

**NEW ISSUE: BOOK-ENTRY ONLY**

**Fitch Ratings: AAA  
Moody's Investors Service: Aaa  
Standard and Poor's: AAA  
(See "Ratings")**

**\$78,000,000**  
**MONTGOMERY COUNTY, MARYLAND**  
**General Obligation Bonds**  
**Consolidated Public Improvement Bonds of 2009, Series A**  
**(Tax-Exempt Bonds)**

**Dated: Date of Initial Delivery**

**Due: As shown on inside front cover**

The Consolidated Public Improvement Bonds of 2009, Series A (Tax-Exempt Bonds) (the "Bonds") are issuable by Montgomery County, Maryland (the "County") in fully registered form in the denomination of \$5,000 or any integral multiple thereof. Interest on the Bonds will be payable semi-annually on May 1 and November 1, commencing May 1, 2010 until maturity. The County will perform the paying agency and registrar services described in this Official Statement; provided that if the book-entry only system is discontinued, the County will appoint a financial institution to perform such services on its behalf (the County and any paying agent/registrar subsequently appointed are hereinafter collectively referred to as the "Paying Agent/Registrar"). Except as otherwise governed by the procedures of The Depository Trust Company, New York, New York ("DTC"), principal of and premium, if any, on the Bonds will be payable to the registered holder when due upon presentation to the Paying Agent/Registrar.

The Bonds are available only in book-entry form, registered in the name of Cede & Co., as nominee of DTC, acting as securities depository for the Bonds. So long as the Bonds are registered in the name of Cede & Co., payment of the principal of, premium, if any, and interest on the Bonds will be made by the County to DTC. DTC is required to remit such payments to DTC participants, who are required in turn to remit such payments to beneficial owners, as described in this Official Statement. **Purchasers of the Bonds will not receive certificates representing their ownership interest in the Bonds.**

*Under existing law, the Bonds, their transfer, the interest payable on them and any income derived from them, including any profit realized in their sale or exchange, shall be exempt at all times from every kind and nature of taxation by the State of Maryland or by the political subdivisions, municipal corporations or public agencies of any kind of the State of Maryland. No opinion is expressed as to estate or inheritance taxes, or any other taxes not levied or assessed directly on the Bonds, their transfer or the interest therefrom. Assuming compliance with certain covenants described herein, under existing statutes, regulations and decisions, interest on the Bonds will be excludable from gross income for federal income tax purposes. Interest on the Bonds is not includable in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment and is not taken into account in determining "adjusted current earnings" for purposes of computing the alternative minimum tax on corporations. Interest on the Bonds will be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States of America. See "TAX MATTERS."*

**DELIVERY:** The Bonds are offered for delivery when, as and if issued, subject to the approving legal opinion of McKennon Shelton & Henn LLP, Bond Counsel. It is expected that the Bonds in definitive form will be available for delivery through DTC in New York, New York, on or about December 2, 2009.

The date of this Official Statement is November 18, 2009.

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**THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.**

**AMOUNTS, MATURITIES, INTEREST RATES AND PRICES OR YIELDS**

**\$78,000,000 Consolidated Public Improvement Bonds of 2009, Series A (Tax-Exempt Bonds)**

<b>Maturing</b>	<b>Principal</b>	<b>Interest</b>		
<b><u>Nov. 1</u></b>	<b><u>Amount</u></b>	<b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP</u></b>
2010	\$15,600,000	2.000%	0.330%	613340N61
2011	15,600,000	4.000	0.640	613340N79
2012	15,600,000	5.000	0.840	613340N87
2013	15,600,000	5.000	1.250	613340N95
2014	15,600,000	5.000	1.660	613340P28

The rates shown above are the interest rates payable by the County resulting from the successful bid for the Bonds by a group of banks and investment banking firms at public sale on November 18, 2009. The yields or prices shown above were furnished by the successful bidders. Any additional information concerning the reoffering of the Bonds should be obtained from the successful bidders and not from the County.

