastructure	1,838,566,022	55,833,094	113,923	1,894,285,193
Other assets	40,359,973	-	-	40,359,973
Total Capital Assets being Depreciated	3,291,688,108	146,863,593	50,147,165	3,388,404,536
Less Accumulated Depreciation for:				
Buildings	398,179,328	19,619,393	646,247	417,152,474
Improvements other than buildings	26,014,020	1,420,704	5,916,000	21,518,724
Furniture, fixtures, equipment and machinery	188,963,552	6,994,428	15,971,850	179,986,130
Leasehold improvements	7,910,295	558,269	-	8,468,564
Automobiles and trucks	154,237,878	22,082,457	10,702,068	165,618,267
Infrastructure	689,542,047	37,237,967	82,200	726,697,814
Other assets	15,853,652	4,028,436	-	19,882,088
Total Accumulated Depreciation	1,480,700,772	91,941,654	33,318,365	1,539,324,061
Total Depreciable Assets, net	1,810,987,336	54,921,939	16,828,800	1,849,080,475
Governmental Activities Capital Assets, net	\$4,075,212,346	\$ 340,523,374	\$ 98,705,167	\$4,317,030,553
<b>Business-Type Activities</b>				
Nondepreciable Capital Assets:				
Land	\$ 59,158,993	\$ -	\$ 342,191	\$ 58,816,802
Construction in progress	1,828,429	-	1,546,057	282,372
Total Nondepreciable Capital Assets	60,987,422	-	1,888,247	59,099,174
Depreciable Capital Assets:				
Buildings	295,186,140	1,040,172	1,029,000	295,197,312
Improvements other than buildings	176,682,659	4,606,548	5,053,265	176,235,942
Furniture, fixtures, equipment and machinery	30,094,646	3,505,476	2,210,292	31,389,830
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	4,167,437	1,154,754	551,073	4,771,118
Total Capital Assets being Depreciated	506,145,233	10,306,950	8,843,630	507,608,553
Less Accumulated Depreciation for:				
Buildings	136,579,190	8,976,138	1,029,002	144,526,326
Improvements other than buildings	129,325,724	4,286,160	4,631,795	128,980,089
Furniture, fixtures, equipment and machinery	16,948,817	2,225,622	2,041,912	17,132,527
Infrastructure	5,023	574	-	5,597
Automobiles and trucks	3,513,573	171,811	32,029	3,653,355
Total Accumulated Depreciation	286,372,327	15,660,305	7,734,737	294,297,894
Total Depreciable Assets, net	219,772,906	(5,353,355)	1,108,893	213,310,659
Business-Type Activities Capital Assets, net	\$ 280,760,328	\$ (5,353,355)	\$ 2,997,140	\$ 272,409,833

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:	
General government	\$ 7,825,708
Public safety	10,224,228
Public works and transportation	63,612,316
Health and human services	2,204,649
Culture and recreation	7,009,459
Community development and housing	877,768
Environment	<u>187,526</u>
Total depreciation expense-governmental activities	<u><u>\$ 91,941,654</u></u>
Business-type activities:	
Liquor	\$ 2,372,241
Solid waste activities	1,580,920
Parking lot districts	11,542,100
Permitting services	164,905
Community use of public facilities	<u>139</u>
Total depreciation expense-business-type activities	<u><u>\$ 15,660,305</u></u>

Construction commitments as of June 30, 2016 are as follows:

	<u>Construction Commitments</u>
General Government	\$ 186,522,491
Public Safety	1,230,764
Public Works and Transportation	191,783,978
Health and Human Services	15,050,107
Culture & Recreation	252,698
Community Development & Housing	212,315
Environment	<u>28,168,298</u>
Total	<u><u>\$ 423,220,651</u></u>

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## Component Units

Capital assets of MCPS, amounting to \$2,677,885,934 at June 30, 2016, are significant in relation to the total component unit capital assets.

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
<b>Governmental Activities</b>				
Nondepreciable capital assets:				
Land	\$ 81,179,460	\$ 6,513,600	\$ -	\$ 87,693,060
Construction in progress	145,099,671	166,283,228	253,372,699	58,010,200
Total nondepreciable capital assets	226,279,131	172,796,828	253,372,699	145,703,260
Depreciable capital assets:				
Buildings and improvements	3,051,631,881	219,688,487	3,052,635	3,268,267,733
Site improvements	313,733,878	36,032,457	-	349,766,335
Vehicles and equipment	174,800,997	15,184,533	9,350,684	180,634,846
Total depreciable capital assets	3,540,166,756	270,905,477	12,403,319	3,798,668,914
Less accumulated depreciation for:				
Buildings and improvements	1,015,558,123	76,431,503	2,737,626	1,089,252,000
Site improvements	66,978,317	6,130,428	-	73,108,745
Vehicles and equipment	106,051,941	11,831,696	9,304,897	108,578,740
Total accumulated depreciation	1,188,588,381	94,393,627	12,042,523	1,270,939,485
Total depreciable capital assets, net	2,351,578,375	176,511,850	360,796	2,527,729,429
Government activities capital assets, net	\$ 2,577,857,506	\$ 349,308,678	\$ 253,733,495	2,673,432,689
<b>Business-Type Activities</b>				
Depreciable capital assets:				
Vehicles and equipment	\$ 20,379,374	\$ 131,138	\$ 211,376	20,299,136
Total depreciable capital assets	20,379,374	131,138	211,376	20,299,136
Less accumulated depreciation for:				
Vehicles and equipment	15,134,527	931,548	206,913	15,859,162
Total accumulated depreciation	15,134,527	931,548	206,913	15,859,162
Business-type activities capital assets, net	\$ 5,244,847	\$ (800,410)	\$ 4,463	4,439,974
Educational Foundation capital assets net of accumulated depreciation	\$ 26,542	\$ -	\$ 13,271	13,271
Total MCPS government-wide capital assets				\$ 2,677,885,934

Depreciation expense of MCPS was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	\$ 76,599,062
Special education	140,239
School administration	89,526
Student transportation	9,444,054
Operation of plant	187,808
Maintenance of plant	7,332,019
Administration	600,919
Total depreciation expense-governmental activities	<u>\$ 94,393,627</u>
Business-type activities:	
Food services	\$ 906,174
Real estate management	25,374
Total depreciation expense-business type activities	<u>\$ 931,548</u>

Commitments for ongoing construction in progress at June 30, 2016, were \$227,244,268

#### **D) Interfund Receivables, Payables, and Transfers**

The composition of interfund receivables and payables as of June 30, 2016, is as follows:

Due To Fund	Due From Fund				
	General	Nonmajor Governmental	Internal Service	Fiduciary	Total
General	\$ -	\$ -	\$ 4,547,823	\$ 6,291,586	\$ 10,839,409
Housing Initiative	-	-	12,175	18,427	30,602
Grants	11,247,837	-	188,203	202,416	11,638,456
Capital Projects	112,740,654	1,174,577	155,150	228,157	114,298,538
Liquor	-	-	327,789	187,863	515,652
Solid Waste Activities	-	-	79,200	99,781	178,981
Parking Lot Districts	-	-	35,625	43,625	79,250
Nonmajor Governmental	-	-	1,750,449	2,967,898	4,718,347
Nonmajor Enterprise	-	-	183,354	264,379	447,733
Internal Service	-	-	205,036	4,109,690	4,314,726
Fiduciary	-	-	10,546	10,432	20,978
Total	<u>\$ 123,988,491</u>	<u>\$ 1,174,577</u>	<u>\$ 7,495,350</u>	<u>\$ 14,424,254</u>	<u>\$ 147,082,672</u>

Included in the amounts presented above are the following short-term loans from the General Fund that were, or will be, repaid during FY17:

- \$11.2 million to the Grants Special Revenue Fund to cover vendor payments prior to revenues being received from other government agencies; and

- \$112.7 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and the lag time between programming and collection of certain impact taxes.

Remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, and (4) payroll accrual charges to fiduciary funds.

Interfund transfers for the year ended June 30, 2016, consisted of the following:

Transfers Out Fund	Transfers In Fund					
	General	Housing Initiative	Grants	Debt Service	Capital Projects	Subtotal Major
General	\$ -	\$ 19,259,777	\$ -	\$ 273,627,905	\$ 45,791,407	\$ 338,679,089
Housing Initiative	289,410	-	-	7,323,544	2,829,507	10,442,461
Capital Projects	-	6,222,949	-	-	-	6,222,949
Liquor	24,569,660	-	-	5,852,832	-	30,422,492
Solid Waste Activities	2,538,330	-	-	-	1,139,000	3,677,330
Parking Lot Districts	8,074,140	2,561,164	-	-	-	10,635,304
Nonmajor Governmental	24,961,765	-	340,000	45,025,408	17,333,311	87,660,484
Nonmajor Enterprise	4,675,030	-	-	-	-	4,675,030
Internal Service Funds	-	-	-	-	550,000	550,000
Total	<u>\$ 65,108,335</u>	<u>\$ 28,043,890</u>	<u>\$ 340,000</u>	<u>\$ 331,829,689</u>	<u>\$ 67,643,225</u>	<u>\$ 492,965,139</u>

Transfers Out Fund	Transfers In Fund				
	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Subtotal Major	Total
General	\$ 5,669,117	\$ 25,000	\$ 39,184	\$ 338,679,089	\$ 344,412,390
Housing Initiative	-	-	-	10,442,461	10,442,461
Capital Projects	-	-	-	6,222,949	6,222,949
Liquor	-	-	-	30,422,492	30,422,492
Solid Waste Activities	-	-	-	3,677,330	3,677,330
Parking Lot Districts	-	-	-	10,635,304	10,635,304
Nonmajor Governmental	-	-	-	87,660,484	87,660,484
Nonmajor Enterprise	-	-	-	4,675,030	4,675,030
Internal Service Funds	-	-	-	550,000	550,000
Total	<u>\$ 5,669,117</u>	<u>\$ 25,000</u>	<u>\$ 39,184</u>	<u>\$ 492,965,139</u>	<u>\$ 498,698,440</u>

Primary activities include:

- Transfers from major and nonmajor governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipts and pay-go from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfers from Capital Projects to Housing Initiative to build multi-family housing.



## E) Leases

### 1) Operating Leases

The County leases buildings and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately \$24,551,136 for FY16. Future minimum lease payments under significant non-cancelable operating leases are as follows.

Fiscal Year Ending June 30		
2017	\$	23,769,140
2018		23,118,021
2019		22,679,010
2020		20,757,579
2021		19,945,841
2022 - 2026		47,125,783
2027 - 2031		14,339,182
Total	\$	<u>171,734,556</u>

### 2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F8), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. Separate lease agreements were executed in conjunction with each bond issue. The leases associated with the 2002 and 2004 bond issues have original terms of 22 years and 20 years, respectively, both ending on June 1, 2024.

On October 13, 2011, the County issued Series 2011 Bonds to finance a portion of the costs, and construction of the parking structure and related facilities at the Glenmont Metrorail Station within the County; and refunded the County's outstanding Lease Revenue Bonds Series 2002 and Series 2004 Lease Revenue Bonds.

The composition of the capital lease receivable is as follows:

	Minimum Lease Receivable	Unearned Income	Net Investment
Shady Grove	\$ 12,701,756	\$ (2,675,756)	\$ 10,026,000
Grosvenor	12,384,211	(2,608,861)	9,775,350
Glenmont	<u>6,668,421</u>	<u>(1,404,771)</u>	<u>5,263,650</u>
Total	<u>\$ 31,754,388</u>	<u>\$ (6,689,388)</u>	<u>\$ 25,065,000</u>

At June 30, 2016, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2017	\$ 3,490,613
2018	3,491,613
2019	3,496,862
2020	3,510,862
2021	3,507,862
2022-2026	11,424,263
2027-2031	<u>2,832,313</u>
Total minimum lease payments	<u>\$ 31,754,388</u>

### 3) Capital Lease Obligations

The County has entered into various lease agreements as lessee with the Montgomery County Revenue Authority (MCRA) for financing the construction or acquisition of certain County facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception dates of the leases.

The assets acquired and placed in service through MCRA capital leases are as follows:

Land	\$ 13,449,033
Land improvements	1,673,621
Buildings	53,783,181
Furniture, fixtures, equipment and machinery	<u>159,291</u>
Subtotal	69,065,126
Less accumulated depreciation	<u>(30,574,179)</u>
Total asset value under capital leases	<u>\$ 38,490,947</u>

The leases have maturity dates ranging from April 15, 2017 to April 15, 2023. The County makes annual principal payments and semi-annual interest payments. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, are as follows:

Fiscal Year Ending June 30	
2017	\$ 2,908,772
2018	2,512,988
2019	2,515,077
2020	991,834
2021	987,709
2022-2023	<u>1,982,515</u>
Total minimum lease payments	11,898,895
Less: amount representing interest	<u>(740,465)</u>
Present value of minimum lease payments	<u>\$ 11,158,430</u>

Included in the preceding schedules are amounts relating to the Montgomery County Conference Center, which was opened during FY05. The Maryland Stadium Authority (MSA) also participated in financing the construction through the issuance of long-term debt. The County recognized the MSA contribution of \$19,719,328 as revenue when the Conference Center opened. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term.

