

MONTGOMERY COUNTY MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Fiscal Year 1999

July 1, 1998 - June 30, 1999
Rockville, Maryland



Montgomery County **Vision Statement**

*"Helping to make Montgomery County
the best place to be through efficient, effective and
responsive government that delivers quality services."*

Guiding Principles

We Will Provide Excellence in Government By:

- Insisting upon customer satisfaction
- Ensuring high value for tax dollars
- Adhering to the highest ethical standards
- Appreciating diversity
- Being open, accessible and responsive
- Empowering and supporting employees
- Striving for continuous improvement
- Working together as a team
- Being accountable

MONTGOMERY COUNTY MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Prepared by the
Department of Finance

Timothy L. Firestine, Director
101 Monroe Street
Rockville, Maryland 20850
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Fiscal Year 1999
July 1, 1998 - June 30, 1999

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**INTRODUCTORY
SECTION**



DEPARTMENT OF FINANCE

Douglas M. Duncan
County Executive

Timothy L. Firestine
Director

December 3, 1999

Honorable County Executive,
Members of the Montgomery County Council, and
Chief Administrative Officer

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report of Montgomery County, Maryland (the County), for the fiscal year ended June 30, 1999. This report was prepared by the County's Department of Finance in cooperation with the finance departments of the County's component unit and joint venture organizations.

This report has been prepared pursuant to the provisions of Article 2, Section 214 of the Charter of Montgomery County, Maryland and includes the independent auditors' opinion, issued by the County Council appointed independent public accounting firm, as provided by Article 3, Section 315 of the County Charter. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures rests with Montgomery County, Maryland. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the County as measured by the financial activity of its various funds and account groups; and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

The accompanying report consists of four sections: introductory, financial, statistical, and index. The introductory section includes this transmittal letter, a list of principal officials, a copy of our Certificate of Achievement for Excellence in Financial Reporting awarded for the FY98 report, a list of special acknowledgments, and the Montgomery County, Maryland's organization chart. The financial section includes the general purpose financial statements and the combining, individual fund, and individual account group financial statements and schedules, as well as the report of independent public accountants. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The index is presented solely to facilitate the identification of the individual funds, account groups, and component units of the County.

Office of the Director

101 Monroe Street • Rockville, Maryland 20850 • 240/777-8860

THE REPORTING ENTITY AND ITS SERVICES

For financial reporting purposes, the County's reporting entity consists of (1) the primary government, and (2) component unit organizations for which the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The funds and account groups of all agencies, boards, commissions, and authorities that have been identified as the primary government or a component unit have been included.

Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Codification) describes the criteria for determining which organizations should be considered part of the County for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, as well as the County's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

Based on an evaluation of this criteria, the following organizations are included as component units in the accompanying financial statements: the Montgomery County Public Schools (MCPS), the Montgomery Community College (MCC), the Montgomery County Revenue Authority (MCRA), the Housing Opportunities Commission of Montgomery County (HOC), and the Bethesda Urban Partnership, Inc. (BUPI).

The County's participation in the following joint ventures is also disclosed in the Notes to the Financial Statements (see Note 14): the Maryland-National Capital Park and Planning Commission, the Washington Suburban Sanitary Commission, the Washington Suburban Transit Commission, the Washington Metropolitan Area Transit Authority, the Metropolitan Washington Council of Governments, and the Northeast Maryland Waste Disposal Authority.

Copies of the respective independently audited annual financial reports required by State or County law are available from the above mentioned component units and joint ventures.

The County provides a wide range of governmental services as contemplated by statute and/or charter. These include: education, public safety, public works and transportation, culture and recreation, health and human services, community development and housing, environment, and general government services.

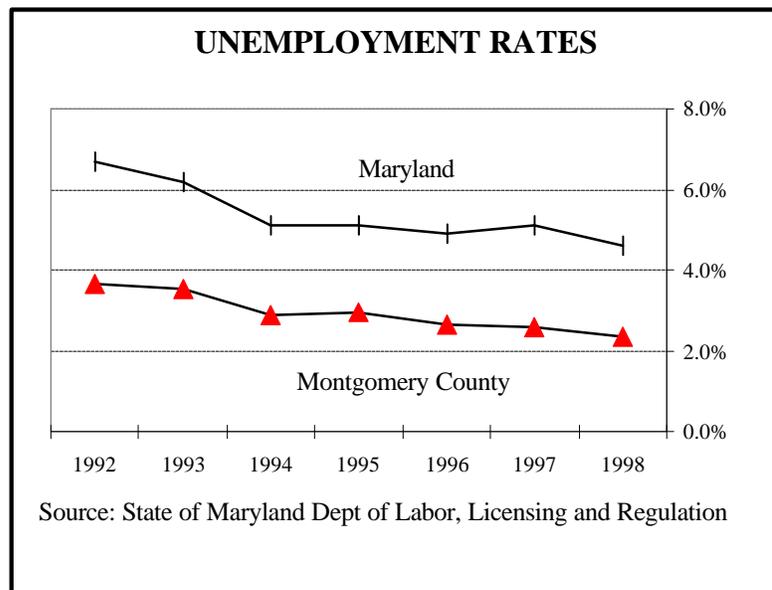
ECONOMIC CONDITION AND OUTLOOK

Summary of the Local Economy

In contrast to the modest growth trend that followed the County's 1990-recession, the economic expansion accelerated in 1997 and 1998. Growth in key areas of the economy – employment, construction, and real estate – recorded dramatic improvements from their lackluster performance observed in the early part of this decade. Other indicators, such as personal income continued to improve, while inflation and mortgage interest rates dropped to their lowest levels in decades. A strong labor market, coupled with strong wage and investment gains, resulted in record-high levels of consumer confidence, which supported unprecedented high rates of consumer and housing purchases. Strong business expansion was also reflected in a consistent decline in the County's office vacancy rate.

Measured on a calendar year basis, the number of new jobs in the County jumped 3.9 percent in 1998. This reflects an increase of more than 15,500 new jobs – the second year in a row with growth well above the statewide average. The extent to which the employment picture has improved in the County from the last recession is illustrated when comparing employment levels in 1991 and 1998. In that seven-year stretch, more than 47,100 new jobs were created in Montgomery County, representing 13 percent growth. However, during that period the federal government initiated its employment reduction program, as a result of which the County “lost” close to 6,000 federal jobs – a decline of more than 13 percent. Increased hiring by local governments during this period, primarily for law enforcement and education, brought the aggregate public sector to a net decline of just 3 percent. The real strength in job growth in the 1991-1998 period resides with the private sector, which added almost 50,000 new jobs to the County’s payrolls – with more than half of this growth in the last two years alone. Newly created jobs in the County reflect a continued transition to service-related industries – a sector that includes business, medical, architectural, and legal services – with 3 out of 4 new private sector jobs created between 1991 and 1998 in this sector.

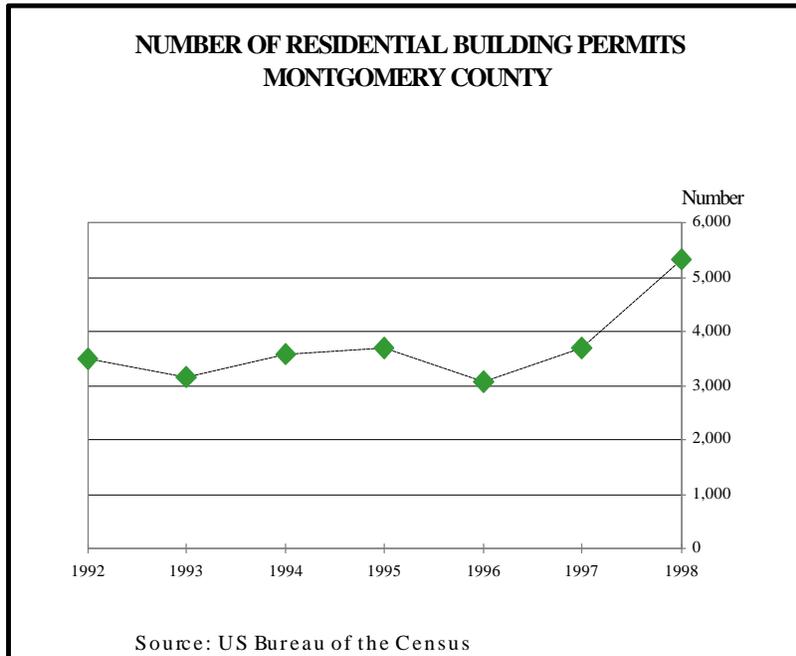
Employment growth in 1998 was broad-based and covered most industrial sectors of the County’s economy. Areas with particularly robust growth were construction, which was up 7.5 percent reflecting the strong residential construction market, and services, which were up 6 percent last year. In addition, the transportation, communication & public utilities sector grew 14.5 percent last year, one-third of which occurred in public utilities, with the remaining two-thirds in transportation. Other sectors that reflect job growth were retail trade and the financial, insurance & real estate sectors. Undoubtedly, strong growth in retail sales, stock market gains, and the robust housing market are the foundation for employment growth in many of the sectors of our economy.



In aggregate, the private sector grew 4.5 percent in 1998. Contributing to the overall job picture in the County last year was the significant slow down in federal employment reductions. As federal job losses reached less than 1 percent in 1998, declines in the number of federal jobs reduced to a fraction of the rate of reductions experienced in prior years. Due to continued hiring by local governments in the County, the public sector grew a little more than 1 percent last year.

