
Montgomery County, Maryland

**ANNUAL
INFORMATION
STATEMENT**

In Connection With Bonds and Other Obligations

Department of Finance



January 15, 2018

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

COUNTY EXECUTIVE

Isiah Leggett

COUNTY COUNCIL

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

The terms of the County Executive and all County Council members expire in December, 2018.

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>
Megan Limarzi	<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

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ANNUAL INFORMATION STATEMENT IN CONNECTION WITH BONDS AND OTHER OBLIGATIONS

This Annual Information Statement (“AIS”), dated January 15, 2018 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 2013-2017, 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 15th Floor, Rockville, Maryland 20850. Telephone: 240-777-8860; fax: 240-777-8857. Email: bondquestions@montgomerycountymd.gov

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STATISTICAL HIGHLIGHTS

Debt as of June 30, 2017

General Obligation Bonds and Notes Outstanding	\$2,879,265,000
Total Assessed Value	\$181,546,725,485
Direct Debt (incl. Revenue Bonds)	\$3,591,576,000
Direct Debt to Assessed Value	1.98%
Net Direct Debt	\$3,379,265,000
Ratio of Net Direct Debt to Assessed Value	1.86%

Budgets

Approved FY18 Operating Budget	\$5.4 billion
Approved FY18 General Fund Unassigned Surplus	\$149.2 million
FY17 General Fund Unassigned Balance	\$118.3 million
FY17 Revenue Stabilization Fund Balance	\$280.7 million
FY17-22 Amended Capital Improvements Program	\$4.9 billion

FY17 Major Revenues

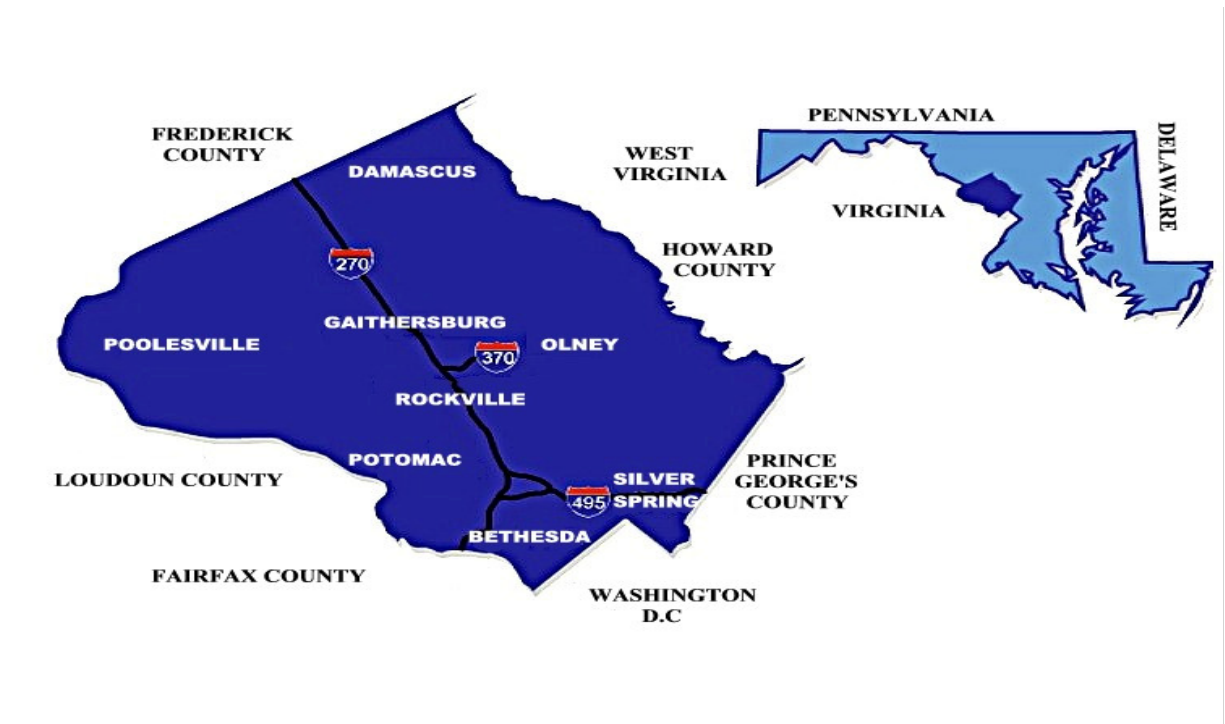
Income Tax	\$1,466.6 million
Property Tax (General Fund)	\$1,266.9 million
Transfer and Recordation Tax	\$178.5 million
Other Taxes	\$268.9 million

Demographics

Population 2016	1,049,477
Households 2016	373,346
Median Age 2016	39 years old

Employment

Private Sector 2016	373,686
Public Sector 2016	89,763
Unemployment Rate 2016	3.3%
Personal Income 2016	\$84.5 billion
Per Capita Income 2016	\$80,967
Average Household Income 2016	\$226,381
MCPS K-12 Projected FY18 Enrollment	161,302
MCPS Per Pupil Operating Expenditures (FY18)	\$15,589
Montgomery College Enrollment (Fall 2016)	23,916



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 – Hans Riemer

Council President Riemer, who is an at-large Councilmember, served as Council vice president for the past year. He is beginning his 8th year on the Council. Council President Riemer serves as the Council's lead member for digital government on the Council's Government Operations and Fiscal Policy (GO) Committee and on the Planning, Housing and Economic Development (PHED) Committee. He has been a strong advocate for funding public education and public transportation, early childhood programs, libraries, recreation, human services, housing and economic development. He also chaired the Council's Ad-hoc Committee on Liquor Control, which evaluated and recommended changes to alcohol distribution in the County.

As a dedicated environmentalist, Council President Riemer has worked to strengthen the County's rural, suburban and urban areas by placing walkability, public transportation and sustainability at the center of planning goals. For the past four years, he has hosted the "Great Montgomery Bicycle Summit" to bring together bicycle advocates, planners and residents to improve bicycle opportunities throughout the County.

In January 2017 Council President Riemer was named as one of two County officials to serve on the Federal Communications Commission Intergovernmental Advisory Committee, which provides guidance, expertise, and recommendation on a range of telecommunications issues. He also serves as Chairman of the Metropolitan Washington Air Quality Committee for the Metropolitan Washington Council of Governments.

Before serving on the County Council, Riemer served as national youth vote director for the Obama for America campaign in 2007, and previously as political director for Rock the Vote, where he helped register nearly a million voters. He also served as a senior advisor at AARP and, since his earliest work in Washington, has been a national leader on protecting Social Security from efforts to privatize the program.

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 2017, the County government employed 8,866 full time and 837 part-time regular employees. Seven thousand five hundred sixty five (7,565) employees are in bargaining unit positions and represented by one of the three labor organizations that are certified under County law to bargain over wages, fringe benefits, and working conditions. 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)	1,487	June 30, 2019
Office, Professional & Technical (MCGEO)	3,720	June 30, 2019
Police Officers (FOP)	1,224	June 30, 2018
Firefighters/Rescuers (IAFF)	1,134	June 30, 2019

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 2017, the Board employed 21,840 full-time equivalent (FTE) employees. This number includes 76 non-represented employees and 21,764 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)	12,995	June 30, 2020
Administrative & Supervisory (MCAAP/MCBOA)	799	June 30, 2020
Support Services (SEIU Local 500)	7,970	June 30, 2020

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 2016. The Ross Boddy Neighborhood Recreation Center in Sandy Spring re-opened in 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 Department’s administrative office is also home to small black box 208-seat theater that is used nearly every weekend by small theater and arts groups who rent the space hourly for performances. Such groups as Home School Talent, Unexpected Theater Company and the Russian Opera are regularly performing there.

The Music Center 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 can support 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 Black Box Theater, which is home to several non-profit arts groups that 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.

Additional art venues include the Black Rock Center for the Arts which the county owns and maintains while operations and programming is managed by a nonprofit organization.

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 the jobs and tax bases. 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 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, 2017, 215 offers for grants and loans totaling \$114.9 million were accepted under the Economic Development Fund Grant and Loan Program. The economic impact of these transactions is estimated to include: over 53,600 jobs retained, attracted, and projected to be created, over \$2.4 billion in estimated private investment, and an estimated annual net revenue return of over \$103.9 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:

- 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.
- 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 FY17, a total of \$500,000 was awarded to 78 qualified investors.
- 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. Two companies received supplemental incentives totaling \$268,890 under this program in FY17. 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.
- 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. Starting FY18, the County is providing financial assistance for adversely impacted small businesses, after the Parking Lot 13 serving Wheaton Market Place is closed.
- 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, 2017, a total of \$1.736 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 \$2.517 billion for FY18, a 2.4 percent increase over the prior year, and the approved Amended FY17-22 Capital Improvement Program is \$1.744 billion, an increase of \$14.3 million over the previously approved CIP. The emphasis that County residents place on education is reflected in budgeted per pupil operating expenditures of \$15,589 in FY18, and in the high percentage of high school graduates who continue formal education. In FY18, projected enrollment is 161,302 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 investment policy, as approved by the County Council. The average maturity of the working capital portfolio is generally less than six months. For FY17, the County managed an average of \$844.7 million in its pooled consolidated investment portfolio and earned investment income of \$6.04 million with an average rate of return of 0.71%.

Libraries

Montgomery County Public Libraries (MCPL) is a key resource in the community. The system has 21 library branches, visited over 4.6 million times in FY17, 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, the Davis Library and the Little Falls Library reopened in 2017 following significant improvements. The Department received positive customer responses to the physical improvements, refreshed materials collection and technology enhancements such as credit card payments at the service desks, improved power source availability, 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.

Additional hours were added to the Kensington Park, Little Falls and Long Branch libraries in October 2017. Those branches now open Monday through Thursday from 10 to 8, and Friday and Saturday from 10 to 6, for a total of 56 open hours.

Weekend and evening hours were expanded at four urban libraries in the Spring of 2017. Silver Spring, Bethesda, Gaithersburg, and Germantown libraries joined the Rockville Memorial Library and were open from 9:00am to 9:00pm on Friday and Saturday from May to September.

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 including English; Science, Technology, Engineering, and Math (STEM) themes; and Playaways for kids that are books that read themselves with words and music in support of early literacy; and materials to support workforce development.

Two additional positions were added in FY 2017 to enhance programming efforts in the area of Early Literacy and Workforce Development in support of skills development, test preparation for career advancement, and the Career Online High School which gives adult learners the ability to earn a high school diploma online. The Workforce Development program has been awarded an Honorable Mention Award for the 2017 ULC Innovations Initiative by the Urban Libraries Council.

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 September 30, 2017, the Department of Liquor Control’s responsibilities include the operation of 27 County retail stores and a warehouse that distributes beverage alcohol to the County stores and to approximately 1,070 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 (FY13 through FY17) the Department transferred \$135.83 million to the General Fund.

Parks

The Maryland-National Capital Park and Planning Commission administers just under 37,000 acres of parkland in the County. This includes 5 regional and 11 recreational parks, many consisting of over 200 acres, and featuring more than 600 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake, and Pine Lake. Of the 419 parks in the Montgomery Parks system, 314 smaller park and open space areas serve as urban, local, and neighborhood, stream valley, and conservation parks, among others. 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 and towns within the County, including Rockville, Takoma Park, Kensington, Gaithersburg, Poolesville, Montgomery Village, and Washington Grove, also maintain their own 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 2,213 personnel including 1,186 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 1,288 sworn officers and 663 civilian staff for a total complement of 1,953 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 2nd District Police Station is underway, with completion expected by the end of 2017, and the 3rd District Police Station was replaced four 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, replacing the previous aging facility, and a new Montgomery County Public Safety Headquarters, which incorporates a new 1st District Police Station within the Headquarters facility, is in operation.

Correction and Rehabilitation

The Department of Correction and Rehabilitation (DOCR) personnel complement includes 538 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 1,500 defendants in the community on a daily basis.

The County is currently engaged in 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 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 216,345, 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 FY17, the County collected \$3.57 million in material sales revenue from the Material Recovery Facility (MRF) operations; this included \$0.71 million in plastics sales, \$0.54 million in bimetal and aluminum can sales, \$2.40 million in mixed paper sales, and incurred a net expense for glass of \$0.08 million. The net glass expense included sales revenue of \$26,314 for flint, green and amber glass, and an expense of \$109,596 for mixed glass. Additionally, the County's Transfer Station collected \$1.23 million in material sales revenue, which included \$68,931 in recycled battery sales and \$1.17 in scrap metal sales. The MRF separates plastics for sale into various types, which includes PET, HDPE, 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, bimetal cans, and paper.

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 FY17, approximately 22.98 million passenger trips took place on the County Ride-On Bus system. The entire fleet consists of 348 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 FY17, the four districts collectively had in service 20 garages with approximately 16,763 parking spaces, 20 surface lots with 1,272 spaces, and 2,447 on-street metered spaces for a total of 20,482 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 2016, the airport served approximately 23.6 million passengers, sixth straight year of record-breaking growth for the airport. 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 21.8 million passengers in 2016, a small but significant gain, fueled largely by international travelers. 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 25.1 million passengers flew through BWI in 2016, making it the region's busiest airport. BWI officials began planning for a major expansion of international service in 2015. A new secure connector between domestic D concourse and E concourse was completed in 2017 and BWI is poised to begin work on the next phase of its international terminal expansion.

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 FY18 approved operating budget for WSSC totals \$741.2 million; the approved capital budget totals \$685.5 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 FY18 Operating Budget for Rockville totals \$13.3 million for the water enterprise fund and \$13.6 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 4.62 MGD in 2016 and the average maximum daily production has declined from 7.5 MGD in 2011 to 6.23 MGD in 2016. 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 11 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 \$0.6 million of the total \$2.0 million FY18 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 2016 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 \$0.2 million of the total \$3.6 million FY18 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. Treatment consists of chlorination except for a cartridge filtration unit on one well that was deemed to be under the influence of surface water and a uranium and radon removal system on two other wells.

Two additional wells are slated to be constructed in 2018. One will be as a redundant well and another to support a new subdivision. Both wells are designed with radon removal units. 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 minor treatment improvements to meet the Enhanced Nutrient Removal limits, but is now working with the MDE to install denitrification filters to further enhance treatment. Efforts over the last 10 years to reduce inflow and infiltration to the sewer system through pipe lining and manhole rehabilitation has significantly reduced inflow and infiltration. Ongoing efforts continue and include additional relining and manhole repairs. The Town's approved water and sewer operating budget in FY18 is \$1.27 million, while the planned CIP budget is \$0.37 million.

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, two program managers, a capital project manager, engineer 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 currently procures enough RECs to offset the greenhouse gas emissions of its electricity, natural gas and fleet fuel consumption, making the County carbon neutral.

The County is currently implementing energy-efficiency projects on major facilities using energy performance contracting. The projects are funded by debt, to be repaid with the energy savings from the project. The County currently has a \$40 million credit facility in place to support its projects. The County has fully leveraged qualified energy conservation bonds (QECBs) which provide favorable interest rates due to a subsidy approved under the American Recovery and Reimbursement Act.

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. Projects installed to date are expected to save the County approximately \$1.5 million annually for the next 20 years. Additional projects are under development. The County is also installing two microgrids using a similar public-private partnership on critical facilities enabling them to operate independently from the utility grid during long term power outages.

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. In 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. Construction on the new hospital continues and will be renamed to Adventist HealthCare White Oak Medical Center when it opens in the summer of 2019, at 12100 Plum Orchard Drive off Route 29 and Cherry Hill Road.

Higher Education

In the most recent American Community Survey taken in 2016, the 5-year estimates indicated that County residents, on average, are highly educated. According to the 2016 Survey, 57.9 percent of County residents 25 years old or over completed four or more years of college. Advanced degrees are held by 31.1 percent of the adult population, while high school graduates account for 91.2 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	13,347
Catholic University, Washington, DC	6,699
George Washington University, Washington, DC	26,600 *
Georgetown University, Washington, DC	18,459
Hood College, Frederick, MD	2,289
Howard University, Washington, DC	10,002
Johns Hopkins University, Baltimore, MD	22,686
Montgomery College, 3 Campuses in County (2-year)	23,916 **
Universities at Shady Grove, Montgomery County	4,000 *
University of Maryland, College Park, MD	38,140

* 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 (2015) by Tourism Economics, an Oxford Economics Company, the tourism industry in Montgomery County generated \$1.81 billion in expenditures in 2015 up from \$1.75 billion in 2014. Total sales tax collections in the tourism sales tax categories as reported by the Maryland Comptroller was up 2.4 percent in FY2017. Local room rental transient tax (7% levied) collections generated \$21,218,508 in FY2017, up 7.7 percent from FY2016. Lodging occupancy as reported by Smith Travel Research for 2016 was up 3.2 percent from 2015. The Average Daily Hotel Rate in 2016 was up 2.4 percent 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, and 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 with the goal of generating more hotel tax collections and visitor spending in the local economy. Visit Montgomery markets all the County's assets, including the Bethesda North Conference Center, 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, the AFI DOCS Film Festival. Visit Montgomery is recognized by the Maryland Office of Tourism as the designated destination marketing organization (DMO) for Montgomery County.

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DEBT SUMMARY

Overview

The County Government, four of its agencies (Montgomery County Revenue Authority, Montgomery County-The Maryland-National Park and Planning Commission, 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:

http://www.montgomerycountymd.gov/finance/resources/files/data/financial/FY17_DEBT_SERVICE_BOOK.pdf

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Table 4
Statement of Direct and Overlapping Debt
As of June 30, 2017

Direct Debt		
General Obligation Bonds Outstanding	\$2,789,265,000	
General Obligation Variable Rate Demand Obligations	90,000,000	
Short-Term BANs/Commercial Paper Outstanding	500,000,000	
Revenue Bonds Outstanding	<u>212,311,000</u>	
Total Direct Debt		\$3,591,576,000
Overlapping Debt		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	\$2,096,133,000	
Housing Opportunities Commission	820,629,094	
Montgomery County Revenue Authority	84,938,772	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	55,125,000	
Kingsview Village Center Development District	923,480	
West Germantown Development District	10,740,000	
Towns, Cities and Villages within Montgomery County	<u>136,211,201</u>	
Total Overlapping Debt		<u>\$3,204,700,547</u>
Total Direct and Overlapping Debt		\$6,796,276,547
Less Self-Supporting Debt:		
County Government Revenue Bonds	\$212,311,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	2,096,133,000	
Housing Opportunities Commission	820,629,094	
Montgomery County Revenue Authority	<u>84,938,772</u>	
Total Self-Supporting Debt		<u>(\$3,214,011,866)</u>
Net Direct and Overlapping Debt		<u><u>\$3,582,264,681</u></u>
Ratio of Debt to June 30, 2017 Assessed Valuation of (100% Assessment):		\$181,546,725,485
Direct Debt		1.98%
Net Direct Debt *		1.86%
Direct and Overlapping Debt		3.74%
Net Direct and Overlapping Debt		1.97%
Ratio of Debt to June 30, 2017 Market Value of:		\$193,683,159,880
Direct Debt		1.85%
Net Direct Debt *		1.74%
Direct and Overlapping Debt		3.51%
Net Direct and Overlapping Debt		1.85%

* Net Direct Debt of \$3,379,265,000 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, 2017
And Including 2017 General Obligation Bonds

Direct Debt:	
General Obligation Bonds Outstanding ⁽¹⁾	\$2,465,065,000
Short-Term BANs/Commercial Paper Outstanding ⁽²⁾	160,000,000
2017 General Obligation Fixed Rate Bonds (Series A, B, C & D) ⁽³⁾	686,725,000
2017 General Obligation Variable Rate Bonds (Series E) ⁽⁴⁾	170,000,000
Revenue Bonds Outstanding	<u>212,311,000</u>
Total Direct Debt	\$3,694,101,000
Overlapping Debt as of June 30, 2017	
Washington Suburban Sanitary Commission	\$2,096,133,000
Applicable to Montgomery County	
Housing Opportunities Commission	820,629,094
Montgomery County Revenue Authority	84,938,772
Maryland-National Capital Park and Planning Commission	
Applicable to Montgomery County	55,125,000
Kingsview Village Center Development District	923,480
West Germantown Development District	10,740,000
Towns, Cities and Villages within Montgomery County	<u>136,211,201</u>
Total Overlapping Debt	<u>\$3,204,700,547</u>
Total Direct and Overlapping Debt	\$6,898,801,547
Less Self-Supporting Debt as of June 30, 2017	
County Government Revenue Bonds	\$212,311,000
Washington Suburban Sanitary Commission	
Applicable to Montgomery County	2,096,133,000
Housing Opportunities Commission	820,629,094
Montgomery County Revenue Authority	<u>84,938,772</u>
Total Self-Supporting Debt	<u>(\$3,214,011,866)</u>
Net Direct and Overlapping Debt	<u>\$3,684,789,681</u>
Ratio of Debt to June 30, 2017 Assessed Valuation of (100% Assessment):	\$181,546,725,485
Direct Debt	2.03%
Net Direct Debt ⁽⁵⁾	1.92%
Direct and Overlapping Debt	3.80%
Net Direct and Overlapping Debt	2.03%
Ratio of Debt to June 30, 2017 Market Value of:	\$193,683,159,880
Direct Debt	1.91%
Net Direct Debt	1.80%
Direct and Overlapping Debt	3.56%
Net Direct and Overlapping Debt	1.90%

- (1) This amount has been reduced by \$414,200,000, the amount of the County's general obligation bonds and VRDOs refunded with a portion of the proceeds of the fixed rate bonds issued and delivered by the County on November 15, 2017.
- (2) Net of amount retired with: (i) a portion of the proceeds of the 2017 Fixed Rate Bonds. (ii) the proceeds of the 2017 Variable Rate Bonds.
- (3) Issued and delivered by the County on November 15, 2017.
- (4) Issued and delivered by the County on December 19, 2017.
- (5) Net Direct Debt of \$3,481,790,000 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, 2017

June 30, 2017 Assessed Valuation – Real Property	\$177,495,353,017
Debt Limit (% of Assessed Valuation)	<u>6%</u>
Subtotal Limitation – Real Property	<u>\$ 10,649,721,181</u>
June 30, 2017 Assessed Valuation – Personal Property	\$ 4,051,372,468
Debt Limit (% of Assessed Valuation)	<u>15%</u>
Subtotal Limitation – Personal Property	<u>\$ 607,705,870</u>
Total Assessed Valuation – Real and Personal Property	\$181,546,725,485
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	\$11,257,427,051
Less Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds Outstanding	\$2,789,265,000
General Obligation Variable Rate Demand Obligations	90,000,000
Short-Term BANs/Commercial Paper Outstanding	<u>500,000,000</u>
Net Direct Debt	<u>\$3,379,265,000</u>
Legal Debt Margin	<u>\$7,878,162,051</u>
Net Direct Debt as a Percentage of Assessed Valuation	<u>1.86%</u>

Table 5A
Statement of Legal Debt Margin
As of June 30, 2017
And Including 2017 General Obligation Bonds

June 30, 2017 Assessed Valuation – Real Property	\$177,495,353,017
Debt Limit (% of Assessed Valuation)	<u>6%</u>
Subtotal Limitation – Real Property	<u>\$ 10,649,721,181</u>
June 30, 2017 Assessed Valuation – Personal Property	\$ 4,051,372,468
Debt Limit (% of Assessed Valuation)	<u>15%</u>
Subtotal Limitation – Personal Property	<u>\$ 607,705,870</u>
Total Assessed Valuation – Real and Personal Property	\$181,546,725,485
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	\$ 11,257,427,051
Less Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds Outstanding ⁽¹⁾	\$2,465,065,000
2017 General Obligation Fixed Rate Bonds (Series A, B, C & D)	686,725,000
2017 General Obligation Variable Rate Bonds (Series E)	170,000,000
Short-Term BANS/Commercial Paper Outstanding ⁽²⁾	<u>160,000,000</u>
Net Direct Debt	<u>\$3,481,790,000</u>
Legal Debt Margin	<u>\$7,775,637,051</u>
Net Direct Debt as a Percentage of Assessed Valuation	<u>1.92%</u>

(1) This amount has been reduced by \$414,200,000, the amount of the County's general obligation bonds and VRDOs refunded with the proceeds of the Series 2017 Fixed Rate Bonds. The amount of the County's Build America Bonds to be crossover refunded with the proceeds of the Series 2017 Fixed Rate Bonds (\$154,675,000), has not been deducted. See Note 5 to Table 7A.

(2) Net of amount retired with the proceeds of the 2017 Variable Rate Bonds and a portion of the proceeds of the 2017 Fixed Rate Bonds.

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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 in 2006 which were to mature on June 1, 2026. The proceeds of the 2017 GO Series B Refunding Bonds issued on October 31, 2017 were used to refinance all of the County's outstanding VRDOs.

On December 19, 2017, the County issued \$170,000 aggregate principal amount of Variable Rate, Tax-Exempt General Obligation Bonds Series E (VRDO). 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 2028. The new 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
2008 – 2017

<u>Fiscal Year</u>	<u>Net Direct Debt to Market Value</u>	<u>GO Bond Debt Service to General Fund Expenditures</u>	<u>Net Direct Debt Per Capita</u>	<u>Net Direct Debt Per Capita to Per Capita Income</u>	<u>GO Bond Payout Ratio</u>
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
2017	1.74	10.01	3,220	3.99	67.26

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, 2017. Also see Subsequent Events, Notes 1 & 3 on page 36.

Table 7
General Obligation Debt of the County
As of June 30, 2017

<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> ⁽¹⁾	<u>Maturity</u>	<u>Principal</u> <u>Outstanding</u> <u>June 30, 2017</u>
GO Refunding Bonds	06/01/05	\$ 120,355,000	5.00	3.7817	2011-21	\$ 12,585,000
GO VRDO ⁽²⁾	06/07/06	100,000,000	variable	variable	2017-26	90,000,000
GO Bonds	05/01/07	250,000,000	5.00	4.0821	2008-27	-
GO Bonds	07/15/08	250,000,000	3.00-5.00	4.1809	2009-28	36,100,000
GO Bonds ⁽³⁾	11/03/09	232,000,000	3.75-5.00	3.1774	2015-29	201,070,000
GO Bonds	11/03/09	161,755,000	2.00-5.00	2.6487	2011-20	82,445,000
GO Bonds	07/08/10	195,000,000	2.00-5.00	2.2596	2011-22	97,500,000
GO Bonds ⁽⁴⁾	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	144,000,000
GO Refunding Bonds	08/11/11	237,655,000	2.00-5.00	1.9896	2012-22	156,015,000
GO Bonds	10/24/12	295,000,000	2.50-5.00	2.2599	2013-32	236,000,000
GO Refunding Bonds	10/24/12	23,360,000	2.50-5.00	0.3812	2013-16	-
GO Bonds	11/26/13	295,000,000	3.00-5.00	3.1270	2014-33	250,750,000
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	450,000,000
GO Refunding Bonds	11/19/14	297,990,000	5.00	2.3437	2016-28	284,365,000
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	285,000,000
GO Bonds	12/13/2016	340,000,000	3.00-5.00	3.2816	2017-37	340,000,000
Total						<u>\$2,879,265,000</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, 2016 and June 30, 2017
And Including 2017 General Obligation Bonds

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Coupon Rates</u>	<u>TIC⁽¹⁾</u>	<u>Maturity</u>	<u>Outstanding June 30, 2016</u>	<u>Outstanding June 30, 2017⁽²⁾</u>
GO Refunding	06/01/05	\$ 120,355,000	5.00	3.7817	2011-21	\$ 27,465,000	\$ 12,585,000
GO VRDO ⁽³⁾	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	23,150,000
GO Bonds ⁽⁴⁾	11/03/09	232,000,000	3.75-5.00	3.1774	2015-29	216,535,000	201,070,000 ⁽⁵⁾
GO Refunding	11/03/09	161,755,000	2.00-5.00	2.6487	2011-20	100,515,000	82,445,000
GO Bonds	07/08/10	195,000,000	2.00-5.00	2.2596	2011-22	113,750,000	65,000,000
GO Bonds ⁽⁶⁾	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	160,000,000	48,000,000
GO Refunding	08/11/11	237,655,000	2.00-5.00	1.9896	2012-22	169,850,000	156,015,000
GO Bonds	10/24/12	295,000,000	2.50-5.00	2.2599	2013-32	250,750,000	132,750,000
GO Refunding	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	221,250,000
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	475,000,000	400,000,000
GO Refunding	11/19/14	297,990,000	5.00	2.3437	2016-28	297,990,000	284,365,000
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	285,000,000
GO Bonds	12/13/16	340,000,000	3.00-5.00	3.2816	2017-37	340,000,000	340,000,000
GO Bonds	11/15/17	170,000,000	5.00	1.7265	2018-27	-	170,000,000
GO Refunding	11/15/17	78,280,000	5.00	1.6316	2018-26	-	78,270,000
GO Refunding	11/15/17	294,625,000	3.00-5.00	2.0707	2019-31	-	294,625,000
GO Refunding	11/15/17	143,830,000	3.00-4.00	2.1002	2020-29	-	143,830,000
GO VRDO	12/19/17	170,000,000	variable	variable	2028-37	-	170,000,000
Total						<u>\$ 2,757,290,000</u>	<u>\$ 3,321,790,000</u>

(1) True Interest Cost

(2) Principal Outstanding as of June 30, 2017 is adjusted to include: (i) the Bonds issued and delivered by the County on November 15, 2017 (net of the amount of the Refunded Bonds) and (ii) the variable rate bonds issued and delivered by the County on December 19, 2017. The balance excluding the 2017 issuances is \$2,879,265,000.

(3) Variable Rate Demand Obligations

(4) Federally Taxable – Build America Bonds – Direct Pay (“BABs”)

(5) Includes the aggregate principal amount (\$154,675,000) of the Refunded BABs, which will be crossover refunded with the proceeds of the Series 2017D Bonds. See “Purpose of the Bonds” above. Prior to the Crossover Date (November 1, 2019) the Refunded BABs will remain outstanding and interest payments due thereon will continue to be paid from legally available funds.

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

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Table 8
Summary of General Obligation Bonds
Debt Service Requirements by Fiscal Year
As of June 30, 2017

Fiscal Year	Principal	Interest*	Total
2018	\$ 217,930,000	\$ 122,188,919	\$ 340,118,919
2019	212,230,000	111,542,134	323,772,134
2020	206,295,000	101,206,563	307,501,563
2021	199,640,000	91,300,647	290,940,647
2022	192,590,000	81,100,816	273,690,816
2023	185,120,000	73,322,144	258,442,144
2024	175,695,000	64,112,913	239,807,913
2025	167,825,000	55,893,350	223,718,350
2026	159,400,000	48,244,931	207,644,931
2027	159,445,000	41,005,425	200,450,425
2028	146,675,000	34,129,706	180,804,706
2029	146,700,000	27,775,775	174,475,775
2030	134,220,000	21,752,300	155,972,300
2031	118,750,000	16,415,000	135,165,000
2032	102,500,000	12,098,750	114,598,750
2033	86,500,000	8,541,250	95,041,250
2034	71,750,000	5,506,250	77,256,250
2035	57,000,000	2,987,500	59,987,500
2036	32,000,000	1,263,750	33,263,750
2037	17,000,000	340,000	17,340,000
Total	<u>\$ 2,789,265,000</u>	<u>\$ 920,728,122</u>	<u>\$ 3,709,993,122</u>

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Table 9
General Obligation Bonds Authorized - Unissued
As of June 30, 2017

<u>Purpose</u>	<u>Chapter</u>	<u>Act</u>	<u>Amount</u>	<u>Amount Unissued</u>
General County, Parks, and	24	2011	\$ 65,400,000	\$ 20,024,477
Consolidated Fire Tax District	19	2012	13,900,000	13,900,000
	26	2013	331,600,000	331,600,000
	31	2014	167,400,000	167,400,000
	49	2015	148,100,000	148,100,000
			<u>726,400,000</u>	<u>681,024,477</u>
Road & Storm Drainage	26	2013	86,800,000	28,465,707
	31	2014	49,300,000	49,300,000
	49	2015	113,600,000	113,600,000
			<u>249,700,000</u>	<u>191,365,707</u>
Public Schools and	26	2013	15,100,000	4,802,972
Community College	31	2014	162,000,000	162,000,000
	49	2015	267,200,000	267,200,000
			<u>444,300,000</u>	<u>434,002,972</u>
Mass Transit	31	2014	9,400,000	2,009,844
	49	2015	34,200,000	34,200,000
			<u>43,600,000</u>	<u>36,209,844</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>
Easements:				
Agricultural Easements	24	2011	2,000,000	2,000,000
Façade 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>\$ 1,555,760,000</u>	<u>\$ 1,409,496,000</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 five years, and planned for substitution over the five years beginning FY18, are displayed below.

Table 10
PAYGO Substitutions
(Actual FY13-17, Budgeted FY18-22)

<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, 2016 through June 30, 2017 are presented in Table 11.

Table 11
Bond Anticipation Notes Outstanding
As of June 30, 2017

<u>Issue</u>	<u>Balance</u> <u>July 1, 2016</u>	<u>BANs Retired</u>	<u>BANs Issued</u>	<u>Balance</u> <u>June 30, 2017</u>
BAN 2009-A	\$100,000,000	\$20,000,000	\$20,000,000	\$100,000,000
BAN 2009-B	100,000,000	20,000,000	20,000,000	100,000,000
BAN 2010-A	150,000,000	150,000,000	150,000,000	150,000,000
BAN 2010-B	<u>150,000,000</u>	<u>150,000,000</u>	<u>150,000,000</u>	<u>150,000,000</u>
Total	<u>\$500,000,000</u>	<u>\$340,000,000</u>	<u>\$340,000,000</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 March 2017, the County converted the Bethesda parking Lot District Series 2015 Bonds from a tax-exempt to a taxable obligation in the amount of \$8.541 million, which will allow the County more flexibility in the future operation of Garage 11 which was funded with the proceeds of the Bond. The amortization schedule for the Series 2015 Bond which matures in 2026, remains the same, except for conversion of the existing tax-exempt interest rate of 2.55% to a taxable rate of 3.57%. The increased debt service is approximately \$390,000 on a net present value basis over the remaining life of the loan.

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 stormwater 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, 2017.

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Table 12
Revenue Bond Debt of the County
As of June 30, 2017

<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, 2017</u>
Parking Revenue Bonds (Bethesda PLD)	05/16/12	\$ 24,190,000	3.00%-5.00%	2.8367%	2015-23	\$ 21,225,000
Parking Revenue Refunding Bonds (Bethesda PLD)	05/16/12	13,750,000	2.00%-5.00%	1.4928%	2013-17	6,785,000
Parking Revenue Bonds (Bethesda PLD)**	10/19/15	9,174,000	2.55%	3.5700%	2017-26	8,541,000
Liquor Control Revenue Bonds	05/12/09	46,765,000	3.00%-5.00%	4.1195%	2010-29	32,715,000
Liquor Control Revenue Bonds	04/28/11	34,360,000	2.00%-5.00%	4.2826%	2012-31	26,970,000
Liquor Control Revenue Bonds	07/30/13	46,645,000	3.125%-5.00%	3.9326%	2014-33	39,885,000
Water Quality Protection Revenue Bonds	07/18/12	37,835,000	0.25%-5.00%	3.3148%	2013-32	31,440,000
Water Quality Protection Revenue Bonds	04/06/16	46,500,000	2.25%-5.00%	4.1195%	2017-36	<u>44,750,000</u>
Total						<u>\$ 212,311,000</u>

* True Interest Cost.

** The original tax-exempt interest rate of 2.55% was converted to a taxable rate of 3.57% in March 2017.

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Table 13
Summary of Revenue Bond Debt Service Requirements by Fiscal Year
As of June 30, 2017

Fiscal Year	Principal	Interest	Total
2018	\$ 11,831,000	\$ 8,799,387	\$ 20,630,387
2019	12,321,000	8,318,622	20,639,622
2020	12,836,000	7,786,028	20,622,028
2021	13,410,000	7,214,127	20,624,127
2022	12,500,000	6,585,118	19,085,118
2023	13,016,000	6,056,938	19,072,938
2024	13,555,000	5,507,436	19,062,436
2025	14,113,000	4,944,987	19,057,987
2026	14,654,000	4,381,801	19,035,801
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	1,952,162	14,127,162
2031	12,680,000	1,450,692	14,130,692
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	\$ 212,311,000	\$ 74,569,666	\$ 286,880,666

Table 14
Revenue Bonds Authorized – Unissued
As of June 30, 2017

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

Capital Lease Obligations

Montgomery 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. MCRA issues bonds on the County's behalf and loan the proceeds to the County. This results in lease payments from the County to MCRA, which in turn pays the debt service on the bonds. The principal amounts owed by the County as of June 30, 2017 are listed below.

<u>Purpose</u>	<u>Issuer</u>	<u>Principal Outstanding June 30, 2017</u>
Montgomery County Conference Center	Montgomery County Revenue Authority	\$ 5,460,000
Aquatic Centers	Montgomery County Revenue Authority	<u>2,994,830</u>
	Total	<u>\$ 8,454,830</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 which matured in seven years and was fully paid off in FY17.

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 \$78.6 million as of June 30, 2017.

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.

In July 2016, the County was authorized and entered into a loan agreement with Montgomery College Foundation to issue its Certificates of Participation (Montgomery College Improvements), \$23,050,000 Series 2016A and \$1,810,000 Series 2016B to finance part of the costs of the acquisition, design, construction and equipping of certain facilities of Montgomery College, which such facilities is owned by Montgomery College Foundation and College. The proceeds of the Certificates of Participation were also used to pay off costs incurred by the College in connection with College's termination of certain lease agreements and the costs of issuing COPS (Montgomery College Improvements). The debt service is to be paid from pledged lease payments and fees pursuant to a lease agreement between the Foundation and College dated as of July 1, 2016. In FY17, the pledged lease payments from the Montgomery College Foundation equals the scheduled debt service on the Certificates of Participation schedule.

Table 15 discloses principal and interest debt service requirement for the outstanding equipment and College COPs balance of \$28.5 million as of June 30, 2017.

Other Leases and Notes Payable

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, 2017 was \$311,000, 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. During 2017, the County entered into an agreement to transfer the property to a developer that would have required the original Promissory Note to be paid in full pursuant to the original Purchase and Sale Contract. However, the County amended and restated the Promissory Note with WSSC, which revised the repayment terms commencing in FY19, and ending in FY28. The interest rate of 4.43% and other terms remain unchanged. Table 15 includes debt service requirements on outstanding balance of \$9.8 million as of June 30, 2017.