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## F) Long-Term Debt

### Primary Government

#### 1) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within one year
<b>Governmental Activities</b>					
Bonds payable:					
General obligation bonds	\$ 2,544,750,000	\$ 300,000,000	\$ (187,460,000)	\$ 2,657,290,000	\$ 208,025,000
Variable rate demand obligations	100,000,000	-	-	100,000,000	10,000,000
Bond anticipation notes	500,000,000	300,000,000	(300,000,000)	500,000,000	500,000,000
Revenue bonds					
Liquor control	66,655,323	-	(2,848,607)	63,806,716	2,953,021
Water quality protection	34,270,000	46,500,000	(1,395,000)	79,375,000	3,185,000
Lease revenue bonds payable	27,225,000	-	(2,160,000)	25,065,000	2,280,000
Add remaining original issue premium	270,294,837	28,715,984	(39,492,614)	259,518,207	-
Total bonds payable	<u>3,543,195,160</u>	<u>675,215,984</u>	<u>(533,356,221)</u>	<u>3,685,054,923</u>	<u>726,443,021</u>
Leases and notes payable:					
Capital leases	13,817,910	-	(2,659,480)	11,158,430	2,703,600
Certificates of participation	17,685,000	-	(6,885,000)	10,800,000	7,155,000
Taxable limited obligation certificates	86,320,000	-	(3,785,000)	82,535,000	3,875,000
Other leases and notes payable	14,085,125	3,632,565	(164,780)	17,552,910	604,863
Equipment notes	46,413,987	4,759,576	(14,740,646)	36,432,917	11,291,852
Add remaining original issue premium	391,269	-	(44,625)	346,644	-
Total leases and notes payable	<u>178,713,291</u>	<u>8,392,141</u>	<u>(28,279,531)</u>	<u>158,825,901</u>	<u>25,630,315</u>
Other non-debt related liabilities:					
Compensated absences	76,771,177	53,264,592	(53,905,514)	76,130,255	49,484,665
Other postemployment benefits	436,494,415	117,371,500	(108,776,002)	445,089,913	-
Claims payable - self-insurance	141,444,612	156,842,624	(148,030,942)	150,256,294	39,740,099
Net pension liability - county	286,187,949	248,107,624	(143,385,738)	390,909,835	-
Net pension liability - state	17,878,357	6,543,205	-	24,421,562	-
Claims and judgments	1,116,395	-	(113,195)	1,003,200	-
Total other non-debt related	<u>959,892,905</u>	<u>582,129,545</u>	<u>(454,211,391)</u>	<u>1,087,811,059</u>	<u>89,224,764</u>
<b>Total Governmental Activities Liabilities</b>	<u>\$ 4,681,801,356</u>	<u>\$ 1,265,737,670</u>	<u>\$ (1,015,847,143)</u>	<u>\$ 4,931,691,883</u>	<u>\$ 841,298,100</u>
<b>Business-Type Activities</b>					
Revenue bonds:					
Liquor control	\$ 42,839,677	\$ -	\$ (2,016,393)	\$ 40,823,284	\$ 2,106,979
Parking revenue bonds	44,010,000	9,174,000	(13,475,000)	39,709,000	3,158,000
Add remaining original issue premium	4,057,833	-	(660,298)	3,397,535	-
Total revenue bonds	<u>90,907,510</u>	<u>9,174,000</u>	<u>(16,151,691)</u>	<u>83,929,819</u>	<u>5,264,979</u>
Leases and notes payable:					
Equipment notes	<u>4,655,348</u>	<u>2,057,372</u>	<u>(956,473)</u>	<u>5,756,247</u>	<u>1,115,198</u>
Other non-debt related liabilities:					
Compensated absences	6,058,928	279,335	(29,954)	6,308,309	4,100,403
Other postemployment benefits	3,965,222	1,534,500	(1,534,500)	3,965,222	-
Net pension liability - county	12,563,335	10,597,049	(6,215,232)	16,945,152	-
Landfill closure costs	15,405,918	1,467,866	(1,334,306)	15,539,478	1,080,716
Gude landfill remediation	28,500,000	-	-	28,500,000	-
Total other non-debt related	<u>66,493,403</u>	<u>13,878,750</u>	<u>(9,113,992)</u>	<u>71,258,161</u>	<u>5,181,119</u>
<b>Total Business-Type Activities Liabilities</b>	<u>\$ 162,056,261</u>	<u>\$ 25,110,122</u>	<u>\$ (26,222,156)</u>	<u>\$ 160,944,227</u>	<u>\$ 11,561,296</u>

### Funding Source for Other Non-debt Related Liabilities

Long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year-end, \$2,250,212 (\$1,462,639 due within one year and \$787,573 due in more than one year) of internal service fund compensated absences were included in the above amounts. Compensated absences liabilities of governmental activities are generally liquidated by the governmental funds that incurred the associated personnel cost.

Other post-employment benefit liabilities are liquidated with General Fund resources.

Claims and judgments are liquidated with resources from the General Fund or the fund to which the claim relates.

Landfill related obligations are liquidated from the Solid Waste activities funds.

Net pension liabilities are liquidated with General Fund resources.

### **2) General Obligation Bonds Payable**

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) Community College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Public Housing Facilities, and (9) Parking Facilities. All bonds are valid and legally binding general obligations of the County, and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County.

Proceeds from general obligation bonds for public schools and the community college are appropriated by the County Council to MCPS and MC (component units), respectively, and remitted to such component units by the County. For GAAP purposes, proceeds from debt issuance for these purposes and any related expenditures incurred and reimbursed to the component units are reflected as other financing sources and expenditures, respectively, in the accompanying fund financial statements. These amounts are not budgeted by the County since this activity is appropriated for budget purposes to the component units. Any general obligation bond proceeds, not yet expended by the component units at year end, are reflected as Restricted Fund Balance of the Capital Projects Fund.

The County issued \$300,000,000 in new money general obligation bonds dated December 1, 2015; the County received a premium on the issue of \$26,706,450. These bonds were issued with a true interest cost of 2.80%.

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General obligation bond issues outstanding as of June 30, 2016, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2016	Unamortized Premium	Carrying Value June 30, 2016
6/1/2005*	2005-16	3.781	\$ 120,355,000	\$ 27,465,000	\$ 898,480	\$ 28,363,480
05/01/07	2007-27	4.082	250,000,000	12,500,000	690,122	13,190,122
07/15/08	2009-29	3.000 - 5.000	250,000,000	48,600,000	1,290,778	49,890,778
11/03/09*	2011-20	2.000 - 5.000	161,755,000	100,515,000	4,588,299	105,103,299
11/03/09	2015-29	3.750 - 5.500	232,000,000	216,535,000	911,708	217,446,708
07/26/10	2011-22	2.000 - 5.000	195,000,000	113,750,000	7,311,783	121,061,783
07/26/10	2023-30	4.750 - 5.400	106,320,000	106,320,000	135,205	106,455,205
07/26/10	2023-30	4.750 - 5.400	23,680,000	23,680,000	30,113	23,710,113
08/11/11	2012-31	2.000 - 5.000	320,000,000	160,000,000	14,706,461	174,706,461
08/11/11*	2012-22	2.000 - 5.000	237,655,000	169,850,000	15,679,823	185,529,823
10/24/12	2013-32	2.500 - 5.000	295,000,000	250,750,000	21,722,908	272,472,908
10/24/12*	2013-16	2.500 - 5.000	23,360,000	5,400,000	65,974	5,465,974
11/26/13	2014-34	3.000 - 5.000	295,000,000	265,500,000	23,317,208	288,817,208
11/26/13*	2023-24	5.000	24,915,000	24,915,000	3,809,316	28,724,316
11/19/14	2015-35	4.000 - 5.000	500,000,000	475,000,000	69,122,341	544,122,341
11/19/14*	2016-28	5.000	297,990,000	297,990,000	53,173,720	351,163,720
03/26/15*	2018-21	5.000	58,520,000	58,520,000	6,193,508	64,713,508
12/01/15	2016-35	3.000 - 5.000	300,000,000	300,000,000	25,223,352	325,223,352
Total			<u>\$ 3,691,550,000</u>	<u>\$ 2,657,290,000</u>	<u>\$ 248,871,099</u>	<u>\$ 2,906,161,099</u>

\* Issue represents refunding bonds.

General obligation bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	General Obligation Bond Requirements		
	Principal	Interest	Total
2017	\$ 208,025,000	\$ 117,857,911	\$ 325,882,911
2018	200,930,000	107,483,919	308,413,919
2019	195,230,000	97,687,134	292,917,134
2020	189,295,000	88,201,563	277,496,563
2021	182,640,000	79,145,647	261,785,647
2022-2026	795,630,000	274,649,154	1,070,279,154
2027-2031	620,790,000	112,348,206	733,138,206
2032-2036	264,750,000	18,497,500	283,247,500
Total	<u>\$ 2,657,290,000</u>	<u>\$ 895,871,034</u>	<u>\$ 3,553,161,034</u>

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of six percent of the assessable base of real property and 15 percent of the assessable base of personal property and operating real property. The legal debt margin as of June 30, 2016 is \$7,287,078,017.

### Prior-Year Defeasance of Debt

In prior years, the County defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. At June 30, 2016, \$370,529,375 of bonds outstanding are considered defeased.

General obligation bonds authorized and unissued as of June 30, 2016 are \$2,226,660,000 and \$1,749,496,000, respectively. These amounts include amounts related to variable rate demand obligations (see Note III-F3). In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

### **3) Variable Rate Demand Obligations**

The County issued variable rate demand obligations (VRDOs) on June 7, 2006, in the amount of \$100 million. These obligations will not mature in total until 2026; however, the County is required by the Note Order to make annual sinking fund payments to retire one-tenth of the notes each year beginning in 2017.

The interest rate on the obligations, which re-sets daily, is established by the remarketing agents and is payable on the first business day of each month. Other potential modes for the obligations include a Weekly Mode, a Commercial Paper Mode, a Term Rate Mode or a Fixed Rate Mode. Subject to certain terms and conditions in the Note Order, the County may affect a change in mode with respect to the obligations. The obligations are subject to optional tender and purchase on the demand of the owners thereof, upon certain terms. All such obligations are general obligations of the County to the payment of which the full faith and credit and unlimited taxing power of the County is irrevocably pledged.

In connection with the VRDOs, on June 1, 2014, the County entered into a Standby Note Purchase Agreement with Wells Fargo Bank, National Association which will expire on July 15, 2017. The Wells Fargo Note Purchase Agreement requires Wells Fargo to provide funds for the purchase of VRDOs that have been tendered and not remarketed pursuant to such agreement. Because the County entered into a financing agreement that ensures the VRDOs can be refinanced on a long-term basis, these obligations are classified as noncurrent liabilities at year-end.

VRDOs outstanding as of June 30, 2016, are as follows:

<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally Issued</u>	<u>Balance June 30, 2015</u>	<u>Bonds Retired</u>	<u>Balance June 30, 2016</u>
06/07/06	2017-26	Variable	\$ 50,000,000	\$ 50,000,000	\$ -	\$ 50,000,000
06/07/06	2017-26	Variable	50,000,000	50,000,000	-	50,000,000
Total			<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>	<u>\$ -</u>	<u>\$ 100,000,000</u>

For budget and bond authority purposes, VRDO activity is reported with general obligation bonds.

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements		
	Principal	Interest*	Total
2017	\$ 10,000,000	\$ 390,000	\$ 10,390,000
2018	10,000,000	351,000	10,351,000
2019	10,000,000	312,000	10,312,000
2020	10,000,000	273,000	10,273,000
2021	10,000,000	234,000	10,234,000
2022-2026	50,000,000	585,000	50,585,000
Total	<u>\$ 100,000,000</u>	<u>\$ 2,145,000</u>	<u>\$ 102,145,000</u>

\* Interest is calculated based on interest rates as of the financial statement date, the rates as of June 30, 2016 were 0.39% for Series A and 0.38% for Series B.

#### 4) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to finance specific projects such as parking garages for the Bethesda Parking Lot District, Department of Liquor Control facilities, and Water Quality stormwater management facilities. Net revenues of Bethesda Parking Lot District including parking fees, fines, dedicated property taxes, and Department of Liquor Control revenues are pledged against the timely repayment of principal and interest of the outstanding revenue bonds of the respective funds. Net revenues of the Water Quality Protection fund are pledged against the timely repayment of principal and interest of the outstanding revenue bonds of the respective funds. Revenue bonds authorized and unissued as of June 30, 2016 are \$522,998,000 and \$175,579,000, respectively.

In April 2016, the County issued \$46.5 million Water Quality Protection Charge Revenue Bonds Series 2016. The proceeds of the Series 2016 Bonds will be used to finance and refinance the planning, design, acquisition and construction of stormwater management facilities and other related projects as such facilities are included in and approved in the County's Capital Improvements Program.

In October 2015, the County issued \$9.2 million Parking System Refunding Revenue Bonds (Bethesda Parking Lot District) Series 2015A. These bonds were issued with a true interest cost of 2.55%. The proceeds of the 2015A Bonds together with funds held in reserve will be used to refund \$10,230,000 Bethesda Parking Lot District Series 2005A bonds maturing on and after August 1, 2016.

	Dated Date	Original Maturity	Rate of Interest	Originally Issued	Years Refunded	Amount Refunded
Revenue Bonds	08/31/05	2007-2025	3.62 - 5.00%	<u>\$ 16,495,000</u>	2016 - 2025	<u>\$ 10,230,000</u>



Debt service savings from this refunding is \$2.09 million as shown below. The present value of the debt service savings (or economic gain) on the refunding is \$1.95 million.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2016	\$ 206,732	\$ 66,282	\$ 140,450
2017	1,247,526	858,866	388,660
2018	1,243,989	855,559	388,430
2019	1,247,989	858,831	389,158
2020	1,245,489	856,657	388,832
2021-2025	6,233,503	5,841,712	391,791
2026	1,245,620	1,244,670	950
	<u>\$ 12,670,848</u>	<u>\$ 10,582,577</u>	<u>\$ 2,088,271</u>

The term of the commitments and approximate amounts of the pledged revenues are as follows:

	Terms of Commitment (Years)	Approximate Amount of Pledge
Bethesda Parking Lot District	16	\$ 48,929,074
Water Quality Protection	20	110,905,485
Liquor Control	17	147,165,880
Total		<u>\$ 307,000,439</u>

The pledged net revenues recognized during FY16 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	Net Available Revenue for Debt Service	Principal	Debt Service Interest	Total
Bethesda Parking Lot District	\$ 8,939,736	\$ 3,245,000	\$ 1,575,467	\$ 4,820,467
Liquor Control Fund	33,605,961	4,865,000	4,972,389	9,837,389
Water Quality Protection	12,702,996	1,395,000	1,625,250	3,020,250

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Revenue bond issues outstanding as of June 30, 2016, are as follows:

	Dated			Originally	Balance	Unamortized	
	Date	Maturity	Interest Rate	Issued	June 30, 2016	Premium/ (Discount)	Carrying Value June 30, 2016
Parking Revenue Bonds:							
Bethesda Parking Lot District 2012	05/16/12	2015-23	3.000 - 3.250	\$ 24,190,000	\$ 22,250,000	\$ 1,023,423	\$ 23,273,423
Bethesda Parking Lot District 2012 Ref.	05/16/12	2013-17	1.250 - 1.930	13,750,000	8,285,000	796,193	9,081,193
Bethesda Parking Lot District 2015 Ref.	10/19/15	2017-26	2.55	9,174,000	9,174,000	-	9,174,000
Water Quality Protection 2012A	07/18/12	2013-32	0.250 - 5.000	37,835,000	32,875,000	3,778,010	36,653,010
Water Quality Protection 2016A	04/06/16	2017-36	2.25 - 5.00	46,500,000	46,500,000	1,907,667	48,407,667
Liquor Control Revenue Bonds:*							
Liquor Control & Transportation 2009	05/12/09	2010-29	3.000 - 5.000	46,765,000	34,725,000	1,355,793	36,080,793
Liquor Control & Transportation 2011	04/28/11	2012-31	2.000 - 5.000	34,360,000	28,305,000	1,004,520	29,309,520
Liquor Control & Transportation 2013	07/30/13	2014-33	3.125 - 5.000	46,645,000	41,600,000	1,619,853	43,219,853
Total				<u>\$ 259,219,000</u>	<u>\$ 223,714,000</u>	<u>\$ 11,485,459</u>	<u>\$ 235,199,459</u>

\* Liquor Control Revenue bonds are allocated to Governmental and Business-Type Activities on the Statement of Activities. See Note III-F1 for allocation.