The strength of the private sector to create jobs is even more evident when compared to other jurisdictions in Maryland. In 1998, one out of every three new jobs in Maryland was created in Montgomery County. This growth is even more remarkable when considering that only 18 percent of all jobs in the State are located in the County. The County’s tight labor market is highlighted by its unemployment rate, which is consistently the lowest in Maryland. However, while job growth is important to the economic expansion, it also highlights a weakness in the County’s ability to sustain this job creation trend in the longer-term. With employment growth consistently well above labor force growth, the average unemployment rate has dipped to 2.3 percent in 1998, and even as low as 1.7 percent twice in fiscal year 1999. As the pool of available workers continues to shrink, it reduces the ability of employers to expand their operation and contribute to a sustained economic expansion. Hence, unless the labor force begins to increase at a greater rate, the County’s employment base expansion will eventually slow to a more moderate growth trend.

Construction in the County improved significantly in 1998, with a more than 44 percent jump in the number of residential building permits. The value of construction jumped close to 84 percent last year, indicating that, on average, much of the new construction occurred in higher-priced houses. Residential construction in the County also compares well to both national and statewide numbers, where the number of permits increased 11 percent and 20 percent, respectively. By contrast, non-residential construction has declined for the second year in a row, with a 1 percent decline in the number of projects and a 21 percent drop in the associated value. In

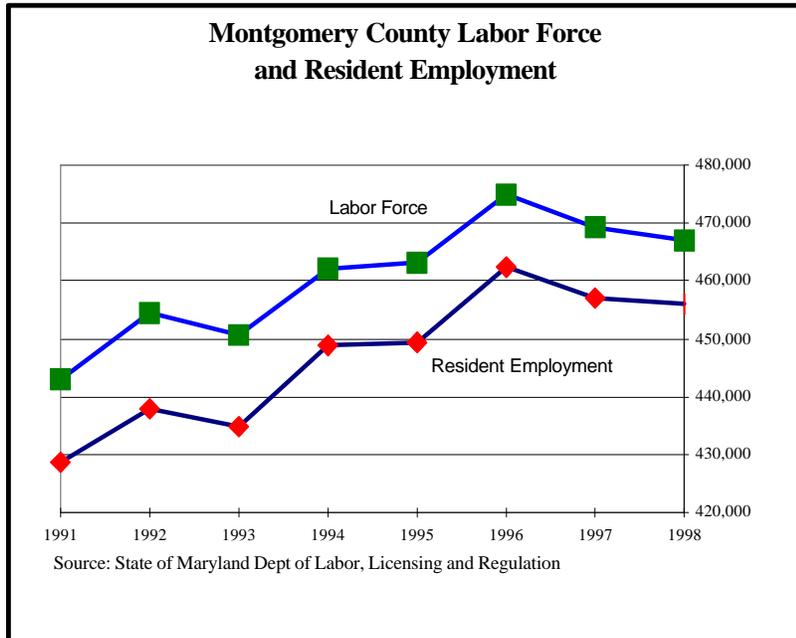


aggregate, however, the number of building permits increased 32 percent in 1998, while the value of all new construction jumped 24 percent compared to 1997. The second half of fiscal year 1999, compared to the same period in fiscal year 1998, exhibits a slow down in all construction activity, as reflected in a 16 percent decline in the number of residential building permits, and an 8 percent drop in the number of non-residential construction projects. The value of construction in both sectors, however, is on an upward trend and was up 78 percent measured for that period. This suggests, at least for the immediate future, a continued growth in the County's property base from new construction.

The real estate market experienced a dramatic improvement at the onset of fiscal year 1998. This followed an extended period of lackluster growth in both residential and commercial sectors. Buoyed by a tight labor market, solid wage gains, low financing cost, and strong stock market gains, residential and commercial properties were purchased at a record pace. The strong trend in residential sales continued in fiscal year 1999, when the number of properties sold jumped 20 percent, on top of a 15 percent jump in the prior fiscal year. The 5 percent increase in the average sale price of the property reflects both a modest growth in house prices and a shift towards higher priced properties. The sale of commercial properties, on the other hand, followed a different trend last year. Even though the number of commercial sales was up 18 percent in fiscal year 1998 and another 7 percent in fiscal year 1999, the total value of commercial properties sold dropped 29 percent in fiscal year 1999, following an unprecedented 109 percent jump in the prior fiscal year. Higher financing costs and credit requirements may have contributed to the commercial sector's decline.

Robust consumer spending in the County extended to retail sales as well. Retail sales picked up significantly in the second half of fiscal year 1999, with sales up more than 7 percent, and only slightly below the 8 percent growth rate found nationally and statewide. While above average sales were recorded in sectors supporting the strong construction market, such as building materials, below average sales occurred in the furniture and appliances sector, reflecting the strong competition among neighboring jurisdictions for this sector of the retail market. Since consumer spending represents roughly two-thirds of economic growth, the robust retail sales trend suggests a sustained economic expansion.

Industries Affecting the Local Economy



Montgomery County is the second largest suburban employment center in the greater Washington region, with a resident employment level of 456,080 in 1998, growing to an estimated 468,600 in 1999. Approximately 82 percent of the County's employment is in the private sector, with the remaining 18 percent distributed equally between Federal and Local governments. As mentioned in the previous section, even though the number of Federal government jobs continued to shrink in 1998, the rate of decline dropped below 1 percent. This may suggest that, following several years with significant declines in federal employment levels, last year may have been the low-water mark followed by modest growth in subsequent years.

Montgomery County is home to 23 Federal agencies, including a number of prestigious research facilities such as the National Institutes of Health in Bethesda, the National Oceanic and Atmospheric Administration in Silver Spring, and the National Institute of Standards and Technology in Germantown. Federal agencies include the Department of Health and Human Services (32,900 employees), Department of Defense (12,400), Department of Commerce (6,700), Department of Energy (3,100), and the Nuclear Regulatory Commission (2,100). These five agencies, combined, employ close to 98 percent of all federal civilian employees in the County. There are also more than 30,000 private sector employers in the County, including Giant Food Corp. (5,000), Chevy Chase Bank (4,500), Lockheed Martin Corp. (3,500), Marriott International Inc. (3,500), and Bell Atlantic (3,000).

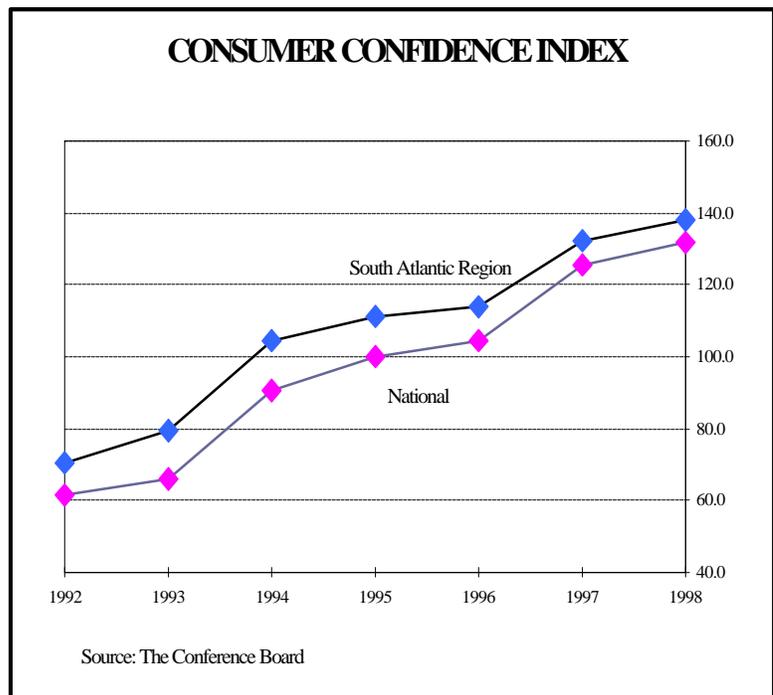
The two largest private sector industries in the County are services (49 percent) and retail trade (21 percent). The strongest growth in 1998 occurred in transportation, communication & public utilities (14.5 percent), construction (7.5 percent), and services (5.9 percent), while the services sector added the largest number of jobs last year (9,346). The County continues to support the presence of high-technology industries, which employ 14 percent of all private sector jobs in the County and close to one-third of all such jobs and high-tech companies in Maryland – by far the largest concentration of such jobs and firms statewide. Montgomery County has the largest concentration of Maryland's high-technology employment in computer & data processing services, engineering services, commercial physical research, and biological research organizations, with a significant number of such firms located along the I-270 Technology Corridor.

Future Economic Outlook

Following a year with broad-based and robust growth among most sectors of the County's economy, the outlook is for a return to a more modest growth trend. Such an outlook is consistent with a national economic forecast reflecting tighter monetary policy, that is projected to reduce economic growth from the current rate of more than 4 percent to below 3 percent in 2000.

Clearly, the County's economy has fully recovered from the 1990 recession with strong underlying fundamentals, notably in employment and new construction. While employment growth is projected at annual rates of 1.8 percent, real wage growth is not expected to exceed 3.5 percent. Personal income is estimated to grow roughly 5 percent annually. With a continued low inflation environment, estimated to remain in a 2.0 to 2.5 percent range, interest rates - including mortgage interest rates - are expected to remain low by historical standards.

Consumer confidence will remain high, which will further assist the housing market and retail trade industry in the County. The residential real estate market is projected to remain strong in 2000, but with a decline in sales in the subsequent year. The stock market, which has contributed significantly to an unprecedented jump in income tax receipts nationwide, statewide, and Countywide, over the past several years, is expected to return to more historical growth. A return to a historical trend is also expected for residential construction, with growth reflecting new household formation plus replacement of existing housing stock. While employment levels at Federal agencies are projected to expand, private sector job growth is expected to moderate. Such moderation reflects both slower economic growth and a significantly reduced pool of available labor.