From 2013 through June 2017, the County has entered into a series of lease agreements to finance energy efficiency projects. These leases were a part of a six year program that improves energy efficiency of County facilities. Leases range from \$1.9 million to \$4.2 million and interest rates range from 2.103%p.a. to 5.17%p.a. Leases maturities range from 13 to 20 years. The balance outstanding as of June 30, 2017 was \$15.3 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 equipment notes and master leases with an outstanding balance of \$62.1 million as of June 30, 2017 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 \$37.9 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 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, 2017

Capital Lease Obligations

Fiscal Year	Principal	Interest	Total
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	\$ 8,454,830	\$ 535,292	\$ 8,990,122

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Certificates of Participation

Fiscal Year	Principal	Interest	Total
2018	\$ 4,000,000	\$ 785,214	\$ 4,785,214
2019	360,000	708,739	1,068,739
2020	715,000	695,904	1,410,904
2021	745,000	672,631	1,417,631
2022	760,000	647,499	1,407,499
2023	1,255,000	603,229	1,858,229
2024	1,320,000	538,854	1,858,854
2025	1,390,000	471,104	1,861,104
2026	1,445,000	414,679	1,859,679
2027	1,490,000	370,654	1,860,654
2028	1,525,000	333,054	1,858,054
2029	1,555,000	302,254	1,857,254
2030	1,590,000	269,810	1,859,810
2031	1,625,000	234,635	1,859,635
2032	1,660,000	196,849	1,856,849
2033	1,700,000	156,944	1,856,944
2034	1,745,000	114,731	1,859,731
2035	1,790,000	70,544	1,860,544
2036	1,835,000	24,084	1,859,084
Total	\$ 28,505,000	\$ 7,611,412	\$ 36,116,412

Taxable Limited Obligation Certificates

Fiscal Year	Principal	Interest	Total
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	\$ 78,660,000	\$ 32,124,314	\$ 110,784,314

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

Fiscal Year	Principal	Interest	Total
2018	\$ 238,314	\$ 978,615	\$ 1,216,929
2019	1,544,646	963,719	2,508,365
2020	1,426,350	904,592	2,330,942
2021	1,493,776	846,983	2,340,758
2022	1,564,001	786,735	2,350,736
2023	1,652,402	723,685	2,376,087
2024	1,784,501	656,597	2,441,098
2025	1,808,160	586,497	2,394,657
2026	1,893,270	514,942	2,408,213
2027	1,981,873	440,098	2,421,971
2028	2,074,109	361,828	2,435,936
2029	931,265	279,991	1,211,256
2030	962,698	248,656	1,211,354
2031	1,008,334	213,173	1,221,506
2032	1,055,384	173,974	1,229,357
2033	1,116,335	132,953	1,249,288
2034	1,180,776	85,633	1,266,409
2035	912,846	48,282	961,128
2036	769,295	17,553	786,848
Total	\$ 25,398,334	\$ 8,964,506	\$ 34,362,840

**Equipment Notes &
Master Leases**

Fiscal Year	Principal	Interest	Total
2018	\$ 13,339,102	\$ 1,074,747	\$ 14,413,849
2019	12,548,372	816,227	13,364,599
2020	11,569,433	593,022	12,162,455
2021	10,241,462	387,936	10,629,398
2022	6,631,702	216,550	6,848,253
2023	5,237,407	111,933	5,349,340
2024	2,574,013	22,270	2,596,283
Total	\$ 62,141,492	\$ 3,222,685	\$ 65,364,177

Lease Revenue Bonds

Fiscal Year	Principal	Interest	Total
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	578,362	3,513,362
2023	3,085,000	431,612	3,516,612
2024	2,985,000	277,362	3,262,362
2025	440,000	128,112	568,112
2026	450,000	113,812	563,812
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	\$ 22,785,000	\$ 5,478,775	\$ 28,263,775

Events Subsequent to June 30, 2017

1. On October 31, 2017, the County issued General Obligation Bonds (Tax-Exempt) Series A in the amount of \$170,000,000, and issued three series of General Obligation Refunding Bonds comprising Tax-Exempt Series B, Series C and Series D in the amounts of \$78,270,000, \$294,625,000 and \$143,830,000, respectively. The proceeds of the Series B Refunding Bonds were used to refinance all of the County's outstanding VRDOs.
2. As part of the \$100 million energy efficiency improvement program, the County issued a fourth draw under the Banc of America Public Capital Corp, Master Equipment Lease/Purchase Agreement of approximately \$4.3 million on December 13, 2017. The proceeds will fund energy performance savings projects at various County buildings for which the repayment of debt is guaranteed through energy savings.
3. On December 19, 2017, the County issued \$170,000,000 aggregate principal amount of Variable Rate, Tax-Exempt, General Obligation Bonds Series E. The proceeds of this bond issuance will pay off an equivalent amount of the County's BANs which funded capital expenditures for education, transportation, and other County facilities.

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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 Executive. 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 prior "Capital Lease Obligations" section and "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 26, 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, 2017 was \$10.7 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, 2017 was \$0.92 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 \$23.5 million for FY17. 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 FY17:

Payee	Location	Use	Total Rent For FY17
Eldridge, Inc.	255 Rockville Pike, Rockville	Various Agencies	\$6,647,549
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	\$1,524,496
Montgomery County Revenue Authority	5701 Marinelli Drive, Rockville	Conference Center	\$988,534
FDR Srour Partnership	14935 Southlawn Lane, Rockville	Public Safety	\$1,963,491
FP Gude LLC	7300 Calhoun Drive, Derwood	Juvenile Assessment Center	\$1,586,401
BSRep II MD Office Jefferson LLC	600 East Jefferson St., Rockville	Family Justice Center	\$1,093,593
BSRep II MD Office Monroe LLC	51 Monroe Street, Rockville	Various Agencies	\$528,212
Felland Limited Partnership	4901-43 Nicholson Ct., Kensington	DOT/Transit Services	\$932,389
Seneca Center II, LLC	18753 N. Frederick Ave., Gaithersburg	Board of Elections	\$1,156,680
Fanaroff & Steppa c/o HBW Group	981 Rollins Avenue, Rockville	HHS-OAS Clinic	\$812,988
Investment Properties, Inc.	701-C Dover Road, Rockville	Fire & Rescue Warehouse	\$650,876
The Gudelsky Company	8630 Fenton Street, Silver Spring	Health Center	\$560,246
Investment Properties, Inc.	11 North Washington St., 4F, Rockville	HHS Community Support Network	\$57,445
ARE 25/35/45 W. Watkins Corp.	45 West Watkins Mill Rd, Gaithersburg	Public Safety	\$485,134
Betty B. Casey Trust	8516-40 Anniversary Circle, Rockville	Records Center/Warehouse	\$346,104
Halcyon Associates	8434 Helgerman Court, Gaithersburg	Public Safety	\$42,237
Green Squad LLC	11435 Grandview Ave., Silver Spring	Urban Crew	\$240,260
Gov.Properties Income Trust	1401 Rockville Pike, Rockville	Various Agencies	\$35,435
Pri 19647 Fisher Ave. LLC	19627 Fisher Ave., Poolesville	Library	\$216,080
Gov.Properties Income Trust	22610 Gateway Ctr. Dr. Ste 300, Clarksburg	Dept. Fire Rescue Service	\$200,207
Halcyon Associates	7-1 Metropolitan Ct., Gaithersburg	Health & Human Services	\$201,117
Daniel, Daniel & Daniel LP	2-4 Metropolitan Ct., Gaithersburg	Libraries Materials Management Warehouse	\$174,621
Urban Edge Properties	199 E. Montgomery Ave., Rockville	Sheriff's Dept.	\$263,616
Cornerstone Montgomery Inc.	2 Taft Court, Rockville	Health & Human Services Women's Shelter	\$91,800
The Jeri Irrevocable Trust	5320 Marinelli Road, Rockville	Health & Human Services Men & Women's Shelter	\$224,311

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 FY16 and for more times than any other county in the nation. Since 1951, the County received the award 47 times and in 45 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 FY17 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, 2017).

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.

CountyStat

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 FY18 Capital Budget and the Amended 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 25, 2017 the County Council approved the FY18 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating \$5.450 billion. This budgetary level represents an increase of 2.8 percent over the adopted budget for FY17.

The FY18 operating budget provides the greatest share (49.6 percent) of total tax supported resources to Montgomery County Public Schools (MCPS). Funding for MCPS accommodates enrollment growth. 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 FY18 budget provided for an unassigned surplus of \$149.2 million in the General Fund and \$159.6 million across all tax supported funds. For FY18, the estimated weighted real property tax rate for the County is \$1.001 per \$100 of assessed value.

Capital Budget/Capital Improvements Program

The County Council approved the FY18 Capital Budget and FY17-22 Amended Capital Improvements Program (CIP) for the County government and the required agencies, except for WSSC, aggregating \$4.937 billion for the Amended FY17-22. The Amended FY17-22 program provided for County bond funding aggregating \$1.870 billion over the FY17-22 six-year period. The Council approved a Capital Improvements Program for WSSC totaling \$1.519 billion for FY18-23. (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 FY17 for the General Fund totaled \$3,324.0 million and were 0.4 percent below the budget estimate for the fiscal year but 7.5 percent above actual tax revenues for FY16. The two largest contributors to the variance in dollars between the budget estimate and actual revenues were the income tax which was \$21.0 million below the budget estimate and the fuel and energy tax which was \$11.5 million below the budget estimate. Revenues from the property tax amounted to \$1,266.9 million, which was down \$5.0 million, or 0.4 percent below the budget estimate but 12.5 percent above actual tax revenues from FY16. Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and other taxes were \$268.9 million in FY17. That amount was \$9.4 million, or 4.3 percent below the budget estimate, and that decrease was driven solely by the fuel/energy tax, a decrease of \$11.5 million or 5.7% below the budget estimate. However, the remaining excise taxes were \$2.1 million or 2.8 percent above the budget estimate. Investment income was \$0.6 million below the budget estimate. Licenses and permits came in below the budget estimate by 5.8 percent, while charges for services also came in 9.4 percent above the budget estimate. Intergovernmental revenues were \$1.8 million or 2.4 percent below the budget estimate. This decrease was solely attributed to federal reimbursements, which came in 10.0 percent below the budget estimate.

Major Sources of General Fund Revenue

Three of the largest revenue sources for the General Fund in FY17 were income taxes, property tax collections, and fuel and energy taxes. Revenues from the income tax were \$1,466.6 million and represented 46.1 percent of actual tax revenues in FY17 and 44.1 percent of total actual revenues. Property taxes amounted to \$1,266.9 million in FY17, which were \$5.0 million or 0.4 percent below the budget estimate but 12.5 percent above actual revenues in FY16. The tax receipts from the County's from the fuel and energy taxes were \$192.5 million in FY17, which were 5.7 percent below the budget estimate and 0.4 percent below FY16. The remaining tax sources – consisting of transfer and recordation taxes, telephone, hotel/motel, and other taxes – totaled \$254.8 million in FY17 and were \$14.7 million or 8.6 percent above the budget estimate and 8.5 percent above actual revenues in FY16.

General Fund Expenditures and Transfers

Expenditure savings in FY17 amounted to \$12.7 million. Savings occurred in both departmental expenditures (\$9.70 million) and non-departmental expenditures (\$3.0 million). Even though some departmental and non-departmental units recognized savings this year, the majority of the savings occurred in lower than projected operating costs for Police (\$5.7 million), Health and Human Services (\$4.4 million), Libraries (\$2.0 million), and Technology Services (\$1.6 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 ⁽¹⁾				Fiscal Year Budget 2018
	2014	2015	2016	2017	
Revenues:					
Taxes:					
Property, including interest & penalty	\$ 1,108,735,671	\$1,088,396,848	\$ 1,126,665,990	\$ 1,266,911,527	\$ 1,279,589,952
Transfer tax and recordation tax	144,458,634	147,599,257	161,708,395	178,375,819	170,436,616
County income tax	1,376,763,653	1,310,821,061	1,422,428,435	1,466,625,994	1,557,887,240
Other taxes	284,844,756	278,098,839	266,344,615	268,924,060	282,476,609
Total Taxes	2,914,802,714	2,824,916,005	2,977,147,435	3,180,837,400	3,290,390,417
Licenses and permits	10,585,333	10,315,894	11,144,883	11,236,330	12,337,445
Intergovernmental revenue	65,386,079	60,699,770	59,554,943	72,747,353	62,413,549
Charges for services	8,911,416	9,230,851	9,267,988	10,511,727	9,444,770
Fines and forfeitures	23,993,497	27,538,162	27,327,136	26,826,771	28,272,150
Investment income	5,572	105,948	352,107	(422,058)	1,266,790
Miscellaneous	14,406,470	13,556,323	11,159,904	22,300,236	10,476,458
Total Revenues	3,038,091,081	2,946,362,953	3,095,954,396	3,324,037,759	3,414,601,579
Expenditures (including encumbrances):					
General County:					
General government	403,689,920	406,534,123	399,833,772	428,250,205	513,932,080
Public safety	386,799,315	404,811,041	403,313,408	383,963,881	369,239,245
Transportation and public works	82,090,135	77,680,747	90,201,866	68,651,535	49,809,920
Health and human services	216,191,464	229,901,709	223,483,341	242,760,757	234,084,840
Culture and recreation	38,749,757	42,353,242	45,438,915	46,333,884	42,437,576
Housing and community development	4,699,773	5,096,032	5,472,449	6,013,514	8,527,813
Environment	2,247,029	1,861,807	2,519,854	3,039,831	2,907,343
Total Expenditures	1,134,467,393	1,168,238,701	1,170,263,605	1,179,013,607	1,220,938,817
Transfers In (Out) : Transfers In:					
Special Revenue Funds	26,552,919	24,313,710	25,866,675	29,908,286	32,331,127
Enterprise Funds	28,253,518	36,253,942	34,647,926	22,549,886	33,042,576
Internal Service Funds	8,682,636	10,745,911	-	4,312	-
Component Units	-	-	-	-	-
Total Operating Transfers In (Out)	63,489,073	71,313,563	60,514,601	52,462,484	65,373,703
Transfers Out:					
Special Revenue Funds	(49,557,407)	(45,240,340)	(52,762,042)	(56,557,624)	(57,020,796)
Debt Service Fund	(256,222,429)	(281,282,150)	(273,627,904)	(309,582,508)	(320,009,040)
Capital Projects Fund	(42,493,960)	(54,521,679)	(45,791,407)	(55,254,099)	(40,732,000)
Enterprise Funds	(2,608,209)	(1,708,890)	(1,617,930)	(1,811,280)	(2,166,800)
Internal Service Funds	(1,143,657)	(576,813)	(39,184)	(95,623)	-
Component Units	(1,576,615,732)	(1,623,531,989)	(1,681,143,451)	(1,801,551,186)	(1,843,463,410)
Total Transfers Out	(1,928,641,394)	(2,006,861,861)	(2,054,981,918)	(2,224,852,320)	(2,263,392,046)
Net Transfers In (Out)	(1,865,152,321)	(1,935,548,298)	(1,994,467,317)	(2,172,389,836)	(2,198,018,343)
Excess of revenues and operating transfers in over/ (under) expenditures, encumbrances and operating transfers out	38,471,367	(157,424,046)	(68,776,526)	(27,365,684)	(4,355,581)
Fund Balances, July 1 as previously stated	289,598,811	352,940,120	228,809,810	186,608,478	186,277,802
Adjustment for previous year encumbrances ⁽²⁾	24,869,942	33,293,736	26,575,194	27,035,008	-
Fund Balances, July 1 restated	314,468,753	386,233,856	255,385,004	213,643,486	186,277,802
Equity transfers in (out)	-	-	-	-	-
Budgetary Fund Balance, June 30	\$ 352,940,120	\$ 228,809,810	\$ 186,608,478	\$ 186,277,802	\$ 181,922,221

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

(1) Amounts for FY14-17 are audited.

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

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

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above ⁽²⁾	\$ 352,940,120	\$ 228,809,810	\$	\$ 186,277,802
Encumbrances outstanding	33,293,736	26,575,194	27,035,009	29,916,962
Unrealized investment gain (loss) ⁽¹⁾	(326,213)	(300,987)	(307,954)	(492,928)
Cumulative Marriot Conference Center	5,578,374	6,451,379	7,447,589	7,602,509
Net differences between beginning fund balances	<u>271,653</u>	<u>(449,973)</u>	<u>285,124</u>	<u>1,249,943</u>
GAAP Fund Balance as Reported	<u>\$ 391,757,670</u>	<u>\$ 261,085,423</u>	<u>\$ 221,068,246</u>	<u>\$ 221,554,288</u>
Elements of GAAP Fund Balance:				
Nonspendable	\$ 6	\$	\$	\$
Restricted	14,500	585,905	2,045,735	7,027,743
Committed	68,078,344	70,586,279	71,684,134	60,445,573
Assigned	33,293,736	26,575,194	27,035,009	26,916,962
Unassigned	<u>284,211,537</u>	<u>156,538,119</u>	<u>113,028,313</u>	<u>118,366,481</u>
Total Fund Balance	<u>\$ 391,757,670</u>	<u>\$ 261,085,423</u>	<u>\$ 221,068,246</u>	<u>\$ 221,554,288</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). This amount is reported as restricted fund balance in the General Fund. 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 FY17, the required mandatory contribution for the fiscal year was \$24.7 million; accordingly, the required amount was transferred to the RSF. As of June 30, 2017, the ending fund balance in the Revenue Stabilization Fund was \$280.7 million.

Table 18
Revenue Stabilization Fund
Transfers In and Fund Balance

<u>Fiscal Year</u>	<u>Transfers (millions)</u>	<u>Fund Balance (millions)</u>
2017	\$24.7	\$280.7
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

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 2013 – 2017 are shown in the table below.

Table 19
Enterprise Funds Paying Debt Service
Results of Operations

<u>Funds</u>	<u>Fiscal Year</u>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Liquor Control</u>					
Operating Revenues	\$ 258,876,654	\$ 268,655,339	\$ 278,622,540	\$ 294,574,193	\$ 298,309,248
Operating Expenses	<u>224,306,626</u>	<u>237,434,727</u>	<u>247,294,596</u>	<u>263,388,201</u>	<u>272,453,206</u>
Operating Income	<u>\$ 34,570,028</u>	<u>\$ 31,220,612</u>	<u>\$ 31,327,944</u>	<u>\$ 31,185,992</u>	<u>\$ 25,856,042</u>
<u>Solid Waste Activities</u>					
Operating Revenues	\$ 108,248,910	\$ 109,211,815	\$ 111,530,484	\$ 109,412,973	\$ 112,729,865
Operating Expenses	<u>105,868,485</u>	<u>129,648,505</u>	<u>109,371,699</u>	<u>106,039,726</u>	<u>92,180,468</u>
Operating Income (Loss)	<u>\$ 2,380,425</u>	<u>\$ (20,436,690)</u>	<u>\$ 2,158,785</u>	<u>\$ 3,373,247</u>	<u>\$ 20,549,397</u>
<u>Parking Lot Districts</u>					
Operating Revenues	\$ 31,054,372	\$ 30,896,632	\$ 33,903,942	\$ 31,941,706	\$ 35,334,149
Operating Expenses	<u>28,750,317</u>	<u>28,774,524</u>	<u>35,753,524</u>	<u>32,335,299</u>	<u>32,939,624</u>
Operating Income (Loss)	<u>\$ 2,304,055</u>	<u>\$ 2,122,108</u>	<u>\$ (1,849,582)</u>	<u>\$ (393,593)</u>	<u>\$ 2,394,525</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, 2018. 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 FY17 operations of the program is outlined below:

	(\$000's)
<u>Revenues:</u>	
Contributions from participating agencies	\$ 62,016
Interest on investments	1,023
Recovered losses	411
Other income	574
Total Revenues	<u>64,024</u>
<u>Expenses:</u>	
Claims expense	55,160
Claims administration, loss control, external insurance, and other administrative expenses	<u>15,504</u>
Total Expenses	<u>70,664</u>
Net Gain / (Loss)	(6,640)
Net Position, July 1, 2016	<u>12,672</u>
Net Position, June 30, 2017	<u>\$ 6,032</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 FY17 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 covered 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 eligible 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, 2017, 5,738 active members, 6,516 retirees and beneficiaries receiving benefits and 480 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, 2017, the balance of amounts held by the System pursuant to DROP was \$22.85 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, 2017, 3,577 active members and 1,007 inactive plan members were participating in the RSP with a net position of \$394.16 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, 2017, the DCP had a net position of \$390.41 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 6% 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 8.3 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, 2017, the aggregate market value of net assets of the System was \$3,933.50 million and the aggregate actuarial value of net assets of the System was \$3,968.50 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, 2017 was \$95.4 million and was based on the actuarial valuation as of June 30, 2017. 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, 2017 and the projected funded status for the System for the five year period ending June 30, 2017.

Table 20
Historical Funded Status

Valuation Date (June 30)	Net Market Value of Assets	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	
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	
2017	3,933,505,411	3,968,497,692	4,202,633,142	234,135,450	94.4	

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, 2017:

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
2017	12.16%	7.58%	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

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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, 2017, the most recent actuarial valuation, plan membership consisted of 18,148 members, consisting of 8,049 retirees and beneficiaries receiving benefits and 10,099 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 FY17, plan members and beneficiaries receiving benefits contributed \$24.66 million and the County and other participating employers contributed \$122.47 million.

The Governmental Accounting Standards Board (GASB) issued Statement No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pensions Plans* (GASB 74), which addresses how Other Postemployment Benefits (OPEB) plans should account for their financial reporting. The County implemented GASB 74 as required in FY17.

The County has retained the actuary Aon Hewitt to conduct actuarial valuations for the plan. As of June 30, 2017, the plan had an actuarial accrued liability, based on the entry age normal actuarial cost method, of \$1,961.1 million and plan assets of \$438.9 million. The unfunded actuarial accrued liability of the plan was \$1,522.2 million as of June 30, 2017.

The County will be implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as required by GASB in FY18.

The following information is presented based on the current prevailing Standards relating to the financial reporting by employers as required by GASB.

The 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 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 \$1,380.89 million and plan assets of \$334.89 million on an actuarial basis. The unfunded actuarial accrued liability of the plan was \$1,046.01 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 2017, the annual OPEB cost was \$120.39 million and the County made total contributions of \$128.81 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 for funding. 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 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 assessments increased 4.0 percent and personal property taxable assessment increased 6.3 percent. In FY17, real property taxable assessments increased 4.3 percent and personal property taxable assessments increased 4.3 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 Two.

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>
2017	\$177,495,353,017	\$4,051,372,468	\$181,546,725,485	4.30%	93.73%
2016	170,176,446,052	3,884,349,017	174,060,795,069	4.03	96.67*
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

* Revised by SDAT

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>
2017	\$1,313,146,277	\$1,295,425,337	98.65%	(\$28,250,117)	\$1,267,175,220	96.50%	\$10,832,703	0.82%
2016	1,172,889,804	1,148,375,647	97.91	(22,380,048)	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

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>
2017	\$0.773	\$1,111,560,661	\$0.052	\$87,864,138	\$0.112	\$199,012,237	\$0.937	\$1,398,437,036
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 \$1.9335 in FY17, \$1.8075 in FY16, \$1.8300 in FY15, \$1.898 in FY14, \$1.810 in FY13, and \$1.783 in FY2012.; the personal property rate for Transit was \$0.13 in FY17, \$0.15 in FY16, \$0.1 in FY15, \$0.105 in FY14, \$0.120 in FY13, and \$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, 2017

<u>Taxpayer</u>	<u>Total</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Ratio: Taxpayer Base to Total Assessable Base</u>
Potomac Electric Power Co	\$914,226,121	\$15,487,201	\$898,738,920	0.50%
Federal Realty Investment Trust	490,232,481	486,372,601	3,859,880	0.27
WMATA	390,620,933	390,620,933	-	0.22
Verizon - Maryland	339,716,240	-	339,716,240	0.19
Montgomery Mall LLC	338,261,500	338,261,500	-	0.19
Street Retail Inc.	334,461,733	334,461,733	-	0.18
Chevy Chase Land Co	323,940,900	323,940,900	-	0.18
W P Project Developer LLC.	294,665,550	294,665,550	-	0.16
Washington Gas Light Co.	283,348,210	-	283,348,210	0.16
Wheaton Plaza Reg Shopping Ctr	<u>282,862,634</u>	<u>281,606,504</u>	<u>1,256,130</u>	<u>0.16</u>
Total	<u>\$3,992,336,302</u>	<u>\$2,465,416,922</u>	<u>\$1,526,919,380</u>	2.21%
Assessable Base (June 30, 2017)	<u>\$181,546,725,485</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 (1) modified the method of calculating the transportation and public school impact tax; (2) created new transportation tax districts associated with the policy area categories; (3) adjusted the transportation impact tax for residential use based on Non-Auto Driver Model Share associated with each tax district; (4) adjusted the transportation impact tax for non-residential use based on Vehicle Miles of Travel associated with each tax district; (5) exempted certain student-built houses from the impact tax; (6) eliminated the transportation mitigation payments for certain projects; eliminate the school facilities payments for certain projects; (7) exempted certain farm tenant dwelling units from the impact tax for certain transportation improvements; and (8) generally amended 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>
2017	\$14,393,086	\$39,286,910
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

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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 from 2012.

Table 26
Households and Population

	<u>Households</u>	<u>Population</u>	<u>Population Percent Change from Prior Census</u>
2017 (est.)	375,960	1,050,370	8.1%
2016	373,346	1,049,477	7.4
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 2016 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 2017 derived by the Montgomery County Department of Finance from using average annual rate from 2015 to 2045 from MWCOG.

Table 27
Median Age

	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2016</u>
Median Age	28.1	27.9	32.1	33.9	36.8	38.5	39.0

Sources: For 2010 and 2016 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 80.6 percent of the total workforce in 2016, the latest available annual data. The following tables present the County's employment by industrial sector.

Table 28
Payroll Employment

	<u>2010</u>	<u>2015</u>	<u>2016</u>
Total Private Sector	358,172	369,541	373,686
Public Sector Employment:			
Federal	45,072	47,321	48,068
State	1,199	1,249	1,217
Local	<u>37,140</u>	<u>40,774</u>	<u>40,478</u>
Total Public Sector	<u>83,411</u>	<u>89,344</u>	<u>89,763</u>
Grand Total	<u>441,583</u>	<u>458,885</u>	<u>463,449</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>2015</u>	<u>2016</u>
Total Private Sector	80.5%	80.6%
Public Sector Employment:		
Federal	10.3	10.4
State	0.3	0.3
Local	<u>8.9</u>	<u>8.7</u>
Total Public Sector	<u>19.5</u>	<u>19.4</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 2015 and 2016 based on the classification system which shows that the County had an overall percentage gain in employment in 2016.

Table 30
Payroll Employment
(NAICS Series)*

	<u>2015</u>	<u>2016</u>	<u>Difference</u>	<u>Percent Change</u>
Total Private Sector	369,541	373,686	4,145	1.1%
Goods-Producing	35,559	35,588	29	0.1%
Natural Resources and Mining	308	310	2	0.6%
Construction	23,585	23,332	(253)	-1.1%
Manufacturing	11,666	11,946	280	2.5%
Service-Providing	333,982	338,098	4,116	1.2%
Trade, Transportation, and Utilities	57,695	56,846	(849)	-1.5%
Information	12,354	11,780	(574)	-4.6%
Financial Activities	30,607	29,790	(817)	-
Professional and Business Services	99,022	102,397	3,375	3.4%
Education and Health Services	69,925	71,561	1,636	2.3%
Leisure and Hospitality	41,827	43,203	1,376	3.3%
Other Services	22,552	22,521	(31)	-0.1%
Public Sector Employment	89,344	89,763	419	0.5%
Federal Government	47,321	48,068	747	1.6%
State Government	1,249	1,217	(32)	-2.6%
Local Government	40,774	40,478	(296)	-0.7%
Grand Total	458,885	463,449	4,564	1.0%

* North American Industrial Classification System

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During calendar year 2016 the County's unemployment rate averaged 3.3 percent. Table 31 presents the County's labor force, employment and unemployment for the calendar years 2008 through 2017.

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

	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
2017*	554,029	536,300	17,729	3.2%
2016	551,392	533,201	18,191	3.3%
2015	548,499	527,034	21,415	3.9%
2014	544,210	520,288	23,922	4.4%
2013	542,690	515,689	27,001	5.0%
2012	540,427	512,438	27,989	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%

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

* Estimated by the Montgomery County Department of Finance.

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 2016.

Department of Health and Human Services (HHS)	31,435
National Institutes of Health	
Food and Drug Administration	
Department of Defense	14,000
Walter Reed National Military Center	
Carderock Naval Surface Warfare Center	
Department of Commerce	5,755
National Oceanic & Atmospheric Administration	
National Institute of Standards & Technology	
Nuclear Regulatory Commission	2,340
Department of Energy	1,035

Source: Maryland Department of Commerce 2016 data

Private Sector Employment

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

<u>Name of Firm</u>	<u>Est. No. of Employees</u>
Marriott International, Inc.	5,800
Adventist Hospital	4,290
Kaiser Foundation Health Plan	2,640
MedImmune/Astra Zeneca	2,320
Government Employee Insurance Company (GEICO)	2,270
Holy Cross Hospital	2,000
Verizon	2,000
Westat, Inc.	2,000
Suburban Hospital	1,815
Henry M. Jackson Foundation	1,780
Lockheed Martin	1,610

Source: Maryland Department of Commerce 2016 data

Personal Income

Actual personal income of County residents exceeded \$84.5 billion in calendar year 2016 which is an increase over the 2015 amount of \$80.8 billion. The County's total personal income experienced an increase of 4.6 percent in 2016, greater than the nation's increase of 2.3 percent, and greater than the State's rate of 3.6 percent. The County's total personal income increase of 4.6 percent is greater than the ten-year (2006-2015) annual average growth rate of 2.6 percent.

The County accounts for 24.2 percent of the State's personal income in 2016, 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>
2016	\$84,518	\$349,267	\$15,912,777	24.2 %
2015	80,786	337,212	15,547,661	24.0
2014	75,745	322,609	14,811,388	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

Notes: Data from U.S. Department of Commerce, Bureau of Economic Analysis, revised November 2017 (County, State, and U.S.).

Average Household and Per Capita Personal Income

According to the Bureau of Economic Analysis, U.S. Department of Commerce, the County's total personal income exceeded \$84.5 billion in calendar year 2016, up from a revised \$80.8 billion in 2015, while per capita income reached \$80,967 in 2016, up from a revised \$77,961 in 2015. Average household income increased from a revised \$217,484 in 2015 to \$226,381 in 2016.

Table 33
Per Capita and Average Household Income, 2016

<u>County</u>	<u>Per Capita Income</u>	<u>County</u>	<u>Average Household Income</u>
Marin, CA	\$115,952	San Mateo, CA	\$306,914
Fairfield, CT	106,666	Fairfield, CT	300,346
San Mateo, CA	105,721	Marin, CA	284,229
Westchester, NY	94,140	Santa Clara, CA	268,485
Somerset, NJ	90,268	Westchester, NY	268,087
Morris, NJ	89,065	Somerset, NJ	259,339
Santa Clara, CA	88,920	Morris, NJ	245,181
Arlington, VA	87,986	Nassau, NY	244,985
Collier FL	84,101	Montgomery, MD	226,381
Norfolk, MA	81,948	Fairfax, VA	226,268
Montgomery, MD	80,967	Collier, FL	220,096
Nassau, NY	79,314	Loudon, VA	220,038
Bergen, NJ	77,187	Norfolk, MA	219,227
Fairfax, VA	75,978	Bergen, NJ	214,961
Middlesex, MA	75,869	Lake, IL	209,875
Chester, PA	75,281	Chester, PA	207,644
Lake, IL	72,956	Contra Costa, CA	205,507
Montgomery, PA	72,780	Middlesex, MA	203,248
Howard, MD	71,869	Howard, MD	202,583
Loudon, VA	70,840	Arlington, VA	195,606

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 and the number of households of at least 100,000 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 2017, 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, 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, New Farmer Project, Farm Logo Program, and many more.

Major capital assets acquired during the current fiscal year included approximately \$889,000 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 \$338,000 is earmarked for pending FY18 easement settlements in association with the County and State Agricultural Easement Programs.

New Construction

Between FY16 and FY17, the number of new construction projects decreased 8.1 percent. At the same time, the value of new construction added to the real property tax base increased 1.4 percent to \$1.640 billion. Over the prior nine-year period (from FY08 to FY16), the number of projects, both residential and non-residential increased from 952 to 1,797. During that same period, the value of new construction averaged \$1.282 billion between FY08 and FY16 and ranging from a high of \$1.618 billion in FY16 to a low of \$0.586 billion in FY12. The decline in the construction of residential properties beginning in FY08 and ending in FY12 reached its lowest level in five 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 27.7 percent between the peak in 2008 and 2012, but since 2012, new residential construction increased at an average annual rate of 25.6 percent.

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

<u>Fiscal Year</u>	<u>Construction Starts</u>	<u>Residential</u>	<u>Apartments</u>	<u>Condominiums</u>	<u>Commercial/Industrial</u>	<u>All Other</u>	<u>Total</u>
2017	1,651	\$820.4	\$101.7	\$130.9	\$578.8	\$7.9	\$1,639.8
2016*	1,797	755.2	118.6	130.1	595.2	18.5	1,617.5
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
10-Year Summary		\$6,413.2	\$527.5	\$1,543.1	\$4,349.1	\$345.1	\$13,178.4
Categories as Percent of Total		48.7%	4.0%	11.7%	33.0%	2.6%	100.0%

* 2016 data was revised based on MacGraw-Hill Construction revision.

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

Development Districts

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

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

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

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Economic Development Initiatives

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

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 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. The award-winning Pike & Rose project has delivered almost 900 new residential units, a new hotel, and over 500,000 square feet of commercial space, with a new office building under review. The County has completed a new 650 space garage, the first phase of a road project, and new separated bike lanes on two existing streets in White Flint to allow for better local mobility and connections. Two new mixed use projects have been approved and are out for financing. The White Flint 2 Sector Plan, which includes 460 acres adjacent to the White Flint Sector Plan, is under final review by the Council and will encourage further mixed use.

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. Discovery Communications has recently announced that the company is relocating its headquarters to New York in 2019. 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 which opened in July 2010 and Veterans Plaza provide an added dimension to the arts & entertainment economy in the area. The facility transformed what it meant to be in a public space in Silver Spring and is an economic engine for the nearby retail community.
- The new Silver Spring Library, which officially opened in June 2015, is 63,000 square feet, almost four times larger than the previous Silver Spring Library, and was 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.

The new Progress Place, which serves low-income and homeless populations, began operation in December 2016. By partnering with, local developer, Washington Property Company for the design and construction of a new Progress Place on County-owned land, the County was able to expand services, via 21 apartments for persons transitioning out of homelessness. Washington Property Company will redevelop the former Progress Place site as a high-rise residential development. This partnership illustrates the County's continued commitment to smart growth by leveraging publicly-owned land, promoting transit-oriented development in Silver Spring and expanding the County's capacity to serve the community.

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. The redevelopment progress in Wheaton is as follows:

- 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, 125 restaurants. A 148,000 square foot Costco Wholesale opened alongside the Westfield shopping mall in 2013.
- Also in 2013, Foulger-Pratt developed a certified LEED Silver high-rise residential project with certified LEED Gold first floor Safeway grocer located directly at the Wheaton Metro Station. The building, known as The Exchange at Wheaton, features a 17th floor sky terrace, pool, dog park, and fitness facility with 486 rental units and 58,000 SF of retail.
- In October 2014, the Montgomery County Department of Transportation (MCDOT) entered into a joint development partnership with StonebridgeCarras for the Wheaton Revitalization Project which will provide a new 14-story government office building, below ground parking garage, and a town square as part of the Revitalization Strategy for this area. This mixed-use development will endeavor to improve mobility, increase Wheaton Metro Station use, diminish negative environmental impacts, reduce traffic congestion and increase the diversity of employment opportunities and services in the Wheaton area.
- The Mid County Regional Services Center Building was vacated on August 31, 2017 and will be demolished as part of the planned Plaza development south of Reedie Drive. Building demolition is scheduled for early 2018. The Mid County Regional Service Center moved on September 5, 2017 to a temporary home at 11435 Grandview Ave, Wheaton, MD 20902 as it awaits the completion of the Wheaton Revitalization Project which will be its permanent location. The revitalization project continues to be on schedule and within budget. Mass excavation for the new building and garage foundations continues and is scheduled to finish in early January 2018. Substantial completion for the entire project is anticipated for Spring of 2020.

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, Cohn Reznick, and Marriott Hotels and Resort.

- Bethesda Row, located two blocks from downtown Bethesda, illustrates the redevelopment of a commercial area to a mixed-use, walkable district. It has become a sought after and prestigious address in the DC Metro area. The neighborhood delivers dining - 33 food options; shopping – 34 retail stores and 20 service oriented venues, along with 180 high-end apartments and over 530,000 square feet of Class A office space. It is home to Riverbed Technology, Honest Tea, MIDCAP, and Tracx US to name a few of the many businesses located at Bethesda Row. The development's location on the Capital Crescent Trail and its proximity to a Metro station provide convenient connections to downtown Washington, D.C., and other parts of the region. In 2002, Bethesda Row received a Charter Award from the Congress for the New Urbanism and an Award for Excellence from the Urban Land Institute.
- The \$300 million, 40-acre Intelligence Community Campus-Bethesda celebrated its grand opening in October 2015. The site is 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 was the first top-tier luxury shopping center on the east coast outside of New York City. It was developed in the 1950's. The Collection at Chevy Chase, formerly named the Chevy Chase Center, is a mixed-used development, with 100,000 square feet of neighborhood-oriented retail, and a 200,000 square foot office tower. On September 8, 2017, the Planning Board approved Site Plan Amendments for updates to The Collection to modify the public use and amenity space, provide on-site pedestrian and vehicular circulation, update architecture, and revise the quantity of on-site parking.
- Wisconsin Place, completed in 2009, is a 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.
- Friendship Heights is known as the "Rodeo Drive" of Washington, DC/Maryland. There are a large number of upscale malls and luxury retailers that give this area its nickname. Chevy Chase Pavilion is on the Washington D.C. and Maryland border and hosts stores like H&M, J.Crew, Nordstrom Rack, Old Navy, and World Market. Mazza Gallerie is a small, upscale shopping mall in Washington, D.C. Stores include Neiman Marcus, Ann Taylor, Charles Schwartz & Son Jewelers, Saks Fifth Avenue Men's Store, Tabandeh, Pampillonia Jewelers, Williams Sonoma and more. Neighboring the Mazza Gallerie, are the Shops at Wisconsin Place, located in Chevy Chase, MD, there are open-air, high-end retail stores and restaurants including Bloomingdales, MAC Cosmetics, Sephora, Anthropologie, BCBG, Cole Haan, Eileen Fisher, The Capital Grille, Le Pain Quotidien, P.F. Chang's and Whole Foods Market. Further up Wisconsin Avenue, still in Chevy Chase, MD, The Collection boasts high end shops, such as Cartier, Gucci and Jimmy Choo. Chevy Chase is also home to a Tiffany & Co as well as a full Saks Fifth Avenue department store.

Existing Office/R&D/Commercial Space

As of December 2017, Montgomery County has more than 140 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 1.27 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. Also featured along Route 29 is the WesTech Business Park and surrounding area, which includes just under eight million square feet of office, R&D, light industrial, and retail development.

Table 35
Office/Flex/Industrial/Retail Space Availability by Major Submarkets
as of September 2017

	Total Inventory (Square Feet)	Direct Vacant (Square Feet)	Direct Vacancy Rate	Vacancy Rate w/Sublet
<u>Montgomery County Market</u>				
Bethesda/Chevy Chase	15,981,260	1,234,964	7.7%	8.8%
Gaithersburg	21,404,595	1,778,451	8.3	8.6
Germantown	9,347,449	607,362	6.5	6.6
Kensington/Wheaton	7,037,188	576,272	7.9	7.9
North Bethesda/Potomac	16,456,359	2,543,188	15.5	15.6
North Rockville	22,908,750	2,611,483	11.4	12.1
North Silver Spring/Rt 29	8,920,078	610,479	6.8	7.7
Rockville	19,658,014	1,716,790	8.7	9.2
Silver Spring	11,692,859	805,541	6.9	7.3
Other Markets*	<u>7,009,074</u>	<u>748,378</u>	<u>10.7</u>	<u>10.7</u>
Total County	140,415,626	13,232,908	9.4	9.9

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

Over five million square feet of future academic, science, and technology-oriented office space remains approved and ready for potential development in Montgomery County. The Johns Hopkins Research Campus, Medimmune, and the Shady Grove Life Sciences building remain the largest of these types of active and ongoing commercial development projects in the county.

In 2017, two new and substantial office development projects have progressed down the development pipeline. The new 825,000 square foot Marriott headquarters achieved permitting in late fall, and the old police station located in downtown Bethesda at 7359 Wisconsin Avenue is pending approval in early 2018 for redevelopment into a 535,000 square foot mixed-use office/hotel with approximately 400,000 square feet of dedicated office space.

A notable shift away from single-use, traditional office development toward more dynamic mixed-use commercial space has also been recently observed. Crystal Rock and Rock Spring Center are two substantial examples of active single-use office projects in the county that have recently added residential and/or retail components to their development portfolio.

Montgomery County's industrial and logistics' markets continue to experience growth primarily in large self-storage development projects. Two self-storage projects currently exist in the county's pipeline, Rockville's CubeSmart and EZ Storage, which could lead to an additional 220,000 square feet of industrial/logistics GFA in Montgomery County.