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Liquor Control	
	Principal	Interest	Principal	Interest
2017	\$ 3,158,000	\$ 1,416,348	\$ 5,060,000	\$ 4,774,889
2018	3,291,000	1,284,040	5,295,000	4,539,639
2019	3,441,000	1,135,062	5,520,000	4,317,839
2020	3,591,000	979,138	5,750,000	4,082,439
2021	3,755,000	816,030	6,020,000	3,817,839
2022-2026	12,738,000	2,505,238	34,665,000	14,502,981
2027-2031	7,990,000	1,027,505	35,795,000	6,064,768
2032-2035	1,745,000	56,713	6,525,000	435,486
Total	<u>\$ 39,709,000</u>	<u>\$ 9,220,074</u>	<u>\$ 104,630,000</u>	<u>\$ 42,535,880</u>

Fiscal Year Ending June 30	Water Quality Protection		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2017	\$ 3,185,000	\$ 2,963,160	\$ 11,403,000	\$ 9,154,397	\$ 20,557,397
2018	3,245,000	2,900,838	11,831,000	8,724,517	20,555,517
2019	3,360,000	2,788,588	12,321,000	8,241,489	20,562,489
2020	3,495,000	2,654,188	12,836,000	7,715,765	20,551,765
2021	3,635,000	2,517,038	13,410,000	7,150,907	20,560,907
2022-2026	20,435,000	10,315,925	67,838,000	27,324,144	95,162,144
2027-2031	24,810,000	5,931,350	68,595,000	13,023,623	81,618,623
2032-2035	17,210,000	1,459,398	25,480,000	1,951,597	27,431,597
Total	<u>\$ 79,375,000</u>	<u>\$ 31,530,485</u>	<u>\$ 223,714,000</u>	<u>\$ 83,286,439</u>	<u>\$ 307,000,439</u>

Restricted assets classified as “Investments” or “Equity in Pooled Cash and Investments” for statement of net asset purposes, include the following:

Purpose	Bethesda Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	\$ 1,697,614	\$ -
Debt Service Account - Used to pay debt service on bonds	309,623	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	3,100,671	-
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	4,161,246
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	21,378,875
Rate Stabilization Account - In case of short-term extraordinary expenses	-	500,000
Total	<u>\$ 6,607,908</u>	<u>\$ 26,040,121</u>

#### 5) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY16 are as follows:

	Balance July 1, 2015	BANs Issued	BANs Retired	Balance June 30, 2016
BAN Series 2009-A	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000
BAN Series 2009-B	100,000,000	100,000,000	100,000,000	100,000,000
BAN Series 2010-A	150,000,000	50,000,000	50,000,000	150,000,000
BAN Series 2010-B	150,000,000	50,000,000	50,000,000	150,000,000
Total	<u>\$ 500,000,000</u>	<u>\$ 300,000,000</u>	<u>\$ 300,000,000</u>	<u>\$ 500,000,000</u>

BANs totaling \$300 million were issued during FY16; \$100 million Series 2010 and \$200 million Series 2009 respectively. BANs are issued at varying maturities to a maximum of 270 days, under a program whose authority was adopted on September 15, 2009, as amended, to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and continues to do so, until they are replaced with long-term bonds.

In connection with the BANs, the County entered into three-year credit agreements with State Street Bank and PNC Bank to provide liquidity with respect to the 2010 Series BANs for \$150,000,000 each. The agreements will expire on July 31, 2018. With respect to the 2009 Series BANs, the County has a credit agreement with JP Morgan Chase which expires on August 24, 2018. All credit agreements provide liquidity for the principal amount of the notes and approximately one month of interest. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this line of credit. Because the County entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as noncurrent liabilities at year-end.

During FY16, the County Council passed Resolution No. 18-305 dated October 27, 2015 to increase the County's authority to issue BANs by \$563.1 million. Cumulative BANs authorized and unissued as of June 30, 2016, including amounts authorized and unissued from prior years, is \$1,165,113,000.

## 6) Certificates of Participation

In April 2010, the County issued Certificates of Participation (certificates) for Equipment Acquisition in the public transportation program dated April 7, 2010, in the amount of \$23.0 million. In October 2007, the County issued certificates for its Equipment Acquisition in the fire and rescue program dated October 24, 2007, in the amount of \$33.6 million. The certificates represent proportionate interest in a Conditional Purchase Agreement (CPA) between the County, as purchaser and U.S. Bank National Association, as the seller. The CPA requires the County, as purchaser, to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing powers of the County.

The Certificates were issued at interest rates ranging from 2.4 to 5.0 percent and have maturity schedules as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2017	\$ 7,155,000	\$ 362,000	\$ 7,517,000
2018	3,645,000	72,900	3,717,900
Total	<u>\$ 10,800,000</u>	<u>\$ 434,900</u>	<u>\$ 11,234,900</u>

## 7) Master Lease/Equipment Notes

The County has entered into purchase agreements to provide financing for the acquisition of capital asset equipment. The agreements have terms of two to seven years with interest rates identified in the agreements. Some arrangements provide that proceeds are to be held by a trustee and disbursed to vendors. If assets are acquired prior to the note agreement, the trustee reimburses the County.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2016:

Fiscal Year Ending June 30	Equipment Notes Requirements		
	Principal	Interest	Total
2017	\$ 12,407,050	\$ 755,230	\$ 13,162,280
2018	8,554,486	535,445	9,089,931
2019	7,680,627	360,051	8,040,678
2020	6,617,104	221,430	6,838,534
2021	5,203,066	102,411	5,305,477
2022-2023	1,726,831	19,948	1,746,779
Total	<u>\$ 42,189,164</u>	<u>\$ 1,994,515</u>	<u>\$ 44,183,679</u>

## 8) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of \$37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA).

The County issued \$4,745,000 in lease revenue bonds (Metrorail Garage Projects) on September 1, 2004. The bonds were issued due to certain cost increases incurred since the issuance of the Series 2002 Bonds. The County needed an additional \$2,100,000 to complete construction of the Shady Grove Metro Garage and an additional \$2,110,000 to complete construction of the Grosvenor Metro Garage. The Series 2004 bonds were delivered on September 28, 2004. The lease has a term of 20 years ending on June 1, 2024.

On October 13, 2011, the County issued Series 2011 Bonds to finance a portion of the costs, and construction of the parking structure and related facilities at the Glenmont Metrorail Station within the County; and refunded the County's outstanding Lease Revenue Bonds Series 2002 and Series 2004 Lease Revenue Bonds.

The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. The approximate amount of the pledge is \$35,233,000. WMATA's obligation to make payments under the leases is payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities.

In the event that the County's Reserve Subfund of \$3,134,232, included in Debt Service Fund cash with fiscal agents in the accompanying financial statements, is less than the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

In FY16, pledged revenue of \$3,478,613 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2016, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2016	Unamortized Premium (Discount)	Carrying Value June 30, 2016
Lease Revenue Bonds	10/13/11	2011-31	2.6687%	<u>\$ 35,465,000</u>	<u>\$ 25,065,000</u>	<u>\$ 2,559,182</u>	<u>\$ 27,624,182</u>

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Lease revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Lease Revenue Bond Requirements		
	Principal	Interest	Total
2017	\$ 2,280,000	\$ 1,210,613	\$ 3,490,613
2018	2,395,000	1,096,613	3,491,613
2019	2,520,000	976,863	3,496,863
2020	2,660,000	850,863	3,510,863
2021	2,790,000	717,863	3,507,863
2022-2026	9,895,000	1,529,260	11,424,260
2027-2031	2,525,000	307,313	2,832,313
Total	\$ 25,065,000	\$ 6,689,388	\$ 31,754,388

#### 9) Taxable Limited Obligation Certificates

In April 2010, the County issued Taxable Limited Obligation Certificates, dated April 6, 2010, in the amount of \$30.4 million to finance the Montgomery Housing Initiative Program to promote a broad range of housing opportunities in the County. The certificates represent proportionate interests in a Funding Agreement between the County and U.S. Bank National Association; the Certificates, and the interest on them, are limited obligations of the County. The principal or redemption price of and interest on the Certificates shall be payable solely from the Contract Payments and other funds pledged for the payment thereof under the Trust Agreement. The Funding Agreement is not a general obligation of the County and shall never constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing power of the County. The Certificates were issued at interest rates ranging from 4.0 to 5.9 percent and will mature on May 1, 2030.

In August 2011, the County issued Taxable Limited Obligation Certificates in the amount of \$28.8 million; the County issued the certificates to finance and promote a broad range of housing opportunities and a community and recreational facility. The Certificates were issued at interest rates ranging from 3.0 to 4.8 percent and will mature on May 1, 2031.

In November 2013, the County issued Taxable Limited Obligation Certificates in the amount of \$38 million; the County issued the certificates to finance the Montgomery Housing Initiative program established by the County to promote a broad range of housing opportunities in the County. The Certificates were issued at interest rates ranging from 0.3 to 4.8 percent and will mature on November 1, 2033.

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The following is a schedule by fiscal year for the debt service requirement at June 30, 2016:

Fiscal Year Ending June 30	Taxable Limited Obligation Requirements		
	Principal	Interest	Total
2017	\$ 3,875,000	\$ 3,614,700	\$ 7,489,700
2018	3,995,000	3,501,862	7,496,862
2019	4,110,000	3,382,454	7,492,454
2020	4,255,000	3,241,114	7,496,114
2021	4,415,000	3,079,405	7,494,405
2022-2026	25,020,000	12,443,037	37,463,037
2027-2031	29,055,000	5,908,104	34,963,104
2032-2034	7,810,000	568,338	8,378,338
Total	<u>\$ 82,535,000</u>	<u>\$ 35,739,014</u>	<u>\$ 118,274,014</u>

#### 10) Other Leases and Notes Payable

In April 2007, the County entered into a Purchase and Sale Contract with Washington Suburban Sanitary Commission (WSSC) to acquire property for \$10,000,000. On January 15, 2009, the County signed a promissory note evidencing its obligation to fulfill the terms of the Contract. The note has a term of 15 years; interest accrues at a rate of 4.43%, commencing six months after the execution of the promissory note. Under the provisions of the promissory note, the minimum annual payment by the County is \$400,000 and is due on July 15 each year. The County must make additional payments equal to the net of proceeds of parcels sold in a given year; payments should be allocated first to interest then to principal. If in a given year, net proceeds for the sale of parcels equal or exceed the debt service payment, the County will not be required to make a separate debt service payment. The minimum annual loan payment is less than the interest accrued during the fiscal period; the difference between the interest and the debt service paid is added to the total principal amount owed. Consequently, a negative balance is shown on the principal column of the amortization schedule. However, the first debt service payment did not include interest expense, thereby, reducing the principal outstanding to \$9,600,000.

The note will mature upon its 15<sup>th</sup> anniversary when all unpaid principal and accrued interest shall be due and payable by the County or upon the date of the "Payment Event" for the last parcel for which an additional annual payment due to WSSC.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2016:

Fiscal Year Ending June 30	Promissory Note Requirements		
	Principal	Interest	Total
2017	\$ (32,789)	\$ 432,789	\$ 400,000
2018	(34,242)	434,242	400,000
2019	(35,759)	435,759	400,000
2020	(37,343)	437,343	400,000
2021	(38,997)	438,997	400,000
2022-2025	9,948,636	1,550,866	11,499,502
Total	<u>\$ 9,769,506</u>	<u>\$ 3,729,996</u>	<u>\$ 13,499,502</u>

During 2002, the County Council authorized the Department of Housing and Community Affairs (DHCA) to participate in the HUD Section 108 program for the purpose of acquiring twenty-one units at the Chelsea Tower which provides affordable housing for income qualified persons. On July 16, 2003, the County signed a loan agreement with HUD in the amount of \$870,000. The County subsequently received approval from the County Council to disburse and re-loan these funds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, the principal of \$870,000 with interest thereon on a semi-annual basis at 4.59 percent over a twenty-year period, which is consistent with the HUD repayment terms. The principal amount payable at June 30, 2016, for this loan is \$354,000 and will mature on August 1, 2023.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2016:

Fiscal Year Ending June 30	HUD Loan Requirements		
	Principal	Interest	Total
2017	\$ 43,000	\$ 18,274	\$ 61,274
2018	43,000	16,021	59,021
2019	43,000	13,727	56,727
2020	43,000	11,396	54,396
2021	43,000	9,034	52,034
2022-2024	139,000	12,380	151,380
Total	<u>\$ 354,000</u>	<u>\$ 80,832</u>	<u>\$ 434,832</u>

In October 2013, the County entered into a lease agreement in the amount of \$4.2 million to finance energy efficiency projects within the County. The lease has an interest rate of 5.17 percent and will mature on July 1, 2033. In May 2016, the County entered into a lease agreement in the amount of \$3.6 million to finance additional energy efficiency projects within the County. This lease has an interest rate of 3.31 percent and will mature on July 1, 2035.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2016:

Fiscal Year Ending June 30	Energy Performance Lease		
	Principal	Interest	Total
2017	\$ 129,074	\$ 270,757	\$ 399,831
2018	136,639	308,686	445,325
2019	343,127	298,233	641,360
2020	288,132	285,105	573,237
2021	301,042	272,660	573,702
2022-2026	1,831,690	1,148,434	2,980,124
2027-2031	2,298,850	701,054	2,999,904
2032-2036	2,100,850	180,685	2,281,535
Total	<u>\$ 7,429,404</u>	<u>\$ 3,465,614</u>	<u>\$ 10,895,018</u>



## **11) Conduit Debt Obligations**

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring and/or renovating facilities for third party facility users. Facility users may be individuals, public or private corporations, or other entities. The bonds are sometimes secured by the facilities financed or by a financial institution and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2016, there were 30 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, six were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2016, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$146,945,000. The principal amount payable at June 30, 2016, for bonds issued after July 1, 1996, totaled \$710,570,533.

## **12) Special Taxing and Development Districts**

The County has three special taxing districts: Kingsview Village Center, West Germantown, and White Flint. Kingsview Village Center and West Germantown were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The White Flint Taxing District was created in accordance with Chapter 68C of the Montgomery County Code, which was enacted in 2010. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County with high priority for new development or redevelopment.

Pursuant to Chapter 14 and 68C, special taxes or special assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective districts. Any bond issued under Chapter 14 and 68C is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County, and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements. However, unlike the Kingsview Village Center and West Germantown development districts, the County may issue financing or provide funding for certain infrastructure projects within the White Flint Taxing District that are not derived under the authority of 68C.