MAJOR INITIATIVES

Major initiatives of the County, including certain initiatives of its component units, during FY99, presented by functional area, include the following:

Community Development and Housing:

Affordable Housing: The Housing Opportunities Commission (HOC) preserved and rehabilitated three affordable housing rental properties with a total of 392 housing units. HOC made 200 loans for first-time Montgomery County homebuyers through the Mortgage Purchase and Closing Cost Assistance programs, which are funded by the County and Fannie Mae. HOC also provided support services to 2,846 Montgomery County households including 42 homeless families, 300 families through the Community Resources Centers, 132 HOC residents through the Employment Initiative Program, 70 families through the Eviction, Intervention and Prevention Program, and 441 participants through the Family Self-Sufficiency Program. The County provides funding for these services through a direct grant to HOC. HOC conducted 34 community outreach activities through the Good Neighbor Program and provided information assistance to 34,000 people throughout Montgomery County.

Economic Development: The Economic Development Fund made offers of \$7.64 million to 39 companies, and awarded over \$1.702 million to assist 28 companies as a way to promote growth and creation of jobs in the County. Activities resulted in retaining and attracting over 11,000 jobs in the County, and will result in the creation of over 5,000 new jobs in the County within the next three years.

Green Tape Program: As part of the Enterprise Zone initiative undertaken by the County and the State of Maryland, the Green Tape Program will expedite permitting in the Silver Spring Central Business District. The program provides permitting, plan-review, and inspection services on a priority basis for businesses locating in the district.

High Tech Incubator: Construction of the \$8 million Maryland Technology Development Center was completed. Within a few months of the opening in January 1999, the Center leased all of its available information technology space to nine aspiring early stage high-tech businesses. The Center's biotech space is also 90 percent occupied with five early stage companies.

Housing Code Enforcement: The County began an extensive code enforcement effort in neighborhoods that are deteriorating due to the age of the housing stock, with particular attention to rental properties where insufficient attention had been paid to maintenance. The objective of this effort was to prevent further deterioration of the housing stock in older communities while enhancing the inspected properties' values. Accomplishments include: forming a public/private partnership with Montgomery Housing Partnership Incorporated, who purchased, rehabilitated and sold twelve single family homes and a six unit apartment building; assisting HOC in purchasing and rehabilitating a 51 unit apartment building; acquiring a 31 unit apartment building for rehabilitation; rehabilitating 60 single family homes; conducting community clean-up days; and working with the Department of Public Works and Transportation to install 20 driveway aprons.

Permit System Automation: The Department of Permitting Services (DPS) began installation of a new automated permit management and licensing system. The system will make it possible for customers to electronically obtain permit information, file permit applications, submit building plans, and perform other tasks. These automation enhancements will significantly improve customer access to DPS services and reduce permit-processing time. The system will be completed in four phases at a total cost of \$7.3 million.

Culture and Recreation:

Integrated Library System: A new state-of-the-art integrated library system was installed. The system provides public access to the Internet, access to library resources on the Internet, easy to use graphical interfaces, and a technology platform to meet current and emerging public information demands. The project cost \$3.5 million.

Quince Orchard Community Library Project: This 17,000 square foot library was constructed during FY99 and will open in October 1999. The library will provide a full range of library services for western Gaithersburg, North Potomac, Quince Orchard, and the western County area.

Education:

Information Technology Institute (ITI): Montgomery Community College (MCC) expanded the ITI, which offers cutting-edge high technology training at all three MCC campuses as well as at strategic off-campus sites.

Montgomery Community College Humanities and Arts Programs: MCC received a gift of \$1.3 million from Paul L. Peck to recognize the ongoing work of the Humanities Institute and the Department of Art, and their contributions to the quality of life in Montgomery County.

Montgomery County Public Schools (MCPS) Service Efforts: During FY99, MCPS operated a countywide system of education serving more than 128,000 students in pre-kindergarten through grade 12 in 185 schools. In addition, the system operated programs and centers for adult education, evening high school, and summer school programs serving several thousand students and adult learners. The operating budget of \$945 million (excluding enterprise funds) and a capital budget of \$125 million were the result of a significant collaboration between MCPS and the County and State governments. The school system provided instruction to nearly 3,000 new students in FY99, with more than 76 percent of the operating budget devoted to instructional costs. The cost of education was kept to approximately \$39.60 per day per student, or \$6.34 an hour on average.

In total, the operating budget increased by \$47 million, or 5.3 percent over the previous year (excluding grants and enterprise funds). Increases provided necessary funding to add 263 classroom teacher positions targeted to improve elementary school reading performance and secondary school mathematics achievement and to reduce oversized secondary school classes. Increases also funded the completion of a multiyear effort to develop curriculum and train teachers to meet the needs of gifted and talented students and expanded services to children with limited English proficiency. The capital budget provided funding to open three new high school buildings and complete construction on two modernized elementary schools. Efforts to streamline the operating budget were designed to produce savings and efficiencies of \$9.5 million.

Montgomery County Public Schools Accomplishments: MCPS achieved a success rate of nearly 70 percent of students completing Algebra 1 by grade 9, while graduating seniors achieved an average score of 1,092 on the Scholastic Assessment Test. The drop out rate was maintained at approximately 2 percent.

Environment:

Countywide Stream Protection Strategy: The Department of Environmental Protection (DEP) embarked on a \$5 million expansion of FY99-04 Capital Improvement Program (CIP) projects to restore stream habitat and improve biological life support in targeted priority watersheds that have been severely impacted by inadequately controlled stormwater runoff. These projects are being primarily pursued in streams draining into down-county watersheds, which were largely developed before modern stormwater runoff controls were required. In FY99, over 50 new projects were initiated to design or construct 13 miles of stream restoration projects by June 2000. This program has received national recognition for its proactive commitment to the improvement of stream resource quality.

Stormwater Facility Inspection Program: DEP used the County's Geographic Information System to automate record keeping procedures for 2,300 stormwater facilities. DEP also completed the inspection of 788 stormwater ponds and underground structures, as required by State and Federal regulations. Maintenance actions were aimed at protecting the local receiving streams by buffering high velocity flow, improving water quality, and improving aquatic habitat.

General Government:

Desktop Computer Modernization Program (DCM): The County Council approved a major initiative to centrally plan, fund, acquire, install and manage all desktop personal computers (PCs). This program is expected to cut costs, reduce the average age of PCs, and improve the ability to share files and applications. During FY99, over 2,000 PCs were installed through the DCM program.

Management Leadership Service (MLS) and Leadership Institute: The MLS program incorporates a new compensation, classification and leadership development approach to ensure that Montgomery County has a high performance leadership/management team. In addition, the County has established a Leadership Institute, in partnership with Johns Hopkins University and Montgomery Community College. The leadership curriculum of the Institute will ensure that the core values and competencies of high value for tax dollars and respecting differences are instilled as part of the training initiative.

Regional Service Centers Satellite Offices: The Upcounty Regional Services Center established two satellite offices, known as “Offices in a Box.” This program establishes a services center presence in the lobbies of two local libraries. Informational materials, a phone, and a computer with Internet access are carried to and from the site by staff on the scheduled day. Fringe communities are now getting better information about the County and its services, and better access to the government. Productivity is maintained since staff can perform other responsibilities via cellular phone and computer while in the field. Two additional communities have been identified for an expansion of this program during FY00.

Treasury Cashier Windows: The Montgomery County Department of Finance's Treasury Division, which handles County tax collection and parking violation payments, among other services, moved to a new storefront location. The move was designed to make it easier for taxpayers and other customers to park, and to provide a professional and customer-friendly cashier interface for the public.

Health and Human Services:

Community Partnership Agreements: The County, the State sub-cabinet agencies, and the Collaboration Council for Children, Youth and Families negotiated and signed partnership agreements to expand system reform efforts and establish a comprehensive children and family interagency delivery system that is community-based and family-focused. The three partnership areas are Juvenile Justice, Return/Divert, and Child and Family Services. The major focus of the partnerships is to increase local authority to plan, implement and monitor children and family services. Under the partnership agreements, approximately \$10 million will be available in FY00 for flexible use by Local Management Boards and their partners. Major outcomes of the partnership agreements include a reduction in the number of entrants into residential placements and foster care, a reduction in the length of stay in residential and foster care, and improved child and family well being.

Improved Services for the Disabled: As part of the Governor’s Waiting List Initiative, Montgomery County evaluated and initiated community funding and support services to just over 300 persons with disabilities. This was an unprecedented reduction in the number of County residents waiting for disability services. Some of the new service recipients had waited over ten years for services and many had family caregivers over the age of 70 who found it increasingly difficult to provide care.

Welfare Reform: In view of the tremendous success in reducing the Temporary Cash Assistance (TCA) rolls in Montgomery County (a reduction of 79 percent since January 1995), the focus of welfare reform shifted during FY99. It evolved from a job search program to a broader and more comprehensive program of supports to the low-income wage earners of our county. The FY99 goal was to bring the wider community into a partnership to focus on training, education and skill building, with a view towards job retention, upward mobility and livelihood. This resulted in the Job Skills Enhancement Training Program for former TCA recipients who are now working, increased support to “hard-to-serve” families to avoid financial hardship, and the development of the County Executive’s “Rewarding Work” initiatives aimed at improving the plight of low-income wage earners in Montgomery County.