Public/Private Projects

Viva White Oak (formerly LifSci Village)

The White Oak Science Gateway Master Plan was approved in 2014 and several plans are underway including new retail, civic uses, diverse housing and a hotel. The proposed Master Plan developments will provide unique opportunities to capitalize on the presence of the U.S. Food and Drug Administration (FDA), transform the East County into a vibrant hub for technological advancement and bring the much-desired amenities to the community.

The proposed Viva White Oak project will merge County property and property owned by Global Life Sciences, LLC to create a 280-acre mixed-use development. The goal is to initiate 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 its portion of the Viva White Oak property in the State's Voluntary Clean-Up Program and environmental remediation was completed in late 2014. The Viva White Oak Sketch Plan was approved by the Planning Board in November 2017 and the transportation improvement program is being financed under a new initiative: the Local Area Transportation Improvement Program (LATIP). The final Preliminary/Site Plan is expected to be approved in late 2018 and construction to start shortly thereafter.

Pinkney Innovation Complex for Science & Technology at Montgomery College

The Pinkney Innovation Complex for Science & Technology at Montgomery College (PIC MC) is an integrated academic, business and research campus in Germantown. PIC MC, previously known as the Montgomery College-Germantown Science and Technology Park, was identified in 2001 by the County as a location to grow life sciences and technology companies. With a total of \$6.1 million in funding appropriations to Montgomery College from the State and the County, the campus was able to add 20 acres to its own 20 acres to create a 40-acre park. Since its beginning, PIC MC has successfully located an anchor tenant, Holy Cross Germantown Hospital, a 93-bed hospital employing, to date, about 730 healthcare professionals and related jobs, and a medical office building with 50 plus doctors, nurses and medical personnel. Students in the Allied Health Science programs do their clinical rotations at the hospital and, upon graduation, are eligible to become employees. Targeted business sectors include life sciences, cybersecurity and technology, which reflect the signature academic programs offered at the Germantown campus. Additionally, the County-owned life sciences and technology incubator, the Germantown Innovation Center, houses 24 start-up companies with 116 employees in 35,000 square feet on the Germantown campus. PIC MC has received preliminary subdivision approval of a 5.67-acre parcel for construction of a building, up to 150,000 square feet. At full build out, the campus is expected to accommodate close to a million square feet of private sector space in addition to the College's academic buildings.

Montgomery County Business Innovation Network

The Montgomery County Business Innovation Network is a program of three business incubator facilities that has successfully assisted start-up technology and professional services companies to grow and expand in the County. To date, over 245 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 located in the heart of the County's media tech industries and supports tech and engineering firms. 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

Foulger-Pratt is planning on constructing a 240,000-square-foot mixed-use project with 240 rentals and approximately 8,000 square feet of ground-floor retail. The project is planned to "bridge the gap" between the Rockville Metro Plaza and Rockville Town Center.

This planned mid-rise building is part of the third phase of the Rockville Metro Plaza (RMP) redevelopment, otherwise known as RMP III. The first two phases of the Rockville Metro Plaza redevelopment focused on office space. For these phases, tenants secured included the Choice Hotels International Headquarters and the Kabu Japanese Steakhouse.

Foulger-Pratt is expected to submit preliminary drawings to the City of Rockville for RMP III. The timeline for the project involves two years of planning and approvals followed by two years of construction. Delivery is expected by 2021.

Construction began in early 2016 on Brightview, located at 285 North Washington Street in Rockville Town Center. It is a 195-unit senior living community that will provide independent and assisted-living residences specializing in Alzheimer's care. The ground floor features 6,568 square feet of retail while community amenities include a landscaped courtyard with public art installation and a rooftop garden. Developed by Shelter Development Group, Brightview Rockville Town Center opened in October 2017.

Construction began in February 2016 on The Metropolitan, which adds to the redevelopment of Rockville Town Center with a 6-story, 275-unit luxury apartment complex that includes 6,113 SF of retail on the ground level. Developed by Kettler, The Metropolitan is expected to open in 2018.

Retail Sales

Retail sales, measured by sales tax data collected in FY2017, increased in Maryland and in Montgomery County. Compared to the prior fiscal year when retail sales in the County increased a modest 0.1 percent, sales increased 2.4 percent in FY2017. The increase was attributed to purchases of apparel items which increased 19.1 percent, and purchases of building and industrial supplies which were up 3.1 percent.

Major Retail Centers

As of third quarter 2017, according to the Montgomery County Planning Department, Montgomery County contains 24,740,297 square feet of retail-appropriate space. Within this, 19,705,719 square feet of space was occupied by retail tenants. Of the total retail, there were 5,615 unique retailers. The remaining square footage was either occupied by non-retail tenants, such as a bank or a gym, or was vacant. The vacancy rate for the county was 6.8%, and there were 524 available properties. The three largest retail centers are: Westfield Wheaton at 1,540,124 SF; Westfield Montgomery 1,249,536 SF; and Lakeforest Mall 994,254 SF.

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 163 stores, with an expansion that included Costco, which opened in 2013.

Westfield Montgomery Shopping Mall opened in 1968, and has 1.25 million square feet of leased space. It features Nordstrom, Macy's, Macy's Furniture Gallery, Sears Roebuck & Co. There are 195 stores, and three parking garages. In 2014 the mall enlarged the Macy's, moved the Sears Automotive Center, and added a promenade with shops and restaurants with outdoor seating, a new parking garage and ArcLight Cinemas space was added. In 2016 a new \$7.1 million Montgomery County Transit Center was opened at the mall funded with \$6 million from the mall to include six covered bus bays, screens with real-time bus arrival information and walled-in areas with radiant heat lamps.

Lakeforest Mall, located along Maryland Route 355 and Montgomery Village Avenue near I-270, opened in 1978. At Lakeforest Mall, there is a complete selection of stores, eateries and services for the Gaithersburg and upper Montgomery County area. There are over 140 shopping choices, some of the retailers are: Aeropostale, Charlotte Russe, The Children's Place, Cotton On, Crazy 8, Finish Line, Foot Locker, Forever 21, Gymboree, H&M, Hollister Co, Hot Topic, JCPenney, Journeys, Lord & Taylor, Macy's, New York & Company, Payless ShoeSource, Ruby Tuesday, Sears, Shoe Dept Encore, Victoria's Secret, and Zumiez.

Clarksburg Premium Outlets is a 392,000 square foot, two-story LEED-certified venue which opened in October 2016. The outlet is located right off I-270 Exit 18 in Clarksburg, and includes 96 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.

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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, 2017, 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 2.4 percent, 1.4 percent, and 0.1 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, 2017, 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 149 through 167 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 14, 2017, 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 15, 2017

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

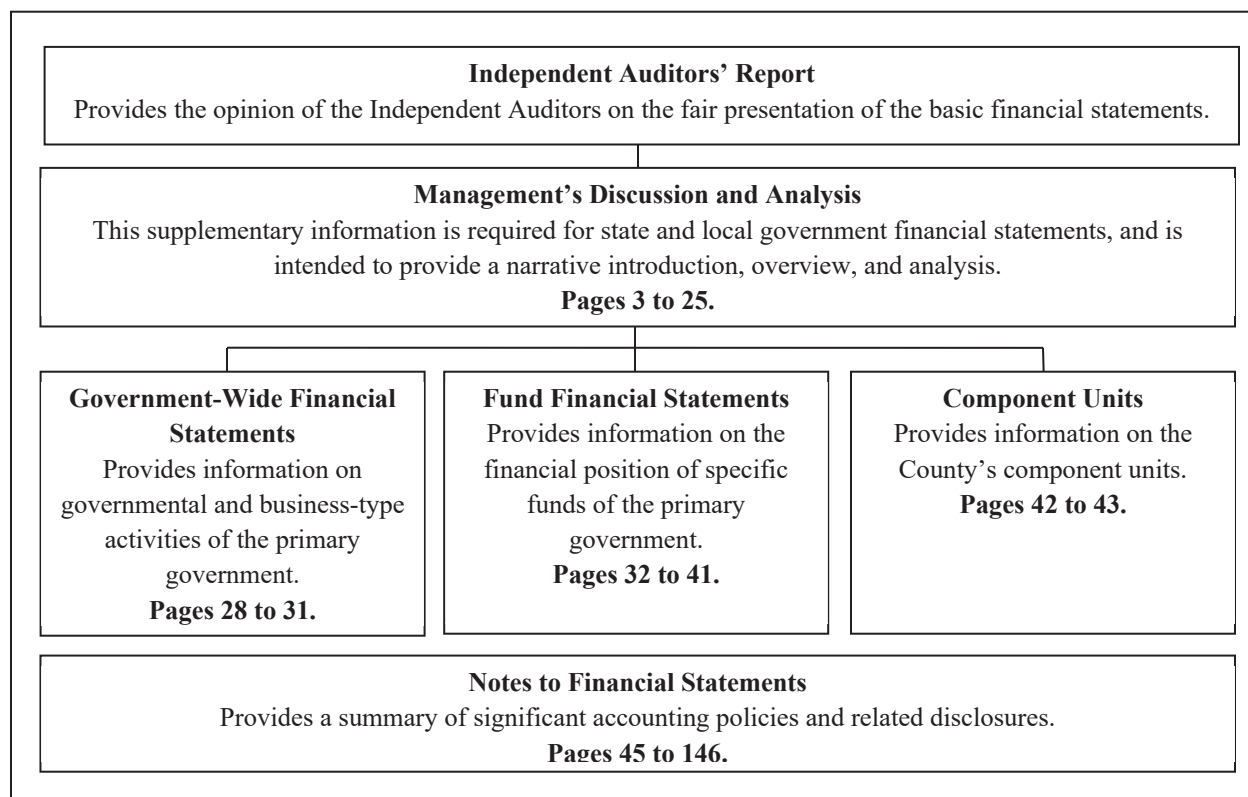
- The government-wide assets and deferred outflows of the County exceeded its liabilities and deferred inflows of resources at the close of FY17 by \$1,187.5 million. That amount is net of a \$1,845.6 million unrestricted deficit. The deficit occurs mainly because the County issues debt to fund construction 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 \$1,706.3 million at June 30, 2017. Absent the effect of this relationship, the County would have reported a deficit government-wide unrestricted net position of \$139.3 million.
- The County's total government-wide net position increased by \$200.2 million.
- As of the close of FY17, the County's governmental funds reported combined ending fund balances of \$948.6 million; an increase of \$52.9 million over the prior year's ending fund balances. Of the total ending fund balances, \$118.4 million is available for spending at the County's discretion.
- At the end of FY17, unassigned fund balance for the General Fund was \$118.4 million, or 4.0 percent of total General Fund expenditures.
- The County's government-wide long-term debt and obligations increased by \$272.2 million during FY17. The key factors in this increase are:
 - The issuance of \$340.0 million in general obligation (GO) bonds, used to refund \$340.0 million in bond anticipation notes (BANS). Included in this issuance was an addition of \$29.8 million in GO premiums.
 - The issuance of an additional \$340.0 million in BANS.
 - The issuance of Certificates of Participation (Montgomery College Improvements) in the amounts of \$23.1 million and \$1.8 million.
 - An increase in the Net Pension Liability of \$126.1 million.
 - The retirement of \$218.0 million in GO bond and variable rate demand obligations principal and amortization of related premiums of \$38.7 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, 2017 and 2016:

Summary of Net Position *						
June 30, 2017 and 2016						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 1,916,290,728	\$ 1,746,800,903	\$ 240,962,701	\$ 225,735,790	\$ 2,157,253,429	\$ 1,972,536,693
Capital assets, net	4,563,021,889	4,317,030,553	267,940,685	272,409,833	4,830,962,574	4,589,440,386
Total Assets	6,479,312,617	6,063,831,456	508,903,386	498,145,623	6,988,216,003	6,561,977,079
Deferred outflows of resources	298,181,741	323,653,705	13,817,332	13,009,404	311,999,073	336,663,109
Liabilities						
Long-term liabilities outstanding	5,235,915,855	4,965,410,989	162,687,020	160,944,227	5,398,602,875	5,126,355,216
Other liabilities	638,703,194	552,978,496	36,565,897	43,810,425	675,269,091	596,788,921
Total Liabilities	5,874,619,049	5,518,389,485	199,252,917	204,754,652	6,073,871,966	5,723,144,137
Deferred inflows of resources	37,127,197	180,450,501	1,697,815	7,749,588	38,825,012	188,200,089
Net position:						
Net investment in capital assets	2,336,853,956	2,280,466,863	186,321,262	139,122,346	2,523,175,218	2,419,589,209
Restricted	441,648,621	415,275,255	68,287,578	88,115,316	509,936,199	503,390,571
Unrestricted (deficit)	(1,912,754,465)	(2,007,096,943)	67,161,146	71,413,125	(1,845,593,319)	(1,935,683,818)
Total Net Position	\$ 865,748,112	\$ 688,645,175	\$ 321,769,986	\$ 298,650,787	\$ 1,187,518,098	\$ 987,295,962
* Primary Government						
Note: 2016 balances have been restated for the adoption of GASB No.73. See details in Note I-E.						

The County's current and other assets increased by \$184.7 million or 9.4 percent from FY16. The County's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of FY17 by \$1,187.5 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 \$1,706.3 million at June 30, 2017. Absent the effect of this relationship, the County would have reported a deficit government-wide unrestricted net position of \$139.3 million. An additional portion of the County's net position (\$510.0 million or 43.0 percent) represents resources that are subject to restrictions on how they may be used.

The County's total net position increased by \$200.2 million for FY17 or 20.3 percent over FY16.

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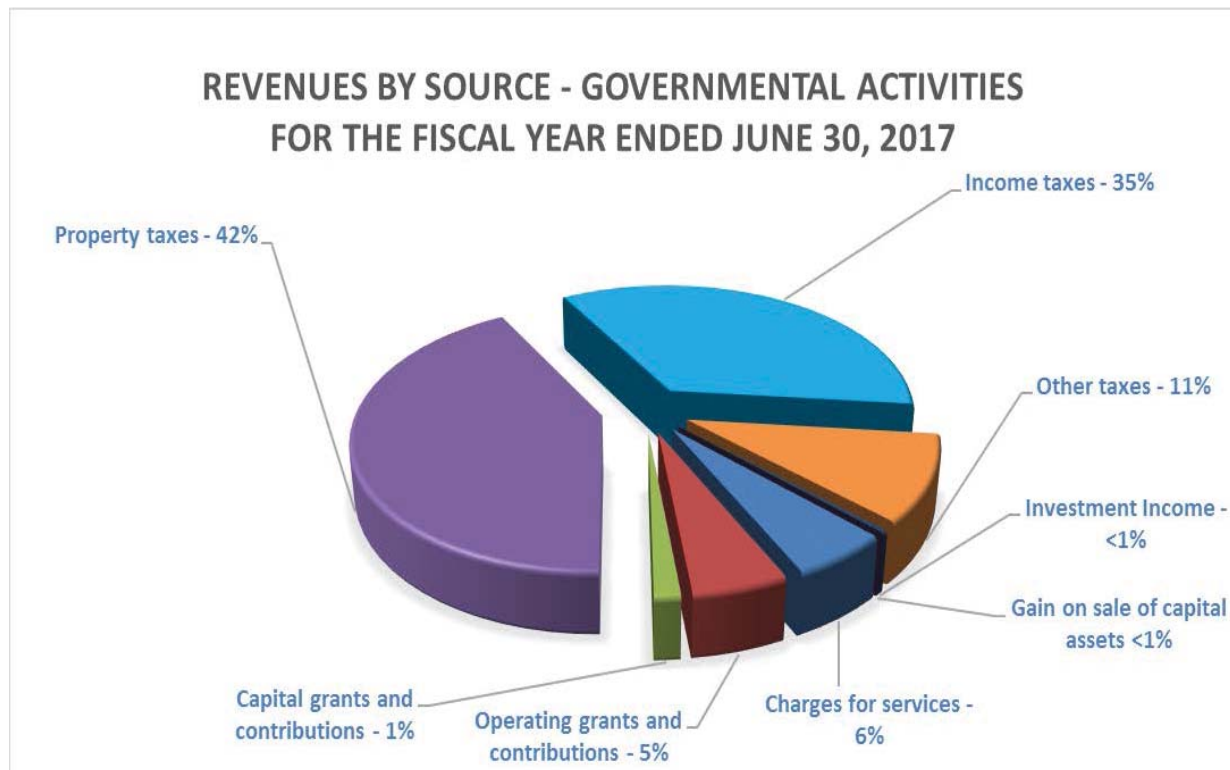
Statement of Activities

The following table summarizes the County's change in net position for the years ended June 30, 2017 and 2016:

Summary of Changes in Net Position *						
For the Fiscal Years Ended June 30, 2017 and 2016						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program Revenues:						
Charges for services	\$ 235,174,216	\$ 204,117,528	\$ 500,633,492	\$ 491,983,515	\$ 735,807,708	\$ 696,101,043
Operating grants and contributions	224,788,411	204,015,609	-	-	224,788,411	204,015,609
Capital grants and contributions	61,960,979	62,338,151	-	-	61,960,979	62,338,151
General revenues:						
Property taxes	1,792,921,614	1,593,880,896	(45,762)	(657,506)	1,792,875,852	1,593,223,390
Income taxes	1,481,806,881	1,464,946,447	-	-	1,481,806,881	1,464,946,447
Other taxes	447,445,749	429,329,869	-	-	447,445,749	429,329,869
Investment income	13,770,994	7,907,133	1,068,863	415,329	14,839,857	8,322,462
Gain/(loss) on sale of capital assets	-	172,639	162,042	9,855,423	162,042	10,028,062
Total Revenues	<u>4,257,868,844</u>	<u>3,966,708,272</u>	<u>501,818,635</u>	<u>501,596,761</u>	<u>4,759,687,479</u>	<u>4,468,305,033</u>
EXPENSES						
Governmental Activities:						
General government	540,011,504	624,551,802	-	-	540,011,504	624,551,802
Public safety	641,585,272	620,407,666	-	-	641,585,272	620,407,666
Public works and transportation	258,627,800	279,744,940	-	-	258,627,800	279,744,940
Health and human services	319,917,837	292,252,497	-	-	319,917,837	292,252,497
Culture and recreation	134,848,367	116,004,130	-	-	134,848,367	116,004,130
Community development and housing	50,618,370	42,140,359	-	-	50,618,370	42,140,359
Environment	29,095,268	29,886,401	-	-	29,095,268	29,886,401
Education	2,037,048,982	1,899,997,038	-	-	2,037,048,982	1,899,997,038
Interest on long-term debt	100,887,704	99,889,037	-	-	100,887,704	99,889,037
Business-type Activities:						
Liquor control	-	-	273,828,277	264,763,943	273,828,277	264,763,943
Solid waste activities	-	-	92,126,174	105,838,154	92,126,174	105,838,154
Parking lot districts	-	-	34,418,684	33,453,769	34,418,684	33,453,769
Permitting services	-	-	36,065,066	31,042,939	36,065,066	31,042,939
Community use of public facilities	-	-	10,386,038	10,301,634	10,386,038	10,301,634
Total Expenses	<u>4,112,641,104</u>	<u>4,004,873,870</u>	<u>446,824,239</u>	<u>445,400,439</u>	<u>4,559,465,343</u>	<u>4,450,274,309</u>
Net Position Before Transfers	145,227,740	(38,165,598)	54,994,396	56,196,322	200,222,136	18,030,724
Transfers	<u>31,875,197</u>	<u>49,385,156</u>	<u>(31,875,197)</u>	<u>(49,385,156)</u>	<u>-</u>	<u>-</u>
Change in Net Position	177,102,937	11,219,558	23,119,199	6,811,166	200,222,136	18,030,724
Net Position, beginning of year, as restated	<u>688,645,175</u>	<u>677,425,617</u>	<u>298,650,787</u>	<u>291,839,621</u>	<u>987,295,962</u>	<u>969,265,238</u>
Net Position, end of year	<u>\$ 865,748,112</u>	<u>\$ 688,645,175</u>	<u>\$ 321,769,986</u>	<u>\$ 298,650,787</u>	<u>\$ 1,187,518,098</u>	<u>\$ 987,295,962</u>
* Primary Government						
Note: 2016 balances have been restated for the adoption of GASB No.73. See details in Note I-E.						

Governmental Activities

Revenues for the County's governmental activities were \$4,257.9 million for FY17. Sources of revenue are comprised of the following items:

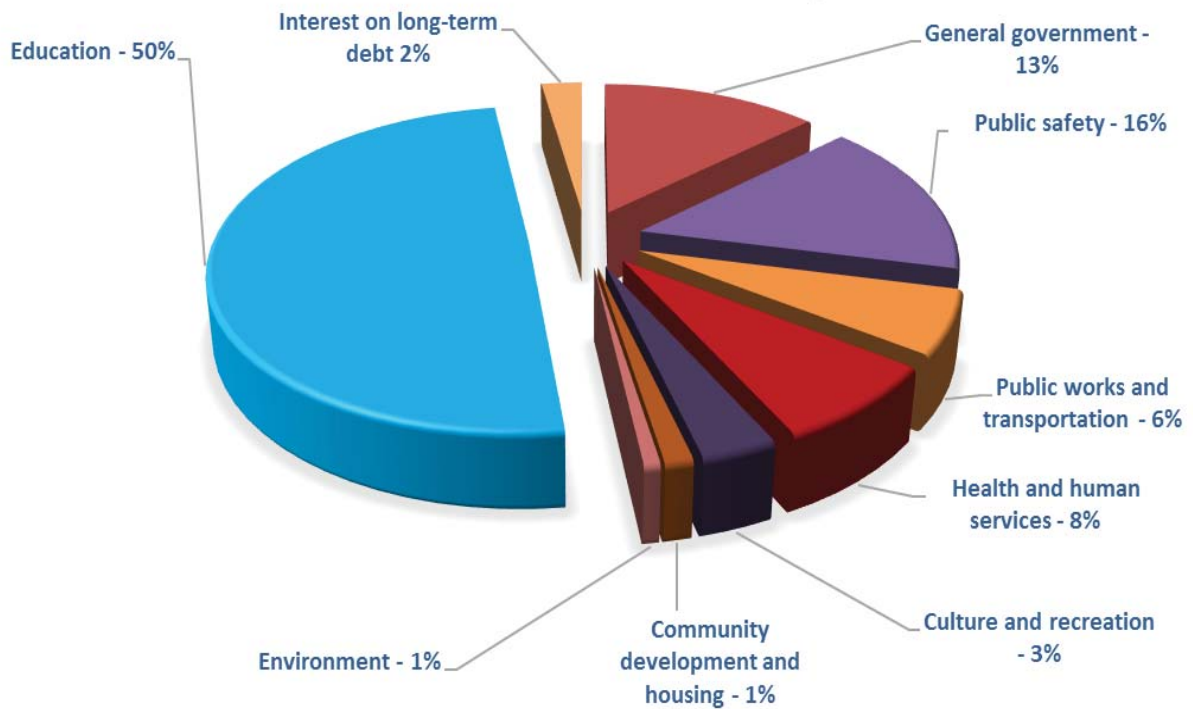


- Taxes constitute the largest source of County revenues, amounting to \$3,722.2 million for FY17.
- Property and local income taxes combined comprise 76.9 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2017 and 2016. 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 (\$119.8 million or 53.3 percent), public works and transportation (\$55.4 million or 24.7 percent) and public safety (\$32.0 million or 14.3 percent).

A more detailed discussion of the County's revenue results for FY17 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 FY17 was \$4,112.6 million. As the chart on the next page indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$2,037.0 million. Public safety expenses totaled \$641.6 million, general government services totaled \$540.0 million, and health and human services, the fourth largest expense for the County, totaled \$319.9 million.

EXPENSES BY FUNCTION - GOVERNMENTAL ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2017



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, 2017 and 2016						
	Expenses		Revenues		Net Cost of Services	
	2017	2016	2017	2016	2017	2016
Education	\$ 2,037,048,982	\$ 1,899,997,038	\$ -	\$ -	\$ 2,037,048,982	\$ 1,899,997,038
Public safety	641,585,272	620,407,666	90,861,570	95,505,531	550,723,702	524,902,135
General government	540,011,504	624,551,802	94,290,229	81,021,166	445,721,275	543,530,636
Public works and transportation	258,627,800	279,744,940	142,662,558	125,931,857	115,965,242	153,813,083
Health and human services	319,917,837	292,252,497	125,629,316	107,349,912	194,288,521	184,902,585
Culture and recreation	134,848,367	116,004,130	50,479,019	44,982,761	84,369,348	71,021,369
Other	180,601,342	171,915,797	18,000,914	15,680,061	162,600,428	156,235,736
Total	<u>\$ 4,112,641,104</u>	<u>\$ 4,004,873,870</u>	<u>\$ 521,923,606</u>	<u>\$ 470,471,288</u>	<u>\$ 3,590,717,498</u>	<u>\$ 3,534,402,582</u>

Of the total cost of governmental activities of \$4,112.6 million, \$521.9 million was paid by those who directly benefited from the programs (\$235.2 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$286.7 million). Of the \$3,590.7 million net cost of services, our taxpayers paid for these activities through County taxes which totaled \$3,722.2 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:
\$137.1 million increase in resources spent on education.
- General Government:
\$84.5 million decrease in expenses primarily due to significant decrease of a one-time charge (Wynne case).
- Public Safety:
\$21.2 million increase in expenses primarily due to an increase in pension expense. Pension expenses are expected to fluctuate based on the calculation of the net pension liability.
- Public Works and Transportation:
\$21.1 million decrease in expenses primarily driven by fewer inclement weather events in FY17 than FY16. In General Fund, snow removals expenditures were decreased by \$17.9 million.
- Culture and Recreation:
\$18.8 million increase in expenses is due to an increase in reimbursement requests from M-NCPPC.

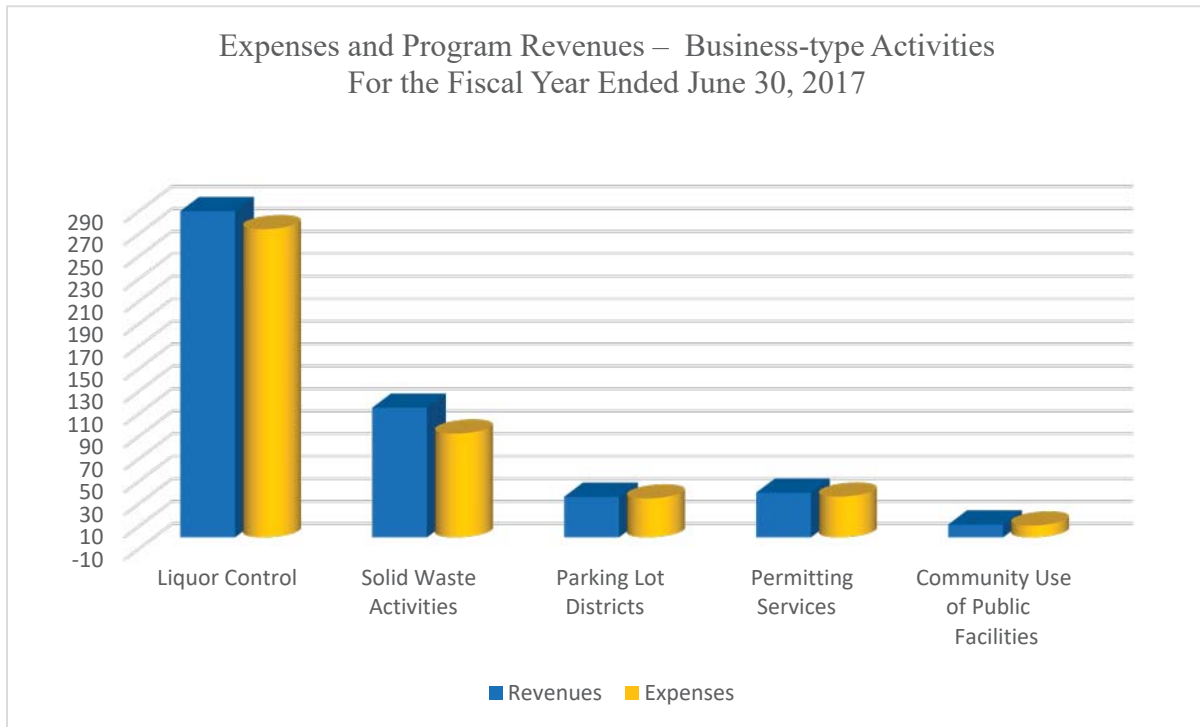
Business-type Activities

Highlights of the County's business-type activities for FY17 are as follows:

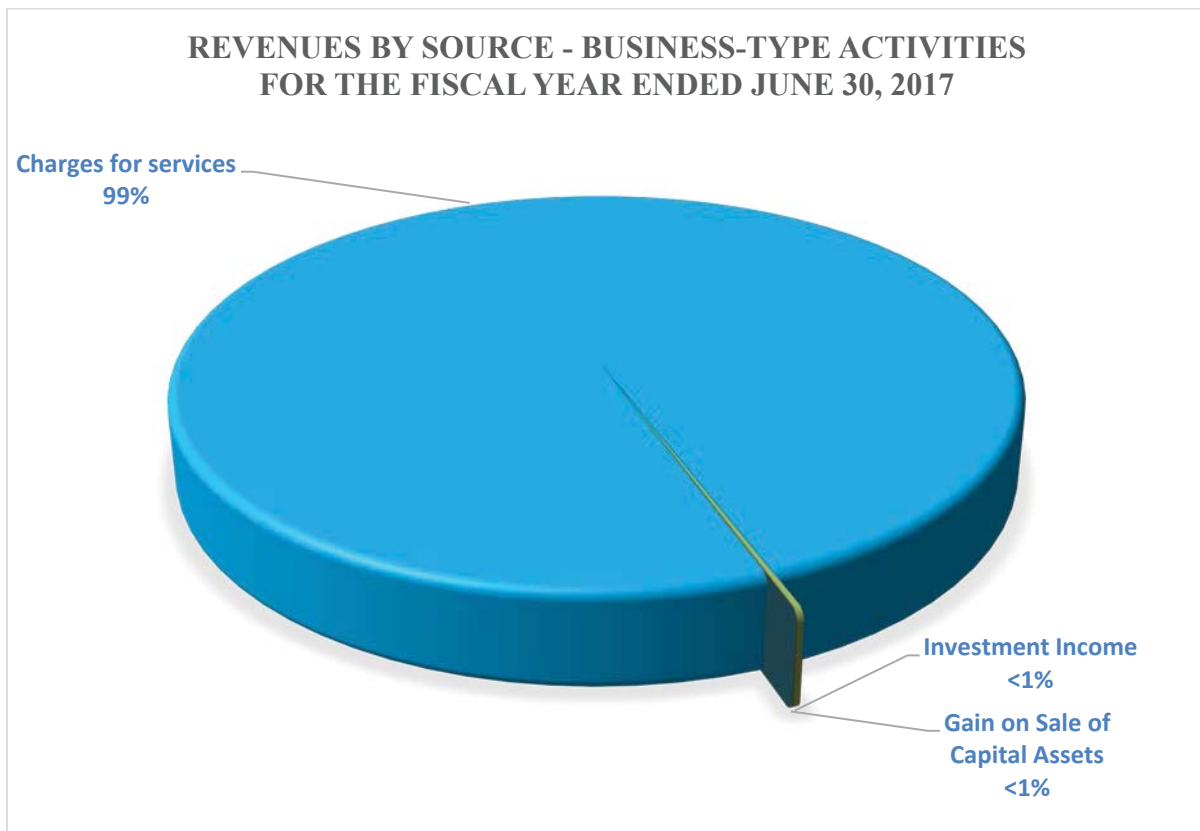
- Business-type activities experienced an increase in net position of \$23.1 million for FY17. This amount is reported after total net transfers out of \$31.9 million. The most significant components of the change include:
 - \$5.3 million increase in net position related to liquor control,
 - \$2.7 million decrease in net position related to parking lot districts; and
 - \$1.1 million decrease in net position related to permitting services.
- Charges for services to users comprise 99.8 percent of revenues, with \$298.5 million (59.6 percent of charges for services revenue) attributable to liquor control operations and \$115.2 million (23.0 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 \$1.1 million reflects an increase of \$0.7 million or 157.4 percent from FY16, 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 FY17, the County's governmental funds reported combined ending fund balances of \$948.6 million, an increase of \$53.0 million from the end of FY16. Of the total ending fund balances, \$118.3 million constitutes the unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$830.3 million is unavailable for new spending because it has been set aside for prior period commitments and legal restrictions.

General Fund

The General Fund is the primary operating fund of the County. At the end of FY17, the General Fund had \$118.4 million of unassigned fund balance and total fund balance was \$507.0 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 17.0 percent of total General Fund expenditures.

The fund balance of the County's General Fund increased by \$26.6 million during FY17, primarily due to increases in tax revenues that were partially offset by increases other financing uses and expenditures for general government, health and human services, and education.

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 FY17, HI had a fund balance of \$249.8 million, which is entirely restricted for legal reasons. The HI fund balance represents a decrease of \$4.1 million over FY16. Mortgage Receivables for this fund, which is a measure of its financing activities, decreased \$13.2 million or 7.0 percent over FY16.

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 \$107.3 million in revenues for FY17. This is a \$1.7 million increase from FY16.

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 \$42.3 million represents a debt service reserve account.

Capital Projects Fund

The Capital Projects Fund (CIP) has a total fund balance of \$58.3 million, an increase of \$9.3 million from the end of FY16. The fund balance of this fund can increase or decrease significantly depending on the timing of source of funds for larger capital projects. In FY16 the fund received \$357.0 million in new debt proceeds and \$381.9 million in FY17. The expenditures in FY17 increased by \$3.7 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 FY17 amounted to \$21.4 million, and operating income was \$25.9 million. After a subsidy transfer to the General Fund of \$19.0 million, the fund ended FY17 with an increase in net position of \$5.3 million.

The Solid Waste Activities Fund total net position amounted to \$73.3 million. Of this amount, \$42.3 million (57.6 percent) represents the net investment of capital assets and \$31.0 million is restricted for environment.

The Parking Lot Districts Fund decrease in net position amounted to \$2.7 million in FY17, resulting in a total ending net position of \$171.3 million. Of this amount, \$136.5 million (79.7 percent) represents the net investment in capital assets; \$6.6 million (3.9 percent) is restricted for debt service on revenue bonds; and \$28.1 million (16.4 percent) is restricted for public works and transportation.

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 \$21.1 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:

- \$3.5 million to support Green Bank and Home Energy Coach Network programs to leverage investment in clean energy and energy efficient technology.
- \$2.3 million increase in snow removal and wind and rain storm cleanup relating to seven snow/ice events with total accumulation of approximately 6.4 inches.
- \$2.0 million increase for the Ryan White B – Health Support Services by the Maryland Department of Health and Mental Hygiene to fund clinical and client centered services to indigent residents living with HIV/AIDS.

Actual revenues were less than budget amounts by \$12.3 million, while actual expenditures and net transfers out were less than final budget by \$12.7 million and \$49.9 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2017, include the following:

- Actual expenditures of \$1,179.0 million were \$12.7 million less than the final budget, which represents 1.7 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 \$39.1 million and \$21.3 million, respectively. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

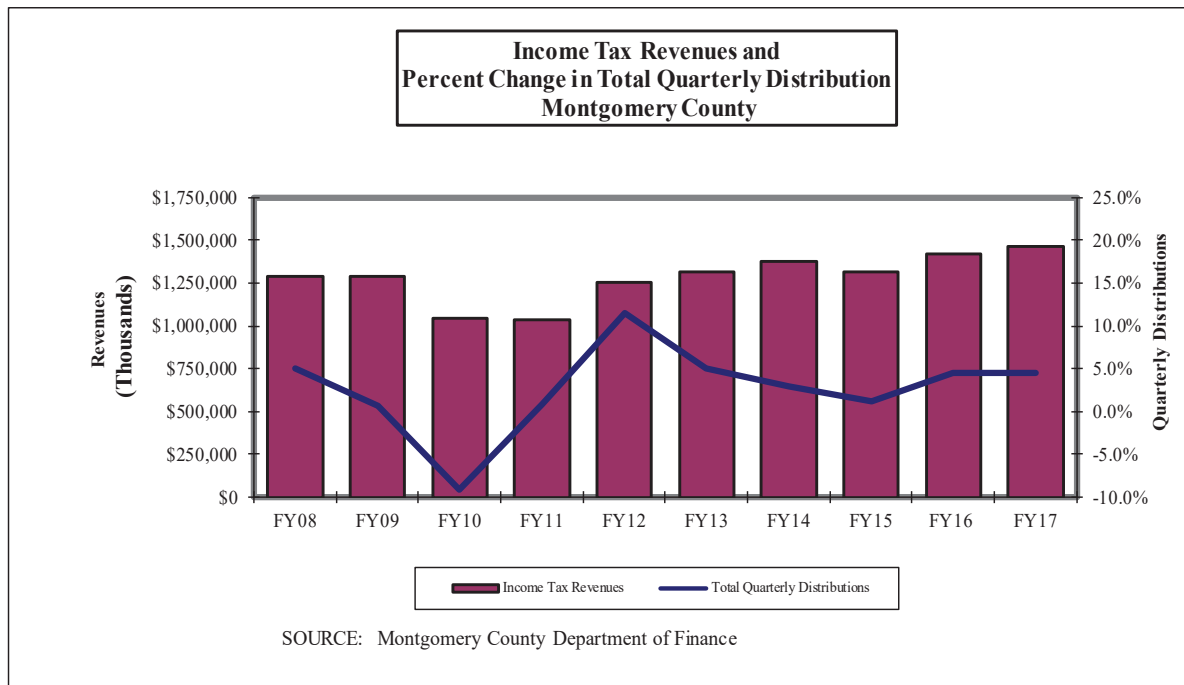
A more detailed comparison of final budget to actual figures for revenues is presented below:

Overview

Actual revenues for the General Fund totaled \$3,324.7 million and were 0.3 percent below the budget estimate for the fiscal year but 7.5 percent above actual tax revenues for FY16. The two largest contributors to the decline between the budget estimate and actual revenues were the income tax (\$21.0 million) and the fuel and energy tax (\$11.5 million). Revenues from the property tax amounted to \$1,266.9 million (\$5.0 million), or 0.4 percent, below the budget estimate but 12.5 percent above actual tax revenues for FY16. Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and other taxes, were \$268.9 million in FY17. That amount was \$9.4 million, or 4.3 percent below the budget estimate and that decrease was driven solely by the fuel and energy tax (\$11.5 million or 5.7%) below the budget estimate. However, the remaining excise taxes were \$2.1 million, or 2.8 percent above the budget estimate. Investment income was \$0.5 million below the budget estimate. Licenses and Permits came in below the budget estimate (5.8%), while Charges for Services came in above the budget estimate (12.4%). Intergovernmental revenues were \$1.8 million (or 2.4%) below the budget estimate. This decrease was solely attributed to federal reimbursements, which came in 10.0 percent below budget estimates.

Income Taxes

One of the largest revenue sources for the General Fund is the County income tax. Revenues from the income tax were \$1,466.6 million and represented 46.1 percent of actual tax revenues in FY17 and 44.1 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 (2007 – 2016) - 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 increase of 0.42 percent in the County's resident employment during the 2007-2010 period. The lower average annual growth during the 2007-2010 period is attributed to a decline of 1.0 percent from 2008 to 2009. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 4.5 percent in FY17, which followed a similar increase of 4.5 percent in FY16, an increase of 1.2 percent in FY15, an increase of 2.9 percent in FY14, an increase of 5.0 percent in FY13, an increase of 11.5 percent in FY12, an increase of 0.8 percent in FY11, a decrease of 9.1 percent in FY10, and an increase of 0.7 percent in FY09.