**OFFICIAL STATEMENT DATED NOVEMBER 18, 2009**

**\$78,000,000**  
**MONTGOMERY COUNTY, MARYLAND**  
**General Obligation Bonds**  
**Consolidated Public Improvement Bonds of 2009, Series A**  
**(Tax-Exempt Bonds)**



No dealer, broker, salesperson or other person has been authorized by the County to give any information or to make any representations concerning the County or its general obligation bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the County. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the general obligation bonds described herein by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

**COUNTY EXECUTIVE**

Isiah Leggett

**COUNTY COUNCIL**

Phil Andrews	<i>President</i>
Roger Berliner	<i>Vice President</i>
Marc Elrich	
Valerie Ervin	
Nancy Floreen	
Michael Knapp	
George L. Leventhal	
Nancy Navarro	
Duchy Trachtenberg	

The terms of the County Executive and all County Council members expire in December 2010.

**APPOINTED OFFICIALS**

Timothy L. Firestine	<i>Chief Administrative Officer</i>
Jennifer E. Barrett	<i>Director, Department of Finance</i>
Joseph F. Beach	<i>Director, Office of Management and Budget</i>
Leon Rodriguez	<i>County Attorney</i>
Linda M. Lauer	<i>Clerk of the Council</i>

**BOND COUNSEL**

McKennon Shelton & Henn LLP  
Baltimore, Maryland

**INDEPENDENT PUBLIC ACCOUNTANTS**

Clifton Gunderson, LLP  
Timonium, Maryland

**FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Philadelphia, PA

**DEBT MANAGEMENT AND DISCLOSURE INFORMATION**

Montgomery County Department of Finance  
101 Monroe Street  
Rockville, MD 20850  
240-777-8860  
240-777-8857 (Fax)  
<http://bonds.montgomerycountymd.gov>

## **INTRODUCTION TO THE OFFICIAL STATEMENT**

*The following information is qualified in its entirety by the detailed information contained in this Official Statement. This summary is only a brief description of the offering and potential investors should review this entire Official Statement. The Official Statement speaks only as of its date, and the information contained herein is subject to change.*

<b>Issuer:</b>	Montgomery County, Maryland (the “County”).						
<b>Issue:</b>	\$78,000,000 Consolidated Public Improvement Bonds of 2009, Series A (Tax-Exempt Bonds) (the “Bonds”).						
<b>Dated Date:</b>	Date of Initial Delivery.						
<b>Security:</b>	The Bonds will be general obligation bonds to which the full faith and credit and unlimited taxing power of the County will be pledged.						
<b>Purpose:</b>	The proceeds of the Bonds will be used to refinance all or a portion of certain bond anticipation notes, the proceeds of which financed certain capital construction projects in the County. See “DESCRIPTION OF THE BONDS – Purpose of the Bonds”.						
<b>Authority of Issuance:</b>	The Bonds are issued under the provisions of the laws of the State of Maryland, the Montgomery County Charter, certain laws of the County, as amended, and an Executive Order of the County Executive of the County (the “County Executive”). See “DESCRIPTION OF THE BONDS – Authority for the Bonds”.						
<b>Redemption:</b>	The Bonds are not subject to redemption prior to their stated maturities.						
<b>Denominations:</b>	\$5,000 or integral multiples thereof.						
<b>Paying Agent/Registrar:</b>	The County will perform the paying agency and registrar services described in this Official Statement; provided that, if the book-entry only system is discontinued, the County will appoint a financial institution to perform such services on its behalf (the County and any paying agent/registrar subsequently appointed are hereinafter collectively referred to as the “Paying Agent/Registrar”).						
<b>Principal Payments:</b>	Payable annually on the dates and in the principal amounts shown on the inside cover to this Official Statement.						
<b>Interest Payments:</b>	Interest on the Bonds will be payable semi-annually on May 1 and November 1, commencing May 1, 2010 until maturity.						
<b>Book-Entry Only:</b>	The Bonds will be issued as book-entry only securities through The Depository Trust Company, New York, New York (“DTC”).						
<b>Professional Consultants:</b>	<table><tr><td><i>Bond Counsel:</i></td><td>McKennon Shelton &amp; Henn LLP Baltimore, Maryland</td></tr><tr><td><i>Independent Public Accountants:</i></td><td>Clifton Gunderson, LLP Timonium, Maryland</td></tr><tr><td><i>Financial Advisor:</i></td><td>Public Financial Management, Inc. Philadelphia, PA</td></tr></table>	<i>Bond Counsel:</i>	McKennon Shelton & Henn LLP Baltimore, Maryland	<i>Independent Public Accountants:</i>	Clifton Gunderson, LLP Timonium, Maryland	<i>Financial Advisor:</i>	Public Financial Management, Inc. Philadelphia, PA
<i>Bond Counsel:</i>	McKennon Shelton & Henn LLP Baltimore, Maryland						
<i>Independent Public Accountants:</i>	Clifton Gunderson, LLP Timonium, Maryland						
<i>Financial Advisor:</i>	Public Financial Management, Inc. Philadelphia, PA						
<b>Delivery:</b>	Delivery of the Bonds is expected on or about December 2, 2009 through the facilities of DTC, on behalf of the purchaser of the Bonds.						