Public Safety:

Child Passenger Safety Program: Since this program’s inception in 1997, over 5,000 child safety seats have been checked, with over 90 percent requiring correction. In addition, child safety seats are provided to low-income families. Since 1995, over 600 child safety seats have been given to low income families. The program has been credited with averting several injuries or fatalities when corrected seats were later involved in automobile crashes. The Montgomery County Safe Kids Coalition, a public/private initiative, sponsors this program, which involves the County's Department of Housing and Community Affairs, Fire and Rescue Services, Police, Health and Human Services, and an increasing number of private sector entities.

Fire and Rescue Services Reorganization: New legislation established a combined and integrated career and volunteer service, the MCFRS. A civilian administrator is designated Fire Administrator and is also the non-voting Chair of the Fire and Rescue Commission (FRC). The FRC establishes overall policy for MCFRS. The Chief, Division of Fire and Rescue Services, oversees all uniformed career fire and rescue personnel. The Chief, Division of Volunteer Fire and Rescue Services, coordinates the activities of the 19 local volunteer fire and rescue departments, which operate 33 stations in the County.

Safety in Our Neighborhoods: The Montgomery County Fire and Rescue Service launched Safety in Our Neighborhoods to increase public awareness about injury prevention issues at home and while traveling. As of June 1999, 102,000 residences had been visited by firefighters. Firefighters installed over 5,400 smoke alarms and over 4,800 replacement batteries. It is estimated that one in seven smoke alarms are replaced by this program. There are two documented lives saved because of the program. Materials have been translated into Spanish so they can be distributed to Spanish-speaking residents. Financial support comes from the Montgomery County Fire and Rescue Service, the Allstate Foundation, Lowe's Home Improvement Warehouse and contributions by citizens. Two retailers, Lowe's and Radio Shack, contribute smoke alarms and batteries to the program.

Public Works and Transportation:

Mixed Paper Recycling: This program provides for the management, processing, and marketing of the County's residential mixed paper solid waste. The program will be implemented on a Countywide basis by August 2000. Residential mixed paper includes newspaper, corrugated containers, paper bags, magazines, telephone directories, and junk mail. This program will contribute to the County reaching its goal of recycling 50 percent of solid waste generated by 2000.

Resource Recovery Facility (RRF) Ash Recycling: After two years of study, a one-year pilot program for recycling the ash from the RRF began in June 1999. The purpose of the pilot program is to identify and solve impediments to ash recycling and develop procurement documents for a long-term ash recycling contract. All ash is either processed into materials for sale, or sent to a second waste-to-energy facility for processing.

Transit Service Expansions: The Glenmont Metro Station opened in July 1998. Ride-On expanded bus service in the mid-County areas by adding new routes, increasing frequency in the Georgia Avenue corridor, and adding late night and weekend service. Over 27,000 hours of service were added. In January, Ride-On added three new bus routes in the Shady Grove West area. Mid-day bus service was added to King Farm and the County Health Center, and between Damascus and Germantown. In May, Ride-On began a mid-day lunch shuttle on Rockville Pike as part of a 16-month State grant.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

These financial statements and accompanying schedules and tables have been prepared on a fund basis using accounting policies that are in accordance with generally accepted accounting principles applicable to governmental units and higher education institutions as prescribed by GASB, the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA).

The accounting records for the general governmental operations and expendable trust funds are maintained on a modified accrual basis, with the revenues recorded when available and measurable, and expenditures recorded when the services or goods are received and the liabilities incurred. Accounting records for the proprietary fund types and similar trust funds are maintained on the accrual basis. Under this method, all revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, without regard to receipt or payment of cash. The Higher Education Fund type is also maintained on the accrual basis.

Encumbrance accounting is employed in the governmental and proprietary funds. Purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation. In the governmental funds, encumbrances are reported as a reservation of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for financial statement presentation.

Budget control (maximum spending authority) is exercised by the Montgomery County Council over the primary government (Montgomery County) and certain component units (MCPS, MCC, MCRA, and HOC) by approving spending authority in a variety of categories. In addition, Montgomery County is the primary source of funding for the Bethesda Urban Partnership, Inc., which provides services in the Bethesda Urban District on behalf of Montgomery County. Montgomery County provides appropriation authority within each fund in three categories: Personnel Costs, Operating, and Capital Outlay; the Montgomery County Public Schools and Montgomery Community College are provided appropriations in categories compatible with promulgations by the State Boards of Education and Community Colleges. Capital projects of the Montgomery County Revenue Authority are approved by the County Council at the project level. The HOC operating budget is prepared on a project basis, and the County Council has authority to approve project budgets that include County funding. The County Council funds approximately 3 percent of HOC's operating budget.

Internal Accounting Controls

In developing and managing the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the County's internal accounting controls adequately safeguard assets and provide reasonable assurance for the proper recording of financial transactions and for reliance upon the financial records in the preparation of financial statements.

Montgomery County has three significant programs that enhance the internal controls of the government. First, the County maintains an internal auditing staff that reports to the Director of Finance. This staff performs periodic and regular financial and operational audits throughout the County's agencies and departments. The internal auditing effort has been bolstered by the use of contracts with public accounting firms. During the fiscal year ended June 30, 1999, audits performed by contract with auditing firms covered fiscal operations and contract compliance. Second, the County Council maintains an office responsible for "Legislative Oversight" activities. Third, the Office of Inspector General is responsible to (1) review the effectiveness and efficiency of programs and operations of County government and independent County agencies, (2) prevent and detect fraud, waste, and abuse in government activities, and (3) propose ways to increase the legal, fiscal, and ethical accountability of County government departments and County-funded agencies. The legislation that established the office and position of Inspector General has a sunset date of June 30, 2000.

Internal audit efforts are also employed by Montgomery County Public Schools, whose internal audit staff reports to the Deputy Superintendent.

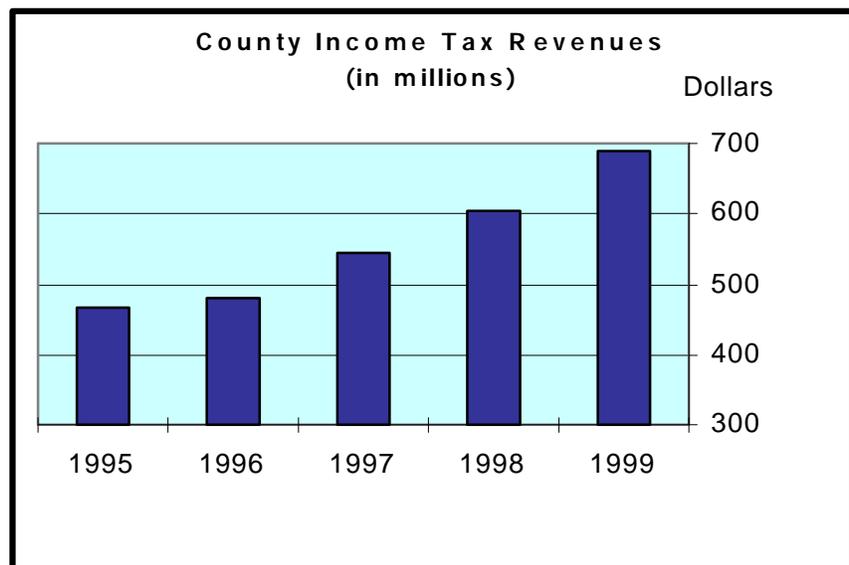
General Governmental Functions

Revenues

Montgomery County concluded the year ended June 30, 1999 with an undesignated General Fund balance of \$90.5 million, an increase of \$17.3 million from the balance of the previous fiscal year. Primarily due to continued strong revenue growth, the total fund balance grew from \$165.9 million at the beginning of FY99 to \$230.3 million by year-end. Due to higher than expected tax revenues, the Revenue Stabilization Fund (RSF), including related investment income, grew to \$62.2 million – the maximum fund size for that fiscal year. Following the mandatory contribution requirement, half of actual General Fund receipts from the income tax, transfer and recordation taxes, and investment income above the budget estimate must be transferred to the RSF. Even though all revenue categories came in higher than expected, the income tax was the primary source for the overall growth in this Fund. Due to the maximum fund size requirement, the mandatory contribution was limited to \$5.5 million in FY99. There were no discretionary contributions made to the Fund in FY99, while, pursuant to the County Code, the \$3 million interest earned in the Fund during the year was transferred to the Debt Service Fund.

General Fund revenues totaled \$1,554.8 million and are 8.1 percent above the budget estimate for the year. Revenues reflect a 6.3 percent growth over the prior fiscal year. Compared to the budget estimate, the largest contributor to the revenue growth occurred in the tax category. In fact, collections from all taxes exceeded the budget estimate by \$107.6 million (8.2 percent), representing approximately 93 percent of the excess revenues for the year. The County income tax, fueled by a strong economy and financial market performance, contributed the majority of the excess tax collections, as receipts came in \$80.6 million (13.2 percent) higher than the budget estimate. The booming real estate market resulted in an unprecedented jump in transfer and recordation tax receipts, with a combined \$25.0 million (36.8 percent) excess revenue stream for the year. Higher than expected receipts from the combined income tax and real estate taxes, explain 91 percent of the variability between the budgeted General Fund revenues and actual receipts. However, the property tax collections came in just 0.1 percent higher than the budget estimate. The continued strength of the national and regional economies contributed to better than expected revenues from the admissions (10.5 percent) and hotel/motel tax (8.2 percent). Reflecting the higher revenues, General Fund investment income came in \$5.4 million above the budget estimate, contributing 4.6 percent to the total General Fund revenue variability in fiscal year 1999. Other categories that contributed to the higher General Fund revenues, were Intergovernmental (1.9 percent), Fines and Forfeitures (0.2 percent), and Sundry revenues (1.2 percent). More than compensating for lower than expected revenues from several State aid sources, revenues from State Highway Fund and Federal reimbursements resulted in Intergovernmental coming in \$2.2 million above the budget estimate. The shortfalls to General Fund revenues were modest and occurred only in Charges for Services (\$1.1 million).