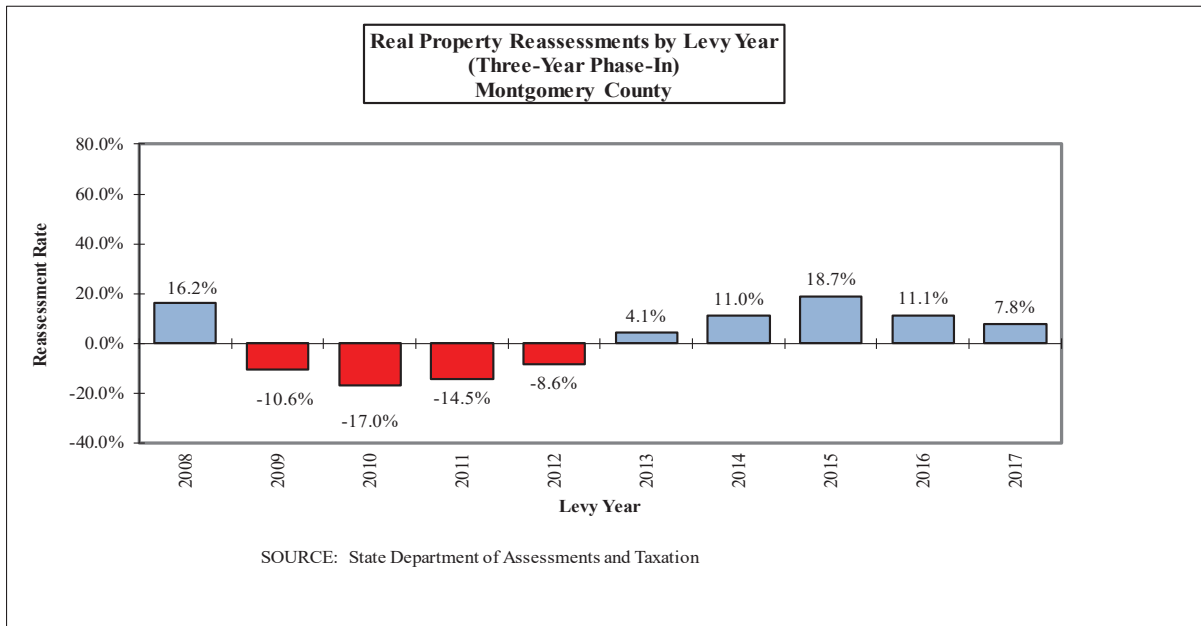
On May 18, 2015, the U.S. Supreme Court made a final ruling in the long-standing court case of *Comptroller of the Treasury of Maryland v. Wynne et ux*. The case involved a dispute over the credit a state taxpayer should get for taxes paid to other states for income earned in those states. The U.S. Supreme 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. Based on data provided by the Revenue Administration Division, Comptroller of Maryland (Comptroller), as of June 2017, the total amount of income tax refunds for tax years 2007 through 2014, including interest, attributable to the Wynne case is \$141.2 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 installments ending in FY24. Although the majority of refund claims have been processed and issued as of June 2017, 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

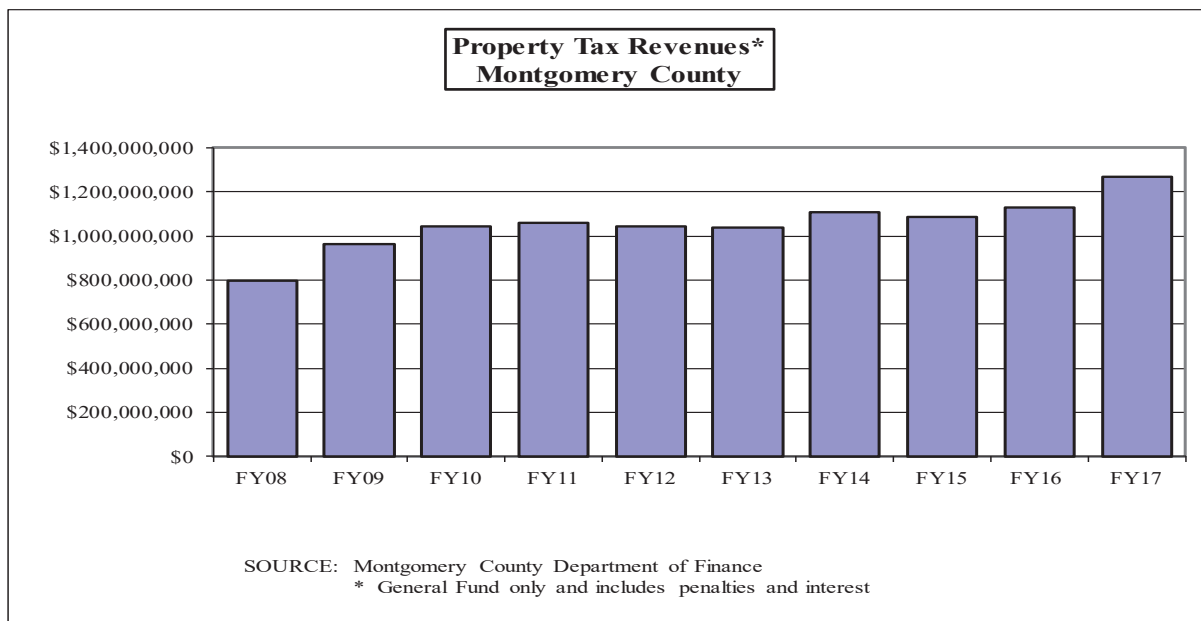
Property tax collections, which represent another major contributor of actual tax revenues to the General Fund and the second largest in FY17, amounted to \$1,266.9 million in FY17, which were \$5.0 million (0.4%) below the budget estimate but 12.5 percent above actual revenues in FY16. The increase was primarily due to an increase in assessments in real property. Actual property taxes, excluding penalties and interest and other items, were \$1,265.5 million in FY17 – an increase of 12.5 percent from the previous fiscal year. Collections from penalties and interest and other items were \$1.4 million – a 37.2 percent decrease from FY16.

The taxable assessments for real property increased 4.3 percent from FY16 to FY17. This was the fourth consecutive increase starting in FY14. New construction, which added an estimated \$1.7 billion to the base in FY17, was 7.4 percent higher than in FY16. 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 (levy year 2009-2012), reassessments increased 4.1 percent (levy year 2013 or FY2014), 11.0 percent in levy year 2014, 18.7 percent in levy year 2015, 11.1 percent in levy year 2016, and 7.8 percent in levy year 2017.



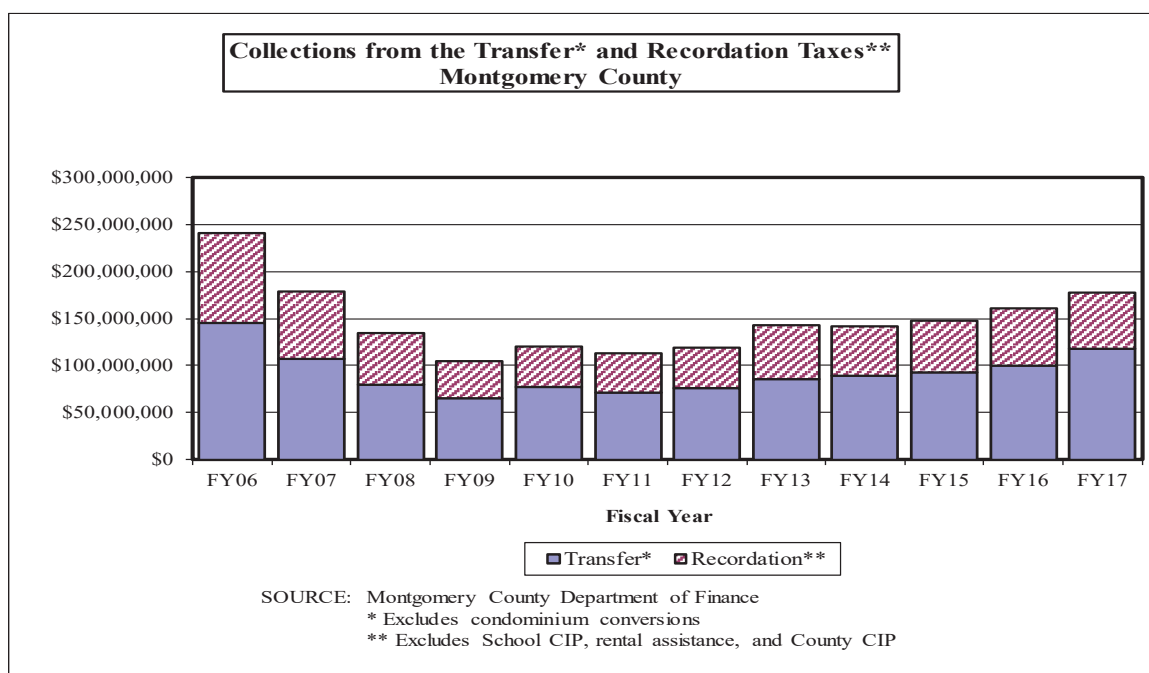
The homestead tax credit limits annual increases in homeowners' taxable assessments to 10 percent per year although other taxable assessments such as for commercial and investment residential properties are not limited by this credit. The homestead credit is the amount of annual assessment growth above 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. However, in FY17 the amount increased from \$78.7 million in FY16 to \$89.7 million in FY17, therefore the increase of the aggregate homestead credit reduced the real property taxable assessment by \$11.0 million.



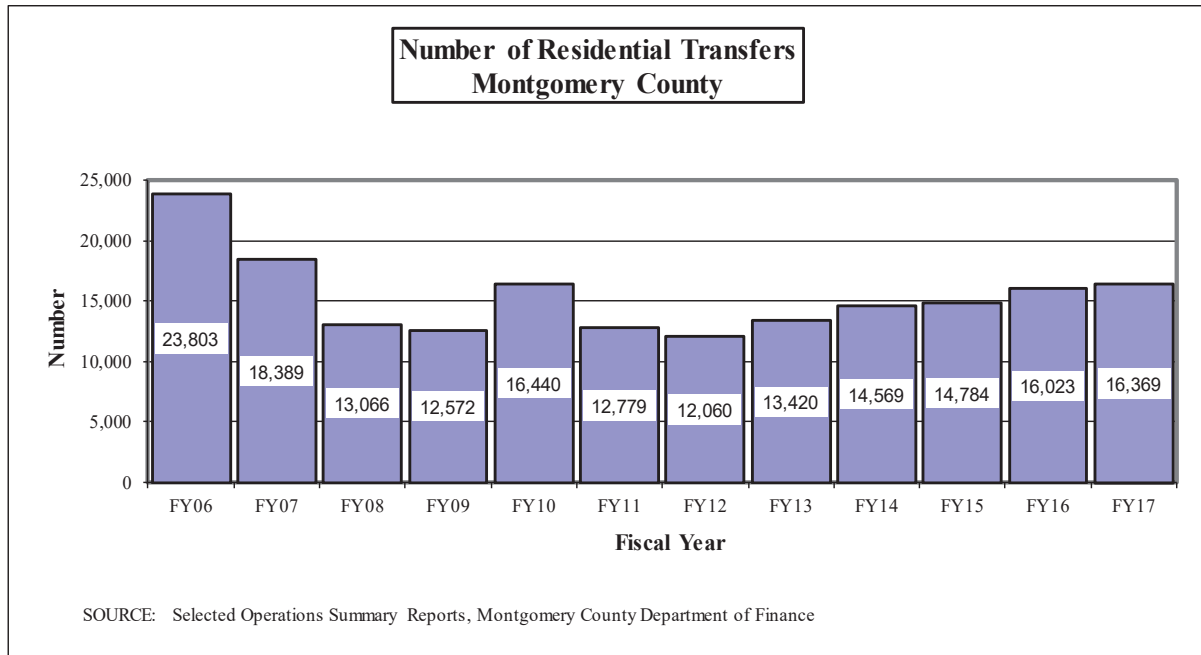
Because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09 rebounding in FY10 (5.2%) attributed to increases in corporate and public utility assessments, declined 6.5 percent in FY11 to \$3.9 billion, declined again in FY12 to \$3.7 billion, and declined further in FY13 to \$3.6 billion attributed to declines in corporate and utility personal property, but increased 2.9 percent in FY14 to \$3.7 billion, decreased 1.5 percent in FY15 to \$3.7 billion, but increased 6.3 percent in FY16 to \$3.9 billion. For the previous five fiscal years (FY12 – FY16), taxable assessments for personal property averaged \$3.7 billion ranging from a low of \$3.6 billion in FY13 to a high of \$3.9 billion in FY11. Assessments of personal property increased 4.3 percent to \$4.1 million in FY17 due to increases in all three categories: individual, public utility, and corporate.

Transfer and Recordation Taxes

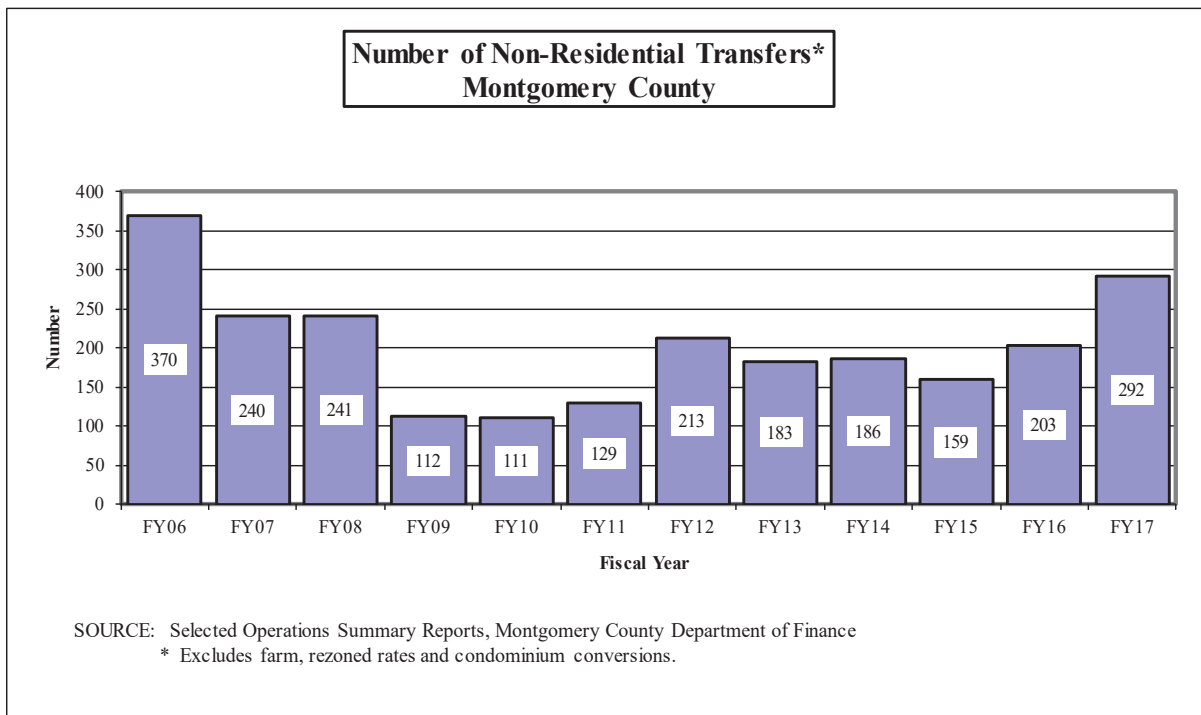
Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY17 were \$178.4 million (excluding recordation tax revenues earmarked for CIP funding of school construction, rental assistance, and CIP funding for the County; and transfer tax revenues from condominium conversions). Actual revenues increased in FY17 and were 7.6 percent above the budget estimate. As the accompanying chart illustrates, the total amount collected from these taxes reached 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, \$161.7 million FY16, and \$178.4 million in FY17.



General Fund revenues from the transfer tax experienced an increase of 17.3 percent in FY17 but a 1.3 percent decrease in the recordation tax from FY16 attributed to a cut in the General Fund tax rate enacted by the County Council. Because of the increase in existing home sales in FY17 (2.7%), revenues from the residential sector for the transfer tax were \$83.1 million, an increase of 3.6 percent from FY16. The number of residential transfers increased to 16,369 (2.2%). However, because of the decline in the volume and the cut in the tax rate, collections from the residential recordation tax decreased 16.7 percent in FY17.



Based on the amount of collections from the non-residential transfer tax, the commercial market increased 72.0 percent in FY17 from FY16 with revenues at \$33.8 million. The increase in revenues from the commercial market was attributed to strong growth in the number of transactions which increased from 203 in FY16 to 292 in FY17 (43.8%) yielding an average tax per transaction of approximately \$115,840 (19.6%).



Other Revenues

The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and other taxes – totaled \$268.9 million and were \$9.4 million, or 4.3 percent, below the budget estimate but nearly 1.0 percent above actual revenues in FY16. Revenues from the fuel/energy tax were \$192.5 million in FY17 and down from the budget estimate (\$11.5 million) as well as a decrease of 0.4 percent from actual revenues in FY16. The decline in actual revenues from FY16 was attributed to a reduction in residential natural gas usage (1.3%) and non-residential electricity usage (2.0%).

Revenues from the telephone tax of \$50.8 million were 1.0 percent above the budget estimate and 2.3 percent above actual revenues in FY16. Revenues from the hotel/motel industry of \$21.5 million in FY17 were 4.0 percent above the budget estimate and 10.4 percent above actual revenues in FY16. Other tax revenues in FY17 were 23.1 percent above the budget estimate and 6.8 percent above actual revenues in FY16.

Capital Asset and Debt Administration

Capital Assets

The County's investment in capital assets at June 30, 2017, amounted to \$4,831.0 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation June 30, 2017				
	Governmental Activities	Business-type Activities	Total FY17	Total FY16
Land	\$ 936,319,233	\$ 58,444,082	\$ 994,763,315	\$ 989,049,634
Buildings	448,852,840	142,880,811	591,733,651	595,343,848
Improvements other than buildings	55,656,496	47,880,057	103,536,553	72,384,402
Furniture, fixtures, equipment and machinery	38,206,539	17,170,976	55,377,515	56,747,466
Leasehold improvements	7,915,043	-	7,915,043	4,488,278
Automobiles and trucks	138,640,592	1,274,207	139,914,799	145,353,121
Infrastructure	1,143,243,202	8,180	1,143,251,382	1,167,596,133
Other assets	16,474,306	-	16,474,306	20,477,885
Construction in progress	1,777,713,638	282,372	1,777,996,010	1,537,999,619
Total	<u>\$ 4,563,021,889</u>	<u>\$ 267,940,685</u>	<u>\$ 4,830,962,574</u>	<u>\$ 4,589,440,386</u>

Changes in the County's capital assets for FY17 are summarized as follows:

Change in Capital Assets For the Fiscal Year Ended June 30, 2017				
	Governmental Activities	Business-type Activities	Total FY17	Total FY16
Beginning Balance	\$ 4,317,030,553	\$ 272,409,833	\$ 4,589,440,386	\$ 4,355,972,674
Additions*	344,091,363	11,690,991	355,782,354	359,007,364
Retirements, net*	3,128,717	167,666	3,296,383	17,937,693
Depreciation expense	94,971,310	15,992,473	110,963,783	107,601,959
Ending Balance	<u>\$ 4,563,021,889</u>	<u>\$ 267,940,685</u>	<u>\$ 4,830,962,574</u>	<u>\$ 4,589,440,386</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 \$16.4 million were transferred to the county by various developers.
- The Technology Modernization – MCG project accumulated \$14.8 million in cost this fiscal year. This project provides for the replacement, upgrade, and implementation of IT initiatives that will ensure ongoing viability of key processes, replace outdated and vulnerable systems, and produce a high return in terms of customer service and accountability to our residents.
- The Capital Crescent Trail project accumulated \$13.7 million in cost this fiscal year, and the Bethesda Metro Station South Entrance project accumulated \$14.7 million in cost this fiscal year. These two projects are part of a joint effort between the County and the Maryland Transit Administration (MTA) on the Purple Line project. The Purple Line is a new line within the Washington Metropolitan Area Transit Authority (WMATA) transit system that is planned to extend from Bethesda in Montgomery County to New Carrollton in Prince George’s County, providing direct connections to various lines within WMATA and connect to other train and bus services.
- The MD-355 Crossing (BRAC) project accumulated \$22.6 million in cost this fiscal year. This project provides for right-of-way negotiations, utility relocations, and the design and construction of a multi-modal grade separated connection between the Walter Reed National Military Medical Center (WRNMMC) and the Medical Center Metro Rail station.
- The Montgomery County Public Schools and Maryland-National Park and Planning Maintenance Facilities Relocation project accumulated \$35.6 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.
- Montgomery County funded Montgomery County Public School \$208.6 million, and Montgomery County College \$45.7 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.

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Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2017:

Long-Term Debt June 30, 2017				
	Governmental Activities	Business-type Activities	Total FY17	Total FY16
General obligation bonds	\$ 2,789,265,000	\$ -	\$ 2,789,265,000	\$ 2,657,290,000
Variable rate demand obligation	90,000,000	-	90,000,000	100,000,000
Bond anticipation notes	500,000,000	-	500,000,000	500,000,000
Revenue bonds	137,043,695	75,267,305	212,311,000	223,714,000
Lease revenue bonds	22,785,000	-	22,785,000	25,065,000
Other lease and notes payable	25,398,332	-	25,398,332	17,552,909
Equipment notes	56,773,847	5,367,645	62,141,492	42,189,164
Certificates of participation	28,505,000	-	28,505,000	10,800,000
Capital leases	8,454,830	-	8,454,830	11,158,430
Taxable Ltd. Obligation Certificates	78,660,000	-	78,660,000	82,535,000
Compensated absences	81,897,437	6,775,508	88,672,945	82,438,564
Other Postemployment Benefits	436,669,007	3,965,222	440,634,229	449,055,135
Claims payable self-insurance	159,081,601	-	159,081,601	150,256,294
Claims and judgments	1,073,600	-	1,073,600	1,003,200
Net Pension Liability - County	497,356,879	24,039,503	521,396,382	407,854,987
Net Pension Liability - County(LOSAP)	40,657,679	-	40,657,679	33,719,106
Net Pension Liability - State	30,107,615	-	30,107,615	24,421,562
Landfill closure costs	-	15,733,722	15,733,722	15,539,478
Gude landfill remediation	-	28,700,000	28,700,000	28,500,000
Total	<u>\$ 4,983,729,522</u>	<u>\$ 159,848,905</u>	<u>\$ 5,143,578,427</u>	<u>\$ 4,863,092,829</u>

At June 30, 2017, the County had outstanding general obligation (GO) bonds of \$2,789.3 million, with outstanding variable rate demand obligations (VRDOs) of \$90 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 14 'Triple AAA' rated counties in the nation with a population greater than 900,000.

In November 2016, the County received its annual credit ratings. Fitch cited "key rating drivers" of the county's "stable economic underpinnings, strong gap-closing capacity and low long-term liability burden." Fitch also reported on the County's "demonstrated capacity to absorb the constraints of a recessionary revenue environment and the fiscal decision-making to proactively restore and enhance the County's financial cushion and operations support."

Moody's cited the County's healthy reserve position and benefits from various new fiscal policies and multi-year planning. Moody's also stated that their ratings rationale reflected the County's sizeable, strong and diverse tax base, affluent demographics and manageable debt burden.

Standard and Poor's stated their opinion of the County as having a very strong economy in addition to very strong budgetary flexibility, liquidity, management and institutional framework. Standard and Poor's also cited the strength of the County's debt and contingent liability profile, and the adequacy of budget performance.

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 FY17 were:

- **Certificates of Participation** – In July 2016, the County issued Series 2016A and 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.
- **Master Lease Purchase Agreements** – In July 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.
- **Master Equipment/Lease Purchase Agreement** – In September 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 savings projects for which the repayment of debt is guaranteed through energy savings. In FY17, there were three draws under the facility to finance County projects approximating \$8 million.
- **General Obligation Bonds** – In December 2016, the County's annual general obligation bond was issued in the amount of \$340 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 education, transportation, and other County facilities.
- **Bond Anticipation Notes (BANs)** – Over the course of FY17, the County retired \$340.0 million in BANs with general obligation bond proceeds and issued \$340.0 million in BANs.
- **Bethesda Parking Lot District (PLD) 2015 Refunding Bonds** – In March 2017, the County entered into a Taxable Rate Modification with the existing shareholder for which the outstanding \$8.541 million of the Series 2015 Bonds, were converted from a tax-exempt to taxable obligation. The amortization schedule for the Series 2015 Bond remains the same, except for conversion of the tax-exempt interest rate of 2.55% to a taxable rate of 3.57%.
- **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 fiscal year 2018 (FY18) budget with updates based on revised economic data subsequent to the approval of the County's budget:

- Montgomery County experienced mixed economic performance during FY17 compared to FY16. 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. However, the number of new residential construction started decreased in FY17, which was largely attributed to the decline in the construction of multi-family units, and the number of non-residential projects also decreased.

- The County's economic projections in the FY18 budget assume a modest, yet improving, economic performance in calendar year 2017 (CY17) with a further decline in the unemployment rate in CY17. On the same calendar year basis, the County projects a modest increase in total resident employment (0.6%) and slightly stronger growth in payroll employment (1.0 percent).
- During the past ten years (CY07 – CY16), 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 CY07 to CY10 at an average annual rate of 1.0 percent, but an increase at an average annual rate of 1.0 percent from CY10 to CY16. The Department of Finance estimates that total payroll employment is expected to increase 1.0 percent in CY17.
- 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 0.4 percent between CY07 and CY10 and increased at an average annual rate of 1.0 percent from CY10 to CY16. Resident employment is expected to increase 0.6 percent in CY17.
- Based in part on employment projection for CY17, personal income will increase 4.6 percent in CY17 with per capita income increasing 3.9 percent. Income data for CY17 are based on estimates derived by the Department of Finance.
- The estimated increases in employment and personal income in CY17 along with the decline in the unemployment rate reflect a positive performance in the County's economy in FY17 which is expected to continue into FY18.
- The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System has increased the targeted federal funds rate twice from the recent range of 0.25-0.50 percent prior to December 2016 to 1.00-1.25 percent in June of CY17 and was expected to increase the rate again in December of CY17. Because of that expectation by the FOMC, the County's budget projections include an increase in the yield on its investments from 0.70 percent in FY17 to 1.20 percent in FY18.
- Inflation, as measured by the Consumer Price Index, is expected to increase 2.25 percent in FY18.

Other Significant Matters

In FY2017, Montgomery County committed \$26 million to the \$5.6 billion State Purple Line project. The Purple Line is a 16-mile light rail that will extend from Bethesda in Montgomery County to New Carrollton in Prince George's County. It will provide a direct connection to the Metrorail red, green and orange lines at Bethesda, Silver Spring, College Park and New Carrollton. The Purple Line will also connect to MARC, Amtrak and local bus services. Twenty-one stations are planned. Additional funding is expected over the construction phase of the project. It is estimated that the Purple Line will begin service in 2022.

In connection with the Pepco Holdings, Inc. and Exelon Corporation merger, the County is slated to receive \$41.6 million over three years for energy efficiency improvement programs. As of June 30, 2017, the County has received \$30.2 million of the allocated funds. To date, the County has planned to spend \$18.3 million for an energy coach network, expanded weatherization program and the establishment of a local Green Bank; \$1.7

million for workforce development and \$8.4 million for the green stability fund to stimulate public and private investments.

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, \$141.2 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, 2017
Exhibit A-1

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		Total
ASSETS				
Equity in pooled cash and investments	\$ 980,728,191	\$ 156,752,130	\$ 1,137,480,321	\$ 60,737,840
Cash with fiscal agents	101,150,984	2,458,665	103,609,649	75,847,631
Cash	420,779	142,021	562,800	17,777,347
Investments - cash equivalents	-	-	-	111,672,660
Investments	-	-	-	36,846,927
Receivables (net of allowance for uncollectibles):	665,235,841	10,238,498	675,474,339	457,062,603
Internal balances	(1,606,913)	1,606,913	-	-
Due from primary government	-	-	-	92,960,193
Due from component units	66,212,235	349,925	66,562,160	-
Due from other governments	63,883,788	181,470	64,065,258	33,764,861
Inventory of supplies	12,840,359	33,709,400	46,549,759	10,663,456
Prepaid expenses	657,872	172,452	830,324	781,330
Other assets	-	-	-	40,247,053
Restricted Assets:				
Equity in pooled cash and investments	26,767,592	32,236,418	59,004,010	4,299,455
Cash with fiscal agents	-	-	-	22,677,543
Cash	-	-	-	682,275
Investments - cash equivalents	-	-	-	152,502,516
Investments	-	3,114,809	3,114,809	87,385,298
Capital Assets:				
Nondepreciable assets	2,714,032,871	58,726,454	2,772,759,325	385,153,968
Depreciable assets, net	1,848,989,018	209,214,231	2,058,203,249	3,630,398,567
Total Assets	6,479,312,617	508,903,386	6,988,216,003	5,221,461,523
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding of debt	27,285,087	96,468	27,381,555	826,841
Pension deferrals	270,896,654	13,720,864	284,617,518	281,793,421
Accumulated decrease in fair value of hedging derivatives	-	-	-	11,556,824
Total Deferred Outflows of Resources	298,181,741	13,817,332	311,999,073	294,177,086

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2017
Exhibit A-1 (Concluded)

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		Total
LIABILITIES				
Accounts payable	\$ 70,102,705	\$ 10,992,722	\$ 81,095,427	\$ 118,715,363
Interest payable	29,821,957	626,518	30,448,475	18,392,640
Retainage payable	22,454,080	215,605	22,669,685	9,559,555
Accrued liabilities	177,597,130	8,801,875	186,399,005	97,511,837
Deposits	220,527	8,887,245	9,107,772	18,656,966
Due to primary government	-	-	-	66,658,836
Due to component units	92,907,938	52,255	92,960,193	-
Due to other governments	146,154,381	3,510,325	149,664,706	149,387
Unearned revenue	99,444,476	3,375,767	102,820,243	43,471,349
Other liabilities	-	103,585	103,585	48,207,103
Noncurrent Liabilities:				
Due within one year	853,803,651	12,288,966	866,092,617	201,470,235
Due in more than one year	4,382,112,204	150,398,054	4,532,510,258	2,185,359,383
Total Liabilities	<u>5,874,619,049</u>	<u>199,252,917</u>	<u>6,073,871,966</u>	<u>2,808,152,654</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding of debt	-	-	-	3,094,000
Pension deferrals	37,127,197	1,697,815	38,825,012	108,092,185
Total Deferred Inflows of Resources	<u>37,127,197</u>	<u>1,697,815</u>	<u>38,825,012</u>	<u>111,186,185</u>
NET POSITION				
Net investment in capital assets	2,336,853,956	186,321,262	2,523,175,218	3,293,777,711
Restricted for:				
Capital projects	58,300,451	-	58,300,451	223,333
General government	3,381,926	-	3,381,926	-
Public safety	2,824,512	-	2,824,512	-
Public works and transportation	37,464,195	28,123,152	65,587,347	-
Recreation	17,778,523	-	17,778,523	-
Community development and housing	254,494,216	-	254,494,216	-
Environment	25,122,395	31,077,023	56,199,418	-
Debt service	42,282,403	9,087,403	51,369,806	95,780,295
Other purposes	-	-	-	40,002,094
Unrestricted (deficit)	<u>(1,912,754,465)</u>	<u>67,161,146</u>	<u>(1,845,593,319)</u>	<u>(833,483,663)</u>
Total Net Position	<u>\$ 865,748,112</u>	<u>\$ 321,769,986</u>	<u>\$ 1,187,518,098</u>	<u>\$ 2,596,299,770</u>

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
Exhibit A-2

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities				
General government	\$ 540,011,504	\$ 86,023,992	\$ 2,506,534	\$ 5,759,703
Public safety	641,585,272	57,893,409	32,049,554	918,607
Public works and transportation	258,627,800	34,480,822	55,439,795	52,741,941
Health and human services	319,917,837	5,806,436	119,822,880	-
Culture and recreation	134,848,367	43,338,703	6,375,674	764,642
Community development and housing	50,618,370	6,484,254	8,593,974	(11,539)
Environment	29,095,268	1,146,600	-	1,787,625
Education	2,037,048,982	-	-	-
Interest on long term debt	100,887,704	-	-	-
Total Governmental Activities	4,112,641,104	235,174,216	224,788,411	61,960,979
Business-type Activities				
Liquor control	273,828,277	298,493,309	-	-
Solid waste disposal and collection	92,126,174	115,150,999	-	-
Parking lot districts	34,418,684	36,001,841	-	-
Permitting services	36,065,066	39,652,271	-	-
Community use of public facilities	10,386,038	11,335,072	-	-
Total Business-type Activities	446,824,239	500,633,492	-	-
Total Primary Government	\$ 4,559,465,343	\$ 735,807,708	\$ 224,788,411	\$ 61,960,979
Component Units:				
General government (BUP)	\$ 5,600,713	\$ 5,399,502	\$ 219,920	\$ -
Culture and recreation (MCRA)	18,508,707	16,557,849	-	1,823,462
Community development and housing (HOC)	244,228,543	114,643,198	118,488,346	8,406,478
Education:				
Elementary and secondary education (MCPS)	2,857,377,551	30,583,631	122,283,065	74,501,828
Higher education (MC)	348,267,060	69,296,995	17,699,154	45,690,553
Total Component Units	\$ 3,473,982,574	\$ 236,481,175	\$ 258,690,485	\$ 130,422,321
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	
\$ (445,721,275)	\$ -	\$ (445,721,275)	\$ -	
(550,723,702)	-	(550,723,702)	-	
(115,965,242)	-	(115,965,242)	-	
(194,288,521)	-	(194,288,521)	-	
(84,369,348)	-	(84,369,348)	-	
(35,551,681)	-	(35,551,681)	-	
(26,161,043)	-	(26,161,043)	-	
(2,037,048,982)	-	(2,037,048,982)	-	
(100,887,704)	-	(100,887,704)	-	
(3,590,717,498)	-	(3,590,717,498)	-	
-	24,665,032	24,665,032	-	
-	23,024,825	23,024,825	-	
-	1,583,157	1,583,157	-	
-	3,587,205	3,587,205	-	
-	949,034	949,034	-	
-	53,809,253	53,809,253	-	
\$ (3,590,717,498)	\$ 53,809,253	\$ (3,536,908,245)	\$ -	
\$ -	\$ -	\$ -	\$ 18,709	
-	-	-	(127,396)	
-	-	-	(2,690,521)	
-	-	-	(2,630,009,027)	
-	-	-	(215,580,358)	
\$ -	\$ -	\$ -	\$ (2,848,388,593)	
1,792,921,614	(45,762)	1,792,875,852	-	
1,481,806,881	-	1,481,806,881	-	
118,000,203	-	118,000,203	-	
60,375,616	-	60,375,616	-	
192,459,066	-	192,459,066	-	
21,462,751	-	21,462,751	-	
50,812,917	-	50,812,917	-	
4,335,196	-	4,335,196	-	
-	-	-	2,944,183,500	
13,770,994	1,068,863	14,839,857	7,756,715	
-	162,042	162,042	30,772,353	
31,875,197	(31,875,197)	-	-	
3,767,820,435	(30,690,054)	3,737,130,381	2,982,712,568	
177,102,937	23,119,199	200,222,136	134,323,975	
688,645,175	298,650,787	987,295,962	2,461,975,795	
\$ 865,748,112	\$ 321,769,986	\$ 1,187,518,098	\$ 2,596,299,770	

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017
Exhibit A-3

	General	Housing Initiative	Grants	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Equity in pooled cash and investments	\$ 315,614,724	\$ 33,904,228	\$ 1,628,903	\$ 31,975,306	\$ 276,973,268	\$ 96,887,149	\$ 756,983,578
Cash with fiscal agents	6,992,620	-	-	13,386,793	80,771,571	-	101,150,984
Cash	170,279	212,450	-	-	-	37,750	420,479
Equity in pooled cash and investments-Restricted	26,767,592	-	-	-	-	-	26,767,592
Receivables (net of allowances for uncollectibles)	373,933,322	175,411,606	45,203,968	47,645,000	368,345	21,477,182	664,039,423
Due from other funds	173,075,001	-	-	-	-	1,174,577	174,249,578
Due from component units	89,893	45,488,870	10,901,752	-	8,951,415	-	65,431,930
Due from other governments	31,572,255	-	19,853,481	-	10,262,801	1,965,202	63,653,739
Inventory of supplies	8,334,700	-	-	-	-	-	8,334,700
Prepays	462,829	-	-	-	-	-	462,829
Total Assets	<u>\$ 937,013,215</u>	<u>\$ 255,017,154</u>	<u>\$ 77,588,104</u>	<u>\$ 93,007,099</u>	<u>\$ 377,327,400</u>	<u>\$ 121,541,860</u>	<u>\$ 1,861,494,832</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities:							
Accounts payable	30,787,982	309,596	3,826,051	538,626	22,113,639	2,283,004	59,858,898
Retainage payable	653,235	-	33,663	-	21,685,561	81,621	22,454,080
Accrued liabilities	78,213,481	131,843	4,213,101	12,945	50,929,070	14,612,205	148,112,645
Deposits	55,000	-	-	-	-	165,527	220,527
Due to other funds	10,325,051	33,058	16,266,417	-	158,920,278	4,490,005	190,034,809
Due to component units	34,859,438	521,160	688,036	2,411,775	54,286,805	94,749	92,861,963
Due to other governments	603,711	1,625	1,275,849	-	2,402,252	437,997	4,721,434
Unearned revenue	-	-	51,068,954	47,761,350	1,184,887	11,642	100,026,833
Total Liabilities	<u>155,497,898</u>	<u>997,282</u>	<u>77,372,071</u>	<u>50,724,696</u>	<u>311,522,492</u>	<u>22,176,750</u>	<u>618,291,189</u>
Deferred Inflows of Resources:							
Unavailable income taxes	259,138,293	-	-	-	-	-	259,138,293
Unavailable property taxes	9,988,725	-	-	-	-	3,252,203	13,240,928
Unavailable revenues	5,416,504	4,244,696	-	-	7,504,457	5,099,142	22,264,799
Total Deferred Inflows of Resources	<u>274,543,522</u>	<u>4,244,696</u>	<u>-</u>	<u>-</u>	<u>7,504,457</u>	<u>8,351,345</u>	<u>294,644,020</u>
Fund Balances:							
Nonspendable	8,797,529	-	-	-	-	-	8,797,529
Restricted	292,445,250	249,775,176	216,033	42,282,403	58,300,451	91,074,558	734,093,871
Committed	60,445,573	-	-	-	-	-	60,445,573
Assigned	26,916,962	-	-	-	-	-	26,916,962
Unassigned	118,366,481	-	-	-	-	(60,793)	118,305,688
Total Fund Balances	<u>506,971,795</u>	<u>249,775,176</u>	<u>216,033</u>	<u>42,282,403</u>	<u>58,300,451</u>	<u>91,013,765</u>	<u>948,559,623</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 937,013,215</u>	<u>\$ 255,017,154</u>	<u>\$ 77,588,104</u>	<u>\$ 93,007,099</u>	<u>\$ 377,327,400</u>	<u>\$ 121,541,860</u>	<u>\$ 1,861,494,832</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, 2017
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		\$	948,559,623
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	\$	936,296,729	
Construction in progress		1,777,713,638	
Depreciable capital assets:			
Buildings		877,745,860	
Improvements other than buildings		95,751,661	
Furniture, fixtures, equipment and machinery		217,266,661	
Automobiles and trucks		215,646,468	
Infrastructure		1,908,094,853	
Other capital assets		40,387,339	
Total capital assets		6,068,903,208	
Less accumulated depreciation		(1,548,523,670)	4,520,379,537
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	(2,789,265,000)		
Variable rate demand obligations	(90,000,000)		
Bond anticipation notes payable	(500,000,000)		
Lease revenue bonds payable	(22,785,000)		
Accrued interest payable	(29,821,957)		
Capital leases payable	(8,454,830)		
Taxable limited obligation	(78,660,000)		
Certificates of participation	(28,505,000)		
Notes payable	(82,172,180)		
Revenue bonds	(137,043,695)		
Net pension liability	(562,618,313)		
Other postemployment benefits	(435,527,793)		
Claims and judgements	(1,073,600)		
Compensated absences	(79,363,460)		(4,845,290,828)
Due to other governments - long term debt due to state government not expected to be repaid with current financial reserves	(141,231,325)		(141,231,325)
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	(252,186,333)		
Unrecognized amount on refunding	27,285,087		
Pension related deferrals, net	231,059,178		6,157,932
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	238,821,842		
Capital assets	101,411,580		
Less accumulated depreciation	(58,769,227)		
Deferred outflows of resources	3,098,995		
Liabilities	(199,963,493)		
Deferred inflows of resources	(388,716)		
Cumulative gain/loss for certain activities of internal service funds that are reported with business-type activities	(2,299,002)		81,911,979
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:			
Income taxes	259,138,293		
Property taxes	13,240,928		
Intergovernmental revenue	13,761,527		
Other revenue	9,120,446		295,261,194
Net position of governmental activities (See Exhibit A-1)		\$	865,748,112