**Limitations on Offering or  
Reoffering Securities:**

No dealer, broker, salesperson or other person has been authorized by the County to give any information or to make any representations other than those contained in the Official Statement and, if given or made, such information and representations must not be relied upon as having been authorized by the County. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

**Litigation:**

There is no litigation now pending or, to the knowledge of County officials, threatened which questions the validity of the Bonds or of any proceedings of the County taken with respect to the issuance or sale thereof.

**Continuing Disclosure:**

The County will covenant to provide continuing disclosure.

*In order to enable participating underwriters, as defined in Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12" or "Rule"), to comply with the requirements of paragraph (b)(5) of Rule 15c2-12, the County will execute and deliver a Continuing Disclosure Agreement on or before the date of issuance and delivery of the Bonds, the form of which is attached to this Official Statement as Appendix D. See "CONTINUING DISCLOSURE UNDERTAKING."*

*This Official Statement is in a form deemed final as of its date for purposes of Rule 15c2-12.*

*The information set forth herein has been 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 neither the delivery of this Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the County or in any other information contained herein, since the date hereof.*

*Any statements in this Official Statement 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.*

NO REGISTRATION STATEMENT RELATING TO THE BONDS HAS BEEN FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR WITH ANY STATE SECURITIES AGENCY. THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES AGENCY NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

CUSIP numbers on the inside cover page of this Official Statement are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and the County does not take any responsibility for the accuracy thereof. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau.

## **DESCRIPTION OF THE BONDS**

### ***Purpose of the Bonds***

The proceeds of the Bonds will be used to refinance all of the County's outstanding \$50,000,000 Consolidated Commercial Paper Bond Anticipation Notes, 2002 Series issued on January 8, 2008 and a portion of its outstanding \$150,000,000 Consolidated Commercial Paper Bond Anticipation Notes, 2002 Series issued on September 9, 2008, which such notes were used to finance and refinance the acquisition, construction and equipping of certain public facilities of the County as described in Section 20-14 of the Montgomery County Code, as amended.

### ***Authority for the Bonds***

The Bonds are consolidated and issued pursuant to Article 25A of the Annotated Code of Maryland (2005 Replacement Volume and 2009 Supplement) ("Article 25A"), Section 2C of Article 31 of the Annotated Code of Maryland (2003 Replacement Volume and 2009 Supplement), Chapter 18 of the laws of Montgomery County 2004, Chapter 19 of the laws of Montgomery County 2005, Chapter 43 of the laws of Montgomery County 2006, and Chapter 12 of the laws of Montgomery County 2007, Resolution No. 16-298 of the County Council for Montgomery County, Maryland (the "County Council") (the "Resolution"), adopted on September 18, 2007, and effective on September 27, 2007, the provisions of the Montgomery County Charter, and Executive Order No. 296-09 of the County Executive of the County passed as of October 20, 2009, as supplemented (the "Executive Order").