The County income tax received a substantial boost from higher capital gains income due to the booming stock market, as well as stock options, corporate bonuses, and commissions from an expanding economy over the past three fiscal years. Revenues jumped more than 14 percent in FY99 – the third year with double-digit growth rates. Because of Montgomery County's high concentration of wealthy taxpayers, the County receives a large share of non-wage income, amounting to roughly 30 percent of taxable income. An additional factor that contributed to the strong



FY99 income tax collections, is employment growth. The number of jobs in the County jumped almost 4 percent in 1998, with a more than 4.5 percent growth in private sector jobs. Combined with average wage growth of close to 5 percent, reflecting the tight labor market in the County, the expanding employment base provided a further boost to FY99 income tax receipts. As a result of income tax liability growth in non-wage and wage categories, both estimated payments and withholdings jumped more than 10 percent in both 1997 and 1998. Similar to the FY97 and FY98 experiences, receipts again increased due to significant growth in late-filer collections from taxpayers who had underestimated their 1997 tax liability, which the County otherwise would have received in fiscal year 1998. As a result of these trends, collections were \$689.2 million, or \$80.6 million above the original budget estimate. Even though mid-year revisions captured most of the increase, the continued strength in collections has surprised revenue estimators throughout the country. The outlook is for a return to lower growth rates in this tax source in the coming years. National and regional economies are projected to slow-down in the current and subsequent year, while financial markets are expected to grow in the middle to upper-single digits. As a result, growth in income tax receipts is projected to return to a more historical growth pattern.

Property tax collections exceeded the budget estimate by only one-tenth of one percent and contributed \$0.5 million to the excess collections in the General Fund. Total collections were \$593.1 million, or 0.1 percent above the budget estimate. Even though growth in the assessable base was slightly stronger than expected, a modest downward revision in the collection factor contributed to an overall "on target" forecast. Property tax revenues were higher than expected because of increases in prior year receipts and penalties and interest. Primarily due to significant growth in new construction, the property tax base grew 2.3 percent in fiscal year 1999. New construction occurred mainly in the residential sector, and reflected the sharpest jump in construction activity in the post-1990 recession period in Montgomery County. Following a 3.6 percent decline in the personal property base (roughly 12 percent of the total base) in FY98, personal property grew a healthy 2.9 percent in FY99. Hence, despite the continued negative impact from changes in tax law pertaining to the depreciation of computer equipment and an expanded number of exemptions, the robust economy resulted in a net increase in the personal property tax base. As corporate personal property regained most of the declines experienced in the prior year, continued increases in the utility component resulted in an overall growth in the personal property base in FY99. In fact, the total personal property base is now only slightly below the record level in FY97. Due to growth in both real and personal property, the total assessable base grew 2.4 percent in FY99. However, despite a significant improvement in residential construction, commercial construction continues to fall below projections. Higher financing costs will dampen growth in future new construction. Moreover, even though the residential real estate market boomed in both FY98 and FY99, house price inflation remains in the low single-digits, which depresses growth in reassessments of the existing base. The outlook, therefore, is for the assessable base to continue to grow 2 percent annually.

The third major tax category in the County is the combined transfer and recordation taxes. Following a 40 percent jump in receipts in FY98, this tax category experienced a further 12 percent increase in FY99. However, in contrast to FY98 when revenues grew from an exceptionally strong residential and commercial real estate market, only the residential portion continued to grow in FY99, while the commercial sector fell 29 percent below the prior year. Total FY99 receipts for these two taxes came in \$25.0 million, or 36.8 percent, above the budget estimate. Even though the projected decline in the commercial market occurred in FY99, the robust residential market continued to exceed projections of national and regional housing sales. Since the residential sector represents more than 80 percent of this tax category, the exceptional strength in this sector of the real estate market explains the excess revenues in FY99. For most of the 1990's the real estate market remained weak, despite a strong economy, low mortgage interest rates, high consumer confidence, and a tight labor market. At the onset of fiscal year 1998, however, the market experienced a dramatic improvement and has remained on this upward trend for two successive fiscal years. The number of residential transfers reached close to 20,500 in FY99, which was a record in this decade, and represents close to 20 percent growth from the prior year. In addition to the jump in the number of transfers, the average residential transfer tax increased 5 percent. By contrast, even though the number of commercial sales grew 9.5 percent in FY99, the average tax dropped 35 percent from the prior year. The exceptional jump in average commercial taxes in FY98, which increased to its highest level in more than a decade,

was, as projected, unsustainable in FY99. Burdened by credit tightening and higher financing costs, the commercial sector was especially susceptible to changes in financial conditions. Thus far, however, higher mortgage interest rates have not yet adversely impacted the residential real estate market. Further interest rate hikes, however, combined with a reversal of the “wealth effect,” are projected to result in a reduction in residential market activity. A mid-year revision of the FY99 revenue estimate for this category reflected most of the increase observed at the end of the fiscal year. The outlook is for a return to lower levels of real estate activity, and specifically for the residential sector to be in line with the moderate population growth trend for the County.

The remaining tax sources - consisting of the hotel/motel, fuel-energy, telephone, and admissions taxes - came in only \$1.5 million (3.5 percent) above the combined budget estimate of \$43.7 million in FY99. The continued growth in the economy and improved corporate and personal incomes, contributed to a significant growth in revenues from the hotel/motel (12 percent) and telephone (6 percent) taxes compared to FY98. More specifically, growth in the telephone tax occurred primarily in the cellular portion, which increased 14 percent in FY99, compared to 3 percent for the traditional land lines category. The continued decline in the cost of cellular phones and service plans, has dramatically expanded the availability of such telecommunication devices to the residents of the County, hence fueling growth in tax receipts. Note, that the cellular portion has been eliminated from the telephone tax effective FY00. Due to a strong economy, hotel occupancy rates improved in the region in fiscal year 1999, while room rates increased well above the rate of inflation, both of which contributed to a 12 percent growth in tax revenues for the hotel/motel tax. The fuel-energy tax, on the other hand, grew just under 4 percent in FY99, primarily due to an expanding customer base.

Investment income increased substantially in FY99. In the General Fund, it was \$5.4 million above the budget estimate of \$12.8 million, reflecting stronger than expected tax revenue growth. Total pooled investment income (all funds and outside participants) came in at \$39.6 million. The improvement in revenues is reflected in the “daily cash average” which jumped from \$710 million in FY98 to \$798 million in FY99, and is significantly higher than the budget estimate of \$656 million. Reflecting the general weakness in the bond market, the yield on cash equity declined from 5.63 percent to 5.14 percent in FY99. With a moderate overall revenue outlook, while expenditure pressures continue to increase, daily cash balances are expected to grow modestly. In contrast, expected rates of returns on “money market instruments” are expected to improve, contributing to moderate growth rates in investment income in the coming years.

Revenues for General Governmental functions (General, Special Revenue, and Debt Service Funds) and the changes in those functional revenue categories from FY98 to FY99 are presented below:

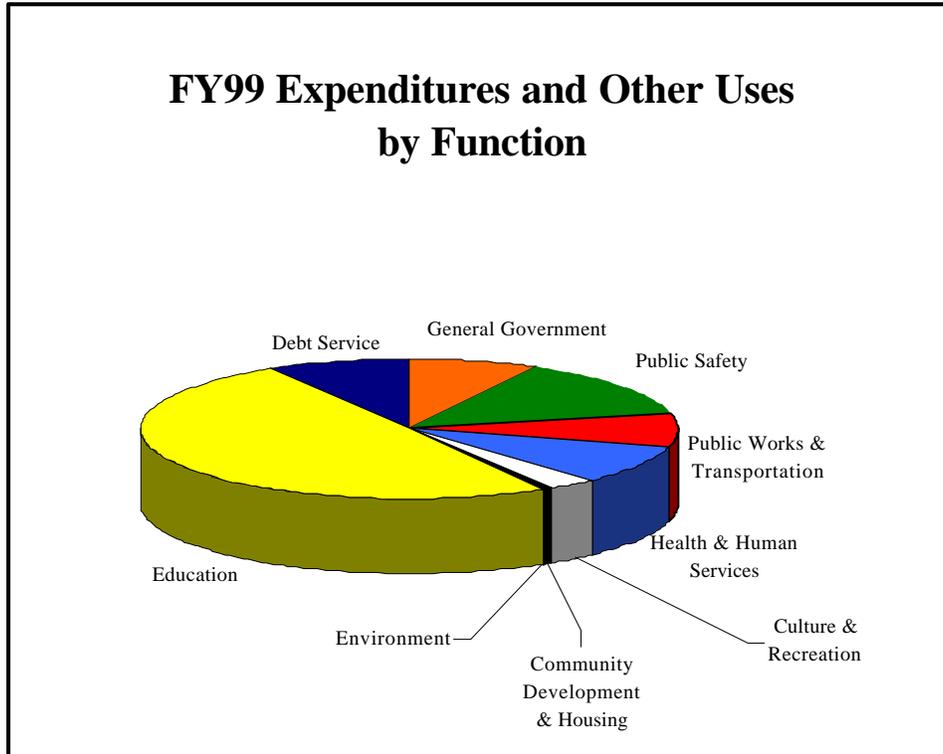
Revenues by Source	Amount		Increase (Decrease)
	FY99	FY98	
Taxes	\$ 1,555,560,176	\$ 1,462,781,332	6.34%
Licenses and Permits	7,606,773	7,340,512	3.63%
Intergovernmental	219,251,769	194,162,546	12.92%
Charges for Services	35,824,547	32,517,196	10.17%
Fines and Forfeitures	3,914,705	3,603,074	8.65%
Investment Income	26,495,214	25,084,610	5.62%
Miscellaneous	6,803,620	7,175,823	(5.19%)
Total Revenues by Source	\$ 1,855,456,804	\$ 1,732,665,093	7.09%