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, 2017
Exhibit A-5

	General	Housing Initiative	Grants	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 3,182,472,064	\$ 15,418,027	\$ -	\$ -	\$ 129,869,700	\$ 383,640,962	\$ 3,711,400,753
Licenses and permits	11,236,330	-	-	-	-	522,354	11,758,684
Intergovernmental	75,066,678	-	104,279,494	5,689,944	13,736,764	43,321,031	242,093,911
Charges for services	30,128,687	390	138,334	-	563,507	96,933,192	127,764,110
Fines and forfeitures	26,826,771	-	-	-	-	1,807,069	28,633,840
Investment income (loss)	1,120,236	5,153,166	781,152	76,713	1,143,812	933,697	9,208,776
Miscellaneous	22,474,705	1,805,585	2,079,647	4,034,113	25,234,646	4,929,944	60,558,640
Total Revenues	3,349,325,471	22,377,168	107,278,627	9,800,770	170,548,429	532,088,249	4,191,418,714
EXPENDITURES							
Current:							
General government	446,202,270	-	648,976	-	-	1,887,073	448,738,319
Public safety	379,644,039	-	11,096,067	-	-	232,812,646	623,552,752
Public works and transportation	67,413,701	-	4,414,248	-	-	123,301,568	195,129,517
Health and human services	237,717,134	-	82,409,234	-	-	306,184	320,432,552
Culture and recreation	45,250,504	-	203,335	-	-	49,099,438	94,553,277
Community development and housing	13,662,421	29,945,130	8,858,366	-	-	1,303	52,467,220
Environment	2,314,408	-	-	-	-	25,432,087	27,746,495
Education	1,792,988,988	-	-	25,915,255	-	-	1,818,904,243
Debt Service:							
Principal retirement	-	-	-	224,618,357	-	-	224,618,357
Leases and other obligations	-	-	-	29,326,306	-	-	29,326,306
Interest	-	-	-	141,126,787	-	-	141,126,787
Issuing costs	-	-	-	5,639,495	-	-	5,639,495
Capital projects	-	-	-	-	627,826,903	-	627,826,903
Total Expenditures	2,985,193,465	29,945,130	107,630,226	426,626,200	627,826,903	432,840,299	4,610,062,223
Excess (Deficiency) of Revenues over (under) Expenditures	364,132,006	(7,567,962)	(351,599)	(416,825,430)	(457,278,474)	99,247,950	(418,643,509)
OTHER FINANCING SOURCES (USES)							
Transfers in	53,211,761	28,497,252	351,599	376,733,181	91,054,330	3,606,010	553,454,133
Transfers (out)	(390,731,179)	(26,842,787)	-	-	(6,423,117)	(97,673,164)	(521,670,247)
Sale of property	22,844	1,825,683	-	-	37,808	-	1,886,335
Financing under notes and leases payable	-	-	-	-	41,921,607	-	41,921,607
Debt Issued (Retired):							
General obligation bonds	-	-	-	340,000,000	-	-	340,000,000
Premium on original issue debt	-	-	-	29,810,010	-	-	29,810,010
Bond anticipation notes	-	-	-	(340,000,000)	340,000,000	-	-
Certificates of participation	-	-	-	24,860,000	-	-	24,860,000
Premium on certificates of participation	-	-	-	1,329,676	-	-	1,329,676
Total Other Financing Sources (Uses)	(337,496,574)	3,480,148	351,599	432,732,867	466,590,628	(94,067,154)	471,591,514
Net Change in Fund Balances	26,635,432	(4,087,814)	-	15,907,437	9,312,154	5,180,796	52,948,005
Fund Balances - Beginning of Year	480,336,363	253,862,990	216,033	26,374,966	48,988,297	85,832,969	895,611,618
Fund Balances - End of Year	\$ 506,971,795	\$ 249,775,176	\$ 216,033	\$ 42,282,403	\$ 58,300,451	\$ 91,013,765	\$ 948,559,623

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, 2017
Exhibit A-6

Net change in fund balance - total governmental funds (see Exhibit A-5)	\$	52,948,005
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlay	\$	315,647,940	
Depreciation expense		<u>(87,350,468)</u>	228,297,472

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.	(7,833,346)	(7,833,346)
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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.	16,381,019	16,381,019
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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	15,180,887	
Property taxes	(4,407,396)	
Intergovernmental revenues	5,220,807	
Other revenues	<u>1,475,511</u>	17,469,809

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	(369,810,010)	
Bond anticipation notes	(340,000,000)	
Notes payable	(41,921,607)	
Revenue bonds	(26,189,676)	
Principal repayments:		
General obligation bonds	208,025,000	
Variable rate demand obligations	10,000,000	
Bond anticipation notes	340,000,000	
Taxable limited obligation certificates	3,875,000	
Leases payable	2,280,000	
Capital leases	2,703,600	
Certificates of participation	7,155,000	
Notes payable	13,735,253	
Revenue bonds	6,138,021	(184,009,419)

Cost incurred for past refunds owed as a result of the supreme court decision related to duplicate taxation	<u>(8,657,855)</u>	(8,657,855)
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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	13,302,251	
Compensated absences	(5,483,417)	
Pension expense	5,170,416	
Other postemployment benefits	8,420,906	
Claims and judgements	(70,400)	
Amortization	32,609,116	53,948,872

The current year gain for certain activities of internal service funds is reported with governmental activities.	<u>8,558,380</u>
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Change in net position of governmental activities (see Exhibit A-2)	<u><u>\$</u></u>	<u>177,102,937</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, 2017
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	\$ 2,373,129	\$ 56,302,452	\$ 31,616,857	\$ 66,459,692	\$ 156,752,130	\$ 223,744,613
Cash with fiscal agents	2,458,660	-	5	-	2,458,665	-
Cash	54,500	3,600	83,921	-	142,021	300
Receivables (net of allowance for uncollectibles):	4,389,258	3,628,587	1,973,487	247,166	10,238,498	1,186,049
Due from other funds	-	-	-	-	-	8,179,826
Due from component units	-	56,394	293,531	-	349,925	780,305
Due from other governments	-	181,470	-	-	181,470	230,049
Inventory of supplies	33,709,400	-	-	-	33,709,400	4,505,659
Prepays	172,452	-	-	-	172,452	195,041
Total Current Assets	43,157,399	60,172,503	33,967,801	66,706,858	204,004,561	238,821,842
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	28,722,485	3,513,933	-	32,236,418	-
Investments	-	-	3,114,809	-	3,114,809	-
Restricted Assets	-	28,722,485	6,628,742	-	35,351,227	-
Capital Assets:						
Land, improved and unimproved	7,033,656	17,834,755	33,575,670	-	58,444,081	22,506
Improvements other than buildings	15,054,010	81,554,468	83,756,212	-	180,364,690	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	26,404,147	33,967,015	236,042,928	-	296,414,090	-
Furniture, fixtures, equipment, and machinery	15,736,423	17,439,977	1,079,799	1,803,002	36,059,201	3,989,933
Automobiles and trucks	4,187,948	298,419	172,588	397,939	5,056,894	97,130,576
Construction in progress	-	-	282,372	-	282,372	-
Subtotal	68,416,184	151,108,985	354,909,569	2,200,941	576,635,679	101,411,580
Less: Accumulated depreciation	16,142,929	108,836,115	181,949,993	1,765,956	308,694,993	58,769,227
Total Capital Assets (net of accumulated depreciation)	52,273,255	42,272,870	172,959,576	434,985	267,940,686	42,642,353
Total Noncurrent Assets	52,273,255	70,995,355	179,588,318	434,985	303,291,913	42,642,353
Total Assets	95,430,654	131,167,858	213,556,119	67,141,843	507,296,474	281,464,195
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding of debt	-	-	96,468	-	96,468	-
Pension deferrals	3,971,063	2,348,220	923,727	6,477,854	13,720,864	3,098,995
Total Deferred Outflows of Resources	3,971,063	2,348,220	1,020,195	6,477,854	13,817,332	3,098,995

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017
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	
LIABILITIES						
Current Liabilities:						
Accounts payable	\$ 5,784,537	\$ 3,653,375	\$ 1,433,659	\$ 121,151	\$ 10,992,722	\$ 10,243,808
Interest payable	444,891	-	181,627	-	626,518	-
Retainage payable	69,946	-	145,659	-	215,605	-
Deposits	-	-	-	8,887,245	8,887,245	-
Claims payable	-	-	-	-	-	40,764,793
Accrued liabilities	4,975,901	4,173,002	403,764	2,987,450	12,540,117	6,888,892
Due to other funds	563,420	183,942	81,022	529,545	1,357,929	15,930,623
Due to component units	-	-	824	51,431	52,255	45,975
Due to other governments	1,187,376	2,322,949	-	-	3,510,325	201,622
Equipment notes payable	1,069,466	-	153,332	18,987	1,241,785	-
Unearned revenue	27,010	-	551,422	2,797,335	3,375,767	34,816
Revenue bonds payable	2,206,912	-	3,291,000	-	5,497,912	-
Landfill closure costs	-	1,145,189	-	-	1,145,189	-
Other liabilities	3,585	-	100,000	-	103,585	-
Total Current Liabilities	16,333,044	11,478,457	6,342,309	15,393,144	49,546,954	74,110,529
Noncurrent Liabilities:						
Claims payable	-	-	-	-	-	118,316,809
Equipment note payable	3,969,838	-	156,022	-	4,125,860	-
Revenue bonds payable	37,899,695	-	34,707,812	-	72,607,507	-
Landfill closure costs	-	14,588,533	-	-	14,588,533	-
Gude Landfill remediation costs	-	28,700,000	-	-	28,700,000	-
Compensated absences	913,361	373,581	124,472	960,014	2,371,428	891,081
Net pension liability	6,999,225	4,248,338	1,642,921	11,149,019	24,039,503	5,503,860
Other postemployment benefits	1,838,263	477,233	229,800	1,419,926	3,965,222	1,141,214
Total Noncurrent Liabilities	51,620,382	48,387,685	36,861,027	13,528,959	150,398,053	125,852,964
Total Liabilities	67,953,426	59,866,142	43,203,336	28,922,103	199,945,007	199,963,493
DEFERRED INFLOWS OF RESOURCES						
Pension deferrals	494,328	300,043	116,033	787,411	1,697,815	388,716
Total Deferred Inflows of Resources	494,328	300,043	116,033	787,411	1,697,815	388,716
NET POSITION						
Net investment in capital assets	7,127,344	42,272,870	136,505,050	415,998	186,321,262	42,586,894
Restricted for:						
Public works and transportation	-	-	28,123,152	-	28,123,152	-
Environment	-	31,077,023	-	-	31,077,023	-
Debt Service	2,458,660	-	6,628,743	-	9,087,403	-
Unrestricted	21,367,959	-	-	43,494,185	64,862,144	41,624,087
Total Net Position	\$ 30,953,963	\$ 73,349,893	\$ 171,256,945	\$ 43,910,183	319,470,984	\$ 84,210,981
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					2,299,002	
Net position of business-type activities					\$ 321,769,986	

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, 2017
Exhibit A-8

	Business-Type Activities - Enterprise Funds				Totals	Governmental Activities- Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Nonmajor Enterprise Funds		
OPERATING REVENUES						
Sales - net	\$ 296,155,116	\$ -	\$ -	\$ -	\$ 296,155,116	\$ -
Charges for services	21,868	112,668,265	28,755,384	12,437,095	153,882,612	291,738,094
Licenses and permits	1,913,800	11,230	-	38,442,968	40,367,998	-
Fines and penalties	218,464	50,370	6,578,765	87,485	6,935,084	2,174,238
Total Operating Revenues	298,309,248	112,729,865	35,334,149	50,967,548	497,340,810	293,912,332
OPERATING EXPENSES						
Cost of goods sold	215,872,938	-	-	-	215,872,938	-
Personnel costs	34,409,501	14,418,900	4,756,290	31,539,515	85,124,206	29,471,311
Other post employment contributions	2,157,520	330,980	273,640	1,205,050	3,967,190	1,273,460
Postage	23,119	26,286	6,693	16,068	72,166	1,028,184
Self-insurance incurred and estimated claims	-	-	-	-	-	161,614,455
Insurance	593,071	1,096,825	24,090	395,042	2,109,028	31,639,593
Supplies and materials	717,329	1,156,901	381,230	548,765	2,804,225	22,128,171
Contractual services	3,444,271	70,125,801	8,085,535	6,408,355	88,063,962	13,032,481
Communications	320,881	123,768	130,960	235,375	810,984	450,352
Transportation	1,216,209	1,941,359	277,031	898,080	4,332,679	232,954
Public utility services	713,674	160,147	2,436,932	1,933,790	5,244,543	997,885
Rentals	7,634,056	22,007	1,205,062	3,030,975	11,892,100	2,730,690
Maintenance	1,204,599	598,043	3,407,049	222,458	5,432,149	14,376,357
Depreciation	2,522,575	1,722,399	11,586,478	161,021	15,992,473	7,620,842
Landfill closure expense	-	394,244	-	-	394,244	-
Other	1,623,463	62,808	368,634	89,830	2,144,735	650,267
Total Operating Expenses	272,453,206	92,180,468	32,939,624	46,684,324	444,257,622	287,247,002
Operating Income (Loss)	25,856,042	20,549,397	2,394,525	4,283,224	53,083,188	6,665,330
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	(45,762)	-	(45,762)	-
Gain (loss) on disposal of capital assets	-	162,042	(379,699)	-	(217,657)	521,952
Investment income	78,759	330,715	216,492	442,897	1,068,863	1,309,257
Interest expense	(1,763,512)	-	(1,069,355)	(382)	(2,833,249)	-
Miscellaneous	-	2,259,288	-	-	2,259,288	-
Other revenue	178,931	54,026	435,904	19,795	688,656	-
Insurance recoveries	5,130	107,820	231,788	-	344,738	616,861
Total Nonoperating Revenues (Expenses)	(1,500,692)	2,913,891	(610,632)	462,310	1,264,877	2,448,070
Income (Loss) Before Capital Contributions and Transfers	24,355,350	23,463,288	1,783,893	4,745,534	54,348,065	9,113,400
Transfers In (Out):						
Transfers in	41,865	-	-	25,000	66,865	95,623
Transfers out	(19,088,907)	(2,793,471)	(4,488,528)	(5,571,156)	(31,942,062)	(4,312)
Total Transfers In (Out)	(19,047,042)	(2,793,471)	(4,488,528)	(5,546,156)	(31,875,197)	91,311
Change in Net Position	5,308,308	20,669,817	(2,704,635)	(800,622)	22,472,868	9,204,711
Total Net Position - Beginning of Year	25,645,655	52,680,076	173,961,580	44,710,805		75,006,270
Total Net Position - End of Year	\$ 30,953,963	\$ 73,349,893	\$ 171,256,945	\$ 43,910,183		\$ 84,210,981
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					646,331	
Change in net position of business-type activities					\$ 23,119,199	

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, 2017
Exhibit A-9

	Business Type Activities - Enterprise Funds					Governmental
	Liquor	Solid Waste Activities	Parking Lot Districts	Nonmajor Enterprise Funds	Totals	Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 300,450,866	\$ 114,326,667	\$ 35,484,717	\$ 50,901,592	\$ 501,163,842	\$ 293,839,863
Payments to suppliers	(239,451,155)	(75,039,258)	(15,602,122)	(15,850,700)	(345,943,235)	(79,027,006)
Payments to employees	(36,048,042)	(15,480,503)	(5,917,064)	(31,305,744)	(88,751,353)	(27,023,935)
Other operating receipts	178,931	-	435,904	4,254,416	4,869,251	-
Other operating payments	-	-	(368,556)	(4,477,922)	(4,846,478)	-
Other Operating Expenses	(1,623,463)	-	-	-	(1,623,463)	-
Claims paid	5,130	-	-	-	5,130	(154,129,412)
Other revenue	-	2,313,314	-	19,795	2,333,109	453,747
Net Cash Provided (Used) by Operating Activities	23,512,267	26,120,220	14,032,879	3,541,437	67,206,803	34,113,257
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	(45,762)	-	(45,762)	-
Insurance reimbursement claims	-	107,821	231,788	-	339,609	570,096
Operating subsidies and transfers from other funds	41,864	-	-	25,000	66,864	-
Operating subsidies and transfers to other funds	(19,088,907)	(2,793,471)	(4,488,528)	(5,571,156)	(31,942,062)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(19,047,043)	(2,685,650)	(4,302,502)	(5,546,156)	(31,581,351)	570,096
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from sale of capital assets	-	206,061	-	-	206,061	702,298
Equipment Note Payable	(997,710)	-	-	-	(997,710)	-
Acquisition and construction of capital assets	(2,621,300)	(4,299,265)	(5,026,480)	-	(11,947,045)	(16,947,381)
Proceeds from equipment note payable	778,565	-	-	-	778,565	-
Principal paid on equipment note payable	-	-	(150,689)	-	(150,689)	-
Interest paid on equipment note payable	-	-	(7,380)	-	(7,380)	-
Principal paid on capital debt	(2,294,594)	-	(3,158,000)	(18,769)	(5,471,363)	-
Interest paid on capital debt	(1,763,512)	-	(1,416,348)	(382)	(3,180,242)	-
Internal activity - payments from other funds	-	-	-	-	-	95,623
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,898,551)	(4,093,204)	(9,758,897)	(19,151)	(20,769,803)	(16,149,460)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	78,759	330,715	202,303	442,897	1,054,674	1,309,257
Investment income from nonpooled investments	-	-	50	-	50	-
Net Cash Provided (Used) by Investing Activities	78,759	330,715	202,353	442,897	1,054,724	1,309,257
Net Increase (Decrease) in Cash and Cash Equivalents	(2,354,568)	19,672,081	173,833	(1,580,973)	15,910,373	19,843,150
Balances - Beginning of Year	7,240,857	65,356,456	35,040,883	68,040,665	175,678,861	203,901,763
Balances - End of Year	\$ 4,886,289	\$ 85,028,537	\$ 35,214,716	\$ 66,459,692	\$ 191,589,234	\$ 223,744,913
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 25,856,042	\$ 20,549,397	\$ 2,394,525	\$ 4,283,224	\$ 53,083,188	\$ 6,665,330
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	2,522,575	1,722,399	11,586,478	161,021	15,992,473	7,620,842
Other revenue	178,931	2,313,314	435,904	19,795	2,947,944	42,456
Unearned revenue	7,291	-	-	-	7,291	-
Insurance Recoveries	5,130	-	-	-	5,130	-
Other operating expenses	-	-	74,042	-	74,042	-
Pension expense	355,210	149,848	68,122	(372,783)	200,397	111,574
Effect of changes in operating assets and liabilities:						
Receivables, net	2,134,326	1,360,840	76,526	(41,321)	3,530,371	338,821
Inventories, prepaids and other assets	-	-	-	-	-	(193,500)
Compensated Absences	26,399	-	-	-	26,399	-
Accounts payable and other liabilities	(7,711,009)	1,004,872	338,155	(898,112)	(7,266,094)	7,303,861
Claims payable	-	-	-	-	-	9,942,688
Accrued expenses	137,372	(980,450)	(940,873)	389,613	(1,394,338)	2,281,185
Net Cash Provided (Used) by Operating Activities	\$ 23,512,267	\$ 26,120,220	\$ 14,032,879	\$ 3,541,437	\$ 67,206,803	\$ 34,113,257
Noncash investing, capital and financing activities:						
Change in fair value of investments that are not cash and cash equivalents	\$ -	\$ -	\$ 12,817	\$ -	\$ 12,817	\$ -
Capital asset disposals	\$ -	\$ -	\$ 379,699	\$ -	\$ 379,699	\$ -

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017
Exhibit A-10

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	\$ 2,132,281	\$ 10,760,691	\$ -	\$ 31,001,713
Cash	-	-	-	158,242
Investments:				
Government and agency obligations	550,678,073	-	-	-
Asset-backed securities	701,420	-	-	-
Municipal/Provincial bonds	9,992,343	-	-	-
Corporate bonds	799,906,063	-	-	-
Collateralized mortgage obligations	959,491	-	-	-
Commercial mortgage-backed securities	1,763,609	-	-	-
Common and preferred stock	2,104,805,978	-	-	-
Mutual and commingled funds	1,282,218,549	-	-	-
Short-term investments	202,592,990	-	-	-
Cash collateral received under securities lending agreements	215,647,371	-	-	-
Private real assets	212,332,555	-	-	-
Private equity/debt	378,934,466	-	-	-
Total Investments	5,760,532,908	-	-	-
Receivables (net of allowances for uncollectibles):				
Receivables and accrued interest	17,085,142	-	-	-
Property taxes	-	-	-	4,742,040
Accounts	332,994	-	-	9,950,381
Due from other funds	24,915,925	-	-	-
Due from component units	96,675	-	-	-
Due from other governments	2,868	-	-	161,259
Total Current Assets	5,805,098,793	10,760,691	-	46,013,635
Noncurrent Assets:				
Capital assets:				
Miscellaneous	900,043	-	-	-
Less: Accumulated depreciation	900,043	-	-	-
Total Capital Assets (net of accumulated depreciation)	-	-	-	-
Total Assets	5,805,098,793	10,760,691	-	46,013,635
LIABILITIES				
Current Liabilities:				
Accounts payable	217,950,812	-	-	498,062
Accrued liabilities	5,530,243	-	-	14,459
Deposits	-	-	-	2,902,951
Claims payable	4,174,423	-	-	-
Due to other funds	21,968	-	-	-
Due to other governments	-	-	-	3,103,002
Uncollected property taxes due to governments	-	-	-	4,417,261
Undistributed taxes and refunds	-	-	-	67,554
Unearned revenue	77,121	-	-	-
Tax sale surplus and redemptions payable	-	-	-	3,213,282
Other liabilities	-	-	-	31,797,064
Total Current Liabilities	227,754,567	-	-	46,013,635
Noncurrent Liabilities:				
Compensated absences	79,775	-	-	-
Total Liabilities	227,834,342	-	-	\$ 46,013,635
NET POSITION				
Restricted for pension and other postemployment benefits, external investment pool participants, and other purposes	\$ 5,577,264,451	\$ 10,760,691	\$ -	

Notes to 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, 2017
Exhibit A-11

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts
ADDITIONS			
Contributions:			
Employers	\$ 302,226,682	\$ -	\$ -
Members	82,413,229	-	-
Federal government - Medicare Part D	6,345,721	-	-
Share purchases	-	2,604,404	-
Total Contributions	390,985,632	2,604,404	-
Investment income (loss)	609,706,286	58,178	19
Less: Investment expenses	22,856,109	-	-
Net Investment Income (Loss)	586,850,177	58,178	19
Other income - forfeitures	725,208	-	-
Total Additions, net	978,561,017	2,662,582	19
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	175,048,760	-	-
Survivors	9,334,089	-	-
Disability	50,741,385	-	-
Claims	115,142,393	-	-
Total Benefits	350,266,627	-	-
Share redemptions	-	1,250,000	-
Member refunds	47,359,201	-	-
Administrative expenses	7,669,572	-	15,458
Depreciation	300,014	-	-
Total Deductions	405,595,414	1,250,000	15,458
Net Increase (Decrease)	572,965,603	1,412,582	(15,439)
Net Position - Beginning of Year	5,004,298,848	9,348,109	15,439
Net Position - End of Year	\$ 5,577,264,451	\$ 10,760,691	\$ -

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
COMPONENT UNITS
JUNE 30, 2017
Exhibit A-12

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	\$ 36,798,414	\$ 11,186	\$ 23,928,240	\$ 60,737,840
Cash with fiscal agents	-	68,861,885	6,985,746	75,847,631
Cash	10,602,413	15,796	7,159,138	17,777,347
Investments - cash equivalents	69,901,398	35,039,361	6,731,901	111,672,660
Investments	-	-	36,846,927	36,846,927
Receivables (net of allowance for uncollectibles):				
Capital leases	-	-	8,990,122	8,990,122
Accounts	38,053,952	732,863	6,532,897	45,319,712
Notes	-	-	62,594,160	62,594,160
Mortgage	-	308,362,636	-	308,362,636
Interest	-	4,614,215	-	4,614,215
Other	127,000	20,876,792	6,177,966	27,181,758
Due from primary government	76,243,443	561,071	16,155,679	92,960,193
Due from other governments	24,266,079	4,834,907	4,663,875	33,764,861
Inventory of supplies	9,966,149	341,279	356,028	10,663,456
Prepays	342,180	-	439,150	781,330
Other assets	-	35,446,981	4,800,072	40,247,053
Restricted Assets:				
Equity in pooled cash and investments	-	1,084,123	3,215,332	4,299,455
Cash with fiscal agents	-	22,677,543	-	22,677,543
Cash	-	-	682,275	682,275
Investments - cash equivalents	-	131,242,168	21,260,348	152,502,516
Investments	-	85,911,542	1,473,756	87,385,298
Capital Assets:				
Nondepreciable assets	176,540,752	102,692,315	105,920,901	385,153,968
Depreciable assets, net	2,615,627,541	483,462,500	531,308,526	3,630,398,567
Total Assets	<u>3,058,469,321</u>	<u>1,306,769,163</u>	<u>856,223,039</u>	<u>5,221,461,523</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding of debt	-	-	826,841	826,841
Pension deferrals	267,608,824	6,429,816	7,754,781	281,793,421
Accumulated decrease in fair value of hedging derivatives	-	11,376,760	180,064	11,556,824
Total Deferred Outflow of Resources	<u>267,608,824</u>	<u>17,806,576</u>	<u>8,761,686</u>	<u>294,177,086</u>
LIABILITIES				
Accounts payable	96,871,693	19,286,608	2,557,062	118,715,363
Interest payable	-	17,863,270	529,370	18,392,640
Retainage payable	8,026,165	-	1,533,390	9,559,555
Accrued liabilities	67,508,676	7,771,925	22,231,236	97,511,837
Deposits	-	18,285,610	371,356	18,656,966
Due to primary government	53,703	66,259,320	345,813	66,658,836
Due to other governments	-	-	149,387	149,387
Unearned revenue	8,499,806	27,540,443	7,431,100	43,471,349
Other liabilities	-	46,038,464	2,168,639	48,207,103
Noncurrent Liabilities:				
Due within one year	57,619,387	133,361,534	10,489,314	201,470,235
Due in more than one year	1,247,791,645	731,403,470	206,164,268	2,185,359,383
Total Liabilities	<u>1,486,371,075</u>	<u>1,067,810,644</u>	<u>253,970,935</u>	<u>2,808,152,654</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding of debt	-	-	3,094,000	3,094,000
Pension deferrals	104,378,920	2,712,808	1,000,457	108,092,185
Total Deferred Inflow of Resources	<u>104,378,920</u>	<u>2,712,808</u>	<u>4,094,457</u>	<u>111,186,185</u>
NET POSITION				
Net investment in capital assets	2,755,450,828	11,438,310	526,888,573	3,293,777,711
Restricted for:				
Capital projects	-	-	223,333	223,333
Debt service	-	94,306,539	1,473,756	95,780,295
Other purposes	1,854,255	5,474,073	32,673,766	40,002,094
Unrestricted (deficit)	<u>(1,021,976,933)</u>	<u>142,833,365</u>	<u>45,659,905</u>	<u>(833,483,663)</u>
Total Net Position	<u>\$ 1,735,328,150</u>	<u>\$ 254,052,287</u>	<u>\$ 606,919,333</u>	<u>\$ 2,596,299,770</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, 2017
Exhibit A-13

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	MCPS	HOC	Nonmajor Component Units	Total
Component Units:								
General government	\$ 5,600,713	\$ 5,399,502	\$ 219,920	\$ -	\$ -	\$ -	\$ 18,709	\$ 18,709
Culture and recreation	18,508,707	16,557,849	-	1,823,462	-	-	(127,396)	(127,396)
Community development and housing	244,228,543	114,643,198	118,488,346	8,406,478	-	(2,690,521)	-	(2,690,521)
Education:								
Secondary education	2,857,377,551	30,583,631	122,283,065	74,501,828	(2,630,009,027)	-	-	(2,630,009,027)
Higher education	348,267,060	69,296,995	17,699,154	45,690,553	-	-	(215,580,358)	(215,580,358)
Total component units	<u>\$ 3,473,982,574</u>	<u>\$ 236,481,175</u>	<u>\$ 258,690,485</u>	<u>\$ 130,422,321</u>	<u>(2,630,009,027)</u>	<u>(2,690,521)</u>	<u>(215,689,045)</u>	<u>(2,848,388,593)</u>
General revenues:								
Grants and contributions not restricted to specific programs					2,720,473,914	352,264	223,357,322	2,944,183,500
Investment income					8,768	2,068,663	5,679,284	7,756,715
Gain (loss) on sale of capital assets					192,062	30,574,480	5,811	30,772,353
Total general revenues					<u>2,720,674,744</u>	<u>32,995,407</u>	<u>229,042,417</u>	<u>2,982,712,568</u>
Change in net position					90,665,717	30,304,886	13,353,372	134,323,975
Net position - beginning, as restated					<u>1,644,662,433</u>	<u>223,747,401</u>	<u>593,565,961</u>	<u>2,461,975,795</u>
Net position - ending					\$ 1,735,328,150	\$ 254,052,287	\$ 606,919,333	\$ 2,596,299,770

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



MONTGOMERY COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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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 Housing and Community Development Article of the Annotated Code of Maryland, as amended, known as the Housing Authorities Law. 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 eleven-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 850 Hungerford Drive 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 th 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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, deferred outflow of resources, liabilities, deferred inflow of resources, fund balance/net position, revenues, expenditures/expenses and other financing sources (uses).

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 only 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 unavailable 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-A.) 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. 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-seven 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. The Tricentennial Trust fund is to be expended for the county's tricentennial celebration in 2076 and the Private Contributions fund is to be used for Hate and Violence awareness.

- 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, 2017. 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.

Prepays

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, 2017, 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 \$1,706,292,298. Absent the effect of this relationship, the County would have reported a deficit in unrestricted net position of governmental activities in the amount of \$139,301,021.

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) can 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 FY17. 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 2016 (i.e., FY17), 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. 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. The portion of the standard amending GASB Statements 67 and 68 was implemented in FY16. The remaining guidance addressing reporting by employers for pensions that are not within the scope of Statement 68 is effective for FY17. The required changes are reflected in the County’s financial statements and notes to those statements. GASB Statement No. 73 required restatement of beginning net position as follows:

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Net Position, June 30, 2016	\$ 721,054,595
Net Pension Liability	(33,719,106)
Deferred Outflow of Resources	<u>1,309,686</u>
Net Position, as restated	<u>\$ 688,645,175</u>

The County has adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, issued to address reporting by Other Postemployment Benefit (OPEB) plans. Since this statement is required to be implemented in the FY17 OPEB plan’s financial report and the County does not issue a separate OPEB plan financial statements, all required disclosure has been included within this report. In addition, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. Since Statement No. 75 will not be required to be implemented in the County’s FY17 CAFR, the County will continue to disclose the required OPEB information according to GASB Statement No. 45. The County will implement GASB Statement No. 75 in its FY18 CAFR as of June 30, 2018.

The County has adopted GASB Statement No. 77, *Tax Abatement Disclosures*, issued to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. It is effective for FY17. This statement did not have a significant impact on the County's financial statements.

The County has adopted GASB Statement No. 78, *Pension Provided through Certain Multi-Employer Defined Benefit Pension Plans*, issued to address reporting by employers participating in the cost-sharing multiple-employer defined benefit pension plan. This statement is basically applicable to nongovernmental cost-sharing defined benefit plans. Since the County's Employee Retirement System and Maryland State Retirement Agency's retirement plan are governmental pension plans, this statement has no impact on the County's financial statements as of June 30, 2017.

The County has adopted GASB Statement No. 80, *Blending requirements for certain component units-an amendment of GASB Statement No. 14*, issued to amend the blending requirement for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement did not have any impact on the County's financial statements as the additional criterion does not apply to the County's five component units.

The County has adopted GASB Statement No. 82, *Pension issues-an amendment of GASB statements No. 67, No. 68 and No. 73*, issued to address issues regarding the presentation of payroll-related measures in Required Supplementary Information, the selection of assumptions and the classification of Employer-Paid member contributions. The required changes related to covered payroll are reflected in the County's financial statements. The requirements regarding the selection of assumption and Employer-Paid member contribution did not have an impact on the County's financial statements as no deviation has been noticed and the County has not paid the member contribution in FY17.

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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, 2017.

Revenue Stabilization Fund (RSF)	
Balance – Beginning of Year	\$ 254,406,038
Investment Income	1,512,822
FY17 Statutory Contribution	24,741,399
Balance – End of Year	<u>\$ 280,660,259</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, 2017.

White Flint Special Taxing District (WFSTD)	
Balance – Beginning of Year	\$ 5,478,860
Property Taxes	1,359,855
Investment Income	38,690
Balance – End of Year	<u>\$ 6,877,405</u>

Deficit Fund Equity

The deficit of \$60,793 in the Fire Tax District Special Revenue Fund was caused by the payment of unplanned overtime of \$8.6 million in FY17. To address this shortfall, management will recommend a property tax rate adjustment and other expenditure and revenue adjustments in FY19.

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NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Overview

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	\$ 1,181,375,007	\$ 60,737,840	\$ 1,242,112,847
Cash with fiscal agents	103,609,649	75,847,631	179,615,522
Cash	721,042	17,777,347	18,340,147
Investments - cash equivalents	-	111,672,660	111,672,660
Investments	5,760,532,908	36,846,927	5,797,379,835
Restricted equity in pooled cash and investments	59,004,010	4,299,455	63,303,465
Restricted cash with fiscal agents	-	22,677,543	22,677,543
Restricted cash	-	682,275	682,275
Restricted investments - cash equivalents	-	152,502,516	152,502,516
Restricted investments	3,114,809	87,385,298	90,500,107
Total	<u>\$ 7,108,357,425</u>	<u>\$ 570,429,492</u>	<u>\$ 7,678,786,917</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 583,264,288	\$ 166,813,287	\$ 750,077,575
Investments	6,420,762,446	236,528,633	6,657,291,079
Cash on hand, fiscal agents, safe deposit escrow	104,330,691	167,087,572	271,418,263
Total	<u>\$ 7,108,357,425</u>	<u>\$ 570,429,492</u>	<u>\$ 7,678,786,917</u>

* Includes \$384,690 in County Investment Pool

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

Government-wide	\$ 1,303,771,589
Fiduciary funds	<u>5,804,585,836</u>
Total	<u>\$ 7,108,357,425</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	\$ 1,181,375,007	\$ 384,690	\$ 1,181,759,697
Restricted equity in pooled cash and investments	59,004,010	-	59,004,010
Total	<u>\$ 1,240,379,017</u>	<u>\$ 384,690</u>	<u>\$ 1,240,763,707</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 583,264,288	\$ -	\$ 583,264,288
Investments, including accrued interest	657,114,729	384,690	657,499,419
Total	<u>\$ 1,240,379,017</u>	<u>\$ 384,690</u>	<u>\$ 1,240,763,707</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 and more recently defined by Title 17, subtitle 3 of the Local Government Article of the Maryland Annotated Code. 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 Advisors, 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. Investments held by the MLGIP are measured at amortized cost, which approximates fair value. Unit value is computed using the amortized cost method and maintains a \$1 per share value.

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 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.

The following is a summary of the fair value hierarchy of the fair value of investments of the County as of June 30, 2017:

Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
<u>Investments by fair value level</u>	6/30/2017	Level 1	Level 2
U.S. Treasury Securities	\$ 29,970,100	\$ 29,970,100	\$ -
U.S. Agency Securities	347,810,624	347,810,624	
Commercial paper	69,313,208	-	69,313,208
Total investments by fair value level	447,093,932	\$ 377,780,724	\$ 69,313,208
<u>Investments measured at amortized cost:</u>			
Maryland Local Government Investment Pool	209,181,410		
Total investments	\$ 656,275,342		

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, 2017, 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>	<u>Ratings</u>		
	<u>Standard & Poor's</u>	<u>Fitch</u>	<u>Moody's</u>
U.S. Agency Securities ¹ :			
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 ²	A-1	F1	P-1
Local Government Investment Pool (MLGIP)	AAAm	N/R	N/R

N/R - Not Rated

1 - Only includes securities 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, 2017, 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 (13.0% Federal Home Loan Banks (FHLB), 10.0% Farmer Mac (FAMCA), 14.0% Federal Home Loan Mortgage Corp (FHLMC), 9.0% Federal National Mortgage Association (FNMA)) and 28.6% MLGIP. However, US Obligations (US Treasury and Agency Debt), mutual funds, and external investment pools (MLGIP) are exempt from the 5% of any one issuer maximum.

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2017, are as follows:

Statement of Net Position June 30, 2017

Assets:	
Investment in securities, at fair value	\$ 656,275,342
Cash	583,264,288
Accrued interest receivable	<u>1,224,077</u>
Total assets and net position	<u><u>\$ 1,240,763,707</u></u>
Net position consists of:	
Internal participants' units outstanding (\$1.00 par), unrestricted	\$ 1,230,003,016
External participants' units outstanding (\$1.00 par)	<u>10,760,691</u>
Net position	<u><u>\$ 1,240,763,707</u></u>
Participants net position value, offering price and redemption price per share (\$1,240,803,550/1,241,685,594 units)	<u><u>\$ 1.00</u></u>

Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Investment Income *	\$ 5,590,585
Distributions to participants:	
Distributions paid and payable	(5,590,585)
Share transactions at net position value of \$1.00 per share:	
Purchase of units	\$ 7,566,344,405 *
Redemption of units	<u>(7,410,550,795)</u>
Net increase (decrease) in net position and shares	
resulting from share transactions	<u>155,793,610*</u>
Total increase (decrease) in net position	155,793,610*
Net position, July 1, 2016	<u>1,084,970,097</u>
Net position, June 30, 2017	<u><u>\$ 1,240,763,707</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 \$6,992,620 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 \$13,386,793 represents lease revenue bond and revenue bond debt service reserve funds and the Montgomery College Certificates of Participation trustee account which are held in money market mutual funds and U.S Government securities.

Capital Projects Fund

Cash with fiscal agents of \$80,771,571 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 \$2,458,660 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 FY17, 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.