### ***Security for the Bonds***

The Bonds are general obligation bonds 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 subject to taxation at full rates for local purposes in the County.

Additionally, Section 312 of the Charter of Montgomery County, Maryland provides as follows: "...If at any time the Council shall have failed to appropriate and to make available sufficient funds to provide for the timely payment of the interest and principal then due upon all County indebtedness, it shall be the duty of the Director of Finance to pay, or to make available for payment, to the holders of such indebtedness from the first revenues thereafter received applicable to the general funds of the County, a sum equal to such interest and principal."

### ***Redemption Provisions***

The Bonds are not subject to redemption prior to their respective maturities.

### ***Book-Entry Only System***

*The information contained in the following paragraphs of this subsection "Book-Entry Only System" has been extracted from a schedule prepared by DTC entitled "SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE." The County makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.*

*General.* DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds in principal amount equal to the aggregate principal amount of the Bonds of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the

Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments and any premium on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the County or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be



the responsibility of such Direct or Indirect Participant and not of DTC, DTC's nominee, the Paying Agent or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest or premium to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or its Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

*Book-Entry Only System — Miscellaneous.* The information in the Section "Book-Entry Only System — General" has been obtained from DTC. The County takes no responsibility for the accuracy or completeness thereof. The County will have no responsibility or obligations to DTC Participants or the persons for whom they act as nominees with respect to the payments to or the providing of notice to the DTC Participants, or the Indirect Participants, or Beneficial Owners. The County cannot and does not give any assurance that DTC Participants or others will distribute principal and interest payments paid to DTC or its nominees, as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

*Discontinuation of Book-Entry Only System.* DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the County. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The County may also decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

In the event that the Book-Entry Only System is discontinued, the Bonds in fully certificated form will be issued as fully registered Bonds without coupons in the denomination of \$5,000 each or any integral multiple thereof. Such Bonds will be transferable only upon the registration books kept at the principal office of the Paying Agent/Registrar, by the registered owner thereof in person, or by an attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer in the form attached thereto and satisfactory to the Paying Agent/Registrar, and duly executed by the registered owner or a duly authorized attorney. Within a reasonable time of such surrender, the County shall cause to be issued in the name of the transferee a new registered Bond or Bonds of any of the authorized denominations in an aggregate principal amount equal to the principal amount of the Bond surrendered and maturing on the same date and bearing interest at the same rate. The new Bond or Bonds shall be delivered to the transferee only after due authentication by an authorized officer of the Paying Agent/Registrar. The County may deem and treat the person in whose name a Bond is registered as the absolute owner thereof for the purpose of receiving payment of or on account of the principal or redemption price thereof and interest due thereon and for all other purposes.

In the event that the Book-Entry Only System is discontinued, the Bonds may be transferred or exchanged at the principal office of the Paying Agent/Registrar. Upon any such transfer or exchange, the County shall execute and the Paying Agent/Registrar shall authenticate and deliver a new registered Bond or Bonds without coupons of any of the authorized denominations in an aggregate principal amount equal to the principal amount of the Bond exchanged or transferred, and maturing on the same date and bearing interest at the same rate. In each case, the Paying Agent/Registrar may require payment by any holder of Bonds requesting exchange or transfer of Bonds of any tax, fee or other governmental charge, shipping charges and insurance that may be required to be paid with respect to such exchange or transfer, but otherwise no charge shall be made to the holder of Bonds for such exchange or transfer.

The Paying Agent/Registrar shall not be required to transfer or exchange any Bond after the mailing of notice calling such Bond or portion thereof for redemption as previously described; provided, however, that the foregoing limitation shall not apply to that portion of a Bond in excess of \$5,000 which is not being called for redemption.

NEITHER THE COUNTY, NOR THE PAYING AGENT/REGISTRAR, WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO 1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT; 2) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST OR ANY PREMIUM ON THE BONDS; 3) ANY NOTICE WHICH IS

PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; 4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER; OR 5) THE SELECTION BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF BONDS.