Expenditures

Expenditures for General Governmental functions (General, Special Revenue, and Debt Service Funds) and General Fund transfers to certain component units for educational purposes totaled \$1,771.7 million in FY99, an increase of 8.03 percent over FY98. General Governmental expenditures and certain other uses (educational transfers) by function and the changes in those functional categories from FY98 to FY99 are presented below:

Expenditures and Other Uses by Function	Amount		Increase (Decrease)
	FY99	FY98	
General Government	\$ 136,821,692	\$ 125,334,945	9.16%
Public Safety	244,011,790	234,512,149	4.05%
Public Works and Transportation	136,838,993	121,364,561	12.75%
Health and Human Services	158,247,919	131,591,397	20.26%
Culture and Recreation	54,490,733	48,201,121	13.05%
Community Development and Housing	6,805,008	8,645,315	(21.29%)
Environment	2,837,448	2,411,788	17.65%
Education	880,287,191	831,001,531	5.60%
Debt Service	151,356,155	143,020,600	5.83%
Total Expenditures and Other Uses by Function *	\$ 1,771,696,929	\$ 1,646,083,407	7.63%

* Excludes \$120 million in bond anticipation notes retired through the issuance of general obligation bonds in FY99.



Included in all General Governmental functional categories except education and debt service are general wage adjustments and service increments, effective in FY99, averaging approximately 5.5 percent. Other significant expenditure changes, after consideration of wage adjustments and service increments, include the following:

- Public Works and Transportation – Increases were primarily attributable to expenditures related to the winter snow and ice storms and Ride-On bus purchases.
- Health and Human Services – Increases were comprised of:
 - A one-time increase of \$15 million under the Community Mental Health grant from the State, passed through the County to a not-for-profit organization, for fees for services provided to eligible clients; and
 - Programmatic improvements provided to County residents in need, including disruptive youths and the seriously emotionally disturbed, the developmentally disabled, and senior citizens.
- Culture and Recreation – Increases were attributable to expenditures by the Department of Libraries for an integrated information reporting system, one-time renovations of recreation centers; and payments to municipal cable stations for equipment and operating expenses, from a capital grant paid to the County by the cable company.
- Community Development and Housing – Expenditure decreases were attributable primarily to a \$1.5 million one-time capital grant last year to a not-for-profit organization.

Proprietary Operations

The County operates a variety of enterprise activities which include solid waste disposal and collection activities, community use of public educational facilities, permitting services, four parking lot districts, and the nation's only county-controlled wholesale and retail liquor operation. The Liquor Enterprise Fund makes an annual operating transfer to the General Fund which, in FY99, amounted to \$14.3 million. Significant financial balances and results of operations of all enterprise funds as of and for the year ended June 30, 1999 include the following:

Total Assets	<u>\$ 306,793,032</u>	Operating Revenues	<u>\$ 243,295,569</u>
Total Equities	<u>\$ 163,107,987</u>	Net Income	<u>\$ 28,104,252</u>

The County maintains four internal service funds to account, on a cost reimbursement basis, for the financing of goods or services provided by one department to other departments and governments. Goods and services provided include motor pool operations, central duplicating services, liability and property coverage, and employee health benefits coverage. Charges for these services during FY99, to reimburse costs incurred, amounted to \$108.2 million.

Fiduciary Operations

All component units participate in various pension plans, either directly in their own plan or through participation in pension systems of Montgomery County or the State of Maryland. HOC and MCRA participate in the Employees' Retirement System and Employees' Retirement Savings Plan of Montgomery County, and their data is included in that of the retirement system.

Financial data relative to the pension plans administered by the County or its component units, except BUPI which operates a simplified employee pension plan, is as follows:

Plan Name	Covered Payroll	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL
Employees' Retirement System of Montgomery County	\$ 282,220,066	\$ 1,707,450,187	\$ 1,818,990,623	\$ 111,540,436
Employees' Retirement Savings Plan of Montgomery County	38,359,000	12,813,067	-	-
Montgomery County Public Schools Employees' Retirement and Pension System **	655,906,000	586,842,000	597,701,000	10,859,000
Montgomery Community College Aetna Plan	7,131,692	12,636,551	9,068,347	(3,568,204) *
* Represents actuarial value of assets in excess of AAL				
** FY98 data				

Plan Name	Employer Contributions	Employee Contributions	Number of Members	# of Persons Receiving or Entitled to Benefits
Employees' Retirement System of Montgomery County	\$ 47,462,625	\$ 10,477,566	6,522	3,735
Employees' Retirement Savings Plan of Montgomery County	2,570,110	1,422,354	1,510	1,510
Montgomery County Public Schools Employees' Retirement and Pension System	17,686,468	3,263,451	25,356	* 8,977 *
Montgomery Community College Aetna Plan	-	748	435	297
* FY98 data				

The County and MCPS operate numerous fiduciary funds for the benefit of various trust agreements.

Debt Administration

At June 30, 1999, the County had outstanding general obligation bonds of \$1,091,613,054 and outstanding bond anticipation notes (BANs) of \$80 million. Over the last ten years, the County has issued its general obligation bonds at least once a year, and twice in some years. With the passage of the Tax Reform Act of 1986, the County adopted a policy in 1988 of initially financing capital construction with BANs. Montgomery County also issues bonds to finance the capital construction of MCPS and MCC not otherwise financed by the State of Maryland. Since FY89, the County has sold single general obligation bond issues of up to \$120 million, with total annual issuances of up to \$150 million in bonds. Over the last ten fiscal years, the County's annual issues have averaged about \$114 million. During FY99, the County issued general obligation bonds, dated April 1, 1999, in the amount of \$120 million. The proceeds of this bond issue were used to pay off an equal amount of the County's BANs.

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 general obligation bonds, the County has received ratings of Aaa from Moody's Investors Service, Inc., AAA from Standard and Poor's, and AAA from Fitch IBCA, Inc. Montgomery County has consistently had a Aaa rating from Moody's Investors Service, Inc. since April 1973. Bonds issued by the County since July 1976 have consistently been rated AAA by Standard and Poor's.

Continuing Disclosure - For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report will be provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to Exhibits A-1 through A-12 and Notes to the Financial Statements, as well as Tables 1 - 4, 6, 8, 10, and 11.

Cash Management

The County maintains an active cash and investment management program. The primary objectives of these programs 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. 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 and in money market funds whose portfolio is operated consistent with the Securities and Exchange Commission rule 2a-7. The County requires that these money market funds invest only in obligations that a federal agency or instrumentality issues in accordance with an act of Congress and repurchase agreements collateralized by an obligation of the United States, its agencies, or instrumentalities. The average maturity of the County's working capital portfolio is generally less than six months. At June 30, 1999, the investment balance of the County's portion of the consolidated portfolios was \$648.4 million and had earned investment income of \$39.3 million for FY 99.

Risk Management

Montgomery County is self-insured for most claims filed by third parties. Property exposures are commercially insured above a high dollar retention. Potential losses are mitigated by a strong safety program, contractual transfer of exposure to others, and ongoing analysis of risk associated with County activities. In addition to the component units covered by this financial report (except for BUPI), the following agencies are also members of the risk management program: Maryland-National Capital Park and Planning Commission, City of Rockville, Housing Authority of the City of Rockville, City of Gaithersburg, the Town of Somerset, and the Village of Martin's Addition to Chevy Chase.

INDEPENDENT AUDIT

Article 3, Section 315 of the County Charter requires that "the Council shall contract with, or otherwise employ, a certified public accountant to make annually an independent audit of all financial records and actions of the County, its officials and employees. The complete report of the audit shall be presented to the Council and copies of it shall be made available to the public." This requirement has been complied with and the auditors' opinion is included in this report. The Council has a policy that no certified public accounting firm shall be retained for more than two consecutive four year terms.

The County is required to undergo annual single audits in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Information related to these audits, including schedules of Federal financial assistance, findings and recommendations, and auditors' reports on the internal control structure and compliance with applicable laws and regulations, are available from Montgomery County, MCPS, MCC, the Montgomery County Revenue Authority, and the Housing Opportunities Commission of Montgomery County. The Bethesda Urban Partnership, Inc. is not required to have a "Single Audit" as it receives no Federal grants.

AWARDS AND RECOGNITION

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Montgomery County, Maryland, for its comprehensive annual financial report for the fiscal year ended June 30, 1998. Montgomery County has received the Certificate of Achievement more times than any other county in the nation -- twenty-nine times -- as early as 1951 and consecutively for twenty-seven 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. This 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 Department of Finance believes our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Distinguished Budget Presentation

GFOA presented an award of Distinguished Presentation to Montgomery County, Maryland, for its annual budget for the fiscal year beginning July 1, 1998. In order to receive this award, a governmental unit must publish a document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. The award is valid for a period of one year only. Montgomery County has received this award consecutively since 1984, the year the program was established. The Office of Management and Budget believes our current budget continues to conform to program requirements and we are submitting it to GFOA to determine its eligibility for another award.