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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, 2017			
Debt Securities				
Government and agency obligations	\$ 195,532,013	\$ -	\$ 192,199,493	\$ 3,332,520
Municipal/Provincial obligations	8,802,535	-	8,802,535	-
Asset-backed securities	575,265	-	575,265	-
Corporate bonds	591,342,374	-	590,984,522	357,852
Collateralized mortgage obligations	938,220	-	938,220	-
Commercial mortgage-backed securities	1,636,717	-	1,636,717	-
Total debt securities	798,827,124	-	795,136,752	3,690,372
Equity Securities				
Consumer goods	214,426,774	213,518,144	900,244	8,386
Energy	64,948,599	64,268,217	567,619	112,763
Financial services	147,727,214	147,727,214	-	-
Health care	146,247,971	146,190,178	-	57,793
Industrials	156,823,215	156,427,187	-	396,028
Information technology	167,489,430	167,489,430	-	-
Materials	55,191,727	55,181,323	-	10,404
Telecommunication services	9,191,276	9,191,154	122	-
Utilities	11,530,097	11,529,708	389	-
Real Estate	186,378,026	186,378,026	-	-
Other	28,000	-	-	28,000
Total equity securities	1,159,982,329	1,157,900,581	1,468,374	613,374
Total investments by fair value level	1,958,809,453	\$ 1,157,900,581	\$ 796,605,126	\$ 4,303,746
Investments measured at the net asset value (NAV)				
Commingled equity funds	526,536,888			
Commingled bond funds	361,562,206			
Commingled real asset funds	164,907,461			
Commingled funds (other)	3,787,702			
Hedge fund	271,593,748			
Private real assets	191,725,989			
Private equity/debt	337,417,190			
Total investments measured at the NAV	1,857,531,184			
Investments measured at amortized cost				
Securities lending collateral fund	205,422,910			
Short-term investments	101,410,350			
Total investment measured at amortized cost	306,833,260			
Synthetic guaranteed investments contracts measured at contract value	370,918			
Total investments	\$ 4,123,544,815			

	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	June 30, 2017		
Investment derivative instruments:			
Future contracts	\$ (4,310,422)	\$ (4,310,422)	\$ -
Foreign exchange contracts	526,683	-	526,683
Total investment derivative instruments	<u>\$ (3,783,739)</u>	<u>\$ (4,310,422)</u>	<u>\$ 526,683</u>

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 net asset value (NAV) per share, or equivalent, is presented in the table below.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	\$ 526,536,888	\$ -	Daily, Monthly	0-15 days
Commingled bond funds	361,562,206	-	Daily	1-2 days
Commingled real asset funds	164,907,461	-	Daily, Bi-Weekly, Monthly	0-5 days
Commingled funds (other)	3,787,702	-	Daily	None
Hedge funds	271,593,748	-	Monthly, Quarterly	5-125 days
Private real assets	191,725,989	89,481,294	Not eligible	N/A
Private equity/debt	337,417,190	202,204,344	Not eligible	N/A
Total investments measured at the NAV	<u>\$ 1,857,531,184</u>	<u>\$ 291,685,638</u>		

Commingled Bond Funds, Equity Funds and Real Asset Funds

Five bonds funds, six equity funds and four real asset funds are considered to be commingles 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 Funds

The fair values of the investments in this type have been determined using the NAV per share of the investments. Nine funds are categorized in this category. All funds in this category could be subject to varying degrees of redemption restrictions based on market conditions that may impact their underlying portfolios.

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-six 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, 2017. 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-five private equity/debt limited partnerships. Private equity funds include buyout, turnaround, fund-of-funds, and growth of equity 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, 2017. 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, 2017, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 175,332,004	13.92%
	Unrated	8,414,451	0.66
Foreign Government Obligations	AAA	4,304,069	0.34
	A	2,492,859	0.20
	BBB	1,062,510	0.08
	Unrated	3,926,120	0.32
Commercial Mortgage-Backed Securities	BB-	1,069,228	0.08
	B-	567,489	0.05
Collateralized Mortgage-Backed Securities	Unrated	938,220	0.07
Municipal/Provincial Bonds	AAA	1,720,346	0.14
	AA	5,460,125	0.42
	BBB	577,133	0.05
	B	729,700	0.06
	Unrated	315,231	0.03
Corporate Bonds	AAA	6,745,376	0.54
	AA	18,889,672	1.50
	A	94,580,151	7.51
	BBB	134,636,614	10.67
	BB	131,904,261	10.47
	B	138,675,372	11.01
	CCC	40,953,619	3.25
	CC	380,000	0.03
	C	161,230	0.01
	D	85,634	0.01
	Unrated	24,330,444	1.93
Asset-Backed Securities	Unrated	575,265	0.05
Fixed Income Pooled Funds	Unrated	360,663,922	28.62
Short-term Investments and Other	Unrated	100,491,269	7.98
Total Fixed Income Securities		<u>\$ 1,259,982,314</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, 2017, 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	16.47	\$ 183,746,455	14.58%
Foreign Government Obligations	3.83	11,785,558	0.94
Collateralized Mortgage Obligations	(1.11)	938,220	0.07
Commercial Mortgage-Backed Securities	4.41	1,636,717	0.13
Municipal/Provincial Obligations	12.96	8,802,535	0.70
Corporate Bonds	7.48	591,342,373	46.93
Asset-Backed Securities	N/A	575,265	0.05
Fixed Income Pooled Funds	N/A	360,663,922	28.62
Short-term Investments and Other *	N/A	100,491,269	7.98
Total Fixed Income Securities		<u>\$ 1,259,982,314</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	\$ 163,203,778	\$ 1,244,605	\$ 103,837,115	\$ 268,285,498
Japanese Yen	126,069,586	-	9,549,238	135,618,824
British Pound Sterling	81,706,075	-	38,223,163	119,929,238
Hong Kong Dollar	33,161,594	-	-	33,161,594
Swiss Franc	26,949,631	-	-	26,949,631
Danish Krone	17,542,032	-	-	17,542,032
Singapore Dollar	13,332,897	-	2,339,360	15,672,257
Mexican Peso	-	5,109,327	346	5,109,673
South Korean Won	4,695,370	-	-	4,695,370
Swedish Krona	13,213,113	-	(9,995,154)	3,217,959
Other Currencies	24,301,289	3,441,007	(75,282,123)	(47,539,827)
Total International Securities	<u>\$ 504,175,365</u>	<u>\$ 9,794,939</u>	<u>\$ 68,671,945</u>	<u>\$ 582,642,249</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 FY17, 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, 2017, the System held 131 long US Treasury futures contracts with a fair value of \$18,174,734 and 145 short US Treasury futures contracts with a fair value of (\$22,485,156).

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, 2017, the System held \$415,498,507 buy foreign exchange contracts and (\$363,344,948) sell foreign exchange contracts. The unrealized gain on the System's contracts was \$526,683.

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, 2017, the fair value of securities on loan was \$355,897,740. Cash received as collateral and the related liability of \$205,422,910 as of June 30, 2017, is shown on the Statement of Fiduciary 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 \$2,895,806 and \$1,362,310, 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, 2017:

<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	\$ 30,535,193	\$ -	\$ 31,221,278
Corporate Bonds	76,295,710	-	78,069,264
Equities	93,971,296	-	96,132,368
Lent for Non-Cash Collateral:			
Government Obligations	40,484,256	41,374,381	-
Corporate Bonds	1,753,574	1,799,300	-
Equities	<u>112,857,711</u>	<u>119,158,584</u>	<u>-</u>
Total	<u>\$ 355,897,740</u>	<u>\$ 162,332,265</u>	<u>\$ 205,422,910</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, 2017, 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, 2017, the fair value of the mutual and commingled investment funds was \$391,669,152. The fair value of the investments in international mutual funds was \$97,730,274.

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, 2017			
Equity securities - self directed	\$ 5,550,480	\$ 5,550,480	\$ -	\$ -
Total investments by fair value level	5,550,480	\$ 5,550,480	\$ -	\$ -

Investments measured at the net asset value (NAV)

Commingled equity funds	67,050,162
Commingled bond funds	9,348,989
Commingled funds (other)	302,323,909
Total investments measured at the NAV	378,723,060
Commingled fund - Synthetic guaranteed investments contracts measured at contract value	7,395,612
Total investments	\$ 391,669,152

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	\$ 67,050,162	\$ -	Daily	None
Commingled bond funds	9,348,989	-	Daily	None
Commingled funds (other)	302,323,909	-	Daily	None
Total investments measured at the NAV	\$ 378,723,060	\$ -		

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 types 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, 2017, the fair value of the mutual and commingled investment funds was \$389,445,345. The fair value of the investments in international mutual funds included in the County Plan was \$58,610,254.

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.

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		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Investments by fair value level	June 30, 2017			
Equity securities - self directed	\$ 10,431,235	\$ 10,431,235	\$ -	\$ -
Total investments by fair value level	10,431,235	10,431,235	-	-
Investments measured at the net asset value (NAV)				
Commingled equity funds	225,152,499			
Commingled bond funds	39,185,779			
Commingled funds (other)	68,828,555			
Total investments measured at the NAV	333,166,833			
Commingled fund - Synthetic guaranteed investments contracts measured at contract value	45,847,277			
Total investments	\$ 389,445,345			

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.

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	\$ 225,152,499	\$ -	Daily	None
Commingled bond funds	39,185,779	-	Daily	None
Commingled funds (other)	68,828,555	-	Daily	None
Total investments measured at the NAV	\$ 333,166,833	\$ -		

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 types 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. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing.

The following was the Board's adopted asset allocation policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equities	19.00 %
International Equities	15.00
Emerging Market Equities	3.80
Global Equities	4.20
Private Equity	8.00
Credit Opportunities	2.00
Long Duration Fixed Income	13.50
High Yield Bonds	10.00
Global ILs	12.00
Private Real Assets	5.00
Public Real Assets	6.50
Cash	1.00
Total	<u>100.00 %</u>

Rate of Return

The annual money-weighted rate of return on the Trust Fund's investments, net of investment expenses for FY17 was 11.99%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurement

The Trust 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 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 measurements 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 shown below is the fair value leveling of the Trust'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, 2017			
Debt Securities				
Asset backed Securities	\$ 126,155	\$ -	\$ 126,155	\$ -
Commercial Mortgage-Backed	126,892	-	126,892	-
Collateralized Mortgage Obligations	21,271	-	21,271	-
Government and agency obligations	55,741,302	-	55,149,160	592,142
Municipal/Provincial obligations	1,189,808	-	1,189,808	-
Corporate bonds	143,079,527	-	143,032,443	47,084
Total debt securities	200,284,955	-	199,645,729	639,226
Equity Securities				
Consumer goods	34,636,526	34,488,388	148,138	-
Energy	10,507,589	10,351,361	134,078	22,150
Financial services	21,787,055	21,787,055	-	-
Health care	28,802,680	28,802,680	-	-
Industrials	17,528,687	17,528,687	-	-
Information technology	31,886,210	31,886,210	-	-
Materials	9,331,604	9,331,604	-	-
Oil and Gas	12,838	7,095	5,743	-
Real estate	27,636,123	27,636,123	-	-
Telecommunication services	222,783	222,783	-	-
Utilities	1,393,983	1,393,983	-	-
Total equity securities	183,746,078	183,435,969	287,959	22,150
Total investments by fair value level	384,031,033	\$ 183,435,969	\$ 199,933,688	\$ 661,376
Investments measured at the net asset value (NAV)				
Commingled equity funds	237,693,453			
Commingled bond funds	4,225,000			
Commingled real asset funds	39,638,665			
Hedge fund	16,754,502			
Private real assets	20,606,566			
Private equity/debt	41,517,276			
Total investments measured at the NAV	360,435,462			
Short-term investments	101,182,640			
Securities lending collateral	10,224,461			
Total investments	\$ 855,873,596			

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 which 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	\$ 237,693,453	\$ -	Daily, Monthly	0-15 days
Commingled bond funds	4,225,000	-	Daily	0 days
Commingled real asset funds	39,638,665	-	Daily, Bi-Weekly	0-5 days
Hedge fund	16,754,502	-	Monthly	5 days
Private real assets	20,606,566	18,283,537	Not eligible	N/A
Private equity/debt	<u>41,517,276</u>	<u>50,705,114</u>	Not eligible	N/A
Total investments measured at the NAV	<u>\$ 360,435,462</u>	<u>\$ 68,988,651</u>		

Commingled Bond Funds, Equity Funds and Real Asset Funds

One bond fund, eight equity funds, and three real asset funds are considered to be commingled in nature. The fair value of the investments in these types 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 sixteen 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, 2017. 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-three 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, 2017.

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, 2017, the Trust's fixed income portfolio had the following sensitivity to changes in interest rates.

<u>Type of Investment</u>	<u>Effective Duration in Years</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
U.S. Government Obligations	16.36	\$ 53,163,058	17.39%
Foreign Government Obligations	4.03	2,578,244	0.84
Municipal/Provincial Obligations	11.68	1,189,808	0.39
Corporate Bonds	7.76	147,304,527	48.19
Commercial Mortgage-Backed Securities	0.25	126,892	0.04
Collateralized Mortgage Obligations	0.17	21,271	0.01
Asset-Backed Securities	0.28	126,155	0.04
Short-term Investments and Other *	N/A	101,182,640	33.10
Total Fixed Income Securities		<u>\$ 305,692,595</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 or affiliated 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.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2017 are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 50,744,045	16.60%
	Unrated	2,419,013	0.79
Foreign Government Obligations	AAA	905,956	0.30
	A	390,490	0.13
	BBB	406,928	0.13
	Unrated	874,870	0.29
Municipal/Provincial Bonds	AAA	125,114	0.04
	AA	776,559	0.25
	BBB	159,100	0.05
	B	60,387	0.02
	Unrated	68,648	0.02
Corporate Bonds	AAA	1,675,393	0.55
	AA	6,154,070	2.02
	A	25,372,651	8.30
	BBB	32,782,481	10.72
	BB	32,202,705	10.53
	B	32,726,343	10.71
	CCC	7,895,260	2.58
	CC	93,500	0.03
	C	35,830	0.01
	D	59,244	0.02
	Unrated	8,307,050	2.72
Commercial Mortgage-Backed Securities	B	126,892	0.04
Collateralized Mortgage Obligations	CCC	21,271	0.01
Asset-Backed Securities	Unrated	126,155	0.04
Short-term Investments and Others	Unrated	101,182,640	33.10
Total Fixed Income Securities		<u>\$ 305,692,595</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	\$ 27,987,107	\$ 92,751	\$ -	\$ 28,079,858
Japanese yen	16,295,377	-	4,432	16,299,809
Hong Kong dollar	6,361,184	-	-	6,361,184
British pound sterling	4,971,981	-	-	4,971,981
Swiss franc	3,946,994	-	-	3,946,994
Singapore dollar	2,616,198	-	-	2,616,198
Australian dollar	2,218,951	-	-	2,218,951
Danish krone	1,986,217	-	-	1,986,217
Swedish krona	1,474,450	-	-	1,474,450
Mexican peso	-	1,168,268	26,260	1,194,528
Other Currencies	276,737	1,055,170	-	1,331,907
Total International Securities	<u>\$ 68,135,196</u>	<u>\$ 2,316,189</u>	<u>\$ 30,692</u>	<u>\$ 70,482,077</u>

Derivatives

In accordance with the Board's Statement of Investment Policy and Objectives, the Trust Fund regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY17, the Trust Fund 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 Trust Fund 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 Trust Fund 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 Trust Fund is not a dealer, but an end-user of these instruments.

The notional or contractual amounts of derivatives indicate the extent of the Trust Fund's involvement in the various types of derivative financial instruments and do not measure the Trust Fund'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 Trust Fund holds off-financial statement derivatives in the form of exchange-traded financial futures.

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, 2017, the Trust Fund held 25 long US Treasury futures contracts with a fair value of \$3,657,438 and 29 short US Treasury futures contracts with a fair value of (\$3,809,375).

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, 2017, the fair value of securities on loan was \$50,206,799. Cash received as collateral and the related liability of \$10,224,461 as of June 30, 2017, 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 \$165,769 and \$27,697, 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, 2017:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Non-Cash Collateral Value</u>	<u>Cash Collateral Investment Value</u>
Lent for Cash Collateral:			
Corporate Bonds	\$ 6,678,724	\$ -	\$ 6,835,674
Equities	3,310,794	-	3,388,787
Lent for Non-Cash Collateral:			
Corporate Bonds	227,653	232,494	-
Equities	39,989,628	42,002,432	-
Total	<u>\$ 50,206,799</u>	<u>\$ 42,234,926</u>	<u>\$ 10,224,461</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, 2017, 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, 2017, 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 100% 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, 2017 was P-1.

At June 30, 2017, HOC had the following cash, cash equivalents, investments and maturities:

	<u>Fair Value</u>	<u>Rating</u>
<u>Cash Equivalents:</u>		
General Sub-Fund:		
Money Market Accounts	\$ 12,888,671	N/A
Opportunity Housing Sub-Fund:		
Investment in MLGIP	3,373,031	AAAm
Money Market Accounts	17,271,142	N/A
Public Sub-Fund:		
Investment in MLGIP	2,844,538	AAAm
Multi-Family Sub-Fund:		
Money Market Accounts	41,723,161	N/A
Single Family Fund:		
Money Market Accounts	68,300,660	N/A
Real Estate Limited Partnership:		
Investment in MLGIP	1,095,310	AAAm
Certificate of Deposit	143,741	N/A
Money Market Accounts	<u>10,109,423</u>	N/A
Total cash equivalents	<u>\$ 157,749,677</u>	
<u>Short-term Investments:</u>		
Single Family Sub-Fund:		
GNMA Pass through Certificates	\$ 1,022,791	Aaa
FNMA Pass through Certificates	329,205	Aaa
Tennessee Valley Authority	<u>2,197,395</u>	AA+
Total short-term investments	<u>\$ 3,549,391</u>	

Continued

	<u>Fair Value</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>Greater than 10 years</u>	<u>Rating</u>
<u>Long-term Investments:</u>					
Multi-Family Sub Fund:					
U.S. Treasuries	\$ 2,603,047	\$ -	\$ 2,603,047	\$ -	Aaa
Fannie Mae	3,166,414	-		3,166,414	Aa1
Federal Farm Credit Banks	2,555,617	-	657,749	1,897,868	Aaa
Federal Home Loan Banks	947,456	-		947,456	Aaa
Federal Home Loan Mortgage	929,687	-		929,687	Aaa
Bank One Investment Agreement	591,525	-	591,525	-	AA/Aa2
Single Family Sub-Fund:					
Federal Farm Credit Banks	6,774,950	-	-	6,774,950	Aaa
Federal Home Loan Banks	9,616,618	-	-	9,616,618	Aaa
Federal Home Loan Mtg Corp	1,695,661	-	-	1,695,661	Aaa
Fannie Mae	1,053,487	-	-	1,053,487	Aa1
GNMA Pass-through Certificates	31,975,707	-	-	31,975,707	Aaa
FNMA Pass-through Certificates	10,518,825	-	-	10,518,825	Aaa
U.S. Treasuries	5,597,357	4,273,537	-	1,323,820	Aaa
Tennessee Valley Authority	4,335,800	-	-	4,335,800	AA+
Total long-term investments	<u>\$ 82,362,151</u>	<u>\$ 4,273,537</u>	<u>\$ 3,852,321</u>	<u>\$ 74,236,293</u>	
Cash balances	<u>101,182,390</u>				
Total cash, cash equivalents and investments	<u>\$ 344,843,609</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 that 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. 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, 2017			
Debt Securities				
Fannie Mae	\$ 4,219,901	\$ -	\$ 4,219,901	\$ -
Federal Farm Credit Banks	9,330,567	-	9,330,567	-
Federal Home Loan Banks	10,564,074	-	10,564,074	-
U.S. Treasuries	8,200,403	8,200,403	-	-
FNMA Mortgage-Backed Securities	10,848,030	-	10,848,030	-
GNMA Mortgage-Backed Securities	32,998,499	-	32,998,499	-
Federal Home Loan Mortgage Corp	2,625,348	-	2,625,348	-
Federal National Mortgage Association	-	-	-	-
Investment Agreements	591,525	-	591,525	-
Tennessee Valley Authority	6,533,195	-	6,533,195	-
Total investments by fair value level	<u>\$ 85,911,542</u>	<u>\$ 8,200,403</u>	<u>\$ 77,711,139</u>	<u>\$ -</u>

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)
Investment Derivative Instruments	June 30, 2017			
Interest Rate Swaps	<u>\$ (11,376,760)</u>	<u>\$ (11,376,760)</u>	<u>\$ -</u>	<u>\$ -</u>
Total investment derivative instruments	<u>\$ (11,376,760)</u>	<u>\$ (11,376,760)</u>	<u>\$ -</u>	<u>\$ -</u>

B) Receivables

1) Accounts Receivable

Receivables at June 30, 2017 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	\$ 351,164,993	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 351,164,993
Property taxes	10,832,703	-	-	-	1,094	2,803,820	13,637,617
Capital leases	-	-	-	22,785,000	-	-	22,785,000
Accounts	13,512,945	-	5,036,767	-	67,251	15,783,023	34,399,986
Notes	499,744	-	1,931,829	24,860,000	-	-	27,291,573
Parking violations	938,582	-	-	-	-	333,684	1,272,266
Mortgages	<u>579,356</u>	<u>190,399,073</u>	<u>40,550,780</u>	<u>-</u>	<u>300,000</u>	<u>2,556,655</u>	<u>234,385,864</u>
Total receivables	377,528,323	190,399,073	47,519,376	47,645,000	368,345	21,477,182	684,937,299
Allowance for uncollectible accounts	<u>(3,595,001)</u>	<u>(14,987,467)</u>	<u>(2,315,408)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,897,876)</u>
Total receivable (net)	<u>\$ 373,933,322</u>	<u>\$ 175,411,606</u>	<u>\$ 45,203,968</u>	<u>\$ 47,645,000</u>	<u>\$ 368,345</u>	<u>\$ 21,477,182</u>	<u>\$ 664,039,423</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 579,356</u>	<u>\$ 190,399,073</u>	<u>\$ 42,482,609</u>	<u>\$ 22,785,000</u>	<u>\$ 300,000</u>	<u>\$ 2,556,655</u>	<u>\$ 259,102,693</u>

	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
Receivables						
Property taxes	\$ -	\$ -	\$ 369,119	\$ -	\$ 369,119	\$ -
Accounts	5,335,410	3,648,622	20,916	287,202	9,292,150	1,194,884
Parking violations	-	-	3,406,436	-	3,406,436	-
Total receivables	5,335,410	3,648,622	3,796,471	287,202	13,067,705	1,194,884
Allowance for uncollectible accounts	<u>(946,152)</u>	<u>(20,035)</u>	<u>(1,822,984)</u>	<u>(40,036)</u>	<u>(2,829,207)</u>	<u>(8,835)</u>
Total receivable (net)	<u>\$ 4,389,258</u>	<u>\$ 3,628,587</u>	<u>\$ 1,973,487</u>	<u>\$ 247,166</u>	<u>\$ 10,238,498</u>	<u>\$ 1,186,049</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2) Due from/to Component Units

The balances at June 30, 2017, were:

Due from Component Units / Due to Primary Government:

Due from Component Units:	MCPS	MC	MCRA	HOC	BUP	Total
Due to Primary Government:						
General	\$ -	\$ 3,159	\$ 45,630	\$ 41,104	\$ -	\$ 89,893
Housing Initiative	-	-	-	45,488,870	-	45,488,870
Grants	-	-	-	10,901,752	-	10,901,752
Capital Projects	-	-	-	8,951,415	-	8,951,415
Solid Waste Activities Enterprise	53,496	777	-	149	1,973	56,395
Major Enterprise	-	-	-	293,531	-	293,531
Internal Service	207	9,593	259,625	493,381	17,499	780,305
Fiduciary	-	-	7,557	89,118	-	96,675
Total Due to Primary Government	\$ 53,703	\$ 13,529	\$ 312,812	\$ 66,259,320	\$ 19,472	\$ 66,658,836

Due to Component Units / Due from Primary Government:

Due to Component Units:	MCPS	MC	MCRA	HOC	BUP	Total
Due from Primary Government:						
General	\$ 34,787,123	\$ 18,363	\$ -	\$ 39,911	\$ 14,041	\$ 34,859,438
Housing Initiative	-	-	-	521,160	-	521,160
Grants	688,036	-	-	-	-	688,036
Debt Service	-	2,411,775	-	-	-	2,411,775
Capital Projects	40,659,517	13,627,288	-	-	-	54,286,805
Nonmajor Governmental	11,361	-	-	-	83,388	94,749
Parking Lot Districts Enterprise	-	-	-	-	824	824
Nonmajor Enterprise	51,431	-	-	-	-	51,431
Internal Service	45,975	-	-	-	-	45,975
Total Due from Primary Government	\$ 76,243,443	\$ 16,057,426	\$ -	\$ 561,071	\$ 98,253	\$ 92,960,193

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 \$9.0 million due from HOC to the Capital Projects Fund represent loan receivables in the Opportunity Housing Development Fund and Moderately Priced Dwelling Unit (MPDU)/Property Acquisition Fund, respectively, 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.
- \$45.5 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. Term 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 \$55 at year-end. These two loans are offset by unearned revenue. Fund balance has been reserved for the remaining loans.

- \$34.8 million due to MCPS from the General Fund represents remaining appropriation that has not yet been distributed to MCPS by the County.
- \$40.6 million due to MCPS and \$13.62 million due to MC from the Capital Projects Fund represent 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, 2017, was comprised of the following:

	General	Grants	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government \$	163,912	\$12,636,378	\$ 8,394,891	\$ 458	\$ 882,859	\$ -	\$ -	\$ 22,078,498
State of Maryland	31,342,950	7,217,103	1,030,777	18,106	1,082,343	89,396	2,758	40,783,433
Other	65,393	-	837,133	162,906	-	140,653	161,369	1,367,454
Total	<u>\$31,572,255</u>	<u>\$19,853,481</u>	<u>\$ 10,262,801</u>	<u>\$ 181,470</u>	<u>\$ 1,965,202</u>	<u>\$ 230,049</u>	<u>\$ 164,127</u>	<u>\$ 64,229,385</u>

4) Due to Other Governments

The total amount due to other governments at June 30, 2017 is \$149,664,706. This amount is comprised mainly of \$141,231,325 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, 2017, was as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Governmental Activities				
Nondepreciable Capital Assets:				
Land	\$ 930,232,831	\$ 10,971,378	\$ 4,884,976	\$ 936,319,233
Construction in progress	1,537,717,247	298,300,567	58,304,176	1,777,713,638
Total Nondepreciable Capital Assets	2,467,950,078	309,271,945	63,189,152	2,714,032,871
Depreciable Capital Assets:				
Buildings	861,825,338	26,961,359	11,040,837	877,745,860
Improvements other than buildings	46,647,272	31,701,109	18,082	78,330,299
Furniture, fixtures, equipment and machinery	222,476,293	2,047,157	3,266,857	221,256,593
Leasehold improvements	12,956,842	4,733,086	-	17,689,928
Automobiles and trucks	309,853,625	18,728,833	15,805,415	312,777,043
Infrastructure	1,894,285,193	13,809,660	-	1,908,094,853
Other assets	40,359,973	27,366	-	40,387,339
Total Capital Assets being Depreciated	3,388,404,536	98,008,570	30,131,191	3,456,281,915
Less Accumulated Depreciation for:				
Buildings	417,152,474	20,197,011	8,456,465	428,893,020
Improvements other than buildings	21,518,724	1,163,536	8,457	22,673,803
Furniture, fixtures, equipment and machinery	179,986,130	6,330,781	3,266,857	183,050,054
Leasehold improvements	8,468,564	1,306,321	-	9,774,885
Automobiles and trucks	165,618,267	23,788,879	15,270,695	174,136,451
Infrastructure	726,697,814	38,153,837	-	764,851,651
Other assets	19,882,088	4,030,945	-	23,913,033
Total Accumulated Depreciation	1,539,324,061	94,971,310	27,002,474	1,607,292,897
Total Depreciable Assets, net	1,849,080,475	3,037,260	3,128,717	1,848,989,018
Governmental Activities Capital Assets, net	\$4,317,030,553	\$ 312,309,205	\$ 66,317,869	\$4,563,021,889
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	\$ 58,816,803	\$ -	\$ 372,721	\$ 58,444,082
Construction in progress	282,372	-	-	282,372
Total Nondepreciable Capital Assets	59,099,175	-	372,721	58,726,454
Depreciable Capital Assets:				
Buildings	295,197,311	1,216,778	-	296,414,089
Improvements other than buildings	176,235,943	4,925,282	796,535	180,364,690
Furniture, fixtures, equipment and machinery	31,389,830	5,430,163	760,791	36,059,202
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	4,771,118	491,489	205,713	5,056,894
Total Capital Assets being Depreciated	507,608,553	12,063,712	1,763,039	517,909,226
Less Accumulated Depreciation for:				
Buildings	144,526,327	9,006,951	-	153,533,278
Improvements other than buildings	128,980,089	4,294,100	789,556	132,484,633
Furniture, fixtures, equipment and machinery	17,132,527	2,472,470	716,771	18,888,226
Infrastructure	5,597	574	-	6,171
Automobiles and trucks	3,653,355	218,378	89,046	3,782,687
Total Accumulated Depreciation	294,297,895	15,992,473	1,595,373	308,694,995
Total Depreciable Assets, net	213,310,658	(3,928,761)	167,666	209,214,231
Business-Type Activities Capital Assets, net	\$ 272,409,833	\$ (3,928,761)	\$ 540,387	\$ 267,940,685

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:	
General government	\$ 7,362,954
Public safety	11,474,332
Public works and transportation	64,470,837
Health and human services	2,172,696
Culture and recreation	8,066,931
Community development and housing	916,593
Environment	<u>506,967</u>
Total depreciation expense-governmental activities	<u>\$ 94,971,310</u>
Business-type activities:	
Liquor	\$ 2,522,575
Solid waste activities	1,722,399
Parking lot districts	11,586,478
Permitting services	<u>161,021</u>
Total depreciation expense-business-type activities	<u>\$ 15,992,473</u>

Construction commitments as of June 30, 2017 are as follows:

	<u>Construction Commitments</u>
General Government	\$ 160,831,684
Public Safety	3,300,310
Public Works and Transportation	273,939,080
Health and Human Services	2,352,954
Culture & Recreation	150,241
Community Development & Housing	267,803
Environment	<u>34,953,203</u>
Total	<u>\$ 475,795,275</u>

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Component Units

Capital assets of MCPS, amounting to \$2,792,168,293 at June 30, 2017, are significant in relation to the total component unit capital assets.

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Governmental Activities				
Nondepreciable capital assets:				
Land	\$ 87,693,060	\$ -	\$ -	\$ 87,693,060
Construction in progress	58,010,200	180,228,922	149,391,430	88,847,692
Total nondepreciable capital assets	145,703,260	180,228,922	149,391,430	176,540,752
Depreciable capital assets:				
Buildings and improvements	3,268,267,733	143,280,526	-	3,411,548,259
Site improvements	349,766,335	22,406,458	-	372,172,793
Vehicles and equipment	180,634,846	17,392,886	6,907,954	191,119,778
Total depreciable capital assets	3,798,668,914	183,079,870	6,907,954	3,974,840,830
Less accumulated depreciation for:				
Buildings and improvements	1,089,252,000	81,424,243	-	1,170,676,243
Site improvements	73,108,745	6,593,052	-	79,701,797
Vehicles and equipment	108,578,740	12,565,600	6,832,444	114,311,896
Total accumulated depreciation	1,270,939,485	100,582,895	6,832,444	1,364,689,936
Total depreciable capital assets, net	2,527,729,429	82,496,975	75,510	2,610,150,894
Government activities capital assets, net	\$ 2,673,432,689	\$ 262,725,897	\$ 149,466,940	2,786,691,646
Business-Type Activities				
Depreciable capital assets:				
Vehicles and equipment	\$ 20,299,136	\$ 2,005,954	\$ 261,574	\$ 22,043,516
Total depreciable capital assets	20,299,136	2,005,954	261,574	22,043,516
Less accumulated depreciation for:				
Vehicles and equipment	15,859,162	961,425	253,718	16,566,869
Total accumulated depreciation	15,859,162	961,425	253,718	16,566,869
Business-type activities capital assets, net	\$ 4,439,974	\$ 1,044,529	\$ 7,856	\$ 5,476,647
Educational Foundation capital assets net of accumulated depreciation	\$ 13,271	\$ -	\$ 13,271	\$ -
Total MCPS government-wide capital assets				\$ 2,792,168,293

Depreciation expense of MCPS was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	\$ 80,657,691
Special education	143,662
School administration	52,535
Student transportation	10,309,057
Operation of plant	195,836
Maintenance of plant	8,664,925
Administration	<u>559,189</u>
Total depreciation expense-governmental activities	<u>\$ 100,582,895</u>
Business-type activities:	
Food services	\$ 929,901
Entrepreneurial	<u>31,524</u>
Total depreciation expense-business type activities	<u>\$ 961,425</u>

Commitments for ongoing construction in progress at June 30, 2017 were \$196,476,632.

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2017, is as follows:

Due To Fund	Due From Fund				
	General	Nonmajor Governmental	Internal Service	Fiduciary	Total
General	\$ -	\$ -	\$ 4,915,012	\$ 5,410,039	\$ 10,325,051
Housing Initiative	-	-	12,322	20,736	33,058
Grants	15,850,429	-	208,847	207,141	16,266,417
Capital Projects	157,224,572	1,174,577	226,406	294,723	158,920,278
Liquor	-	-	352,424	210,996	563,420
Solid Waste Activities	-	-	82,027	101,915	183,942
Parking Lot Districts	-	-	35,753	45,269	81,022
Nonmajor Governmental	-	-	1,893,957	2,596,048	4,490,005
Nonmajor Enterprise	-	-	221,885	307,660	529,545
Internal Service	-	-	220,824	15,709,799	15,930,623
Fiduciary	-	-	10,369	11,599	21,968
Total	<u>\$ 173,075,001</u>	<u>\$ 1,174,577</u>	<u>\$ 8,179,826</u>	<u>\$ 24,915,925</u>	<u>\$ 207,345,329</u>

Included in the amounts presented above are the following short-term loans from the General Fund that were, or will be, repaid during FY18:

- \$15.9 million to the Grants Special Revenue Fund to cover vendor payments prior to revenues being received from other government agencies.

- \$157.2 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and 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, 2017, consisted of the following:

Transfers Out Fund	Transfers In Fund					Subtotal Major Governmental
	General	Housing Initiative	Grants	Debt Service	Capital Projects	
General	\$ -	\$ 22,167,940	\$ -	\$ 309,582,507	\$ 55,254,099	\$ 387,004,546
Housing Initiative	303,734	-	-	7,322,995	19,216,058	26,842,787
Capital Projects	-	6,329,312	-	51,940	-	6,381,252
Liquor	13,237,642	-	-	5,851,265	-	19,088,907
Solid Waste Activities	2,793,471	-	-	-	-	2,793,471
Parking Lot Districts	4,488,528	-	-	-	-	4,488,528
Nonmajor Governmental	26,812,918	-	351,599	53,924,474	16,584,173	97,673,164
Nonmajor Enterprise	5,571,156	-	-	-	-	5,571,156
Internal Service Funds	4,312	-	-	-	-	4,312
Total	\$ 53,211,761	\$ 28,497,252	\$ 351,599	\$ 376,733,181	\$ 91,054,330	\$ 549,848,123

Transfers Out Fund	Transfers In Fund					Total
	Liquor	Subtotal Major Enterprise	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	
General	\$ -	\$ -	\$ 3,606,010	\$ 25,000	\$ 95,623	\$ 390,731,179
Housing Initiative	-	-	-	-	-	26,842,787
Capital Projects	41,865	41,865	-	-	-	6,423,117
Liquor	-	-	-	-	-	19,088,907
Solid Waste Activities	-	-	-	-	-	2,793,471
Parking Lot Districts	-	-	-	-	-	4,488,528
Nonmajor Governmental	-	-	-	-	-	97,673,164
Nonmajor Enterprise	-	-	-	-	-	5,571,156
Internal Service Funds	-	-	-	-	-	4,312
Total	\$ 41,865	\$ 41,865	\$ 3,606,010	\$ 25,000	\$ 95,623	\$ 553,616,621

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 \$22,538,050 for FY17. Future minimum lease payments under significant non-cancelable operating leases are as follows.

Fiscal Year Ending June 30	
2018	\$ 24,447,031
2019	23,189,922
2020	22,102,847
2021	21,613,306
2022	18,460,364
2023 - 2027	41,038,599
2028 - 2032	15,077,498
Total	<u>\$ 165,929,567</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 Lease Revenue Bonds Series 2004.

The composition of the capital lease receivable is as follows:

	Minimum Lease Receivable	Unearned Income	Net Investment
Shady Grove	\$ 11,305,510	\$ (2,191,510)	\$ 9,114,000
Grosvenor	11,022,872	(2,136,722)	8,886,150
Glenmont	5,935,393	(1,150,543)	4,784,850
Total	<u>\$ 28,263,775</u>	<u>\$ (5,478,775)</u>	<u>\$ 22,785,000</u>

At June 30, 2017, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2018	\$ 3,491,613
2019	3,496,862
2020	3,510,862
2021	3,507,862
2022	3,513,363
2023-2027	8,474,525
2028-2031	<u>2,268,688</u>
Total minimum lease payments	<u>\$ 28,263,775</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>(26,652,497)</u>
Total asset value under capital leases	<u>\$ 42,412,629</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, 2017, are as follows:

Fiscal Year Ending June 30	
2018	\$ 2,512,988
2019	2,515,077
2020	991,834
2021	987,709
2022	990,977
2023	<u>991,537</u>
Total minimum lease payments	8,990,122
Less: amount representing interest	<u>(535,292)</u>
Present value of minimum lease payments	<u>\$ 8,454,830</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, 2017, was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due within one year
Governmental Activities					
Bonds payable:					
General obligation bonds	\$ 2,657,290,000	\$ 340,000,000	\$ (208,025,000)	\$ 2,789,265,000	\$ 217,930,000
Variable rate demand obligations	100,000,000	-	(10,000,000)	90,000,000	10,000,000
Bond anticipation notes	500,000,000	340,000,000	(340,000,000)	500,000,000	500,000,000
Revenue bonds					
Liquor control	63,806,716	-	(2,953,021)	60,853,695	3,088,088
Water quality protection	79,375,000	-	(3,185,000)	76,190,000	3,245,000
Lease revenue bonds payable	25,065,000	-	(2,280,000)	22,785,000	2,395,000
Add remaining original issue premium	259,518,207	29,810,010	(38,672,728)	250,655,489	-
Total bonds payable	3,685,054,923	709,810,010	(605,115,749)	3,789,749,184	736,658,088
Leases and notes payable:					
Capital leases	11,158,430	-	(2,703,600)	8,454,830	2,348,320
Certificates of participation	10,800,000	24,860,000	(7,155,000)	28,505,000	4,000,000
Taxable limited obligation certificates	82,535,000	-	(3,875,000)	78,660,000	3,995,000
Other leases and notes payable	17,552,910	8,017,496	(172,074)	25,398,332	706,798
Equipment notes	36,432,917	33,936,898	(13,595,968)	56,773,847	12,097,317
Add remaining original issue premium	346,644	1,329,676	(145,476)	1,530,844	-
Total leases and notes payable	158,825,901	68,144,070	(27,647,118)	199,322,853	23,147,435
Other non-debt related liabilities:					
Compensated absences	76,130,255	61,520,097	(55,752,915)	81,897,437	53,233,335
Other postemployment benefits	445,089,913	118,874,200	(127,295,106)	436,669,007	-
Claims payable - self-insurance	150,256,294	161,614,455	(152,789,148)	159,081,601	40,764,793
Net pension liability - county	390,909,835	233,539,607	(127,092,563)	497,356,879	-
Net pension liability - county (LOSAP)	33,719,106	8,248,259	(1,309,686)	40,657,679	-
Net pension liability - state	24,421,562	5,686,053	-	30,107,615	-
Claims and judgments	1,003,200	70,400	-	1,073,600	-
Total other non-debt related	1,121,530,165	589,553,071	(464,239,418)	1,246,843,818	93,998,128
Total Governmental Activities Liabilities	\$ 4,965,410,989	\$ 1,367,507,151	\$ (1,097,002,285)	\$ 5,235,915,855	\$ 853,803,651
Business-Type Activities					
Revenue bonds:					
Liquor control	\$ 40,823,284	\$ -	\$ (2,106,979)	\$ 38,716,305	\$ 2,206,912
Parking revenue bonds	39,709,000	-	(3,158,000)	36,551,000	3,291,000
Add remaining original issue premium	3,397,535	-	(559,420)	2,838,115	-
Total revenue bonds	83,929,819	-	(5,824,399)	78,105,420	5,497,912
Leases and notes payable:					
Equipment notes	5,756,247	778,566	(1,167,168)	5,367,645	1,241,785
Other non-debt related liabilities:					
Compensated absences	6,308,309	520,940	(53,741)	6,775,508	4,404,080
Other postemployment benefits	3,965,222	1,516,800	(1,516,800)	3,965,222	-
Net pension liability - county	16,945,152	13,237,533	(6,143,182)	24,039,503	-
Landfill closure costs	15,539,478	1,311,502	(1,117,258)	15,733,722	1,145,189
Gude landfill remediation	28,500,000	200,000	-	28,700,000	-
Total other non-debt related	71,258,161	16,786,775	(8,830,981)	79,213,955	5,549,269
Total Business-Type Activities Liabilities	\$ 160,944,227	\$ 17,565,341	\$ (15,822,548)	\$ 162,687,020	\$ 12,288,966

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, \$2,533,974 (\$1,647,084 due within one year and \$886,890 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) 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 \$340,000,000 in new money general obligation bonds dated December 13, 2016; the County received a premium on the issue of \$29,810,010. These bonds were issued with a true interest cost of 3.28%.