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

On August 13, 2014, the County issued \$12,025,000 of Special Obligation Refunding Bonds (Senior Series 2014) to refund West Germantown Development District Series 2002A, 2004A and 2004B bonds. On August 26, 2014, the County issued \$1,393,310 of Special Obligation Refunding Bonds (Series 2014A) via direct bank placement to refund the 1999 Series Kingsview Village Center Development District bonds.

## Component Units

At June 30, 2016, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	\$ 55,772,645	\$ 508,473,104	\$ 564,245,749
Capital leases payable	3,897	19,945,907	19,949,804
Derivative instrument - hedging	-	11,208,458	11,208,458
Notes and other payable	64,954,699	248,505,771	313,460,470
Net pension liability	-	7,661,755	7,661,755
Total	<u>\$ 120,731,241</u>	<u>\$ 795,794,995</u>	<u>\$ 916,526,236</u>

HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding as follows:

### Purpose

Multi-Family Mortgage Purchase Program Fund	\$ 311,110,322
Single Family Mortgage Purchase Program Fund	<u>253,135,427</u>
Total	<u>\$ 564,245,749</u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 0.65 to 11.25 percent and 0.50 to 5.50 percent, respectively, as of June 30, 2016.

Pursuant to Section 15 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee.

The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year Ending June 30	Guaranteed Revenue Bond Requirements		
	Principal	Interest	Total
2017	\$ 445,000	\$ 385,840	\$ 830,840
2018	465,000	363,090	828,090
2019	490,000	339,215	829,215
2020	515,000	314,090	829,090
2021	540,000	287,715	827,715
2022-2026	3,140,000	990,053	4,130,053
2027-2031	<u>2,290,000</u>	<u>177,255</u>	<u>2,467,255</u>
Total	<u>\$ 7,885,000</u>	<u>\$ 2,857,258</u>	<u>\$ 10,742,258</u>

The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

Fiscal Year Ending June 30	Total Revenue Bond Requirements		
	Principal	Interest	Total
2017	\$ 55,772,645	\$ 14,711,695	\$ 70,484,340
2018	19,295,266	14,208,798	33,504,064
2019	39,513,191	13,602,448	53,115,639
2020	18,921,450	12,967,215	31,888,665
2021	19,445,088	15,333,834	34,778,922
2022-2026	96,143,166	52,771,060	148,914,226
2027-2031	95,980,000	36,921,445	132,901,445
2032-2036	87,725,000	21,887,915	109,612,915
2037-2041	85,025,000	10,070,555	95,095,555
2042-2046	32,190,000	3,310,958	35,500,958
2047-2051	10,070,000	727,100	10,797,100
2052-2056	1,570,000	85,785	1,655,785
Unamortized Bond Discount	2,594,943	-	2,594,943
Total	\$ 564,245,749	\$ 196,598,808	\$ 760,844,557

Changes in the HOC revenue bonds during FY16 are as follows:

Purpose	Balance July 1, 2015	Bonds Issued*	Bonds Retired	Balance June 30, 2016
Multi-Family Mortgage Purchase Program Fund	\$ 290,891,798	\$ 35,870,300	\$ 15,651,776	\$ 311,110,322
Single Family Mortgage Purchase Program Fund	236,865,621	43,892,850	27,623,044	253,135,427
Total	\$ 527,757,419	\$ 79,763,150	\$ 43,274,820	\$ 564,245,749

\* Includes accretions and bond discounts.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt). Accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 2015	\$ 246,588,683
Issuances during the year	-
Redemptions during the year	(42,301,624)
Bonds outstanding, June 30, 2016	\$ 204,287,059

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MC, or MCRA. BUP has no long-term debt.

## G) Segment Information

The County has issued revenue bonds to finance activities relating to the Bethesda Parking Lot districts (PLDs). The Bethesda PLD is accounted for within the Parking Lot Districts Fund. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for the activity as of and for the year ended June 30, 2016, is presented below:

### Condensed Statement of Net Position

	Bethesda PLD
<b>ASSETS</b>	
Current assets	\$ 11,981,362
Other assets	6,607,908
Capital assets	104,879,913
Total Assets	123,469,183
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources	522,465
Total Deferred Outflows	522,465
<b>LIABILITIES</b>	
Current liabilities	4,728,382
Due to other funds	36,197
Long-term liabilities	39,365,508
Total Liabilities	44,130,087
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows of Resources	230,359
Total Deferred Inflows	230,359
<b>NET POSITION</b>	
Net investment in capital assets	63,506,980
Restricted for debt service	6,607,908
Unrestricted	9,516,314
Total Net Position	\$ 79,631,202

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### Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position

	Bethesda PLD
<b>OPERATING REVENUES (EXPENSES):</b>	
Operating Revenues:	
Charges for services	\$ 14,051,612
Licenses and permits	-
Fines and penalties	3,320,458
Total Operating Revenues (pledged against bonds)	17,372,070
Depreciation	6,109,113
Other operating expenses	9,024,033
Operating Income (Loss)	2,238,924
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Property taxes	(204,625)
Investment income	23,239
Interest expense	(1,179,135)
Other revenue	773,085
Transfers in	
Transfers out	(1,055,915)
Change in Net Position	595,573
Beginning Net Position	79,035,629
Ending Net Position	\$ 79,631,202

### Condensed Statement of Cash Flows

	Bethesda PLD
Net Cash Provided (Used) By:	
Operating activities	\$ 8,357,063
Noncapital financing activities	(1,260,540)
Capital and related financing activities	(6,261,452)
Investing activities	23,239
Net Increase (Decrease)	858,310
Beginning Cash and Cash Equivalents	13,444,263
Ending Cash and Cash Equivalents	\$ 14,302,573

## H) Fund Equity

### 1) Governmental Fund Balances

The governmental fund balances at June 30, 2016 are composed of the following:

Fund Balances:	General	Housing Initiative	Grants	Debt Service	Capital Projects	Other Nonmajor Governmental Funds
<b>Nonspendable:</b>						
Inventory	\$ 6,842,287	\$ -	\$ -	\$ -	\$ 1,487,983	\$ -
Prepays	432,768	-	1,297	-	-	-
<b>Total nonspendable</b>	<u>7,275,055</u>	<u>-</u>	<u>1,297</u>	<u>-</u>	<u>1,487,983</u>	<u>-</u>
<b>Restricted for:</b>						
Public safety						
Police	-	-	-	-	-	2,405,893
Fire and rescue	-	-	-	-	-	9,531,139
Restricted donation	-	-	-	-	-	1,800,118
Mass transit	-	-	-	-	-	31,761,887
Cable TV	-	-	-	-	-	10,050,756
Community development and housing						
Rehabilitation loan	-	-	-	-	-	4,673,602
Urban districts	2,009,014	-	-	-	-	-
Economic development	2,853,068	-	-	-	-	-
Housing initiative	-	253,862,990	-	-	-	-
Culture and recreation	-	-	-	-	-	3,303,547
Environment						
Agricultural transfer tax	-	-	-	-	-	1,534,066
Water quality protection	-	-	-	-	-	20,771,961
Other	2,045,732	-	214,736	-	-	-
Revenue stabilization	254,406,038	-	-	-	-	-
Debt service	-	-	-	26,374,966	-	-
Capital projects	-	-	-	-	47,500,314	-
<b>Total restricted</b>	<u>261,313,852</u>	<u>253,862,990</u>	<u>214,736</u>	<u>26,374,966</u>	<u>47,500,314</u>	<u>85,832,969</u>
<b>Committed to:</b>						
Community development and housing	7,642,659	-	-	-	-	-
Education						
Montgomery County Public Schools	11,365,063	-	-	-	-	-
Montgomery College	17,989,987	-	-	-	-	-
Capital projects	34,686,425	-	-	-	-	-
<b>Total committed</b>	<u>71,684,134</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Assigned to:</b>						
General government	12,857,072	-	-	-	-	-
Public safety	3,230,896	-	-	-	-	-
Public works and transportation	3,139,453	-	-	-	-	-
Health and human services	6,012,275	-	-	-	-	-
Culture and recreation	1,207,178	-	-	-	-	-
Community development and housing	122,390	-	-	-	-	-
Environment	465,745	-	-	-	-	-
<b>Total assigned</b>	<u>27,035,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Unassigned:</b>						
General government	113,028,313	-	-	-	-	-
<b>Total unassigned</b>	<u>113,028,313</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total fund balances</b>	<u>\$ 480,336,363</u>	<u>\$253,862,990</u>	<u>\$ 216,033</u>	<u>\$ 26,374,966</u>	<u>\$ 48,988,297</u>	<u>\$ 85,832,969</u>

### 2) Encumbrances

Encumbrance accounting is employed as part of the budgetary integration for all governmental funds. As of June 30, 2016, certain amounts which were available for specific purposes have been encumbered in the governmental

funds. Encumbrances are included in the County's governmental fund balances as follows:

Governmental Fund	Amount	Fund Balance Classification
General Fund	\$ 27,239,634	Restricted/Assigned
Housing Initiative	214,427	Restricted
Nonmajor Governmental Funds	<u>10,228,456</u>	Restricted
Total Governmental Funds	<u>\$ 37,682,517</u>	

### 3) Net Position Restricted by Enabling Legislation

Net position restricted by enabling legislation represent legislative restrictions that a party external to the government can compel the government to honor. For the County, such amounts represent primarily accumulated net position attributed to revenue streams, such as taxes or fees, which are restricted for specified purposes in the County Code. This generally includes Capital Project Fund recordation and impact tax collections on hand for a component unit and municipal governments, ending fund balances of substantially all special revenue funds, and ending unrestricted net position of the Solid Waste Activities and Parking Lot Districts enterprise funds. Such amounts, which are included with restricted net position in the government-wide Statement of Net Position, are as follows at year-end:

Governmental activities	\$ 413,475,137
Business-type activities	<u>41,767,385</u>
Total	<u>\$ 455,242,522</u>

## I) Significant Transactions with Discretely Presented Component Units

### 1) Operating and Capital Funding

Expenditures incurred for operating and capital funding of discretely presented component units amounted to the following for the year ended June 30, 2016:

	General Fund			Capital Projects	Total
	Operating	Capital *	Total		
MCPS	\$ 1,509,285,806	\$ 23,427,280	\$ 1,532,713,086	\$ 189,398,848	\$ 1,722,111,934
MC	129,826,027	11,519,458	141,345,485	36,539,620	177,885,105
HOC	<u>6,273,380</u>	<u>-</u>	<u>6,273,380</u>	<u>10,752,984</u>	<u>17,026,364</u>
Total	<u>\$ 1,645,385,213</u>	<u>\$ 34,946,738</u>	<u>\$ 1,680,331,951</u>	<u>\$ 236,691,452</u>	<u>\$ 1,917,023,403</u>

\* Represents current receipt and pay-go funding transferred from the General Fund for component units' use towards their capital projects.

For GAAP financial statement reporting purposes, General Fund expenditures incurred for funding of MCPS and MC are classified as education expenditures; HOC funding is classified under community development and housing.

### 2) Other Transactions

BUP charges for services revenue includes \$4,532,230 earned under contracts with the County. For capital leases with MCRA, see Note III-E3. For mortgages receivable due from HOC, see Note III-B

## NOTE IV. OTHER INFORMATION

### A) Risk Management

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation, comprehensive general, automobile and professional liability (errors and omissions), property coverage including fire and theft, and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include MCPS, HOC, MC, MCRA, BUP, M-NCPPC, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the City of Gaithersburg, the Village of Drummond, Chevy Chase Village, and the Village of Friendship Heights. The liability for claims with respect to all participants transfers to the self-insurance fund, except for M-NCPPC which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, prescription, dental, vision, and life insurance. While the majority of coverage is self-insured, certain fully insured plan options, including health maintenance organizations (HMOs), are offered to participants. WSTC, BUP, Montgomery Community Television, the Strathmore Hall Foundation, Inc., Arts and Humanities Council of Montgomery County, Montgomery County Volunteer Fire & Rescue Association, and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include non-incremental claims adjustment expenses such as internal salary costs. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in the Liability and Property Coverage Self-Insurance Fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

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Changes in the balances of Claims Payable for the self-insurance funds for FY16 and FY15 are as follows:

	Liability and Property Coverage	Employee Health Benefits	Total
Balance July 1, 2014	\$ 127,960,926	12,245,038	\$ 140,205,964
Claims and changes in estimates	37,905,495	109,854,065	147,759,560
Claim payments <sup>1</sup>	(37,723,921)	(108,796,991)	(146,520,912)
Balance June 30, 2015	128,142,500	13,302,112	141,444,612
Claims and changes in estimates	49,671,736	107,170,888	156,842,624
Claim payments <sup>1</sup>	(40,946,736)	(107,084,206)	(148,030,942)
Balance June 30, 2016 <sup>2</sup>	\$ 136,867,500	\$ 13,388,794	\$ 150,256,294

<sup>1</sup> Includes non-monetary settlements.

<sup>2</sup> Includes incurred but not reported (IBNR) claims of \$65,107,169 and \$13,388,794 for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

## B) Significant Commitments and Contingencies

### 1) Landfill

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at \$65,636,529, which have been fully accrued through June 30, 2016. Of the total amount accrued, \$48,762,745 in actual costs have been paid out in prior years, and \$1,334,306 was paid in FY16, resulting in a net liability of \$15,539,478 at June 30, 2016. The current and non-current portions of the adjusted liability at year-end are estimated at \$1,080,716 and \$14,458,762 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

### 2) Pollution Remediation

In FY09, the County identified the closed Gude Landfill as requiring pollution remediation or post-closure due to ground water and surface contamination. The landfill was used for the disposal of County municipal solid waste and received approximately 4.8 million tons of municipal waste from 1965 until the site was closed in 1982. A Consent Order was issued in May 2013 by the Maryland Department of the Environment (MDE) to address groundwater contamination, landfill gas migration, and non-stormwater discharges from the closed Gude Landfill. The estimated remediation cost as of FY16 is \$28.5 million. Department of Environmental Protection (DEP) completed an Assessment of Corrective Measures (ACM) report, which evaluates the effectiveness of a range of remediation alternatives and includes a recommended approach for remediation of environmental contamination at the Gude Landfill. MDE approved a resubmittal of the ACM report in July 2016 which specifically outlines the approved remediation method to include: toupee capping (regrading and capping the top of the landfill and selected slope areas with a synthetic liner and two feet of soil); and additional gas collection through the installation of additional gas extraction wells. These measures will reduce infiltration of rainwater into the landfill

resulting in the generation of less leachate and fewer leachate seeps. They will also result in better control of landfill gas migration.