## **TAX MATTERS**

*Maryland Income Taxation.* In the opinion of Bond Counsel, under existing law, the Bonds, their transfer, the interest payable on them, and any income derived from them, including any profit realized in their sale and exchange, shall be exempt at all times from every kind and nature of taxation by the State of Maryland or by any of its political subdivisions, municipal corporations or public agencies of any kind. No opinion is expressed as to estate or inheritance taxes, or any other taxes not levied or assessed directly on the Bonds or the interest thereon. Interest on the Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Purchasers of the Bonds should consult their own tax advisors with respect to the taxable status of the Bonds in jurisdictions other than Maryland.

*Federal Income Taxation.* In the opinion of Bond Counsel, assuming compliance with certain covenants described herein, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations, and decisions.

In rendering its opinion with respect to the Bonds, Bond Counsel will rely, without independent investigation, on certifications provided by the County with respect to certain material facts within its knowledge relevant to the tax-exempt status of interest on the Bonds.

Under the provisions of the Code, there are certain restrictions that must be met subsequent to the delivery of the Bonds, including restrictions that must be complied with throughout the term of the Bonds in order that the interest thereon be excludable from gross income. These include the following: (i) a requirement that certain earnings received from the investment of the proceeds of the Bonds be rebated to the United States of America under certain circumstances (or that certain payments in lieu of rebate be made); (ii) other requirements applicable to the investment of the proceeds of the Bonds; and (iii) other requirements applicable to the use of the proceeds of the Bonds and the facilities financed with such proceeds. Failure to comply with one or more of these requirements could result in the inclusion of the interest payable on the Bonds in gross income for federal income tax purposes, effective from the date of their issuance. The County has covenanted to regulate the investment of the proceeds of the Bonds and to take such other actions as may be required to maintain the excludability from gross income for federal income tax purposes of interest on the Bonds.

Interest on the Bonds is not includable in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment and is not taken into account in determining “adjusted current earnings” for purposes of computing the alternative minimum tax on corporations. In addition, interest income on the Bonds will be subject to the branch profits tax imposed by the Code on foreign corporations engaged in a trade or business in the United States of America.

*Certain Other Federal Tax Consequences.* There are other federal tax consequences of ownership of obligations such as the Bonds under certain circumstances, including the following: (i) deductions are disallowed for certain expenses of taxpayers allocable to interest on tax-exempt obligations, as well as interest on indebtedness incurred or continued to purchase or carry tax-exempt obligations and interest expense of financial institutions allocable to tax-exempt interest, subject to adjustments for certain tax-exempt bonds issued in 2009 and 2010; (ii) for property and casualty insurance companies, the amount of the deduction for losses incurred must be reduced by 15% of the sum of tax-exempt interest income and the deductible portion of dividends received by such companies; (iii) interest income that is exempt from tax must be taken into account for the purpose of determining whether, and what amount of, Social Security or railroad retirement benefits are includable in gross income for federal income tax purposes; and (iv) for S corporations having Subchapter C earnings and profits, the receipt of certain levels of passive investment income, which includes interest on tax-exempt obligations such as the Bonds, can result in the imposition of tax on such passive investment income and, in some cases, loss of S corporation status.

*Tax Accounting Treatment of Tax-Exempt Discount Bonds.* Certain maturities of the Bonds may be issued at an initial public offering price which is less than the amount payable on such Bonds at maturity (the “Tax-Exempt Discount Bonds”). The difference between the initial offering price (including accrued interest) at which a substantial amount of the Tax-Exempt Discount Bonds of each maturity was sold and the principal amount of such Tax-Exempt Discount Bonds payable at maturity constitutes original issue discount. In the case of any holder of Tax-Exempt Discount Bonds, the amount of such original issue discount which is treated as having accrued with respect to such Tax-Exempt Discount Bonds is added to the original cost basis of the holder in determining, for federal income tax purposes, gain or loss upon disposition (including sale, early redemption or repayment at maturity). For federal income tax purposes (i) any holder of a Tax-Exempt Discount Bond will recognize gain or loss upon the disposition of such security (including sale, early redemption or payment at maturity) in an amount equal to the difference between (a) the amount received upon such disposition and (b) the sum of (1) the holder's original cost basis in such Tax-Exempt Discount Bond, and (2) the amount of original issue discount attributable to the period during which the holder held such Tax-Exempt Discount Bond, and (ii) the amount of the basis adjustment described in clause (i)(b)(2) will not be included in the gross income of the holder.