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General obligation bond issues outstanding as of June 30, 2017, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2017	Unamortized Premium	Carrying Value June 30, 2017
06/01/05*	2011-21	3.781	\$ 120,355,000	\$ 12,585,000	\$ 318,508	\$ 12,903,508
05/01/07	2007-27	4.082	250,000,000	-	-	-
07/15/08	2009-29	3.0 - 5.0	250,000,000	36,100,000	647,801	36,747,801
11/03/09*	2011-20	2.0 - 5.0	161,755,000	82,445,000	2,931,924	85,376,924
11/03/09	2015-29	3.75 - 5.5	232,000,000	201,070,000	784,631	201,854,631
07/26/10	2011-22	2.0 - 5.0	195,000,000	97,500,000	5,252,076	102,752,076
07/26/10	2023-30	4.75 - 5.4	106,320,000	106,320,000	122,431	106,442,431
07/26/10	2023-30	4.75 - 5.4	23,680,000	23,680,000	27,269	23,707,269
08/11/11	2012-31	2.00 - 5.0	320,000,000	144,000,000	12,944,800	156,944,800
8/11/11*	2012-22	2.00 - 5.0	237,655,000	156,015,000	11,411,150	167,426,150
10/24/12*	2013-16	2.50-5.0	23,360,000	-	-	-
10/24/12	2013-32	2.50-5.0	295,000,000	236,000,000	19,217,657	255,217,657
11/26/13	2014-34	3.0 - 5.0	295,000,000	250,750,000	20,774,539	271,524,539
11/26/13*	2023-24	5.0	24,915,000	24,915,000	3,323,512	28,238,512
11/19/14	2015-35	4.00-5.0	500,000,000	450,000,000	61,976,552	511,976,552
11/19/14*	2016-28	5.0	297,990,000	284,365,000	46,291,905	330,656,905
03/26/15*	2018-21	5.0	58,520,000	58,520,000	4,333,825	62,853,825
12/01/15	2016-35	3.0-5.0	300,000,000	285,000,000	22,754,118	307,754,118
12/13/16	2017-36	3.00-5.00	340,000,000	340,000,000	28,154,561	368,154,561
Total			<u>\$ 4,031,550,000</u>	<u>\$ 2,789,265,000</u>	<u>\$ 241,267,259</u>	<u>\$ 3,030,532,259</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
2018	\$ 217,930,000	\$ 122,188,919	\$ 340,118,919
2019	212,230,000	111,542,134	323,772,134
2020	206,295,000	101,206,563	307,501,563
2021	199,640,000	91,300,647	290,940,647
2022	192,590,000	81,100,816	273,690,816
2023-2027	847,485,000	282,578,763	1,130,063,763
2028-2032	648,845,000	112,171,531	761,016,531
2033-2037	<u>264,250,000</u>	<u>18,638,750</u>	<u>282,888,750</u>
Total	<u>\$ 2,789,265,000</u>	<u>\$ 920,728,122</u>	<u>\$ 3,709,993,122</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, 2017 is \$7,636,658,297.

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, 2017, \$229,447,625 of bonds outstanding are considered defeased.

General obligation bonds authorized and unissued as of June 30, 2017 are \$1,555,760,000 and \$1,409,496,000, 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 VRDOs, on June 1, 2017, the County entered into a First Extension and Amendment of Standby Note Purchase Agreement with Wells Fargo Bank, National Association. The Agreement extended the existing Wells Fargo Standby Note Purchase Agreement from July 14, 2017 to July 13, 2018. 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, 2017, are as follows:

<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally Issued</u>	<u>Balance June 30, 2016</u>	<u>Bonds Retired</u>	<u>Balance June 30, 2017</u>
06/07/06	2017-26	Variable	\$ 50,000,000	\$ 50,000,000	\$ (5,000,000)	\$ 45,000,000
06/07/06	2017-26	Variable	<u>50,000,000</u>	<u>50,000,000</u>	<u>(5,000,000)</u>	<u>45,000,000</u>
Total			<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>	<u>\$ (10,000,000)</u>	<u>\$ 90,000,000</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
2018	\$ 10,000,000	\$ 810,000	\$ 10,810,000
2019	10,000,000	720,000	10,720,000
2020	10,000,000	630,000	10,630,000
2021	10,000,000	540,000	10,540,000
2022	10,000,000	450,000	10,450,000
2023-2026	40,000,000	900,000	40,900,000
Total	<u>\$ 90,000,000</u>	<u>\$ 4,050,000</u>	<u>\$ 94,050,000</u>

* Interest is calculated based on interest rate as of the financial statement date. The interest rates for VRDO as of June 30, 2017 were .90% for Series A and 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, 2017 are \$432,998,000 and \$47,639,000, 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 were 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 was \$2.1 million as shown below. At the time of refunding, the present value of the debt service savings (or economic gain) on the refunding was \$2.0 million.

In March 2017, the County converted the Bethesda Parking Lot District Series 2015 Bond from a tax-exempt to a taxable obligation in the amount of \$8.541 million, which will allow the County more flexibility in the future operation of Garage 11 which was funded with the proceeds of the Bond. The amortization schedule for the Series 2015 Bond which matures in 2026, remains the same, except for conversion of the existing tax-exempt interest rate of 2.55% to a taxable rate of 3.57%. The increased debt service is approximately \$390,000 on a net present value basis over the remaining life of the loan.

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	15	\$ 44,792,346
Water Quality Protection	19	104,757,329
Liquor Control	16	137,330,991
Total		<u>\$ 286,880,666</u>

The pledged net revenues recognized during FY17 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	Net Available Revenue for Debt Service	Debt Service		
		Principal	Interest	Total
Bethesda Parking Lot District	\$ 10,395,562	\$ 3,158,000	\$ 1,416,347	\$ 4,574,347
Liquor Control Fund	28,641,437	5,060,000	4,774,889	9,834,889
Water Quality Protection	16,146,696	3,185,000	2,963,160	6,148,160

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Revenue bond issues outstanding as of June 30, 2017, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2017	Unamortized Premium/ (Discount)	Carrying Value June 30, 2017
Parking Revenue Bonds:							
Bethesda Parking Lot District 2012	05/16/12	2015-32	3.000 - 3.250	\$ 24,190,000	\$ 21,225,000	\$ 911,865	\$ 22,136,865
Bethesda Parking Lot District 2012 Ref.	05/16/12	2013-21	1.250 - 1.930	13,750,000	6,785,000	535,947	7,320,947
Bethesda Parking Lot District 2015 Ref.	10/19/15	2017-26	2.55	9,174,000	8,541,000	-	8,541,000
Water Quality Protection 2012A	07/18/12	2013-32	0.250 - 5.000	37,835,000	31,440,000	3,382,213	34,822,213
Water Quality Protection 2016A	04/06/16	2017-36	2.25 - 5.00	46,500,000	44,750,000	1,736,672	46,486,672
Liquor Control Revenue Bonds:*							
Liquor Control & Transportation 2009	05/12/09	2010-29	3.000 - 5.000	46,765,000	32,715,000	1,176,590	33,891,590
Liquor Control & Transportation 2011	04/28/11	2012-31	2.000 - 5.000	34,360,000	26,970,000	889,966	27,859,966
Liquor Control & Transportation 2013	07/30/13	2014-33	3.125 - 5.000	46,645,000	39,885,000	1,465,588	41,350,588
Total				<u>\$ 259,219,000</u>	<u>\$ 212,311,000</u>	<u>\$ 10,098,841</u>	<u>\$ 222,409,841</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	
2018	\$ 3,291,000	\$ 1,358,910	\$ 5,295,000	\$ 4,539,639	
2019	3,441,000	1,212,195	5,520,000	4,317,839	
2020	3,591,000	1,049,401	5,750,000	4,082,439	
2021	3,755,000	879,250	6,020,000	3,817,839	
2022	2,410,000	694,191	6,315,000	3,516,839	
2023-2027	11,833,000	2,261,712	36,240,000	12,930,500	
2028-2032	8,230,000	785,687	31,100,000	4,406,048	
2033	-	-	3,330,000	149,850	
Total	<u>\$ 36,551,000</u>	<u>\$ 8,241,346</u>	<u>\$ 99,570,000</u>	<u>\$ 37,760,991</u>	

Fiscal Year Ending June 30	Water Quality Protection		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2018	\$ 3,245,000	\$ 2,900,838	\$ 11,831,000	\$ 8,799,387	\$ 20,630,387
2019	3,360,000	2,788,588	12,321,000	8,318,622	20,639,622
2020	3,495,000	2,654,188	12,836,000	7,786,028	20,622,028
2021	3,635,000	2,517,038	13,410,000	7,214,127	20,624,127
2022	3,775,000	2,374,088	12,500,000	6,585,118	19,085,118
2023-2027	21,240,000	9,508,839	69,313,000	24,701,051	94,014,051
2028-2032	25,805,000	4,938,150	65,135,000	10,129,885	75,264,885
2033-2036	11,635,000	885,600	14,965,000	1,035,450	16,000,450
Total	<u>\$ 76,190,000</u>	<u>\$ 28,567,329</u>	<u>\$ 212,311,000</u>	<u>\$ 74,569,666</u>	<u>\$ 286,880,666</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	\$ 1,703,977	\$ -
Debt Service Account - Used to pay debt service on bonds	309,956	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	3,114,809	-
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	4,037,428
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	22,425,182
Rate Stabilization Account - In case of short-term extraordinary expenses	-	2,259,875
Total	<u>\$ 6,628,742</u>	<u>\$ 28,722,485</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 FY17 are as follows:

	Balance July 1, 2016	BANs Issued	BANs Retired	Balance June 30, 2017
BAN Series 2009-A	\$ 100,000,000	\$ 20,000,000	\$ 20,000,000	\$ 100,000,000
BAN Series 2009-B	100,000,000	20,000,000	20,000,000	100,000,000
BAN Series 2010-A	150,000,000	150,000,000	150,000,000	150,000,000
BAN Series 2010-B	150,000,000	150,000,000	150,000,000	150,000,000
Total	<u>\$ 500,000,000</u>	<u>\$ 340,000,000</u>	<u>\$ 340,000,000</u>	<u>\$ 500,000,000</u>

BANs totaling \$340 million were issued during FY17, \$300 million Series 2010 and \$40 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 two-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, 2017, including amounts authorized and unissued from prior years, is \$825,113,000.

6) Certificates of Participation

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.

In FY17, Certificates of Participation for Equipment Acquisition in the public transportation program dated April 7, 2010, in the amount of \$23.0 million, was fully paid off.

In July 2016, the County was authorized and entered into a loan agreement with Montgomery College Foundation to issue its Certificates of Participation (Montgomery College Improvements), \$23,050,000 Series 2016A and \$1,810,000 Series 2016B to finance part of the costs of the acquisition, design, construction and equipping of certain facilities of Montgomery College, which such facilities is owned by Montgomery College Foundation and leased to the College, to be used by the College pursuant to a lease agreement between the Foundation and College. The proceeds of Certificates of Participation were also used to pay off costs incurred by the College in connection with the College's termination of certain lease agreements and the costs of issuing COPS (Montgomery College Improvements). The debt service is to be paid from pledged lease payments and fees pursuant to a lease agreement between the Foundation and College dated as of July 1, 2016.

In FY17, the pledged lease payments from the Montgomery College Foundation equals the scheduled debt service on the Certificates of Participation schedule. The Certificates for Participation 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
2018	\$ 4,000,000	\$ 785,214	\$ 4,785,214
2019	360,000	708,739	1,068,739
2020	715,000	695,904	1,410,904
2021	745,000	672,631	1,417,631
2022	760,000	647,499	1,407,499
2023-2027	6,900,000	2,398,520	9,298,520
2028-2032	7,955,000	1,336,602	9,291,602
2033-2036	7,070,000	366,303	7,436,303
Total	<u>\$ 28,505,000</u>	<u>\$ 7,611,412</u>	<u>\$ 36,116,412</u>

Certificates of Participation (College) outstanding as of June 30, 2017, is as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2017	Unamortized Premium (Discount)	Carrying Value June 30, 2017
07/26/16	2017-36	2.00-5.00%	<u>\$ 24,860,000</u>	<u>\$ 24,860,000</u>	<u>\$ 1,226,560</u>	<u>\$ 26,086,560</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, 2017:

Fiscal Year Ending June 30	Equipment Notes Requirements		
	Principal	Interest	Total
2018	\$ 13,339,102	\$ 1,074,747	\$ 14,413,849
2019	12,548,372	816,227	13,364,599
2020	11,569,433	593,022	12,162,455
2021	10,241,462	387,936	10,629,398
2022	6,631,702	216,550	6,848,252
2023-2024	<u>7,811,421</u>	<u>134,203</u>	<u>7,945,624</u>
Total	<u>\$ 62,141,492</u>	<u>\$ 3,222,685</u>	<u>\$ 65,364,177</u>

8) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of \$37.9 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 \$2,653,473, 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 FY17, pledged revenue of \$3,490,613 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2017, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2017	Unamortized Premium (Discount)	Carrying Value June 30, 2017
Lease Revenue Bonds	10/13/11	2011-31	2.6687%	\$ 35,465,000	\$ 22,785,000	\$ 2,127,504	\$ 24,912,504

Lease revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Lease Revenue Bond Requirements		
	Principal	Interest	Total
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
2023-2027	7,425,000	1,049,525	8,474,525
2028-2031	2,060,000	208,688	2,268,688
Total	\$ 22,785,000	\$ 5,478,775	\$ 28,263,775

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 \$38.0 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.

Taxable Limited Obligation Certificates outstanding as of June 30, 2017, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2017	Unamortized Premium (Discount)	Carrying Value June 30, 2017
MHI Affordable Housing Series 2010	04/06/10	05/01/30	4.00-5.90 %	\$ 30,400,000	\$ 22,810,000	\$ 134,031	\$ 22,944,031
MHI Affordable Housing Series 2011	08/10/11	05/01/31	3.00-5.00	28,840,000	22,235,000	174,302	22,409,302
MHI Affordable Housing Series 2013	11/19/13	11/01/33	0.26-4.75	38,015,000	33,615,000	(4,049)	33,610,951
Total				<u>\$ 97,255,000</u>	<u>\$ 78,660,000</u>	<u>\$ 304,284</u>	<u>\$ 78,964,284</u>

The following is a schedule by fiscal year for the debt service requirement at June 30, 2017:

Fiscal Year Ending June 30	Taxable Limited Obligation Requirements		
	Principal	Interest	Total
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	2,903,397	7,488,397
2023-2027	26,145,000	11,323,672	37,468,672
2028-2032	25,825,000	4,436,148	30,261,148
2033-2034	<u>5,330,000</u>	<u>256,263</u>	<u>5,586,263</u>
Total	<u>\$ 78,660,000</u>	<u>\$ 32,124,314</u>	<u>\$ 110,784,314</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.

During 2017, the County entered into an agreement to transfer the property to a developer that would have required the original Promissory Note to be paid in full pursuant to the original Purchase and Sale Contract.

However, the County amended and restated the Promissory Note with WSSC, which revised the repayment terms commencing in FY19, and ending in FY28. The interest rate of 4.43% and other terms remain unchanged.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2017:

Fiscal Year Ending June 30	Promissory Note Requirements		
	Principal	Interest	Total
2018	\$ (34,242)	\$ 434,242	\$ 400,000
2019	803,096	435,759	1,238,855
2020	838,674	400,181	1,238,855
2021	875,827	363,028	1,238,855
2022	914,626	324,229	1,238,855
2023-2027	5,218,010	976,263	6,194,273
2028	1,186,302	52,553	1,238,855
Total	<u>\$ 9,802,293</u>	<u>\$ 2,986,255</u>	<u>\$ 12,788,548</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, 2017, for this loan is \$311,000 and will mature on August 1, 2023.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2017:

Fiscal Year Ending June 30	HUD Loan Requirements		
	Principal	Interest	Total
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	43,000	6,643	49,643
2022-2024	96,000	5,736	101,736
Total	<u>\$ 311,000</u>	<u>\$ 62,557</u>	<u>\$ 373,557</u>

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From October 2013 through June 2017 the County has entered into a series of lease agreements to finance energy efficiency projects. These leases were part of a six year program that improves energy efficiency of County facilities. Leases range from \$1.9 to \$4.2 million and interest rates range from 2.103% to 5.17%. Leases maturities range from 13 to 20 years.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2017:

Fiscal Year Ending June 30	Energy Performance Lease		
	Principal	Interest	Total
2018	\$ 229,556	\$ 528,352	\$ 757,908
2019	698,550	514,233	1,212,783
2020	544,676	493,014	1,037,690
2021	574,949	474,921	1,049,870
2022	606,375	455,863	1,062,238
2023-2027	3,806,194	1,939,821	5,746,015
2028-2032	4,845,488	1,225,068	6,070,556
2033-2036	3,979,251	284,421	4,263,673
Total	<u>\$ 15,285,039</u>	<u>\$ 5,915,694</u>	<u>\$ 21,200,733</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, 2017, 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, 2017, 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, 2017, for bonds issued after July 1, 1996, totaled \$718,023,836.

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 Chapter 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, 2017, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	\$ 42,820,266	\$ 469,833,075	\$ 512,653,341
Capital leases payable	4,199	19,941,708	19,945,907
Derivative instrument - hedging	-	11,376,760	11,376,760
Notes and other payable	90,537,069	218,570,266	309,107,335
Net pension liability	-	11,681,661	11,681,661
Total	<u>\$ 133,361,534</u>	<u>\$ 731,403,470</u>	<u>\$ 864,765,004</u>

HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding as follows:

<u>Purpose</u>	
Multi-Family Mortgage Purchase Program Fund	\$ 301,726,194
Single Family Mortgage Purchase Program Fund	<u>210,927,147</u>
Total	<u>\$ 512,653,341</u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 0.63 to 11.25 percent and 0.625 to 5.00 percent, respectively, as of June 30, 2017.

Pursuant to Section 16-202 of Title 16 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:

<u>Fiscal Year Ending June 30</u>	<u>Guaranteed Revenue Bond Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	570,000	259,823	829,823
2023-2027	3,295,000	827,569	4,122,569
2028-2032	<u>1,565,000</u>	<u>79,916</u>	<u>1,644,916</u>
Total	<u>\$ 7,440,000</u>	<u>\$ 2,471,418</u>	<u>\$ 9,911,418</u>

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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
2018	\$ 42,820,266	\$ 14,437,650	\$ 57,257,916
2019	17,963,192	13,887,910	31,851,102
2020	18,236,450	13,306,084	31,542,534
2021	18,735,088	12,806,079	31,541,167
2022	19,814,148	12,274,220	32,088,368
2023-2027	92,749,307	52,552,958	145,302,265
2028-2032	95,250,000	36,678,869	131,928,869
2033-2037	84,510,000	21,459,776	105,969,776
2038-2042	77,710,000	9,987,359	87,697,359
2043-2047	32,425,000	3,737,509	36,162,509
2048-2052	9,125,000	615,375	9,740,375
2053-2057	840,000	27,405	867,405
Unamortized Bond Discount	2,474,890	-	2,474,890
Total	<u>\$ 512,653,341</u>	<u>\$ 191,771,194</u>	<u>\$ 704,424,535</u>

Changes in the HOC revenue bonds during FY17 are as follows:

Purpose	Balance July 1, 2016	Bonds Issued*	Bonds Retired	Balance June 30, 2017
Multi-Family Mortgage Purchase Program Fund	\$ 311,110,322	\$ 22,646	\$ 9,406,774	\$ 301,726,194
Single Family Mortgage Purchase Program Fund	253,135,427	33,300,000	75,508,280	210,927,147
Total	<u>\$ 564,245,749</u>	<u>\$ 33,322,646</u>	<u>\$ 84,915,054</u>	<u>\$ 512,653,341</u>

* Includes accretions and bond discounts.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt). 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, 2016	\$ 204,287,059
Issuances during the year	-
Redemptions during the year	<u>(17,617,490)</u>
Bonds outstanding, June 30, 2017	<u>\$ 186,669,569</u>

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, 2017, is presented below:

Condensed Statement of Net Position

	Bethesda PLD
ASSETS	
Current assets	\$ 13,349,932
Other assets	6,628,743
Capital assets	101,315,680
Total Assets	<u>121,294,355</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources	516,116
Total Deferred Outflows	<u>516,116</u>
LIABILITIES	
Current liabilities	4,979,628
Due to other funds	37,202
Long-term liabilities	35,788,357
Total Liabilities	<u>40,805,187</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources	52,917
Total Deferred Inflows	<u>52,917</u>
NET POSITION	
Net investment in capital assets	64,861,154
Restricted for debt service	6,628,743
Unrestricted	9,462,470
Total Net Position	<u>\$ 80,952,367</u>

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Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position

	Bethesda PLD
OPERATING REVENUES (EXPENSES):	
Operating Revenues:	
Charges for services	\$ 16,044,912
Fines and penalties	3,812,117
Total Operating Revenues (pledged against bonds)	19,857,029
Depreciation	(6,146,610)
Other operating expenses	(9,924,556)
Operating Income (Loss)	3,785,863
NONOPERATING REVENUES (EXPENSES):	
Property taxes	(44,085)
Investment income	88,792
Interest expense	(1,069,355)
Other revenue	418,382
Insurance recoveries	23,900
Transfers out	(1,882,332)
Non Operating Income (Loss)	(2,464,698)
NET POSITION	
Change in Net Position	1,321,165
Beginning Net Position	79,631,202
Ending Net Position	\$ 80,952,367

Condensed Statement of Cash Flows

	Bethesda PLD
Net Cash Provided (Used) By:	
Operating activities	\$ 10,617,321
Noncapital financing activities	(1,902,517)
Capital and related financing activities	(7,314,793)
Investing activities	74,653
Net Increase (Decrease)	1,474,664
Beginning Cash and Cash Equivalents	14,302,574
Ending Cash and Cash Equivalents	\$ 15,777,238

H) Fund Equity

1) Governmental Fund Balances

The governmental fund balances at June 30, 2017 are comprised of the following:

Fund Balances:	General	Housing Initiative	Grants	Debt Service	Capital Projects	Other Nonmajor Governmental Funds
Inventory	\$ 8,334,700	\$ -	\$ -	\$ -	\$ -	\$ -
Prepays	462,829	-	-	-	-	-
Total nonspendable	8,797,529	-	-	-	-	-
Public safety						
Police	-	-	-	-	-	2,824,512
Restricted donation	-	-	-	-	-	2,269,740
Mass transit	-	-	-	-	-	37,464,195
Cable TV	-	-	-	-	-	14,299,198
Community development and housing						
Rehabilitation loan	-	-	-	-	-	4,719,040
Urban districts	1,369,496	-	-	-	-	-
Economic development	3,387,755	-	-	-	-	-
Housing initiative	-	249,775,176	-	-	-	-
Culture and recreation	-	-	-	-	-	3,479,325
Environment						
Agricultural transfer tax	-	-	-	-	-	896,153
Water quality protection	-	-	-	-	-	25,122,395
Other	7,027,740	-	216,033	-	-	-
Revenue stabilization	280,660,259	-	-	-	-	-
Debt service	-	-	-	42,282,403	-	-
Capital projects	-	-	-	-	58,300,451	-
Total restricted	292,445,250	249,775,176	216,033	42,282,403	58,300,451	91,074,558
Community development and housing	8,892,659	-	-	-	-	-
Education						
Montgomery County Public Schools	11,063	-	-	-	-	-
Montgomery College	12,405,525	-	-	-	-	-
Capital projects	39,136,326	-	-	-	-	-
Total committed	60,445,573	-	-	-	-	-
General government	13,593,568	-	-	-	-	-
Public safety	4,319,843	-	-	-	-	-
Public works and transportation	1,237,833	-	-	-	-	-
Health and human services	5,043,623	-	-	-	-	-
Culture and recreation	1,926,580	-	-	-	-	-
Community development and housing	70,092	-	-	-	-	-
Environment	725,423	-	-	-	-	-
Total assigned	26,916,962	-	-	-	-	-
Public safety						
Fire and rescue	-	-	-	-	-	(60,793)
General government	118,366,481	-	-	-	-	-
Total unassigned	118,366,481	-	-	-	-	(60,793)
Total fund balances	<u>\$ 506,971,795</u>	<u>\$249,775,176</u>	<u>\$ 216,033</u>	<u>\$ 42,282,403</u>	<u>\$ 58,300,451</u>	<u>\$ 91,013,765</u>

2) Encumbrances

Encumbrance accounting is employed as part of the budgetary integration for all governmental funds. As of June 30, 2017, 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	\$ 27,178,174	Restricted/Assigned
Housing Initiative	402,688	Restricted
Debt Service	226,959	Restricted
Nonmajor Governmental Funds	<u>11,505,985</u>	Restricted
Total Governmental Funds	<u>\$ 39,313,806</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	\$ 396,407,382
Business-type activities	<u>59,200,175</u>
Total	<u>\$ 455,607,557</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, 2017:

	General Fund			Capital Projects	Debt Service	Total
	Operating	Capital *	Total			
MCPS	\$ 1,620,452,067	\$ 22,000,000	\$ 1,642,452,067	\$ 186,586,749	\$ -	\$ 1,829,038,816
MC	136,404,459	14,132,462	150,536,921	31,557,991	25,915,255	208,010,167
HOC	<u>7,718,998</u>	<u>-</u>	<u>7,718,998</u>	<u>3,722,687</u>	<u>-</u>	<u>11,441,685</u>
Total	<u>\$ 1,764,575,524</u>	<u>\$ 36,132,462</u>	<u>\$ 1,800,707,986</u>	<u>\$ 221,867,427</u>	<u>\$ 25,915,255</u>	<u>\$ 2,048,490,668</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 include \$5,168,949 earned under contracts with the County. For capital leases with MCRA, see Note III-E3. For mortgages receivable due from HOC, see Note III-B2.

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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, Town of Garrett Park, Chevy Chase Village 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 FY17 and FY16 are as follows:

	Liability and Property Coverage	Employee Health Benefits	Total
Balance July 1, 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 ¹	<u>(40,946,736)</u>	<u>(107,084,206)</u>	<u>(148,030,942)</u>
Balance June 30, 2016	136,867,500	13,388,794	150,256,294
Claims and changes in estimates	55,159,603	106,454,852	161,614,455
Claim payments ¹	<u>(45,216,915)</u>	<u>(107,572,233)</u>	<u>(152,789,148)</u>
Balance June 30, 2017 ²	<u>\$ 146,810,188</u>	<u>\$ 12,271,413</u>	<u>\$ 159,081,601</u>

¹ Includes non-monetary settlements.

² Includes incurred but not reported (IBNR) claims of \$69,045,968 and \$12,271,413 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 \$66,948,031, which have been fully accrued through June 30, 2017. Of the total amount accrued, \$50,097,050 in actual costs have been paid out in prior years, and \$1,117,258 was paid in FY17, resulting in a net liability of \$15,733,722 at June 30, 2017. The current and non-current portions of the adjusted liability at year-end are estimated at \$1,145,189 and \$14,588,533 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 FY17 is \$28.7 million. The 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 \$7,183,009. In accordance with generally accepted accounting principles, \$1,073,600 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 \$6,109,409 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, 2017, 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, 2017, are as follows:

Enterprise Funds:

	Operating	Capital	Total
Major Funds:			
Liquor	\$ 2,254,448	\$ -	\$ 2,254,448
Solid Waste Activities:			
Disposal operations	6,538,953	-	6,538,953
Collection operations	206,704	-	206,704
Parking Lot Districts:			
Silver Spring	222,584	2,187,362	2,409,946
Bethesda	267,013	729,994	997,007
Wheaton	113,889	149,241	263,130
Subtotal	9,603,591	3,066,597	12,670,188
Nonmajor Funds:			
Permitting Services	1,135,191	-	1,135,191
Community Use of Public Facilities	224,900	-	224,900
Subtotal	1,360,091	-	1,360,091
Total Enterprise Funds	10,963,682	3,066,597	14,030,279
<u>Internal Service Funds:</u>			
Motor Pool	5,530,584	-	5,530,584
Central Duplicating	223,143	-	223,143
Liability & Property Coverage Self-Insurance	1,345,909	-	1,345,909
Employee Health Benefits Self-Insurance	421,628	-	421,628
Total Internal Service Funds	7,521,264	-	7,521,264
Total Proprietary Funds	\$ 18,484,946	\$ 3,066,597	\$ 21,551,543

As of June 30, 2017, the County has \$32,107,276 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 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 October 31, 2017, the County issued General Obligation Bonds (Tax Exempt) Series A in the amount of \$170,000,000, and issued three series of General Obligation Refunding Bonds comprised of Tax-Exempt Series B, C and D in the amounts of \$78,270,000, \$294,625,000 and \$143,830,000, respectively. The proceeds of the Series B Refunding Bonds were used to refinance all of the County's outstanding VRDOs.

As part of the \$100 million energy efficiency improvement program, the County issued a fourth draw under the Banc of America Master Equipment Lease/Purchase Agreement of approximately \$4.3 million on December 13, 2017. The proceeds will fund energy performance savings projects at various County buildings for which the repayment of debt is guaranteed through energy savings.

The County intends to issue \$170,000,000 aggregate principal amount of Variable Rate, Tax-Exempt, General Obligation Bonds on or about December 18, 2017. The proceeds will pay off an equivalent amount of the County's BANs which funded capital expenditures for education, transportation and other County facilities.

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, 2017, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$122,506,377, of which zero dollars were self-supporting. Of the total amount payable, \$10,026,180 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, 2017 is \$57,972,753, 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, 2017, WSSC had outstanding notes payable and bonds payable in the amount of \$2,834,911,000 which were fully self-supporting. Of the total amount payable, \$347,899,000 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, 2017, 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 \$140,260 to WSTC during FY17.

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 FY17, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	\$ 67,938,252
Rail operating subsidy	50,316,199
Americans with Disabilities Act service	21,767,046
MetroMatters program	4,944,933
Capital Improvement Program	32,302,643
Project Development Program	506,000
Local bus program	37,125,558
Total	<u>\$ 214,900,631</u>

At June 30, 2017, WMATA had outstanding bonds payable of \$467.910,000, of which \$58,690,000 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 operates the County's Resource Recovery Project (Project).

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. Waste disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY17 amounted to \$18,451,373.

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 FY17 membership dues and fees for services amounting to \$855,179.

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 appropriate 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 FY17, the County and its employees contributed \$92,569,355 and \$41,348,758, respectively. Employees of MCRA, HOC, and BUP participate in the comprehensive insurance program of the County. Employer contributions totaled \$744,552, \$4,240,975, and \$153,418 for these component units, respectively, for FY17.

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/mccrp>, 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, 2017, the County reported a liability of \$521,396,382 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the County's proportion was 96.36%.

For the fiscal year ended June 30, 2017, the County recognized pension expense of \$85,792,796. At June 30, 2017, 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	\$ 322,438	\$ 25,433,995
Assumption changes	-	6,801,078
Net difference between projected and actual earnings on pension plan investments	168,547,624	-
Changes in proportion and differences between County contributions and proportionate share of contributions	4,495,939	4,589,113
County contributions subsequent to the measurement date	93,260,835	-
Total	<u>\$ 266,626,836</u>	<u>\$ 36,824,186</u>

The \$93,260,835 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
2018	\$ 13,308,231
2019	13,308,231
2020	72,036,858
2021	37,888,495

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2016
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 10.0 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 rate of 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, 2016 (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
Domestic Equity	4.80 %
International Equity	4.80
Emerging Market Equity	4.80
Global Equity	5.00
Private Equity	6.56
Credit Opportunities	5.45
Long Duration Fixed Income	1.75
High Yield Bonds	4.20
Global IIs	1.17
Private Real Assets	6.66
Public Real Assets	4.55
Hedge Funds	4.53
Cash	-

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 rate, 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	\$ 977,431,099	\$ 521,396,382	\$ 137,448,127

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 FY17 were \$19,782,538 and \$10,303,239, respectively. In accordance with IRS regulations and the County Code, \$300,000 in accumulated revenue was used to reduce employer contributions in FY17.

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 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 publicly available financial report that can be obtained at <http://www.sra.state.md.us>.

Benefits 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 FY17 employee contributions vary from 5-7% of salary. The required employer contribution rate for FY17 vary from 8.53 – 9.64% 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.

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the County reported a liability of \$30,107,615 for its proportionate share of the net pension liability of the MSRP System. The net pension liability was measured as of June 30, 2016, 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, 2017, the County's total proportionate share was as follows:

Montgomery County	0.0672580%
Montgomery County Public Libraries	0.0001927
Montgomery County (Supplemental)	0.0598148
Bethesda Fire Department	0.0001121
Chevy Chase Fire Department	<u>0.0002295</u>
Total	<u><u>0.1276071%</u></u>

Montgomery County has four withdrawn Participating Governmental Units (PGU) - Montgomery County, Montgomery County Public Libraries, 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, 2017, the County recognized pension expense of \$4,605,914. At June 30, 2017, 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	\$ 1,218,696	\$ -
Investment return difference	4,738,291	1,239,381
Difference between actual and expected experience	-	761,445
Changes in proportion and differences between County contributions and proportionate share of contributions	4,305,205	-
County contributions subsequent to the measurement date	<u>2,593,137</u>	<u>-</u>
Total	<u><u>\$ 12,855,329</u></u>	<u><u>\$ 2,000,826</u></u>

The \$2,593,137 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 1,965,546
2019	1,965,545
2020	2,383,111
2021	1,699,562
2022	247,603

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the entry age normal actuarial cost method. Inflation is assumed to be 2.70% for general and 3.20% for wage.

Discount Rate

A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rate and the member rate. Based on these 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 Total Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The following presents the County's total proportionate share of the net pension liability calculated using 7.55%, 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 (6.55%) lower or 1-percentage-point higher (8.55%) than the current rate:

	<u>1% Decrease (6.55%)</u>	<u>Discount Rate (7.55%)</u>	<u>1% Increase (8.55%)</u>
County's proportionate share of the net pension liability	\$ 41,355,474	\$ 30,107,615	\$ 20,747,782

4) Length of Service Award Program (LOSAP)

Plan Description

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. This program is a defined pension plan because the benefits are based on the age and years of

service. Any local fire and rescue volunteer is eligible for this program if the volunteer is at least 16 years old and satisfies the following conditions: (a) was an active volunteer on or after August 15, 1965 or (b) on August 15, 1965, had completed 25 years as an active volunteer and (c) if less than 18 years old, meets any additional requirements established by Executive regulation.

Benefit provisions for this program are established under Section 21-21(c - g) of the County Code. The types of benefits included in this program are monthly award payments, disability benefits, survivor's benefits, death benefits, and other benefits. Effective January 1, 1985, normal benefits are payable earlier of (a) at any age with 25 years of credited service, or (b) at least age 55 with 25 years of credited service as an active volunteer before 1996, or (c) age 60 with 15 years of credited service, or (d) age 65 with 10 years of credited service. The lifetime benefit equal to (a) \$9.20 per month for each year of service up to 25 years plus (b) \$11.50 per month for each year of service as an active volunteer over 25 years. The maximum total benefit is \$345 per month. Benefits continue to accrue for service earned after payments commence. There is no provision with respect to benefit change for automatic cost of living adjustment. The benefit terms are established by and may be amended by the County Council.

The credited service is based on the point system as described under Section 21-21 (k) of the County Code. An active volunteer is one who accumulates at least 50 points in a calendar year under the point system. The points are not transferable to another year. An individual must not receive points for any activity performed as a County employee.

The number of members covered under this program as of January 1, 2015 are as follows:

Inactive members currently receiving benefit payment	562
Inactive members entitled to but not yet receiving benefits	284
Active members	<u>1,691</u>
Total	<u>2,537</u>

There is neither accumulated assets to pay benefits under this program nor there is any trust established for this program.

The County must pay benefits under this program from the fire tax funds as required under Section 21-21 (h) of the County Code. Benefit expenditures amounting to \$1,339,903 in FY17 are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis.

Total Pension Liability

The County's total pension liability of \$40,657,679 was measured as of June 30, 2016, and was determined by an actuarial valuation date as of January 1, 2015.

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:

Actuarial Valuation date	January 1, 2015
Actuarial method	Entry Age Normal
Retirement Age	100 percent of members are assumed to commence benefits at earliest eligibility of:

1. Age 65 with 10 years of LOSAP service
2. Age 60 with 15 years of LOSAP service
3. Any age with 25 years of LOSAP service

Mortality

RP-2014 Healthy Annuitant Mortality Table, sex- 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.

Discount Rate

The discount rate used is a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. For this valuation, a discount rate of 3.80% was used to measure the total pension liability as of June 30, 2015. A discount rate of 2.85% was used to measure the total pension liability as of June 30, 2016.

The source of the municipal bond rate is published by the Bond Buyer and represents a portfolio of 20 general obligation bonds of mixed quality that mature in 20 years. In describing this index, the Bond Buyer notes that the bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA. The rate shown is as of the most recent date available on or before the measurement date.

Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following presents the total pension liability calculated using the discount rate of 2.85%, as well as what the County's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.85%) or 1-percentage-point higher (3.85%) than the current discount rate:

	1% Decrease <u>(1.85%)</u>	Discount Rate <u>(2.85%)</u>	1% Increase <u>(3.85%)</u>
Total pension liability	\$49,192,182	\$40,657,679	\$34,291,285

Changes in the Total Pension Liability

	Total Pension Liability (a)
Balance at 6/30/2016	\$ 33,719,106
Changes for the year:	
Service cost	886,540
Interest on the Total Pension Liability	1,273,361
Assumptions changes	6,088,358
Benefit Payments	<u>(1,309,686)</u>
Net Changes	<u>6,938,573</u>
Balance at 6/30/2017	<u>\$ 40,657,679</u>

The change in the Total Pension Liability, due to the change in the Single Discount Rate from 3.80% as of the beginning of the year to 2.85% as of the end of the year, is included as an assumption change.

There are no assets accumulated under this program to pay related benefits.

LOSAP Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to LOSAP

For the year ended June 30, 2017, the County recognized LOSAP Pension expense of \$4,452,809. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to LOSAP as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 3,795,450	\$ -
County benefit payment subsequent to the measurement date	1,339,903	-
Total	<u>\$ 5,135,353</u>	<u>\$ -</u>

The \$1,339,903 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, 2018. Other amounts reported as deferred outflows of resources will be recognized in future pension expense as follows:

Fiscal Year	Amount
2018	\$ 2,292,908
2019	1,502,542

G) Other Postemployment Benefits (OPEB)

Plan Description

Plan administration. 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 FY17, the County contributed \$63,055,000 and \$1,524,000 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 FY17, as required per the County Council Resolution No. 18-150. The allocated portions of investments relating to MCPS and MC as of June 30, 2017 were \$371,279,280 and \$49,033,159, 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.