### **3) Litigation**

In addition to those suits in which claims for liability are adequately covered by insurance, the County may be a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed \$4,476,484. In accordance with generally accepted accounting principles, \$1,003,200 of this amount has been reflected as a liability in the accompanying financial statements, as the County's liability on these claims is determined to be probable. The remaining \$3,473,284 has not been reflected as a liability in the accompanying financial statements, as the County's liability on these claims is determined to be not probable.

### **4) Grants, Entitlements, and Shared Revenues**

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2016, have not yet been completed. In accordance with the provisions of the New Uniform Guidance or Super Circular, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

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## 5) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amounts of outstanding commitments at June 30, 2016, are as follows:

<u>Enterprise Funds:</u>	<u>Operating</u>	<u>Capital</u>	<u>Inventory</u>	<u>Total</u>
Major Funds:				
Liquor	\$ 1,142,365	\$ -	\$ -	\$ 1,142,365
Solid Waste Activities:				
Disposal operations	7,064,511	-	-	7,064,511
Collection operations	1,235	-	-	1,235
Leafing operations	-	-	-	-
Parking Lot Districts:				
Silver Spring	146,236	1,036,269	-	1,182,505
Bethesda	146,930	1,440,532	-	1,587,462
Wheaton	18,624	108,318	-	126,942
Montgomery Hills	17	-	-	17
Subtotal	8,519,918	2,585,119	-	11,105,037
Nonmajor Funds:				
Permitting Services	761,887	-	-	761,887
Community Use of Public Facilities	22,662	-	-	22,662
Subtotal	784,549	-	-	784,549
Total Enterprise Funds	9,304,467	2,585,119	-	11,889,586
<u>Internal Service Funds:</u>				
Motor Pool	8,057,783	-	-	8,057,783
Central Duplicating	86,353	-	-	86,353
Liability & Property Coverage Self-Insurance	421,165	-	-	421,165
Employee Health Benefits Self-Insurance	112,718	-	-	112,718
Total Internal Service Funds	8,678,019	-	-	8,678,019
Total Proprietary Funds	<u>\$ 17,982,486</u>	<u>\$ 2,585,119</u>	<u>\$ -</u>	<u>\$ 20,567,605</u>

As of June 30, 2016, the County has \$33,447,049 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development programs. To help fund such offers, the designated fund balance of the Economic Development programs at the end of the year is typically re-appropriated in the following year.

## C) Subsequent Events

On July 29, 2016 the County entered into two Master Lease Purchase Agreements with JP Morgan Chase Bank N.A in the amount of \$23,990,960 to fund the County's Health and Human Services information technology project.

On July 27, 2016, the County issued Series 2016A and Series 2016B, Certificates of Participation (Montgomery College Improvements) in the amounts of \$23,050,000 and \$1,810,000 respectively. The proceeds will fund the purchase and improvements to an office building to consolidate administration and eliminate leased space.

On September 23, 2016 the County entered into a Banc of America Public Capital Corp, Master Equipment Lease/Purchase Agreement. The Agreement provides a \$40 million Master Lease facility to fund energy performance savings projects for which the repayment of debt is guaranteed through energy savings. The first draw under the facility in the amount of \$3.905 million was also made on September 23, 2016.

On November 30, 2016, the County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of \$340,000,000 and General Obligation Refunding Bonds (Tax-Exempt Series B) in the amount of \$96,000,000.

## **D) Joint Ventures and Jointly Governed Organizations**

### **Joint Ventures**

The Primary Government participates in five joint ventures and one jointly governed organization which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no “Investment in Joint Ventures” is included in the accompanying financial statements. Audited financial statements are available from each of the six organizations. A general description of each entity follows:

#### **Maryland-National Capital Park and Planning Commission (M-NCPPC)**

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George’s Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties' oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of M-NCPPC issued for its jurisdiction.

At June 30, 2016, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$124,658,244, of which zero dollars were self-supporting. Of the total amount payable, \$11,126,946 represented debt due within one year. Generally, debt of M-NCPPC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. Montgomery County’s contingent liability for non self-supporting M-NCPPC debt at June 30, 2016 is \$52,474,491, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

#### **Washington Suburban Sanitary Commission (WSSC)**

WSSC is a bi-county instrumentality of the State of Maryland created to provide water supply and sewage disposal services for Montgomery and Prince George’s Counties. The two participating counties share equal control over WSSC in the selection of the six-member governing body, budgeting authority, and financing responsibility.

At June 30, 2016, WSSC had outstanding notes payable and bonds payable in the amount of \$2,496,838,000 which were fully self-supporting. Of the total amount payable, \$256,015,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on WSSC bonds, unless WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to all outstanding WSSC bonds. At June 30, 2016, all WSSC debt relating to the County is self-supporting.

#### **Washington Suburban Transit Commission (WSTC)**

The Washington Suburban Transit District (WSTD) encompasses Prince George’s and Montgomery Counties, Maryland, and was chartered by the State of Maryland in 1965 to coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George’s and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary

authority and financial responsibility for WSTC; however, both are required to act in consultation with the Maryland Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling \$144,637 to WSTC during FY16.

### **Washington Metropolitan Area Transit Authority (WMATA)**

WMATA was created in 1967 by interstate compact among the State of Maryland, the Commonwealth of Virginia, and the District of Columbia. WMATA's primary function is to plan, construct, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a sixteen-member Board of Directors. Maryland, Virginia, the District of Columbia, and the federal government each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.

Montgomery County is committed to participation in WMATA and its regional Metrorail, Metrobus, and Metro Access programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail, bus, and paratransit expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rail System. The County's share of the cost of construction of the Metro Rail System has been totally assumed by the State. In addition, State legislation mandates that the State provide 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover its related 100 percent of the combined operating deficit of WMATA and County Ride On operations (that began on or after June 30, 1989), assuming that 35 percent (effective in FY09) of gross operating costs are recovered by revenues.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY16, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	\$ 62,334,551
Rail operating subsidy	55,473,851
Americans with Disabilities Act service	21,310,504
MetroMatters program	4,944,248
Capital Improvement Program	31,183,120
Local bus program	37,978,000
Total	<u>\$ 213,224,274</u>

At June 30, 2016, WMATA had outstanding bonds payable of \$636,200,000, of which \$160,000,000 represented bonds payable due within one year. This debt is payable from the resources of WMATA.

### **Northeast Maryland Waste Disposal Authority (NEMWDA)**

NEMWDA is a body politic and corporate, and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region, the private sector in waste management, and the development of waste disposal facilities adequate to accommodate the region's

requirements for disposal of solid waste. NEMWDA has the following eight member jurisdictions from the State of Maryland: Montgomery County, Anne Arundel County, Baltimore City, Baltimore County, Carroll County, Frederick County, Harford County, and Howard County. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). At June 30, 2016, NEMWDA had no outstanding bonds payable.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY16 amounted to \$37,801,837.

## **Jointly Governed Organization**

### **Metropolitan Washington Council of Governments (COG)**

COG is a multi-governmental regional planning organization, in partnership with State and Federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 9 percent of the total funding for COG, with State and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY16 membership dues and fees for services amounting to \$818,488.

## **E) Employee Benefits**

### **1) Deferred Compensation**

During FY05, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. All county non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who elected and all represented employees hired after March 1, 2005 participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

During FY99, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries. Trust responsibilities were assigned to the Board of Investment Trustees (Board). The County Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. The assets of the Union Plan are not included in the accompanying financial statements since the County has no fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

Under Section 33-11 of the Code, all employees hired after July 1, 2008 are automatically enrolled in the Plan with a 1% contribution unless they elect out within 60 days from the date of hire. All eligible participants are

automatically enrolled in the Plan as of the date of hire. If they do not opt out of the Plan within 60 days from the date of hire, they begin making a contribution equivalent to 1% of their salary.

Under both Plans, contributions are sent to contracted third party administrator investment vendors for different types of investments as selected by participants. A separate account, which reflects the monies deferred, investment of the monies, and related investment earnings, is maintained for each participant. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies. Administrative expenses relating to the County Plan, which are not significant to the County Plan, have been paid by the General Fund.

## **2) Annual, Sick Leave, and Other Compensated Absences**

Employees of the County earn annual, compensatory, and sick leave in varying amounts. Employees who are part of the County Management Leadership Service and participate in the Retirement Savings Plan earn only Paid Time Off (PTO) leave. In the event of termination, employees are reimbursed for accumulated annual, PTO (where applicable), and compensatory leave (up to a limit if applicable). Under the Employees' Retirement System of Montgomery County, covered employees are given credited service toward retirement benefits for accumulated sick leave at retirement. Earned but unused annual, PTO, and compensatory leave is accounted for in the proprietary funds as a liability. The liability for unused annual, PTO, and compensatory leave payable from governmental fund types is reflected only at the government-wide level because it will be paid from future periods' resources. Liabilities for compensated absences have not been recorded in governmental funds since the portion expected to be liquidated with expendable available financial resources has been determined to be immaterial. Earned but unused sick leave is not recorded as a liability because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

## **3) Group Insurance Benefits**

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY16, the County and its employees contributed \$102,714,675 and \$40,843,309, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$750,013, \$4,068,351, and \$206,114 for these component units, respectively, for FY16.

## **F) Pension Plan Obligations**

### **1) Defined Benefit Pension Plan**

#### **Plan Description**

The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. Montgomery County Employee Retirement Plans has the exclusive authority to manage the assets of the System. The Board of Investment Trustees consists of thirteen trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be accessed on the County's website at <http://www.montgomerycountymd.gov/mccerp>, or can be obtained by writing the Montgomery County Employee Retirement Plans, 101 Monroe Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and Guaranteed Retirement Income Plan (GRIP) participants. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, Montgomery County Employees Federal Credit Union, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Section 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Benefit provisions are established under the Montgomery County Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups and retirement membership classes within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement class assigned depends upon the job classification of the member (i.e., non-public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated group members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group.

Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. Disability benefits are contingent upon service-connected or nonservice-connected occurrences and total or partial permanent disablement. Death benefits are contingent upon service-connected or nonservice-connected occurrences. Effective July 1, 1989, when members terminate employment before their retirement date and after completion of five years of credited service, they may elect to leave their member contributions in the System and receive a pension upon reaching their normal retirement date, based on the amount of their normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under Section 33-45 of the Montgomery County Code of 2001, as amended. A member who terminates employment prior to five years of credited service is refunded their accumulated contributions with interest.

Deferred Retirement Option Plans (DROP), established in 2000, allow any employee who is a member of a specified membership class or bargaining unit, and who meets certain eligibility requirements, to elect to “retire” but continue to work for a specified time period, during which pension payments are deferred. When the member’s participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member’s credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant’s benefit is determined based upon the account balance which includes contributions and earnings.

### **Funding Policy**

Required employee contribution rates varying from 6 to 11.25 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. Employee contributions for the Elected Officials’ Plan are 4 percent of regular earnings. The County and each participating agency are required



to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year's employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a twenty-year period.

The GRIP, as defined in Section 33-35 of the Code, requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-40 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the County reported a liability of \$407,854,987 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's proportion of Unfunded Accrued Actuarial Liability (UAAL) relative to the UAAL of all agencies, actuarially determined. At June 30, 2015, the County's proportion was 96.94%.

For the fiscal year ended June 30, 2016, the County recognized pension expense of \$50,850,632. At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 454,187	\$ -
Assumption changes	-	9,579,991
Net difference between projected and actual earnings on pension plan investments	158,785,138	173,327,745
Changes in proportion and differences between County contributions and proportionate share of contributions	2,878,188	3,618,079
County contributions subsequent to the measurement date	133,235,745	-
Total	<u>\$ 295,353,258</u>	<u>\$ 186,525,815</u>

The \$133,235,745 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2017	\$ (20,958,809)
2018	(20,958,809)
2019	(19,708,244)
2020	37,217,560

### Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2015
Actuarial cost method	Individual Entry Age Normal
Amortization method for funding	Level percentage of payroll, separate closed period bases for public safety and GRIP, single closed period amortization base for non-public safety
Amortization period for funding	For public safety and GRIP: initial amortization period of 20 years for the base established July 1, 2015. Initial amortization period of 20 years for subsequent bases. For non-public safety: single closed amortization period of 9 years established July 1, 2015. Average amortization period of 11.7 years for total ERS.
Asset valuation method	Market value
Projected salary increases depending on service	3.25% - 9.50% per year
Cost-of-living (inflation rate) adjustments	2.75% on the benefit attributable to credited service earned prior to June 30, 2011. 2.3% on the benefit attributable to credited service earned on or after July 1, 2011, reflecting the 2.5% cap.
Post-retirement increases	Consumer Price Index – by Group
Investment rate of return	7.5% per year
Mortality rates after retirement	RP-2014 Healthy Annuitant Mortality Table, gender-distinct for healthy mortality. Rates are set forward six years for male disabled mortality and eight years for the female disabled mortality assumption. To provide a margin for future mortality improvements, generational mortality improvements from 2014 using projection scale MP-2014 was used.

An experience study was conducted for the period from July 1, 2009 to July 1, 2014 in September 2015. An actuarial experience study is conducted every five years.

The long term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see Note III. A4 for discussion of the System's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Long Duration Fixed Income	2.10 %
High Yield Fixed Income	3.40
Credit Opportunities	5.40
TIPS	1.20
Domestic Equity	4.55
International Equity	4.55
Emerging Equity	4.55
Global Equity	4.75
Private Markets	7.20
Global REITs	3.60
Commodities	2.00
Master Limited Partnerships	7.50
Cash	-
Hedge Funds	4.35

### Discount Rate

The discount rate used to measure the total liability was 7.5%. The projection of cash flows to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and contributions from the County and other participating agencies will be made at a contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
County's proportionate share of the net pension liability	\$ 860,959,184	\$ 407,854,987	\$ 28,628,098

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report by the Montgomery County Employee Retirement Plans.

## **Allocated Insurance Contract**

On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. The transactions related to this agreement have not been recognized in the System's financial statements.

## **2) Defined Contribution Plan**

### **Plan Description**

The Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under Section 33-114 of the County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994, are covered under this Plan, unless they elect to participate in the GRIP. In addition to the County, other participant agencies include MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, and Montgomery County Employees Federal Credit Union. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan, provided they are unrepresented employees, or represented by a collective bargaining agreement that allows for participation in this Plan.

Under Section 33-116 of the Code, the Plan requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. Employee contributions and earnings thereon are always vested under this Plan and employer contributions and earnings thereon are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY16 were \$19,681,949 and \$10,713,887, respectively. In accordance with IRS regulations and the County Code, \$300,000 in accumulated revenue was used to reduce employer contributions in FY16.