Outstanding Program Awards

The County received 20 awards from the National Association of Counties (NACO) for outstanding programs in 1999, eight more awards than were received by the County in 1998. County and certain component unit program recipients of NACO awards and other awards are mentioned below.

Community Development and Housing: The Department of Economic Development received two awards from the American Economic Development Council's 1999 Promotional Materials Awards Competition. The Housing Opportunity Commission's Public Housing Program was designated a "High Achiever" by the U.S. Department of Housing and Urban Development.

Culture and Recreation: The Montgomery County Library System was recognized by American Libraries (January 1999 issue) as the tenth best public library system in jurisdictions with populations over 100,000. Montgomery County Libraries was the only system ranked that serves a population of over 800,000.

Education: Fifty-one schools in the Montgomery County Public School system (MCPS) were honored by the State for substantial gains on the Maryland School Performance Program and two schools were named National Blue Ribbon Schools of Excellence, bringing the MCPS total to 26 since the program began. MCPS was also awarded a fourth consecutive Gold Medal award from Expansion Management Magazine for offering educational services to companies considering relocation.

Environment: The Department of Environmental Protection received NACO awards for three of its programs, including Oil and Water Don't Mix Campaign, Countywide Stream Protection Strategy, and Healthy Indoor Painting Practices Campaign. Montgomery County received recognition as a "Gold" Chesapeake Bay Partner Community, largely because of the *Countywide Stream Protection Strategy* and other related water resources protection initiatives.

General Government: The Bethesda Chevy Chase Regional Services Center received a NACO award for Bethesda Senior Source: A Public Private Partnership. The Office of the County Attorney won the 1999 Hodson Award for Public Service from the American Bar Association's Government and Public Sector Lawyers Division. The Department of Information Systems and Telecommunications received NACO awards for four of its programs, including Emergency Services Radio Enhancement for Interjurisdictional Operations, Geographic Information Systems (GIS) Map Room on the Net, Horizon 21 Information Technology Strategic Planning Program, and Year 2000 Emergency Management Program. The Office of Public Information received NACO awards for two of its programs, including the Homeowner's Property Tax Credit Campaign, and the Y2K Emergency Management Exercise Media Relations Plan. Public Information also received four awards from the National Association of Chief Information Officers, including awards for the County's FY98 Annual Report, the Homeowner's Property Tax Credit brochure, a video about the Board of Elections and Offices of Intergovernmental Relations and Public Information, produced for the County's Quarterly Leadership Forum, and the County's Y2K Media Relations Plan.

Health and Human Services: The Department of Health and Human Services (DHHS) received NACO awards for six of its programs, including Grants Program to Support Enhancements for Health and Human Services Projects, Family Unification Program, Child Fatality Review Team, Hispanic Community Health Promoters, Welfare Avoidance Grant Program, and The Children's Agenda. DHHS received a cash award from the State for enrolling over 8,000 children in the Maryland Children's Health Program.

Public Safety: The Montgomery County Safe Kids Coalition received an award for the "Buckle Up Kids" program from National Safe Kids. The Police Department received a NACO award for the Police Computer Crime Unit. Montgomery County Fire and Rescue Services (MCFRS) received the Allstate Capital Region's 1999 Safety Leadership Award in the Community Safety Program category, and will compete with 16 other regional winners across the country. MCFRS received the 1999 Risk Watch Champion Award from the National Fire Protection Association. MCFRS Emergency Management Group received the National Media Award from the International Association of Emergency Managers for the best internet newsletter.

Public Works & Transportation: The Department of Public Works and Transportation (DPWT) received NACO awards for three of its programs, including the Stormwater Discharge Control Program, Transit Advisory Group, and Inclusion of Special Needs Persons for Curbside Collection. The Department's Division of Solid Waste Services/Resource Recovery Facility in Dickerson received the 1998 Gold Award for Excellence in Municipal Solid Waste Management from the Solid Waste Association of North America. The Department's Division of Facilities Services (DFS) received an Honorable Mention for outstanding accomplishments in energy efficiency and pollution prevention from the "ENERGY STAR Buildings and Green Lights" program of the U.S. Environmental Protection Agency. DFS also received the "First Place Award" from the Masonry Institute for design of the addition to the Leland Community Center, Chevy Chase and an "Award of Merit" from Keep Montgomery County Beautiful for beautification and landscaping at six County facilities. DPWT received the 1999 Outstanding Achievement Award from the Intelligent Transportation Society of America (ITS America) in recognition of the success and innovation achieved by the County's Advanced Transportation Management System.

USE OF THIS REPORT

The Government Finance Officers Association of the United States and Canada reports a growing awareness that the Comprehensive Annual Financial Report should be management's report to its governing body, constituents, oversight bodies, resource providers, investors and creditors. We agree with this direction, and we continue to send copies of this report to elected officials, County management personnel, bond rating agencies, nationally recognized municipal securities information repositories, the State information depository, if any, and other agencies such as financial institutions and government agencies that have expressed an interest in the financial affairs of Montgomery County, Maryland.

In addition to the vast amount of financial information presented, there is included herein a Statistical Section containing comprehensive data which relates to the financial condition of the entire governmental structure of Montgomery County. Use of this report by the elected officials and department heads of the County is encouraged when furnishing information to interested parties. Considerable effort is being made to present financial information on a uniform and consistent basis nationwide, which will make this report all the more valuable to those desiring to secure information regarding the financial activities of the County.

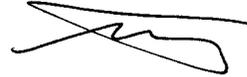
In conformity with County Administrative Procedure 1-6, copies of this report are being placed in the County Library System for use by the general public.

This report, and other financial information prepared by the Montgomery County Department of Finance, can be accessed on the World Wide Web at <http://www.co.mo.md.us/services/finance>.

ACKNOWLEDGMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the staff of the County's Department of Finance. I express my appreciation to all participants who assisted and contributed to its preparation. I particularly express my sincerest appreciation to Karen Q. Hawkins, CPA, Controller, and her staff, particularly the General Accounting and Administration Sections, for their outstanding performance in the preparation of this report. A list of individuals who labored long and hard in preparing this report is provided separately after this letter. A special appreciation is extended to the finance and accounting managers of the component units whose cooperation greatly facilitated the preparation of this report. I express my appreciation to the County Executive, the members of the County Council and the Chief Administrative Officer and their staffs for their continuing interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Timothy L. Firestine', with a long horizontal stroke extending to the right.

Timothy L. Firestine
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

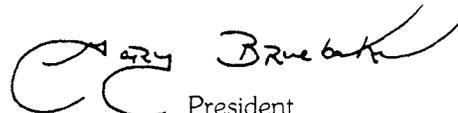
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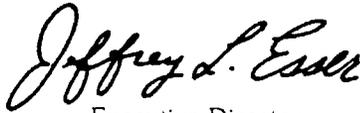
Montgomery County,
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.




Cary Brueck
President


Jeffrey L. Essler
Executive Director

ACKNOWLEDGMENTS

The following individuals' efforts were instrumental in closing the County's funds and in preparing this Comprehensive Annual Financial Report:

Department of Finance

R. Eugene Hann	Timothy D. Hughes
Joyce E. Boyd	Karen J. Jackson
Marilyn C. Clement	Stephen M. O'Malley
Michelle S. Hwang	Lixin Pan
Jay Narang	Nora A. Ravarra
Judson T. Williams	Claudia L. Stalker
Ann Damon	Darane Tiev
Michael E. Edelin, Sr.	Lisa C. Yang
Nancy C. Foster	Joseph N. Sparacino
Richard D. Hands	Yvette A. Davenport

Department of Public Works and Transportation

Judy Sparks

Department of Liquor Control

Andy Brown

The following individuals provided data and information for inclusion in this report:

County Government

Department of Finance

Jennifer Barrett	Ray Gulhar
David J. Bernstein	Robert Hagedoorn
Michael Coveyou	Michael Lawton
Richard J. Duthoy	Alan Socolik
Terry Fleming	Glenn Wyman
Josephine Gilbert	

Office of Management and Budget

Robert K. Kendal	Nancy Moseley
Bruce R. Meier	

Department of Information Systems and Telecommunications

Sonny Segal	Ed Rhinehart
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Office of Public Information

Thomas Whorton	David Jeo
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Department of Public Works and Transportation

Richard Taylor and the Print Shop

Component Units

Montgomery County Public Schools

Larry A. Bowers	Robert J. Doody
Raymond H. Brown	

Housing Opportunities Commission

Bob Wolpert	Linda Mansouri
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Montgomery Community College