Benefits provided. 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, 2017, the most recent actuarial valuation as of July 1, 2017, consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	8,049
Active plan members	<u>10,099</u>
Total	<u><u>18,148</u></u>

Condensed FY17 financial statements for the Consolidated Retiree Health Benefits Trust are as follows:

Condensed Statement of Fiduciary Net Position		Condensed Statement of Changes in Fiduciary Net Position	
ASSETS		ADDITIONS	
Cash and investments	\$ 860,223,134	Contributions	\$ 218,048,949
Other assets	<u>15,504,074</u>	Net investment income (loss)	<u>83,040,995</u>
Total Assets	<u>875,727,208</u>	Total Additions, net	<u>301,089,944</u>
LIABILITIES		DEDUCTIONS	
Claims payable	4,174,423	Benefits	115,142,393
Other liabilities	<u>12,357,332</u>	Administrative	<u>4,516,717</u>
Total Liabilities	<u>16,531,755</u>	Total Deductions	<u>119,659,110</u>
NET POSITION:		Change in Net Position	181,430,834
Held in trust for other		Beginning Net Position	<u>677,764,619</u>
postemployment benefits	<u>\$ 859,195,453</u>	Ending Net Position	<u>\$ 859,195,453</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 FY17, plan members and beneficiaries receiving benefits contributed \$24,658,041 (approximately 25 percent of current contributions) at the County. The County also contributed \$63,055,000 and \$1,524,000 to the CRHBT on behalf of MCPS and MC for the health benefits of their retirees, respectively. The County and other contributing entities contributed \$122,466,187 including \$72,195,187 (approximately 75 percent of current contributions) for current premiums, claims and administrative expenses, and \$50,271,000 toward prefunding future benefits. Contributions also include Medicare Part D contributions in the amount of \$6,345,721.

Net OPEB Liability

The components of the Plan's net OPEB liability as of June 30, 2017, were as follows:

Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a-b)	Plan Fiduciary Net Position as a % of Total OPEB Liability (b/a)
\$ 1,961,102,448	\$ 438,883,014	\$ 1,522,219,434	22.28%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2017
Measurement Date	June 30, 2017
Actuarial cost method	Entry Age Normal
Discount Rate	5.88%
20 Yr. Municipal Bond Rate	3.58%
Municipal Bond Rate Basis	Bond Buyers General Obligation 20 year Municipal Bond Index
Expected Return on Assets	7.50%
Salary Increases	3.25%-9.50%, depending on service
General Inflation	3.00%
Mortality:	
Preretirement	Healthy Retirees and Beneficiaries The aggregate 2006 base rates from the RP-2014 mortality study projected generationally from 2006 with Scale MP-2016.
Disabled Retirees	The aggregate 2006 base rates from the RP-2014 mortality study projected generationally from 2006 with Scale MP-2016, (disabled post retirement) Set forward 6 years for Males and 8 years for Females, with separate tables for males and females.
Health care cost trend rates:	(initial, ultimate)
	Medical (excluding Indemnity plan) pre-65 8.22%, 4.50%
	Medical (excluding Indemnity plan) post-65 8.10%, 4.50%
	Medical (Indemnity plan) pre-65 8.80%, 4.50%
	Medical (Indemnity plan) post-65 7.81%, 4.50%
	Dental 4.50%, 4.50%

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to July 1, 2014 in September 2015.

The long-term expected rate of return on OPEB 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 OPEB 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 geometric real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2017 (see Note III.A4 discussion of the OPEB plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	4.75 %
International Equity	4.75
Emerging Equity	4.75
Global Equity	4.95
Private Equity	6.60
Credit Opportunities	5.05
Long Duration Fixed Income	2.05
High Yield Fixed Income	3.15
Global ILs	0.62
Private Real Assets	6.36
Public Real Assets	4.25
Hedge Funds	4.38

A single discount rate of 5.88% was used to measure the total OPEB liability as of June 30, 2017. This single discount rate was blended based on the expected long term rate of return on OPEB plan investments of 7.5% and the municipal long term high quality bond index yield (at the measurement date) of 3.58% as described under the terms of the GASB standard. The projection of cash flows used to determine the single discount rate assumes that employer contributions will be made based on the current funding policy (contributions equal to the employer normal cost plus a 30-year open level percent of pay amortization of the unfunded employer liability). Based on these assumptions, the OPEB plan's fiduciary net position was projected to not be sufficient to make all projected future benefit payments on behalf of current plan members. Therefore, the long-term expected rate of return on plan investments was applied only to those payments prior to the depletion of the fiduciary net position and the bond yield index rate was applied to those benefit payments subsequent to the projected depletion of the fiduciary net position. For this valuation, the bond rates used as of June 30, 2017 and 2016 were 3.58% and 2.85%, respectively. Therefore, the blended discount rates used as of June 30, 2017 and 2016 were 5.88% and 5.39%, respectively.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability calculated using the discount rate of 5.88%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.88%) or 1-percentage-point higher (6.88%) than the current rate:

	<u>1% Decrease</u> <u>(4.88%)</u>	<u>Discount Rate</u> <u>(5.88%)</u>	<u>1% Increase</u> <u>(6.88%)</u>
Net OPEB Liability	\$ 1,872,637,726	\$ 1,522,219,434	\$ 1,246,824,156

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percent-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 1,234,081,103	\$ 1,522,219,434	\$ 1,892,817,558

The above disclosure is presented according to a new accounting standard for OPEB plan since the County does not issue separate OPEB plan financial statements. As presented in the preceding note, the new standard for the OPEB plan required the new measurement of the OPEB liability as Net OPEB liability, which is total OPEB liability less the amount of the OPEB plan's fiduciary net position. However, a new accounting standard for the employer of OPEB plan will not be effective until FY18 CAFR. The County needs to continue to disclose the required following information per existing standard as an employer of the OPEB plan, such as Net OPEB obligation. An employer's net OPEB obligation is the cumulative difference between annual OPEB cost and the employer's contributions to a plan.

Funding Status and Funding Progress

As of June 30, 2016, the most recent actuarial valuation, the actuarial accrued liability (AAL) was \$1,380,894,000 and there was \$334,889,000 of actuarial plan assets; therefore, the unfunded AAL (UAAL) was \$1,046,005,000. The annual covered payroll of active employees covered by the Plan was \$716,878,000 and the ratio of the UAAL to covered payroll was 145.9 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 FY17 was based on an actuarial valuation as of June 30, 2016, the latest valuation available on the date the County Council was required to approve the FY17 budget.

The AOC and the net OPEB obligation of the County as of June 30, 2017 were as follows:

Annual required contribution (ARC)	\$ 112,702,000
Interest on net OPEB obligation	33,760,000
Adjustment to annual required contribution	<u>(26,071,000)</u>
Annual OPEB cost	120,391,000
Contributions made	<u>(128,811,906)</u>
Increase (Decrease) in net OPEB obligation	(8,420,906)
Net OPEB obligation - beginning of year	<u>449,055,135</u>
Net OPEB obligation - end of year	<u><u>\$ 440,634,229</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>
2015	\$ 114,370,000	87.2%	\$ 440,459,637
2016	118,906,000	92.8	449,055,135
2017	120,391,000	107.0	440,634,229

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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, 2016
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 – preretirement	Healthy Retirees and Beneficiaries RP 2014 Fully Generational Scale MP 2015 with separate tables for males and females
Mortality – disabled retirees	RP-2014 Healthy Annuitant Scale MP-2015, (disabled post retirement) Set forward 6 years for males and 8 for females, with separate tables for males and females
Health care cost trend rates:	(initial, ultimate)
Medical (excluding Indemnity plan) pre-65	7.40%, 4.50%
Medical (excluding Indemnity plan) post-65	7.53%, 4.50%
Medical (Indemnity plan)	8.11%, 4.50%
Medical (Indemnity plan) post-65	7.64%, 4.50%
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, 2017
RSI-1

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Revenues:				
Taxes:				
Property	\$ 1,271,864,533	\$ 1,271,864,533	\$ 1,265,545,249	\$ (6,319,284)
Property - penalty and interest	-	-	1,366,278	1,366,278
Total Property Tax	1,271,864,533	1,271,864,533	1,266,911,527	(4,953,006)
County Income Tax	1,487,577,240	1,487,577,240	1,466,625,994	(20,951,246)
Other Local Taxes:				
Real property transfer	108,430,000	108,430,000	118,000,203	9,570,203
Recordation	57,370,678	57,370,678	60,375,616	3,004,938
Fuel energy	203,990,141	203,990,141	192,459,066	(11,531,075)
Hotel-motel	20,637,350	20,637,350	21,462,751	825,401
Telephone	50,309,015	50,309,015	50,812,917	503,902
Other	3,404,187	3,404,187	4,189,326	785,139
Total Other Local Taxes	444,141,371	444,141,371	447,299,879	3,158,508
Total Taxes	3,203,583,144	3,203,583,144	3,180,837,400	(22,745,744)
Licenses and Permits:				
Business	4,687,560	4,687,560	4,899,074	211,514
Non business	7,243,780	7,243,780	6,337,256	(906,524)
Total Licenses and Permits	11,931,340	11,931,340	11,236,330	(695,010)
Intergovernmental Revenue:				
State Aid and Reimbursements:				
DHR State reimbursement	41,500	41,500	42,383	883
Highway user revenue	3,742,245	3,742,245	3,747,903	5,658
Police protection	14,743,832	14,743,832	14,081,265	(662,567)
Health and human services programs	5,192,840	5,192,840	6,248,374	1,055,534
Public libraries	5,842,000	5,842,000	6,178,408	336,408
911 Emergency	6,745,000	6,745,000	7,415,543	670,543
Other	1,844,709	1,844,709	1,938,181	93,472
Total State Aid and Reimbursements	38,152,126	38,152,126	39,652,057	1,499,931
Federal Reimbursements:				
Federal financial participation	15,015,535	15,015,535	18,001,856	2,986,321
Other	20,138,835	20,138,835	13,642,489	(6,496,346)
Total Federal Reimbursements	35,154,370	35,154,370	31,644,345	(3,510,025)
Other Intergovernmental	1,216,920	1,216,920	1,450,951	234,031
Total Intergovernmental Revenue	74,523,416	74,523,416	72,747,353	(1,776,063)
Charges for Services:				
General government	1,391,155	1,391,155	1,829,064	437,909
Public safety	5,559,140	5,559,140	5,087,094	(472,046)
Health and human services	1,420,200	1,420,200	1,494,488	74,288
Culture and recreation	20,000	20,000	25,962	5,962
Environment	425,000	425,000	1,442,030	1,017,030
Public works and transportation	793,548	793,548	633,089	(160,459)
Total Charges for Services	9,609,043	9,609,043	10,511,727	902,684
Fines and forfeitures	24,222,150	25,722,150	26,826,771	1,104,621
Investment Income:				
Pooled investment income	119,480	119,480	(423,172)	(542,652)
Other interest income	25,060	25,060	1,114	(23,946)
Total Investment Income	144,540	144,540	(422,058)	(566,598)

(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, 2017
RSI-1 (Continued)

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Miscellaneous Revenue:				
Property rentals	4,342,400	4,342,400	3,802,238	(540,162)
Sundry	5,427,593	6,440,012	18,497,998	12,057,986
Total Miscellaneous Revenue	9,769,993	10,782,412	22,300,236	11,517,824
Total Revenues	3,333,783,626	3,336,296,045	3,324,037,759	(12,258,286)
Expenditures:				
Departments or Offices:				
County Council:				
Personnel	10,527,563	10,668,310	10,668,303	7
Operating	563,055	662,838	662,838	-
Totals	11,090,618	11,331,148	11,331,141	7
Board of Appeals:				
Personnel	545,900	551,001	527,465	23,536
Operating	48,077	48,077	26,643	21,434
Totals	593,977	599,078	554,108	44,970
Legislative Oversight:				
Personnel	1,546,120	1,573,526	1,565,877	7,649
Operating	53,287	53,287	15,289	37,998
Totals	1,599,407	1,626,813	1,581,166	45,647
Merit System Protection Board:				
Personnel	213,705	218,589	218,589	-
Operating	268,008	267,668	257,385	10,283
Totals	481,713	486,257	475,974	10,283
Zoning and Administrative Hearings:				
Personnel	591,678	591,678	580,022	11,656
Operating	103,964	110,265	68,816	41,449
Totals	695,642	701,943	648,838	53,105
Inspector General:				
Personnel	975,282	985,115	985,109	6
Operating	65,399	61,469	8,762	52,707
Totals	1,040,681	1,046,584	993,871	52,713
Circuit Court:				
Personnel	9,218,181	9,218,181	9,125,034	93,147
Operating	2,520,654	2,918,073	2,752,260	165,813
Totals	11,738,835	12,136,254	11,877,294	258,960
State's Attorney:				
Personnel	15,488,901	15,560,581	15,560,578	3
Operating	811,061	965,088	965,087	1
Totals	16,299,962	16,525,669	16,525,665	4
County Executive:				
Personnel	4,907,046	4,684,962	4,630,919	54,043
Operating	563,822	934,847	826,271	108,576
Totals	5,470,868	5,619,809	5,457,190	162,619
Community Engagement Cluster:				
Personnel	2,821,859	2,871,713	2,871,708	5
Operating	803,480	783,784	764,190	19,594
Totals	3,625,339	3,655,497	3,635,898	19,599

(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, 2017
RSI-1 (Continued)

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Ethics Commission:				
Personnel	368,987	374,996	374,276	720
Operating	205,307	205,307	204,427	880
Totals	574,294	580,303	578,703	1,600
Intergovernmental Relations:				
Personnel	856,355	875,369	875,364	5
Operating	258,956	241,356	162,840	78,516
Totals	1,115,311	1,116,725	1,038,204	78,521
Public Information:				
Personnel	3,970,482	4,145,874	4,145,873	1
Operating	893,570	1,156,649	1,156,642	7
Totals	4,864,052	5,302,523	5,302,515	8
Board of Elections:				
Personnel	3,886,070	4,050,575	4,050,575	-
Operating	3,965,532	4,855,709	4,855,705	4
Totals	7,851,602	8,906,284	8,906,280	4
County Attorney:				
Personnel	5,403,639	5,498,301	5,498,301	-
Operating	548,251	835,981	835,975	6
Totals	5,951,890	6,334,282	6,334,276	6
Management and Budget:				
Personnel	4,203,969	4,050,827	3,892,896	157,931
Operating	96,320	293,533	264,355	29,178
Totals	4,300,289	4,344,360	4,157,251	187,109
Finance:				
Personnel	11,489,125	10,809,874	10,511,716	298,158
Operating	2,576,694	4,369,596	4,328,233	41,363
Totals	14,065,819	15,179,470	14,839,949	339,521
Office of Procurement				
Personnel	4,047,884	3,974,066	3,922,350	51,716
Operating	436,473	605,951	572,895	33,056
Totals	4,484,357	4,580,017	4,495,245	84,772
Human Resources:				
Personnel	5,576,566	5,630,944	5,630,938	6
Operating	2,624,070	2,909,658	2,891,898	17,760
Totals	8,200,636	8,540,602	8,522,836	17,766
Technology Services:				
Personnel	22,914,259	20,723,730	19,315,512	1,408,218
Operating	18,618,521	24,980,672	24,769,893	210,779
Totals	41,532,780	45,704,402	44,085,405	1,618,997
General Services:				
Personnel	12,766,180	14,384,827	14,384,824	3
Operating	22,443,681	20,453,510	20,453,501	9
Totals	35,209,861	34,838,337	34,838,325	12
Consumer Protection:				
Personnel	1,966,372	1,994,156	1,994,149	7
Operating	142,698	176,404	88,542	87,862
Totals	2,109,070	2,170,560	2,082,691	87,869

(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, 2017
RSI-1 (Continued)

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Corrections and Rehabilitation:				
Personnel	60,044,201	59,565,801	59,565,800	1
Operating	6,732,862	8,338,195	8,338,191	4
Totals	66,777,063	67,903,996	67,903,991	5
Human Rights:				
Personnel	1,035,765	1,030,791	1,030,788	3
Operating	118,621	148,846	148,842	4
Totals	1,154,386	1,179,637	1,179,630	7
Police:				
Personnel	222,239,582	217,219,088	217,219,081	7
Operating	42,667,405	43,859,359	43,859,343	16
Totals	264,906,987	261,078,447	261,078,424	23
Sheriff:				
Personnel	19,777,001	19,464,281	19,464,276	5
Operating	2,477,639	2,962,514	2,962,505	9
Totals	22,254,640	22,426,795	22,426,781	14
Homeland Security:				
Personnel	1,041,702	952,955	900,707	52,248
Operating	219,307	369,562	367,362	2,200
Totals	1,261,009	1,322,517	1,268,069	54,448
Transportation:				
Personnel	21,662,245	22,669,237	22,669,229	8
Operating	27,037,766	36,523,265	36,523,259	6
Totals	48,700,011	59,192,502	59,192,488	14
Health and Human Services:				
Personnel	120,326,823	117,541,519	114,153,927	3,387,592
Operating	100,114,219	107,617,692	106,588,115	1,029,577
Totals	220,441,042	225,159,211	220,742,042	4,417,169
Libraries:				
Personnel	33,283,135	33,371,458	31,442,560	1,928,898
Operating	8,323,479	9,531,228	9,507,132	24,096
Totals	41,606,614	42,902,686	40,949,692	1,952,994
Housing and Community Affairs:				
Personnel	4,981,803	4,990,040	4,966,887	23,153
Operating	996,774	1,046,631	1,046,627	4
Totals	5,978,577	6,036,671	6,013,514	23,157
Economic Development:				
Personnel	636,097	604,152	601,045	3,107
Operating	373,397	437,373	387,615	49,758
Totals	1,009,494	1,041,525	988,660	52,865
Environmental Protection:				
Personnel	1,891,309	1,852,807	1,704,136	148,671
Operating	845,965	1,352,463	1,335,694	16,769
Totals	2,737,274	3,205,270	3,039,830	165,440
Total Departments	859,724,100	882,776,174	873,045,946	9,730,228

(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, 2017
RSI-1 (Continued)

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Nondepartmental:				
Arts Council - operating	5,306,943	5,306,943	5,306,943	-
Boards, Committees and Commissions	22,950	22,950	20,137	2,813
Charter Review Commission	150	150	-	150
Children's Opportunity Fund	375,000	876,926	876,926	-
Community grants	10,110,160	11,378,995	11,247,769	131,226
Compensation adjustment - personnel	1,196,870	217,198	120,618	96,580
Compensation adjustment - operating	723,120	602,614	572,366	30,248
Conference Center - personnel	129,079	129,079	127,354	1,725
Conference Center - operating	453,690	453,690	20,784	432,906
Conferences & Visitors Bureau	1,444,615	1,469,848	1,469,848	-
Consolidated Retiree Health Benefits Trust (MC)	1,524,000	1,524,000	1,524,000	-
Consolidated Retiree Health Benefits Trust (MCPS)	63,055,000	63,055,000	63,055,000	-
Contrib. To Self Ins Fund - Risk Mg	15,276,943	15,276,943	14,724,804	552,139
County Associations	74,728	74,728	74,728	-
County Leases - personnel	100,000	169,780	169,777	3
County Leases - operating	20,459,481	18,514,299	17,878,759	635,540
Desktop computer modernization - operating	6,550,200	7,154,710	7,147,248	7,462
Grants To Muni Lieu Of Shared Tax	28,020	28,020	28,012	8
Group Insurance Retirees	52,300,000	52,300,000	52,300,000	-
Historical Activities	77,250	77,250	77,250	-
Homeowners' Association Roads	61,370	61,370	61,370	-
Independent Audit	420,820	446,994	358,958	88,036
Interagency tech, policy and coord comm - operating	5,850	5,850	1,753	4,097
Legislative Branch Communications Outreach	540,000	704,204	649,966	54,238
MEDCO Grant Incubator Network	3,416,621	3,416,621	3,416,621	-
Metro Washington Council Of Govts	855,179	855,179	855,179	-
Mont Coalition Adult English Literacy	1,457,058	1,457,058	1,457,058	-
Mont. County Economic Development Corp.	4,180,750	4,180,750	4,180,750	-
Municipal Tax Duplication	8,437,365	8,437,365	8,405,241	32,124
Prisoner Medical Services	20,000	20,000	-	20,000
Public Election Fund	5,160,000	5,167,660	5,167,658	2
Public Technologies Inc	20,000	20,000	20,000	-
Rebate Takoma Park For Police	986,340	986,340	945,118	41,222
Retiree Health Benefits Trust	43,513,550	43,513,550	43,513,550	-
Rockville Parking District	425,500	425,500	405,382	20,118
State Positions Supplement	60,756	60,756	21,182	39,574
State Property Tax Services	3,778,679	3,778,679	3,383,979	394,700
State Retirement Contribution	1,379,507	1,379,507	1,379,507	-
Takoma Park - Lib Transition	158,225	166,175	166,169	6
Telecommunications	5,786,382	5,743,079	5,524,830	218,249
Utilities	25,780,493	25,812,458	25,635,008	177,450
Working Families Income Supplement	24,274,500	22,022,410	22,018,715	3,695
WorkSource Montgomery	982,344	1,657,344	1,657,344	-
Total - Nondepartmental	310,909,488	308,951,972	305,967,661	2,984,311
Total Expenditures	1,170,633,588	1,191,728,146	1,179,013,607	12,714,539
Excess of Revenues over (under) Expenditures	2,163,150,038	2,144,567,899	2,145,024,152	456,253

(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, 2017
RSI-1 (Continued)

	Budget			Variance
	Original	Final		Positive
	Budget	Budget	Actual	(Negative)
Other Financing Sources (Uses):				
Transfers In:				
Special Revenue Funds:				
Fire Tax District	551,232	551,232	551,232	-
Recreation	5,678,988	5,678,988	6,045,818	366,830
Mass Transit	11,733,529	11,733,529	11,733,529	-
Water Quality Protection	1,431,071	1,431,071	1,431,071	-
Urban Districts	661,593	661,593	661,593	-
Housing Activities	303,734	303,734	303,734	-
Cable TV	9,181,309	9,181,309	9,181,309	-
Total Special Revenue Funds	29,541,456	29,541,456	29,908,286	366,830
Enterprise Funds:				
Liquor	20,712,444	20,712,444	13,237,642	(7,474,802)
Parking Lot Districts	947,617	947,617	947,617	-
Solid Waste Activities	2,793,471	2,793,471	2,793,471	-
Community Use of Public Facilities	755,354	755,354	755,354	-
Permitting Services	4,815,802	4,815,802	4,815,802	-
Total Enterprise Funds	30,024,688	30,024,688	22,549,886	(7,474,802)
Internal Service Funds:				
Self insurance liability and property	4,312	4,312	4,312	-
Total Internal Service Funds	4,312	4,312	4,312	-
Total Transfers In	59,570,456	59,570,456	52,462,484	(7,107,972)
Total Transfers In - MCG	59,570,456	59,570,456	52,462,484	(7,107,972)
Transfers (Out):				
Special Revenue Funds:				
Recreation	(1,009,700)	(1,009,700)	(1,009,700)	-
Fire Tax District	(787,582)	(250,000)	(250,000)	-
Urban Districts	(3,092,718)	(3,092,718)	(3,092,718)	-
Mass Transit	(531,310)	(2,346,310)	(2,346,310)	-
Revenue Stabilization	(24,723,359)	(24,817,790)	(24,741,399)	76,391
Housing Activities	(22,167,940)	(22,167,940)	(22,167,940)	-
Economic Development	(2,449,557)	(2,949,557)	(2,949,557)	-
Total Special Revenue Funds	(54,762,166)	(56,634,015)	(56,557,624)	76,391
Internal Service Funds:				
Motor Pool	-	(95,623)	(95,623)	-
Total Internal Service Funds	-	(95,623)	(95,623)	-
Enterprise Funds:				
Community Use of Public Facilities	(160,000)	(160,000)	(160,000)	-
Solid Waste Activities	(1,651,280)	(1,651,280)	(1,651,280)	-
Total Enterprise Funds	(1,811,280)	(1,811,280)	(1,811,280)	-
Debt Service Fund	(319,884,710)	(320,295,826)	(309,582,507)	10,713,319
Capital Projects Fund	-	(94,390,425)	(55,254,099)	39,136,326
Total Transfers (Out)	(376,458,156)	(473,227,169)	(423,301,133)	49,926,036

(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, 2017
RSI-1 (Concluded)

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Transfers (Out) - Component Units:				
Montgomery County Public Schools - operating	(1,619,374,388)	(1,620,874,388)	(1,620,452,067)	422,321
Montgomery County Public Schools - capital	-	(22,011,063)	(22,000,000)	11,063
Total Montgomery County Public Schools	(1,619,374,388)	(1,642,885,451)	(1,642,452,067)	433,384
Montgomery College - operating	(136,404,459)	(136,404,459)	(136,404,459)	-
Montgomery College - capital	-	(26,537,987)	(14,132,462)	12,405,525
Total Montgomery College	(136,404,459)	(162,942,446)	(150,536,921)	12,405,525
Housing Opportunity Commission - operating	(6,513,040)	(6,513,040)	(7,718,998)	(1,205,958)
Housing Opportunity Commission - capital	-	(8,892,659)	-	8,892,659
Total Housing Opportunity Commission	(6,513,040)	(15,405,699)	(7,718,998)	7,686,701
M-NCPPC - operating	(843,200)	(843,200)	(843,200)	-
Total Transfers (Out) - Component Units and Joint Ventures	(1,763,135,087)	(1,822,076,796)	(1,801,551,186)	20,525,610
Total Transfers (Out) - MCG	(2,139,593,243)	(2,295,303,965)	(2,224,852,319)	70,451,646
Total Other Financing Sources (Uses)	(2,080,022,787)	(2,235,733,509)	(2,172,389,835)	63,343,674
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	<u>\$ 83,127,251</u>	<u>\$ (91,165,610)</u>	(27,365,683)	<u>\$ 63,799,927</u>

Adjustments required under generally accepted accounting principles:

Non budgeted Item - Bad debt expense	(397,246)
Elimination of encumbrances outstanding	26,916,962
Other non budgeted items	(6,102,844)
Revenue Stabilization investment income	1,512,822
Conference center activity	7,602,509
Transfer to Revenue Stabilization	24,741,399
Public Election Fund Transfers	(167,658)
Economic Development	534,687
Urban Districts	(639,516)
GAAP - Net Change in Fund Balance	26,635,432
Fund Balance - Beginning of Year	480,336,363
Fund Balance - End of Year	<u>\$ 506,971,795</u>

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, 2017
RSI-2

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Revenues:				
Taxes - recordation premium	\$ 14,296,500	\$ 14,296,500	\$ 15,418,027	\$ 1,121,527
Charges for services	50,000	50,000	390	(49,610)
Investment Income:				
Pooled investment income	10,000	10,000	249,200	239,200
Other interest income	2,115,040	2,115,040	4,903,966	2,788,926
Total Investment Income	2,125,040	2,125,040	5,153,166	3,028,126
Miscellaneous:				
Property rentals, MPDU and other contributions	586,286	586,286	2,616,785	2,030,499
Total Miscellaneous	586,286	586,286	2,616,785	2,030,499
Total Revenues	17,057,826	17,057,826	23,188,368	6,130,542
Expenditures: Community development and housing				
Personnel	1,844,832	1,863,422	1,863,413	9
Operating	33,724,974	48,861,390	22,455,257	26,406,133
Total Expenditures	35,569,806	50,724,812	24,318,670	26,406,142
Excess of Revenues over (under) Expenditures	(18,511,980)	(33,666,986)	(1,130,302)	32,536,684
Other Financing Sources (Uses):				
Transfers In (Out):				
From General Fund	22,167,940	22,167,940	22,167,940	-
From Capital Projects Fund	6,329,312	6,329,312	6,329,312	-
To General Fund	(303,734)	(303,734)	(303,734)	-
To Debt Service Fund	(7,950,310)	(7,950,310)	(7,322,995)	627,315
To Capital Projects Fund	-	-	(19,216,058)	(19,216,058)
Mortgage repayment	1,975,000	1,975,000	19,803,262	17,828,262
Sale of property	1,000,000	1,000,000	1,014,483	14,483
Total Other Financing Sources (Uses)	23,218,208	23,218,208	22,472,210	(745,998)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	\$ 4,706,228	\$ (10,448,778)	21,341,908	\$ 31,790,686
Adjustments required under generally accepted accounting principles:				
Elimination of encumbrances outstanding			402,688	
Repayment of loan principal not considered revenue under GAAP			(19,803,262)	
Non budgeted Item - Bad debt expense			(6,029,148)	
GAAP - Net Change in Fund Balance			(4,087,814)	
Fund Balance - Beginning of Year			253,862,990	
Fund Balance - End of Year			\$ 249,775,176	

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, 2017
RSI-3

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Revenues:				
Intergovernmental:				
Federal grants	\$ 25,542,729	\$ 34,618,655	\$ 42,190,918	\$ 7,572,263
State grants	88,951,693	79,036,491	65,377,850	(13,658,641)
Other non-state and non-federal reimbursements	295,208	480,890	650,291	169,401
Total Intergovernmental	114,789,630	114,136,036	108,219,059	(5,916,977)
Investment income:				
Other principal and interest income	1,000,000	1,000,000	2,436,252	1,436,252
Total Investment Income	1,000,000	1,000,000	2,436,252	1,436,252
Miscellaneous	-	66,176	353,861	287,685
Total Revenues	115,789,630	115,202,212	111,009,172	(4,193,040)
Expenditures:				
General Government:				
Circuit Court:				
Personnel costs	2,377,616	4,565,929	2,174,128	2,391,801
Operating	245,396	447,867	240,635	207,232
Totals	2,623,012	5,013,796	2,414,763	2,599,033
Office of State's Attorney:				
Personnel costs	119,226	398,479	176,924	221,555
Operating	-	8,260	8,702	(442)
Totals	119,226	406,739	185,626	221,113
Office of the County Executive:				
Personnel costs	130,677	130,677	106,404	24,273
Operating	4,484	103,987	84,381	19,606
Totals	135,161	234,664	190,785	43,879
Legislative Oversight:				
Operating	-	21,878	27,550	(5,672)
Totals	-	21,878	27,550	(5,672)
Intergovernmental Relations:				
Operating	30,670	30,666	30,666	-
Totals	30,670	30,666	30,666	-
Community Engagement Cluster:				
Personnel costs	67,298	67,298	71,097	(3,799)
Operating	-	23,954	24,550	(596)
Totals	67,298	91,252	95,647	(4,395)
Department of Human Resources:				
Operating	-	-	855	(855)
Totals	-	-	855	(855)
General Services:				
Personnel costs	-	-	12,529	(12,529)
Operating	-	18,000	218,000	(200,000)
Totals	-	18,000	230,529	(212,529)
Total General Government	2,975,367	5,816,995	3,176,421	2,640,574

(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, 2017
RSI-3 (Continued)

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Department of Fire and Rescue Services:				
Personnel costs	-	1,255,769	1,173,774	81,995
Operating	-	901,179	968,768	(67,589)
Totals	-	2,156,948	2,142,542	14,406
Department of Police:				
Personnel costs	148,000	672,487	509,801	162,686
Operating	17,000	522,111	513,909	8,202
Totals	165,000	1,194,598	1,023,710	170,888
Office of the County Sheriff:				
Personnel costs	548,048	1,089,707	866,601	223,106
Operating	181,509	448,155	(18,354)	466,509
Totals	729,557	1,537,862	848,247	689,615
Office of Emergency Management & Homeland Security:				
Personnel costs	736,925	1,909,720	777,831	1,131,889
Operating	-	5,163,065	4,991,322	171,743
Totals	736,925	7,072,785	5,769,153	1,303,632
Total Public Safety	1,631,482	11,962,193	9,783,652	2,178,541
Transportation:				
Department of Transportation:				
Personnel costs	1,859,934	1,686,490	1,463,744	222,746
Operating	3,205,705	3,680,105	2,969,111	710,994
Total Transportation	5,065,639	5,366,595	4,432,855	933,740
Economic Development:				
Department of Economic Development:				
Operating	-	(485,386)	40,920	(526,306)
Total Economic Development	-	(485,386)	40,920	(526,306)
Health and Human Services:				
Department of Health and Human Services:				
Personnel costs	45,662,889	50,495,266	46,480,381	4,014,885
Operating	32,943,426	35,206,598	37,606,521	(2,399,923)
Total Health and Human Services	78,606,315	85,701,864	84,086,902	1,614,962
Culture and Recreation:				
Department of Libraries:				
Personnel costs	40,290	169,905	54,905	115,000
Operating	12,000	125,642	44,067	81,575
Totals	52,290	295,547	98,972	196,575
Department of Recreation:				
Personnel costs	80,201	166,280	102,805	63,475
Operating	-	-	2,494	(2,494)
Totals	80,201	166,280	105,299	60,981
Total Culture and Recreation	132,491	461,827	204,271	257,556

(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, 2017
RSI-3 (Concluded)

	Budget		Actual	Variance Positive (Negative)
	Original Budget	Final Budget		
Housing:				
Department of Permitting Service:				
Personnel costs	-	-	4,549	(4,549)
Operating	-	30,000	3,600	26,400
Totals	-	30,000	8,149	21,851
Department of Housing and Community Affairs:				
Personnel costs	2,095,008	2,095,008	1,908,971	186,037
Operating	5,283,328	7,226,773	7,686,604	(459,831)
Totals	7,378,336	9,321,781	9,595,575	(273,794)
Total Housing	7,378,336	9,351,781	9,603,724	(251,943)
Environment:				
Department of Environmental Protection:				
Operating	-	300	-	300
Total Environmental Protection	-	300	-	300
Department of Liquor Control:				
Personnel costs	-	(3,668)	11,225	(14,893)
Operating	-	60,000	20,801	39,199
Total Liquor Control	-	56,332	32,026	24,306
Nondepartmental:				
NDA Future Grants - Operating	20,000,000	1,695,458	-	1,695,458
Total Nondepartmental	20,000,000	1,695,458	-	1,695,458
Total Expenditures	115,789,630	119,927,959	111,360,771	8,567,188
Excess of Revenues over (under) Expenditures	-	(4,725,747)	(351,599)	4,374,148
Other Financing Sources (Uses):				
Transfers In:				
Mass Transit Special Revenue Fund	-	340,000	340,000	-
Fire Tax District Special Revenue Fund	-	11,599	11,599	-
Total Transfers In	-	351,599	351,599	-
Total Other Financing Sources (Uses)	-	351,599	351,599	-
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	-	(4,374,148)	-	4,374,148
GAAP - Net Change in Fund Balance			-	
Fund Balance - Beginning of Year			216,033	
Fund Balance - End of Year			<u>\$ 216,033</u>	

Reconciliation of Budgetary Schedule to GAAP Basis

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

	Revenues	Expenditures & Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
As reported - budgetary basis	\$ 111,009,172	111,360,771	\$ 351,599	\$ -
Reconciling items:				
Encumbrances	(3,730,545)	(3,730,545)	-	-
As reported - GAAP basis	<u>\$ 107,278,627</u>	<u>\$ 107,630,226</u>	<u>\$ 351,599</u>	<u>\$ -</u>

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)
6/30/2013	\$ 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
6/30/2016	334,889,000	1,380,894,000	1,046,005,000	24.3	716,878,000	145.9

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	
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
2017	112,702,000	101.7	5.3	440,634,229

Continued

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY**Actuarial Valuation Date**

June 30, 2017

Total OPEB Liability

Service Cost	\$ 97,784,916
Interest Cost	116,360,134
Differences between Expected and Actual Experiences	(22,203,411)
Changes of Assumptions	(261,363,550)
Benefit Payments	(81,596,672)
Net Change in Total OPEB Liability	(151,018,583)
Total OPEB Liability – Beginning	2,112,121,031
Total OPEB Liability – Ending (a)	\$ 1,961,102,448

Plan Fiduciary Net Position

Contributions - Employer	\$ 122,466,187
Contributions - Member	24,658,041
Net Investment Income	42,759,085
Benefit Payments	(81,596,672)
Administrative Expense	(4,292,538)
Net Change in Plan Fiduciary Net Position	103,994,103
Plan Fiduciary Net Position – Beginning	334,888,911
Plan Fiduciary Net Position – Ending (b)	\$ 438,883,014

Net OPEB Liability – Ending (a-b)	\$ 1,522,219,434
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Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	22.38%
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Covered Payroll	\$ 750,986,381
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Net OPEB Liability as a Percentage of Covered Payroll	202.70%
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Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Continued

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Actuarially Determined Contributions	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a % of Covered Payroll
2017	\$ 112,702,000	\$ 122,466,187	\$ (9,764,187)	\$ 750,986,381	16.31%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

Significant methods and actuarial assumptions used in the latest actuarial valuation are as follows:

Valuation date	June 30, 2017
Actuarial method	Entry Age Normal
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open period)
Investment rate of return	7.50%
Salary scale	3.25% - 9.50% depending on service
Inflation	3.00%
Mortality:	
Preretirement	Healthy Retirees and Beneficiaries aggregate 2006 base rates from the RP-2014 mortality study projected generationally from 2006 with Scale MP-2016
Disabled Retirees	The aggregate 2006 base rates from the RP-2014 mortality study projected generationally from 2006 with Scale MP-2016, (disabled post retirement) Set forward 6 years for Males and 8 years for Females, with separate tables for males and females

SCHEDULE OF INVESTMENT RETURNS**Fiscal Year Ending June 30, 2017**

Annual money weighted rate of return, net of investment expense	11.99%
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Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LAST 10 FISCAL YEARS

Measurement Date Fiscal Year	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 Payroll		
Ending June 30					
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
2016	96.36	521,396,382	126.54	412,057,017	87.06

SCHEDULE OF COUNTY CONTRIBUTIONS LAST 10 FISCAL YEARS

Measurement Date Fiscal Year	Contractually Required Contribution	Contributions in Relation to		County's Covered- Employee Payroll	Contribution as a % of Covered-Employee Payroll
		Contractually Required Contribution	Contribution Deficiency (excess)		
Ending June 30					
2014	\$ 141,511,591	\$ 141,511,591	\$ -	\$ 393,995,026	35.92 %
2015	146,672,030	146,672,030	-	405,915,489	36.13
2016	129,899,308	129,899,308	-	412,057,017	31.52

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	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 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
2016	0.1276071	30,107,615	408.16	7,376,386	65.79

SCHEDULE OF COUNTY CONTRIBUTIONS LAST 10 FISCAL YEARS

Measurement Date Fiscal Year Ending June 30	Contractually Required Contribution	Contributions in Relation to		County's Covered- Employee Payroll	Contribution as a % of Covered-Employee Payroll
		Contractually Required Contribution	Contribution Deficiency (excess)		
2014	\$ 2,347,645	\$ 2,347,645	\$ -	\$ 6,463,239	36.32 %
2015	2,476,892	2,476,892	-	7,998,461	30.97
2016	2,485,889	2,485,889	-	7,376,386	33.70

These two Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

REQUIRED SUPPLEMENTARY INFORMATION

LENGTH OF SERVICE AWARD PROGRAM (LOSAP)

SCHEDULE OF CHANGES IN THE TOTAL PENSION LIABILITY

Actuarial Valuation Date	January 1, 2015
Measurement Date	June 30, 2016
County's Fiscal Year Ending Date for GASB 73	June 30, 2017
Total Pension Liability	
Service cost	\$ 886,540
Interest on the Total Pension Liability	1,273,361
Assumptions changes	6,088,358
Benefit Payments	(1,309,686)
Net Change in Total Pension Liability	6,938,573
Total Pension Liability – Beginning	33,719,106
Total Pension Liability – Ending (a)	\$ 40,657,679
Plan Fiduciary Net Position	
Employer Contributions	\$ 1,309,686
Benefit Payments	(1,309,686)
Net Change in Plan Fiduciary Net position	-
Plan Fiduciary Net Position – Beginning	-
Plan Fiduciary Net Position – Ending (b)	-
Net Pension Liability – Ending (a-b)	\$ 40,657,679
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	0.00%
Covered Employee Payroll	-
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

The change in the Total Pension Liability due to the change in the Single Discount Rate from 3.80% as of the beginning of the year to 2.85% as of the end of the year is included as an assumption change.

There are no assets accumulated in a trust that meets the criteria in Paragraph 4 of Statement 73 to pay related benefits.

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 FY17, the County Council

increased the operating budget for all funds through supplemental and special appropriations by \$14.6 million. In addition, supplemental appropriations increased the CIP budget by \$134.1 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 contribution 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, 2016
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 20 years for the base established July 1, 2015. Initial amortization period of 20 years for subsequent bases. Average amortization period of 8.4 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.