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

## **3) State Retirement Plan**

### **Plan Description**

Certain employees of the County participate in the cost sharing multi-employer defined benefit retirement plans sponsored by the Maryland State Retirement Agency and administered by the Maryland State Retirement and Pension System (MSRP System). The MSRP System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to the employees of the State and participating governmental units. The MSRP System is administered by a 15-member Board of Trustees.

The MSRP System issues a publically available financial report that can be obtained at <http://www.sra.state.md.us>.

### **Benefit Provided**

The MSRP System provides retirement allowances and other benefits to the covered employees. For employees who became members of the Employees Retirement and Pension System on or before June 30, 2011, retirement/pension allowances are computed using both the highest three years Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For employees, who become members on or after July 1, 2011, pension allowances are computed using both the highest five years AFC and the actual number of years of accumulated creditable service.

A member is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service. An individual who is a member on or before June 30, 2011 is eligible for full retirement benefits upon the earlier of attaining age 62 , with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member on or after July 1, 2011 is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least 65 and has accrued at least 10 years of eligibility service.

### **Contributions**

The County and its covered employees are required by the State statute to contribute to the MSRP System. The required FY16 employee contributions vary from 5-7% of salary. The required employer contribution rate for FY16 vary from 8.53 – 10% of annual payroll, actuarially determined. The contribution requirements of the County and its covered employees are established and may be amended by the Board of Trustees of the MSRP System.

### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the County reported a liability of \$24,421,562 for its proportionate share of the net pension liability of the MSRP System. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

As of June 30, 2015, the County's total proportionate share was as follows:

Montgomery County	0.0592035 %
Montgomery County Public Libraries	0.0001781
Montgomery County (Supplemental)	0.0578175
Bethesda Fire Department	0.0001036
Chevy Chase Fire Department	0.0002121
Total	<u>0.1175148 %</u>

Montgomery County has four withdrawn Participating Governmental Units (PGU) - Montgomery County, Montgomery County Public Library, Bethesda Fire Department and Chevy Chase Fire Department. The County is paying amortized amounts each fiscal year for these four withdrawn units over a forty-year period ending June 30, 2020.

For the year ended June 30, 2016, the County recognized pension expense of \$2,382,040. At June 30, 2016, the County reported the total amount of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 1,377,666	\$ -
Investment return difference	2,151,031	1,174,141
Difference between actual and expected experience	-	500,133
Changes in proportion and differences between County contributions and proportionate share of contributions	360,680	-
County contributions subsequent to the measurement date	2,485,889	-
Total	<u>\$ 6,375,266</u>	<u>\$ 1,674,274</u>

The \$2,485,889 reported as deferred outflows of resources related to pensions resulting from the County subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Amount
2017	\$ 235,022
2018	235,022
2019	235,023
2020	574,678
2021	574,678

### Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the entry age normal actuarial cost method. Inflation is assumed to be 2.95% for general and 3.45% for wage. The discount rate and long-term expected rate of return on pension plan investments used in the determination of the pension liability is 7.55%.

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## **Sensitivity of the County's Total Proportionate Share of the Net Pension Liability to Changes in Discount Rate**

The following presents County's total proportionate share of the net pension liability calculated using 7.65%, as well as what the County's total proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point (6.65%) lower or 1-percentage-point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
County's proportionate share of the net pension liability	\$ 34,516,169	\$ 24,421,562	\$ 16,051,167

## **4) Length of Service Award Program (LOSAP)**

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's Department of Fire and Rescue Service volunteers who meet certain age and service criteria. Benefit expenditures amounting to \$1,309,686 in FY16 also include disability and survivor annuities and lump-sum death benefits, and are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis. There were 558 recipients comprising former volunteers and their beneficiaries at the end of FY16.

## **G) Other Postemployment Benefits (OPEB)**

### **Plan Description**

During FY08, the Montgomery County Council enacted legislation (Bill No. 28-07) to establish a new trust effective July 1, 2007 to fund certain County retiree benefit plans. Effective July 1, 2011, the Montgomery County Council enacted legislation (Bill No. 17-11) to change the name to Consolidated Retiree Health Benefits Trust (CRHBT) due to the addition of County-funded agency retiree benefits plans. The County-funded agencies are MCPS and MC, both component units of the reporting entity. During FY16, the County contributed \$61,733,000 and \$1,428,000 to the CRHBT on behalf of MCPS and MC for the health benefits of their retirees, respectively. The Claims paid reflected on the accompanying financial statements include claims amounting to \$27,200,000 reimbursed to MCPS during FY16, as required per the County Council Resolution No. 18-150. The allocated portions of investments relating to MCPS and MC as of June 30, 2016 were \$299,489,067 and \$42,502,274, respectively, and these investments are included in the investments of the CRHBT as reflected on the accompanying financial statements.

The CRHBT is a cost-sharing multiple-employer defined benefit healthcare plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Trustees (Board) has the exclusive authority to manage the assets of the CRHBT. The Board consists of nineteen trustees and functions as part of the County. Separate financial statements are not issued for the CRHBT.

Substantially all retirees of the County, MCRA, HOC, the independent fire/rescue corporations, WSTC, the Strathmore Hall Foundation, Inc., the Village of Friendship Heights, Montgomery County Employees Federal Credit Union and certain retirees of the State Department of Assessments and Taxation, are provided postemployment benefits such as medical, life, dental, vision, and prescription coverage under the Montgomery County Group Insurance Plan (Plan). Retirees may also elect coverage for their eligible dependents. A member

of the Employees' Retirement System of Montgomery County, who retires under a normal, early, disability or discontinued service retirement, is eligible for group insurance benefits under the Plan. However, the member is not eligible for group insurance benefits if the member leaves County service prior to retirement eligibility with a deferred vested benefit payable upon member's retirement date. A member of the Employees' Retirement Savings Plan or the GRIP is eligible for group insurance upon separation from service based upon the member's age and credited service at the time of separation. Postemployment benefit provisions and eligibility requirements for retirees are described under the Montgomery County Group Insurance Summary Plan Description.

Plan membership at June 30, 2014, the most recent actuarial valuation as of July 1, 2014, consisted of the following:

Retirees and beneficiaries receiving benefits	7,563
Active plan members	<u>9,942</u>
Total	<u><u>17,505</u></u>

Condensed FY16 financial statements for the Consolidated Retiree Health Benefits Trust are as follows:

<b>Condensed Statement of Fiduciary Net Position</b>		<b>Condensed Statement of Changes in Fiduciary Net Position</b>	
<b>ASSETS</b>		<b>ADDITIONS</b>	
Cash and investments	\$ 729,949,222	Contributions	\$ 198,130,438
Other assets	<u>5,992,579</u>	Net investment income (loss)	<u>233,851</u>
Total Assets	<u>735,941,801</u>	Total Additions, net	<u>198,364,289</u>
<b>LIABILITIES</b>		<b>DEDUCTIONS</b>	
Claims payable	3,921,873	Benefits	106,594,157
Other liabilities	<u>54,255,309</u>	Administrative	<u>7,726,949</u>
Total Liabilities	<u>58,177,182</u>	Total Deductions	<u>114,321,106</u>
<b>NET POSITION:</b>		Change in Net Position	84,043,183
Held in trust for other		Beginning Net Position	<u>593,721,436</u>
postemployment benefits	<u>\$ 677,764,619</u>	Ending Net Position	<u>\$ 677,764,619</u>

### Contributions

The County Council has the authority to establish and amend contribution requirements of the plan members and the County. The Plan is a contributory plan in which the County and the retired members and beneficiaries contribute, based on an actuarial valuation, certain amounts toward the current cost of healthcare benefits. During FY16, plan members and beneficiaries receiving benefits contributed \$24,658,936 (approximately 32 percent of current contributions) at the County. The County also contributed \$61,733,000 and \$1,428,000 to the CRHBT on behalf of MCPS and MC for the health benefits of their retirees, respectively. The County and other contributing entities contributed \$101,646,986 including \$51,260,986 (approximately 68 percent of current contributions) for current premiums, claims and administrative expenses, and \$50,386,000 toward prefunding future benefits. Contributions also include Medicare Part D contributions in the amount of \$8,663,516.

### Funding Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation, the actuarial accrued liability (AAL) was \$1,320,879,000 and there was \$303,631,000 of actuarial plan assets; therefore, the unfunded AAL (UAAL) was \$1,017,248,000.



The annual covered payroll of active employees covered by the Plan was \$669,149,000 and the ratio of the UAAL to covered payroll was 152.0 percent.

The actuarial valuation of the Plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarially determined amounts regarding the funded status of the Plan and the annual required contributions (ARC) of the County and other participating agencies are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress for this Plan presented in the required supplementary information (RSI-4) shows multi-year information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

#### **Annual OPEB Cost and Net OPEB Obligation**

The ARC, or annual OPEB cost (AOC), for FY16 was based on an actuarial valuation as of June 30, 2014, the latest valuation available on the date the County Council was required to approve the FY16 budget.

The AOC and the net OPEB obligation of the County as of June 30, 2016 were as follows:

Annual required contribution (ARC)	\$ 111,398,000
Interest on net OPEB obligation	32,966,000
Adjustment to annual required contribution	<u>(25,458,000)</u>
Annual OPEB cost	118,906,000
Contributions made	<u>(110,310,502)</u>
Increase (Decrease) in net OPEB obligation	8,595,498
Net OPEB obligation - beginning of year	<u>440,459,637</u>
Net OPEB obligation - end of year	<u><u>\$ 449,055,135</u></u>

The County's annual OPEB cost and the net OPEB obligation of the plan for the current and prior two years were as follows:

<u>Fiscal Year Ended June 30</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 103,418,000	103.1 %	\$ 425,820,958
2015	114,370,000	87.2	440,459,637
2016	118,906,000	92.8	449,055,135

#### **Actuarial Methods and Assumptions**

The calculations of projected benefits are based on the terms of the Plan in effect at the time of valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial calculations reflect a long-term perspective and actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued liability and the actuarial value of assets.

Actuarial assumptions used in the actuarial valuation were:

Valuation date	June 30, 2014
Actuarial method	Projected unit credit
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open period)
Investment rate of return	7.50%
Salary scale	3.00%
Inflation rate	3.00%
Mortality	RP 2000 projected 30 years, separate tables for males and females
Health care cost trend rates:	(initial, ultimate)
Medical (excluding Indemnity plan) pre-65	7.73%, 5.16%
Medical (excluding Indemnity plan) post-65	(3.14)%, 5.00%
Medical (Indemnity plan)	8.79%, 5.50%
Medical (Indemnity plan) post-65	0.90%, 6.09%
Dental	4.50%, 4.50%

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## **REQUIRED SUPPLEMENTARY INFORMATION**



MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
RSI-1

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Revenues:				
Taxes:				
Property	\$ 1,116,715,944	\$ 1,116,715,944	\$ 1,124,490,451	\$ 7,774,507
Property - penalty and interest	-	-	2,175,539	2,175,539
Total Property Tax	1,116,715,944	1,116,715,944	1,126,665,990	9,950,046
County Income Tax	1,433,417,237	1,433,417,237	1,422,428,435	(10,988,802)
Other Local Taxes:				
Real property transfer	96,240,000	96,240,000	100,566,864	4,326,864
Recordation	57,593,411	57,593,411	61,141,531	3,548,120
Fuel energy	206,190,000	206,190,000	193,281,367	(12,908,633)
Hotel-motel	20,339,825	20,339,825	19,444,152	(895,673)
Telephone	50,416,800	50,416,800	49,694,945	(721,855)
Other	3,372,808	3,372,808	3,924,151	551,343
Total Other Local Taxes	434,152,844	434,152,844	428,053,010	(6,099,834)
Total Taxes	2,984,286,025	2,984,286,025	2,977,147,435	(7,138,590)
Licenses and Permits:				
Business	4,636,350	4,636,350	4,879,315	242,965
Non business	7,265,725	7,265,725	6,265,568	(1,000,157)
Total Licenses and Permits	11,902,075	11,902,075	11,144,883	(757,192)
Intergovernmental Revenue:				
State Aid and Reimbursements:				
DHR State reimbursement	45,500	45,500	41,022	(4,478)
Highway user revenue	4,125,000	4,125,000	3,735,980	(389,020)
Police protection	13,768,440	13,768,440	13,276,280	(492,160)
Health and human services programs	5,312,850	5,312,850	7,031,357	1,718,507
Public libraries	5,103,000	5,103,000	5,930,543	827,543
911 Emergency	6,745,000	6,745,000	7,344,463	599,463
Other	2,052,807	2,052,807	2,859,984	807,177
Total State Aid and Reimbursements	37,152,597	37,152,597	40,219,629	3,067,032
Federal Reimbursements:				
Federal financial participation	14,986,045	14,986,045	12,462,728	(2,523,317)
Other	6,617,980	6,617,980	5,762,996	(854,984)
Total Federal Reimbursements	21,604,025	21,604,025	18,225,724	(3,378,301)
Other Intergovernmental	1,215,720	1,215,720	1,109,590	(106,130)
Total Intergovernmental Revenue	59,972,342	59,972,342	59,554,943	(417,399)
Charges for Services:				
General government	1,324,144	1,324,144	1,280,072	(44,072)
Public safety	5,808,313	5,808,313	5,144,336	(663,977)
Health and human services	1,332,800	1,332,800	1,356,136	23,336
Culture and recreation	20,000	20,000	30,279	10,279
Environment	435,000	435,000	574,739	139,739
Public works and transportation	689,000	689,000	882,426	193,426
Total Charges for Services	9,609,257	9,609,257	9,267,988	(341,269)
Fines and forfeitures	23,893,361	23,893,361	27,327,136	3,433,775
Investment Income:				
Pooled investment income	1,073,890	1,073,890	345,106	(728,784)
Other interest income	9,600	9,600	7,001	(2,599)
Total Investment Income	1,083,490	1,083,490	352,107	(731,383)

(Continued)

MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
RSI-1 (Continued)