Marshall Moore	Linda Hickey
Kenneth Mullinex	

Montgomery County Revenue Authority

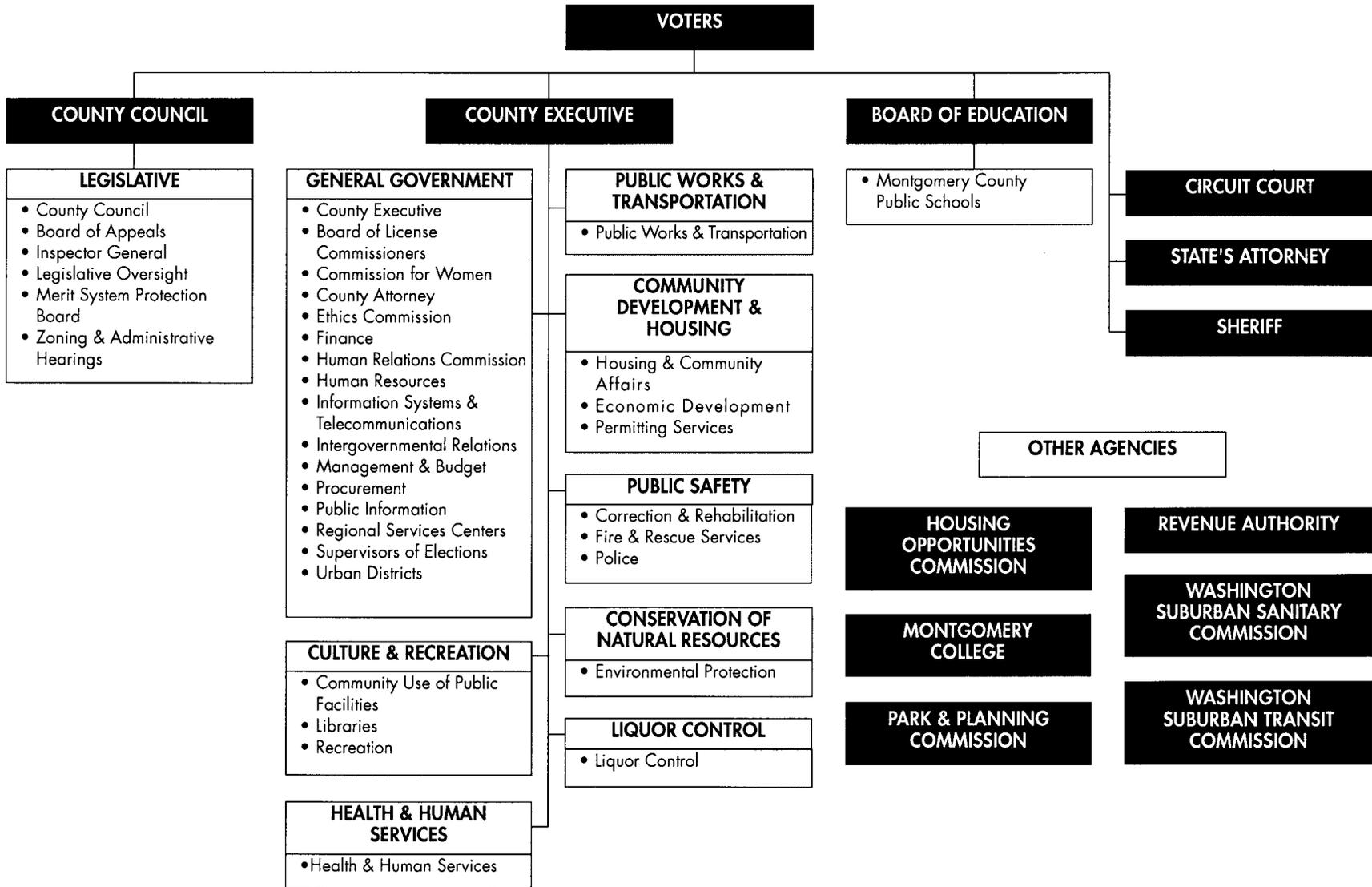
John Luke

Bethesda Urban Partnership, Inc.

Deborah Williams

Appreciation is extended to all those in the County Government who take a leadership role in the year-end closing processes and the audit process, including staff in Accounts Payable, Financial Systems Control, Payroll, Internal Audit, the Office of Management and Budget, the Office of Procurement, the Department of Information Systems and Telecommunications, and the Board of Investment Trustees. Appreciation is also extended to employees in all County departments and agencies who participate in the year-end process.

MONTGOMERY COUNTY, MARYLAND FUNCTIONAL ORGANIZATION CHART



**MONTGOMERY COUNTY, MARYLAND
LISTING OF OFFICIALS**

COUNTY EXECUTIVE

Douglas M. Duncan

COUNTY COUNCIL

Isiah Leggett	President
Michael L. Subin	Vice President
Phil Andrews	Derick P. Berlage
Nancy Dacek	Blair Ewing
Betty Ann Krahnke	Marilyn Praisner
Steven Silverman	

MONTGOMERY COUNTY (Primary Government) OFFICIALS

Bruce Romer	Chief Administrative Officer	Odessa Shannon	Human Relations Commission
Charles W. Thompson, Jr.	County Attorney	Marta B. Perez	Office of Human Resources
Timothy L. Firestine	Department of Finance	Don Evans	Department of Information Systems and Telecommunications
Robert K. Kendal	Office of Management and Budget	Norman D. Butts	Inspector General
Stephen B. Farber	Council Staff Director	Ben Bialek	Office of Intergovernmental Relations
Mary Edgar	Clerk of the Council	Patrick Bell	Board of Investment Trustees
Paul H. Weinstein	Administrative Judge, Circuit Court	Karen Orlansky	Office of Legislative Oversight
Molly Q. Ruhl	Clerk of the Circuit Court	Howard L. Cook	Department of Liquor Control
Joseph Griffin	Register of Wills	Dennis Theoharis	Office of the Board of Liquor License Commissioners
Douglas F. Gansler	States Attorney	Robert C. Hamilton	Merit System Protection Board
Susan Turnbull	Board of Appeals	Natalie Cantor	Mid-County Regional Services Center
Gail Nachman	Bethesda-Chevy Chase Regional Services Center	Robert Hubbard	Department of Permitting Services
Judith Vaughan-Prather	Commission for Women	Thomas Evans, Acting	Department of Police
Ginny Gong	Community Use of Public Facilities	Beatrice P. Tignor	Office of Procurement
Russell Hamill, Acting	Department of Correction and Rehabilitation	David Weaver	Office of Public Information
Anise Key Brown	Eastern Montgomery Regional Services Center	Harriet Henderson	Department of Public Libraries
David W. Edgerley	Department of Economic Development	Albert J. Genetti, Jr.	Department of Public Works and Transportation
Richard G. Goehler, Acting	Board of Elections	Gregory A. Bayor	Department of Recreation
James A. Caldwell	Department of Environmental Protection	Raymond M. Kight	Sheriff
Barbara McNally	Ethics Commission	Lori Gillen	Silver Spring Regional Services Center
Gordon Aoyagi	Fire and Rescue Service	Marshall Rea	Montgomery Soil Conservation District
Charles L. Short	Department of Health and Human Services	C. Stephen Poteat	Upcounty Regional Services Center
Elizabeth B. Davison	Department of Housing and Community Affairs	Philip J. Tierney	Office of Zoning and Administrative Hearings

(Continued)

Listing of Officials, concluded

COMPONENT UNIT OFFICIALS

Montgomery County Public Schools

Board of Education:

Reginald M. Felton, President
Patricia O'Neill, Vice-President

Steve Abrams	Kermit V. Burnett
Beatrice B. Gordon	Nancy J. King
Mona M. Signer	Laura Sampedro
	Student Member

Jerry D. Weast, Superintendent of Schools

Montgomery County Revenue Authority

Board of Directors:

Stephen Edwards, Chairman
Carol McGarry, Secretary-Treasurer

Christopher W. Hill	John F. Wolf, Jr.
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Marc D. Atz, Executive Director

Bethesda Urban Partnership, Inc.

Board of Directors:

Robert G. Brewer, Jr., Chair
Arnold J. Kohn, Vice-Chair
Susan A. Cheney, Secretary
Benjamin W. King, Treasurer

Edward Hall Asher	Beverly B. Denbo
Page Lansdale	Eugene M. Smith
Mier Wolf, Esq.	

Matthew G. Hussmann, Executive Director

Montgomery Community College

Board of Trustees:

Mary E. Cothran, Chairman
Robert E. Shoenberg, First Vice-Chair
Norman Locksley, Second Vice-Chair

Gene W. Counihan	Sylvia W. Galloway
Michael W. Gildea	Owen D. Nichols
Etienne Takougang, Student	

Secretary Treasurer to the Board of Trustees:

Charlene R. Nunley, President, Montgomery Community College

Housing Opportunities Commission of Montgomery County

Commissioners:

Ralph D. Bennett, Jr., Chairman
Richard Y. Nelson, Jr., Vice-Chair

Robbie Callaway	Marjorie Harris
Warren Lasko	Virginia T. Mahoney

Richard J. Ferrara, Executive Director

INDEPENDENT PUBLIC ACCOUNTANTS

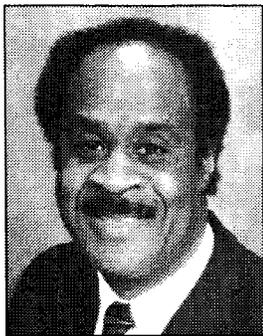
Arthur Andersen LLP
8000 Towers Crescent Drive
Vienna, Virginia 22182

Elected Officials

Montgomery County, Maryland



Douglas M. Duncan
County Executive



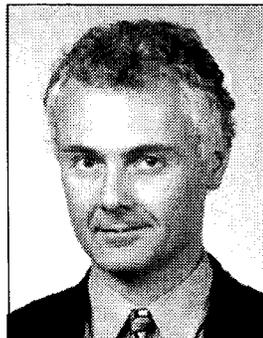
Isiah Leggett
Council President



Michael L. Subin
Council Vice-President



Phil Andrews
Council Member



Derick P. Berlage
Council Member



Nancy Dacek
Council Member



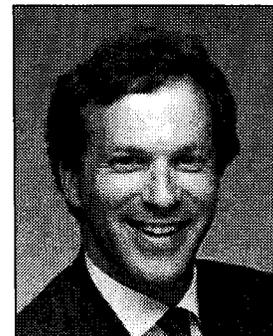
Blair Ewing
Council Member



Betty Ann Krahnke
Council Member



Marilyn Praisner
Council Member



Steven Silverman
Council Member



Prepared by the:
Department of Finance
Division of the Controller
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Rockville, Maryland 20850
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