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Miscellaneous Revenue:				
Property rentals	4,475,900	4,475,900	3,932,188	(543,712)
Sundry	5,459,320	5,459,320	5,464,506	5,186
Total Miscellaneous Revenue	9,935,220	9,935,220	9,396,694	(538,526)
Total Revenues	3,100,681,770	3,100,681,770	3,094,191,186	(6,490,584)
Expenditures:				
Departments or Offices:				
County Council:				
Personnel	10,232,710	10,524,537	10,524,527	10
Operating	594,156	738,448	720,078	18,370
Totals	10,826,866	11,262,985	11,244,605	18,380
Board of Appeals:				
Personnel	537,616	543,996	525,327	18,669
Operating	51,809	51,809	35,580	16,229
Totals	589,425	595,805	560,907	34,898
Legislative Oversight:				
Personnel	1,454,164	1,522,164	1,522,157	7
Operating	25,110	22,600	19,599	3,001
Totals	1,479,274	1,544,764	1,541,756	3,008
Merit System Protection Board:				
Personnel	176,097	176,097	166,511	9,586
Operating	20,508	21,613	13,316	8,297
Totals	196,605	197,710	179,827	17,883
Zoning and Administrative Hearings:				
Personnel	547,884	578,414	578,409	5
Operating	76,116	74,807	67,410	7,397
Totals	624,000	653,221	645,819	7,402
Inspector General:				
Personnel	974,860	980,775	839,645	141,130
Operating	68,302	106,810	58,060	48,750
Totals	1,043,162	1,087,585	897,705	189,880
Circuit Court:				
Personnel	9,026,570	8,741,570	8,731,922	9,648
Operating	2,606,175	3,439,315	3,212,256	227,059
Totals	11,632,745	12,180,885	11,944,178	236,707
State's Attorney:				
Personnel	14,892,179	14,945,799	14,945,797	2
Operating	752,842	902,546	902,536	10
Totals	15,645,021	15,848,345	15,848,333	12
County Executive:				
Personnel	4,536,233	4,781,506	4,781,499	7
Operating	534,234	496,809	470,012	26,797
Totals	5,070,467	5,278,315	5,251,511	26,804
Community Engagement Cluster:				
Personnel	2,819,858	2,821,791	2,721,833	99,958
Operating	665,223	684,992	684,982	10
Totals	3,485,081	3,506,783	3,406,815	99,968

(Continued)

MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
RSI-1 (Continued)

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Ethics Commission:				
Personnel	355,748	364,911	364,906	5
Operating	26,259	83,679	77,613	6,066
Totals	382,007	448,590	442,519	6,071
Intergovernmental Relations:				
Personnel	806,436	874,664	874,661	3
Operating	86,212	92,192	91,754	438
Totals	892,648	966,856	966,415	441
Public Information:				
Personnel	3,989,600	4,146,668	4,146,659	9
Operating	942,919	1,077,344	980,168	97,176
Totals	4,932,519	5,224,012	5,126,827	97,185
Board of Elections:				
Personnel	3,730,572	4,027,205	4,027,204	1
Operating	2,825,779	4,899,004	4,899,001	3
Totals	6,556,351	8,926,209	8,926,205	4
County Attorney:				
Personnel	5,093,260	5,486,947	5,486,942	5
Operating	566,999	667,847	667,844	3
Totals	5,660,259	6,154,794	6,154,786	8
Management and Budget:				
Personnel	3,988,050	4,015,029	3,922,315	92,714
Operating	105,805	120,413	111,935	8,478
Totals	4,093,855	4,135,442	4,034,250	101,192
Finance:				
Personnel	11,647,502	11,138,883	10,780,195	358,688
Operating	2,065,440	3,478,316	3,352,897	125,419
Totals	13,712,942	14,617,199	14,133,092	484,107
Office of Procurement				
Personnel	3,759,387	3,709,338	3,663,136	46,202
Operating	422,362	497,362	442,541	54,821
Totals	4,181,749	4,206,700	4,105,677	101,023
Human Resources:				
Personnel	5,437,653	5,657,734	5,657,727	7
Operating	2,650,413	3,101,721	2,986,712	115,009
Totals	8,088,066	8,759,455	8,644,439	115,016
Technology Services:				
Personnel	21,518,981	19,478,246	18,257,538	1,220,708
Operating	19,388,988	23,390,119	23,206,061	184,058
Totals	40,907,969	42,868,365	41,463,599	1,404,766
General Services:				
Personnel	12,303,975	14,230,854	14,230,847	7
Operating	14,635,040	21,821,037	21,821,033	4
Totals	26,939,015	36,051,891	36,051,880	11
Consumer Protection:				
Personnel	2,207,505	2,155,075	2,054,496	100,579
Operating	181,225	233,655	144,206	89,449
Totals	2,388,730	2,388,730	2,198,702	190,028
Corrections and Rehabilitation:				
Personnel	63,818,369	63,740,547	63,740,540	7
Operating	6,791,482	7,346,403	7,346,399	4
Totals	70,609,851	71,086,950	71,086,939	11

(Continued)

MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
RSI-1 (Continued)

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Human Rights:				
Personnel	1,001,265	1,009,239	1,009,231	8
Operating	73,492	81,688	79,631	2,057
Totals	1,074,757	1,090,927	1,088,862	2,065
Police:				
Personnel	229,259,691	229,422,203	229,422,193	10
Operating	41,358,273	46,653,038	46,548,763	104,275
Totals	270,617,964	276,075,241	275,970,956	104,285
Sheriff:				
Personnel	20,734,594	20,352,034	20,352,030	4
Operating	2,309,612	2,650,564	2,628,725	21,839
Totals	23,044,206	23,002,598	22,980,755	21,843
Homeland Security:				
Personnel	1,127,936	1,024,224	840,751	183,473
Operating	226,364	296,072	175,721	120,351
Totals	1,354,300	1,320,296	1,016,472	303,824
Transportation:				
Personnel	21,207,699	24,103,691	24,103,686	5
Operating	24,892,135	57,085,398	57,085,394	4
Totals	46,099,834	81,189,089	81,189,080	9
Health and Human Services:				
Personnel	116,058,416	112,102,329	112,102,251	78
Operating	93,195,484	94,875,821	90,614,962	4,260,859
Totals	209,253,900	206,978,150	202,717,213	4,260,937
Libraries:				
Personnel	32,982,912	33,017,706	31,398,167	1,619,539
Operating	7,725,023	9,281,589	9,261,888	19,701
Totals	40,707,935	42,299,295	40,660,055	1,639,240
Housing and Community Affairs:				
Personnel	4,620,900	4,641,774	4,482,419	159,355
Operating	933,207	1,024,839	990,031	34,808
Totals	5,554,107	5,666,613	5,472,450	194,163
Economic Development:				
Personnel	4,214,975	3,819,773	3,492,939	326,834
Operating	7,073,036	8,639,504	8,639,499	5
Totals	11,288,011	12,459,277	12,132,438	326,839
Environmental Protection:				
Personnel	1,704,713	1,687,091	1,614,197	72,894
Operating	496,147	949,336	905,657	43,679
Totals	2,200,860	2,636,427	2,519,854	116,573
Total Departments	851,134,481	910,709,504	900,604,921	10,104,583
Nondepartmental:				
Arts Council - operating	4,673,615	4,923,615	4,723,615	200,000
Boards, Committees and Commissions	22,950	22,950	17,157	5,793
Charter Review Commission	1,150	1,150	576	574
Children's Opportunity Fund	-	750,750	750,750	-
Community grants	9,022,734	9,840,444	9,769,000	71,444
Compensation adjustment - personnel	1,193,465	213,531	87,587	125,944
Compensation adjustment - operating	649,320	649,320	592,285	57,035
Conference Center - personnel	116,382	118,182	118,180	2
Conference Center - operating	499,690	497,890	9,499	488,391

(Continued)



MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
**RSI-1 (Continued)**

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Conferences & Visitors Bureau	1,423,788	1,423,788	1,423,788	-
Consolidated Retiree Health Benefits Trust (MC)	1,428,000	1,428,000	1,428,000	-
Consolidated Retiree Health Benefits Trust (MCPS)	61,733,000	61,733,000	61,733,000	-
Contrib. To Self Ins Fund - Risk Mg	15,568,426	15,568,426	15,059,356	509,070
County Associations	74,728	74,728	74,728	-
County Leases - personnel	100,000	147,300	147,293	7
County Leases - operating	22,508,195	22,471,963	22,218,995	252,968
Desktop computer modernization - operating	5,800,200	6,472,202	6,472,117	85
Grants To Muni Lieu Of Shared Tax	28,020	28,020	28,012	8
Group Insurance Retirees	36,768,000	36,768,000	36,768,000	-
Historical Activities	77,250	55,038	55,038	-
Homeowners' Association Roads	59,070	59,070	59,070	-
Housing Opportunities Commission	6,401,408	-	-	-
Independent Audit	420,820	445,018	380,135	64,883
Interagency tech, policy and coord comm - operating	5,850	5,850	2,663	3,187
Legislative Branch Communications Outreach	490,000	672,448	645,198	27,250
Metro Washington Council Of Govts	818,488	818,488	818,488	-
Mont Coalition Adult English Literacy	1,357,058	1,357,058	1,357,058	-
Municipal Tax Duplication	7,884,184	7,955,114	7,955,111	3
Prisoner Medical Services	20,000	27,780	27,773	7
Public Election Fund	1,000,000	1,000,000	1,000,000	-
Public Technologies Inc	20,000	20,000	20,000	-
Rebate Takoma Park For Police	945,540	945,540	930,658	14,882
Retiree Health Benefits Trust	43,520,060	43,520,060	43,520,060	-
Rockville Parking District	383,400	397,090	397,083	7
Snow Removal	5,884,990	-	-	-
State Positions Supplement	60,756	60,756	23,840	36,916
State Property Tax Services	3,464,610	3,537,090	3,537,081	9
State Retirement Contribution	1,313,995	1,313,995	1,313,995	-
Takoma Park - Lib Transition	149,624	154,504	154,498	6
Telecommunications	-	(160,833)	-	(160,833)
Utilities	25,121,891	25,272,872	25,272,868	4
Working Families Income Supplement	21,097,300	21,097,300	20,766,129	331,171
Total - Nondepartmental	282,107,957	271,687,497	269,658,684	2,028,813
Total Expenditures	1,133,242,438	1,182,397,001	1,170,263,605	12,133,396
Excess of Revenues over (under) Expenditures	1,967,439,332	1,918,284,769	1,923,927,581	5,642,812
Other Financing Sources (Uses):				
Transfers In:				
Special Revenue Funds:				
Fire Tax District	275,090	120,750	120,750	-
Recreation	5,055,390	5,055,390	3,292,180	(1,763,210)
Mass Transit	13,601,819	11,130,400	11,130,400	-
Water Quality Protection	1,330,510	1,330,510	1,330,510	-
Urban Districts	615,500	615,500	615,500	-
Housing Activities	289,410	289,410	289,410	-
Cable TV	9,087,925	9,087,925	9,087,925	-
Total Special Revenue Funds	30,255,644	27,629,885	25,866,675	(1,763,210)

(Continued)

MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
RSI-1 (Continued)

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Enterprise Funds:				
Liquor	24,569,660	24,569,660	24,569,660	-
Parking Lot Districts	2,817,980	2,817,980	2,864,906	46,926
Solid Waste Activities	2,538,330	2,538,330	2,538,330	-
Community Use of Public Facilities	468,600	468,600	468,600	-
Permitting Services	4,206,430	4,206,430	4,206,430	-
Total Enterprise Funds	34,601,000	34,601,000	34,647,926	46,926
Total Transfers In	64,856,644	62,230,885	60,514,601	(1,716,284)
Total Transfers In - MCG	64,856,644	62,230,885	60,514,601	(1,716,284)
Transfers (Out):				
Special Revenue Funds:				
Recreation	(1,009,700)	(1,009,700)	(1,009,700)	-
Fire Tax District	(250,000)	(4,128,107)	(4,128,107)	-
Urban Districts	(2,535,487)	(2,535,487)	(2,535,487)	-
Mass Transit	(531,310)	(531,310)	(531,310)	-
Revenue Stabilization	(23,420,057)	(23,496,627)	(23,152,055)	344,572
Housing Activities	(19,259,777)	(19,259,777)	(19,259,777)	-
Economic Development	(1,702,651)	(2,145,606)	(2,145,606)	-
Total Special Revenue Funds	(48,708,982)	(53,106,614)	(52,762,042)	344,572
Internal Service Funds:				
Motor Pool	-	(39,184)	(39,184)	-
Total Internal Service Funds	-	(39,184)	(39,184)	-
Enterprise Funds:				
Community Use of Public Facilities	(160,000)	(160,000)	(160,000)	-
Solid Waste Activities	(1,457,930)	(1,457,930)	(1,457,930)	-
Total Enterprise Funds	(1,617,930)	(1,617,930)	(1,617,930)	-
Debt Service Fund	(284,497,255)	(284,548,047)	(273,627,904)	10,920,143
Capital Projects Fund	-	(80,477,832)	(45,791,407)	34,686,425
Total Transfers (Out)	(334,824,167)	(419,789,607)	(373,838,467)	45,951,140

(Continued)

MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
RSI-1 (Concluded)

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Transfers (Out) - Component Units:				
Montgomery County Public Schools - operating	(1,509,285,806)	(1,509,285,806)	(1,509,285,806)	-
Montgomery County Public Schools - capital	-	(34,792,343)	(23,427,280)	11,365,063
Total Montgomery County Public Schools	(1,509,285,806)	(1,544,078,149)	(1,532,713,086)	11,365,063
Montgomery College - operating	(129,826,027)	(129,826,027)	(129,826,027)	-
Montgomery College - capital	-	(29,509,445)	(11,519,458)	17,989,987
Total Montgomery College	(129,826,027)	(159,335,472)	(141,345,485)	17,989,987
Housing Opportunity Commission - operating	-	(6,401,408)	(6,273,380)	128,028
Housing Opportunity Commission - capital	-	(7,642,659)	-	7,642,659
Total Housing Opportunity Commission	-	(14,044,067)	(6,273,380)	7,770,687
M-NCPPC - operating	(811,500)	(811,500)	(811,500)	-
Total Transfers (Out) - Component Units and JV	(1,639,923,333)	(1,718,269,188)	(1,681,143,451)	37,125,737
Total Transfers (Out) - MCG	(1,974,747,500)	(2,138,058,795)	(2,054,981,918)	83,076,877
Total Other Financing Sources (Uses)	(1,909,890,856)	(2,075,827,910)	(1,994,467,317)	81,360,593
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$ 57,548,476	\$ (157,543,141)	(70,539,736)	\$ 87,003,405

**Adjustments required under generally accepted accounting principles:**

Non budgeted Item - Bad debt expense	(1,230,737)
Financing under notes and leases payable	1,739,803
Elimination of encumbrances outstanding	27,035,009
Revenue Stabilization investment income	606,318
Conference center activity	1,215,271
Transfer to Revenue Stabilization	23,152,055
Interfund activities budgeted as transfers:	
Recreation facility maintenance costs	1,763,210
Consolidation:	
Economic Development	(94,696)
Urban Districts	1,194,514
GAAP - Net Change in Fund Balance	(15,158,989)
Fund Balance - Beginning of Year	495,495,352
Fund Balance - End of Year	\$ 480,336,363

MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
HOUSING INITIATIVE SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
RSI-2

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Revenues:				
Taxes - transfer	\$ 9,182,680	\$ 9,182,680	\$ 9,652,497	\$ 469,817
Charges for services	32,188	32,188	90	(32,098)
Investment Income:				
Pooled investment income	10,000	10,000	57,616	47,616
Other interest income	1,458,200	1,458,200	2,029,114	570,914
Total Investment Income	1,468,200	1,468,200	2,086,730	618,530
Miscellaneous:				
Property rentals, MPDU and other contributions	538,486	538,486	1,960,478	1,421,992
Total Miscellaneous	538,486	538,486	1,960,478	1,421,992
Total Revenues	11,221,554	11,221,554	13,699,795	2,478,241
Expenditures: Community development and housing				
Personnel	1,811,074	1,858,584	1,858,580	4
Operating	26,076,576	31,895,077	19,201,682	12,693,395
Total Expenditures	27,887,650	33,753,661	21,060,262	12,693,399
Excess of Revenues over (under) Expenditures	(16,666,096)	(22,532,107)	(7,360,467)	15,171,640
Other Financing Sources (Uses):				
Transfers In (Out):				
From General Fund	19,259,777	19,259,777	19,259,777	-
From Silver Spring Parking Lot District Fund	-	-	2,561,164	2,561,164
From Capital Projects Fund	6,222,949	6,222,949	6,222,949	-
To General Fund	(289,410)	(289,410)	(289,410)	-
To Debt Service Fund	(7,196,110)	(7,196,110)	(7,323,544)	(127,434)
To Capital Projects	-	-	(2,829,507)	(2,829,507)
Mortgage repayment	1,825,000	1,825,000	3,216,319	1,391,319
Sale of property	1,150,000	1,150,000	1,181,222	31,222
Total Other Financing Sources (Uses)	20,972,206	20,972,206	21,998,970	1,026,764
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$ 4,306,110	\$ (1,559,901)	14,638,503	\$ 16,198,404
Adjustments required under generally accepted accounting principles:				
Elimination of encumbrances outstanding			214,427	
Repayment of loan principal not considered revenue under GAAP			(3,216,319)	
Non budgeted Item - Bad debt expense			(1,471,585)	
GAAP - Net Change in Fund Balance			10,165,026	
Fund Balance - Beginning of Year			243,697,964	
Fund Balance - End of Year			\$ 253,862,990	

MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GRANTS SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
**RSI-3**

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Revenues:				
Intergovernmental:				
Federal grants	\$ 28,519,947	\$ 42,107,340	\$ 48,349,235	\$ 6,241,895
State grants	90,625,271	154,698,158	64,134,035	(90,564,123)
Other non-state and non-federal reimbursements	446,463	2,009,376	692,948	(1,316,428)
Total Intergovernmental	119,591,681	198,814,874	113,176,218	(85,638,656)
Investment income:				
Other principal and interest income	1,000,000	657,132	772,230	115,098
Total Investment Income	1,000,000	657,132	772,230	115,098
Miscellaneous	77,967	-	195,981	195,981
<b>Total Revenues</b>	120,669,648	199,472,006	114,144,429	(85,327,577)
Expenditures:				
General Government:				
Circuit Court:				
Personnel costs	2,198,551	2,453,294	2,255,568	197,726
Operating	216,570	447,263	257,692	189,571
Totals	2,415,121	2,900,557	2,513,260	387,297
Office of State's Attorney:				
Personnel costs	121,300	479,019	119,226	359,793
Operating	-	-	-	-
Totals	121,300	479,019	119,226	359,793
Office of the County Executive:				
Personnel costs	129,166	527,903	125,977	401,926
Operating	4,484	212,881	20,327	192,554
Totals	133,650	740,784	146,304	594,480
Legislative Oversight:				
Operating	-	63,136	57,464	5,672
Totals	-	63,136	57,464	5,672
Intergovernmental Relations:				
Operating	30,670	95,849	30,664	65,185
Totals	30,670	95,849	30,664	65,185
Community Engagement Cluster:				
Personnel costs	66,366	143,226	98,693	44,533
Operating	-	14,543	14,543	-
Totals	66,366	157,769	113,236	44,533
General Services:				
Operating	-	1,083,938	420,243	663,695
Totals	-	1,083,938	420,243	663,695
Department of Technology Services:				
Operating	-	931,656	-	931,656
Totals	-	931,656	-	931,656
Total General Government	2,767,107	6,452,708	3,400,397	3,052,311
Public Safety:				
Department of Corrections and Rehabilitation:				
Personnel costs	-	27,817	-	27,817
Operating	-	109,173	38,999	70,174
Totals	-	136,990	38,999	97,991

(Continued)

MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GRANTS SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
**RSI-3 (Continued)**

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive Negative
Department of Fire and Rescue Services:				
Personnel costs	-	1,081,443	1,042,482	38,961
Operating	-	2,734,619	1,017,356	1,717,263
Totals	-	3,816,062	2,059,838	1,756,224
Department of Police:				
Personnel costs	148,000	1,807,599	485,578	1,322,021
Operating	17,000	1,764,715	686,484	1,078,231
Totals	165,000	3,572,314	1,172,062	2,400,252
Office of the County Sheriff:				
Personnel costs	595,211	2,078,999	635,268	1,443,731
Operating	188,069	984,969	171,416	813,553
Totals	783,280	3,063,968	806,684	2,257,284
Office of Emergency Management & Homeland Security:				
Personnel costs	798,190	4,603,436	651,727	3,951,709
Operating	-	10,216,865	6,401,165	3,815,700
Totals	798,190	14,820,301	7,052,892	7,767,409
Total Public Safety	1,746,470	25,409,635	11,130,475	14,279,160
Transportation:				
Department of Transportation:				
Personnel costs	1,763,781	8,677,834	1,516,607	7,161,227
Operating	2,948,765	4,979,283	2,874,079	2,105,204
Total Transportation	4,712,546	13,657,117	4,390,686	9,266,431
Economic Development:				
Department of Economic Development:				
Personnel costs	-	1,558,573	-	1,558,573
Operating	3,572,311	5,103,300	4,999,255	104,045
Total Economic Development	3,572,311	6,661,873	4,999,255	1,662,618
Health and Human Services:				
Department of Health and Human Services:				
Personnel costs	45,297,003	59,323,694	45,045,871	14,277,823
Operating	34,442,696	56,452,559	38,251,821	18,200,738
Total Health and Human Services	79,739,699	115,776,253	83,297,692	32,478,561
Culture and Recreation:				
Department of Libraries:				
Personnel costs	40,290	82,623	47,222	35,401
Operating	12,000	34,408	34,408	-
Totals	52,290	117,031	81,630	35,401
Department of Recreation:				
Personnel costs	73,672	142,443	117,422	25,021
Operating	-	3,600	3,199	401
Totals	73,672	146,043	120,621	25,422
Total Culture and Recreation	125,962	263,074	202,251	60,823
Housing:				
Department of Housing and Community Affairs:				
Personnel costs	2,172,865	2,650,557	1,964,740	685,817
Operating	5,225,015	17,600,646	4,983,230	12,617,416
Total Housing	7,397,880	20,251,203	6,947,970	13,303,233

(Continued)

MONTGOMERY COUNTY, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GRANTS SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
**RSI-3 (Concluded)**

	<b>Budget</b>		<b>Actual</b>	<b>Variance Positive (Negative)</b>
	<b>Original Budget</b>	<b>Final Budget</b>		
Environment:				
Department of Environmental Protection:				
Personnel costs	-	6,338	-	6,338
Operating	-	95,769	95,769	-
Total Environmental Protection	-	102,107	95,769	6,338
Department of Liquor Control:				
Personnel costs	-	12,439	12,439	-
Operating	-	14,931	7,495	7,436
Total Liquor Control	-	27,370	19,934	7,436
Nondepartmental:				
NDA Historical Activities - Operating	607,673	-	-	-
NDA Future Grants - Operating	20,000,000	11,065,428	-	11,065,428
Total Nondepartmental	20,607,673	11,065,428	-	11,065,428
<b>Total Expenditures</b>	120,669,648	199,666,768	114,484,429	85,182,339
Excess of Revenues over (under)				
Expenditures	-	(194,762)	(340,000)	(145,238)
Other Financing Sources (Uses):				
Transfers In:				
Restricted Donations Fund	-	-	-	-
Mass Transit Special Revenue Fund	-	194,762	340,000	145,238
Fire Tax District Special Revenue Fund	-	-	-	-
Total Transfers In	-	194,762	340,000	145,238
<b>Total Other Financing Sources (Uses)</b>	-	194,762	340,000	145,238
Excess of Revenues and Other Financing				
Sources over (under) Expenditures				
and Other Financing Uses	-	-	-	-
GAAP - Net Change in Fund Balance			-	
Fund Balance - Beginning of Year			216,033	
Fund Balance - End of Year			<u>\$ 216,033</u>	

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

## REQUIRED SUPPLEMENTARY INFORMATION

### CONSOLIDATED RETIREE HEALTH BENEFITS TRUST

The following required supplementary information is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons among employers.

### SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
6/30/2012	\$ 92,610,000	\$ 1,403,693,000	\$ 1,311,083,000	6.6 %	\$ 618,227,000	212.1 %
6/30/2013	153,327,000	1,093,214,000	939,887,000	14.0	636,774,000	147.6
6/30/2014	303,631,000	1,320,879,000	1,017,248,000	23.0	669,149,000	152.0

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability provides one indication of the system's funding status on a going-concern basis. Analysis of the percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

### SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITIES CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed		Net OPEB Obligation
		Employers	Other Contributing Entities	
2011	\$ 147,582,000	28.7 %	1.1 %	\$ 287,497,491
2012	147,327,000	44.4	1.6	380,693,810
2013	123,152,000	71.8	1.7	429,058,044
2014	103,418,000	103.1	1.5	425,820,958
2015	107,096,000	85.4	1.8	440,459,637
2016	111,398,000	91.3	7.8	449,055,135



## REQUIRED SUPPLEMENTARY INFORMATION

### EMPLOYEES' RETIREMENT SYSTEM

#### SCHEDULE OF COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LAST 10 FISCAL YEARS

Measurement Fiscal Year Ending June 30	County's Proportion			County's Covered- Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
	% of Net Pension Liability	Share of the Net Pension Liability	Share of the Net Pension Liability as a % of its Covered-Employee		
2014	97.79 %	\$ 298,751,284	75.83 %	\$393,995,026	92.28 %
2015	96.94	407,854,987	100.48	405,915,489	89.69

#### SCHEDULE OF COUNTY CONTRIBUTIONS LAST 10 FISCAL YEARS

Measurement Date Fiscal Year Ending June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution		Contribution Deficiency (excess)	County's Covered- Employee Payroll	Contribution as a % of Covered-Employee Payroll
2014	\$ 141,511,591	\$	141,511,591	\$ -	\$ 393,995,026	35.92 %
2015	146,672,030		146,672,030	-	405,915,489	36.13

These two Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

## REQUIRED SUPPLEMENTARY INFORMATION

### MARYLAND STATE RETIREMENT AND PENSION SYSTEM

#### SCHEDULE OF COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LAST 10 FISCAL YEARS

Measurement Date Fiscal Year Ending June 30	% of Net Pension Liability	County's Proportion		County's Covered- Employee Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
		Share of the Net Pension Liability	Share of the Net Pension Liability as a % of its Covered- Employee Payroll		
2014	0.1007417 %	\$ 17,878,357	276.62 %	\$ 6,463,239	71.87 %
2015	0.1175148	24,421,562	305.33	7,998,461	68.78

#### SCHEDULE OF COUNTY CONTRIBUTIONS LAST 10 FISCAL YEARS

Measurement Fiscal Year Ending June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution		Contribution Deficiency (excess)	County's Covered- Employee Payroll	Contribution as a % of Covered-Employee Payroll
2014	\$ 2,347,645	\$	2,347,645	\$ -	\$ 6,463,239	36.32 %
2015	2,476,892		2,476,892	-	7,998,461	30.97

These two Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

### **Budgetary Information**

#### **Overview**

Annual appropriated operating budgets are adopted for the General Fund, Debt Service Fund, substantially all Special Revenue Funds (except for the Agricultural Transfer Tax Fund), Enterprise Funds, the Liability and Property Coverage Self-Insurance Internal Service Fund, and the Employee Health Benefits Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations lapse at year-end except for those related to Federal and State grants and the Capital Projects Fund.

Encumbrance accounting is employed for budgetary purposes in the governmental and proprietary funds. Encumbrances (purchase orders and contracts awarded for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to preserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as restricted, committed, or assigned category of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

#### **Approval**

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP) is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year, and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in two major categories (personnel costs and operating expenses) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. Encumbrances are reported as a restricted or committed component of the current fiscal year's fund balance. The annual budget must be consistent with the six-year program for public services and fiscal policy. Multi-year planning provides a framework to make informed decisions about the levels of public services and project the impact of what may happen as a result of current decisions and policies. For the capital projects budget, the annual resolution provides spending authority at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY16, the County Council

increased the operating budget for all funds through supplemental and special appropriations by \$38.8 million. In addition, supplemental appropriations increased the CIP budget by \$109.1 million.

## Presentation

The basis used to prepare the legally adopted budget is different from GAAP in a number of ways, including the following:

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Fund budgets do not include depreciation and bad debts, however they do include debt service payments and capital outlay.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Proceeds under certain capital lease financing are not budgeted.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MC.

## Pension Trend Information

The Schedule of County Contributions provides historical context for the amount of contributions in the current period. The actuarially determined contributions rates are calculated as of June 30, one year prior to the beginning of the fiscal year in which contributions are reported. Significant methods and assumptions used to determine the contributions for the Employees' Retirement System include:

Valuation date	July 1, 2015
Actuarial cost method	Individual Entry Age Normal
Amortization method for funding	Level percentage of payroll, separate closed period bases
Amortization period for funding	Initial amortization period of 18 years for the base established July 1, 2010. Initial amortization period of 20 years for subsequent bases. Average amortization period of 13 years.
Asset valuation method	5-year smoothed market
Salary Increases	3.25% - 9.50% per year
Inflation	2.75% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition and years of service. Last updated for the 2015 valuation pursuant to an experience study of the period 2009-2014.
Investment rate of return	7.50% per year
Mortality rates after retirement	RP-2014 Healthy Annuitant Mortality Table, gender-distinct for healthy mortality. Rates are set forward six years for male disabled mortality and eight years for the female disabled mortality assumption. To provide a margin for future mortality improvements, generational mortality improvements from 2014 using projection scale MP-2014 was used.

## **APPENDIX B**

### **Explanatory Note to the Fiscal Year 2016 Comprehensive Annual Financial Report**

As a result of the unfavorable interest rates in the municipal bond market in November 2016, the County determined not to proceed with the refunding portion of the 2016 general obligation bond issue as disclosed on page 120 of the FY2016 Comprehensive Annual Financial Report.

(This information is provided by the Department of Finance)