Original issue discount on Tax-Exempt Discount Bonds will be attributed to permissible compounding periods during the life of any Tax-Exempt Discount Bonds in accordance with a constant rate of interest accrual method. The yield to maturity of the Tax-Exempt Discount Bonds of each maturity is determined using permissible compounding periods. In general, the length of a permissible compounding period cannot exceed the length of the interval between debt service payments on the Tax-Exempt Discount Bonds and must begin or end on the date of such payments. Such yield then is used to determine an amount of accrued interest for each permissible compounding period. For this purpose, interest is treated as compounding periodically at the end of each applicable compounding period. The amount of original issue discount which is treated as having accrued in respect of a Tax-Exempt Discount Bond for any particular compounding period is equal to the excess of (i) the product of (a) the yield for the Tax-Exempt Discount Bond (adjusted as necessary for an initial short period) divided by the number of compounding periods in a year multiplied by (b) the amount that would be the tax basis of such Tax-Exempt Discount Bond at the beginning of such period if held by an original purchaser who purchased at the initial public offering price, over (ii) the amount actually payable as interest on such Tax-Exempt Discount Bond during such period. For purposes of the preceding sentence the tax basis of a Tax-Exempt Discount Bond, if held by an original purchaser, can be determined by adding to the initial public offering price of such Tax-Exempt Discount Bond the original issue discount that is treated as having accrued during all prior compounding periods. If a Tax-Exempt Discount Bond is sold or otherwise disposed of between compounding dates, then interest which would have accrued for that compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Holders of Tax-Exempt Discount Bonds should note that, under the tax regulations, the yield and maturity of a Tax-Exempt Discount Bond is determined without regard to commercially reasonable sinking fund payments, and any original issue discount remaining unaccrued at the time that a Tax-Exempt Discount Bond is redeemed in advance of stated maturity will be treated as taxable gain.

Moreover, tax regulations prescribe special conventions for determining the yield and maturity of certain debt instruments that provide for alternative payment schedules applicable on the occurrence of certain contingencies. The prices or yields furnished by the successful bidder for the Bonds as shown on the inside cover of this Official Statement may not reflect the initial issue prices for the purposes of determining the original issues discount for federal income tax purposes.

The foregoing summarizes certain federal income tax consequences of original issue discount with respect to the Tax-Exempt Discount Bonds but does not purport to deal with all aspects of federal income taxation that may be relevant to particular investors or circumstances, including those set out above. Prospective purchasers of Tax-Exempt Discount Bonds should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on Tax-Exempt Discount Bonds. In addition, prospective corporate purchasers should consider possible federal tax consequences arising from original issue discount on such Tax-Exempt Discount Bonds under the alternative minimum tax or the branch profits tax. The amount of original issue discount considered to have accrued may be reportable in the year of accrual for state and local tax purposes or for purposes of the alternative minimum tax or the branch profits tax without a corresponding receipt of cash with which to pay

any tax liability attributable to such discount. Purchasers with questions concerning the detailed tax consequences of transactions in the Tax-Exempt Discount Bonds should consult their tax advisors.

*Purchase, Sale and Retirement of Bonds.* Except as noted below in the case of market discount, the sale or other disposition of a Bond will normally result in capital gain or loss to its holder. A holder's initial tax basis in a Bond will be its cost. Upon the sale or retirement of a Bond, for federal income tax purposes, a holder will recognize capital gain or loss upon the disposition of such security (including sale, early redemption or payment at maturity) in an amount equal to the difference between (a) the amount received upon such disposition and (b) the tax basis in such Bond, determined by adding to the original cost basis in such Bond the amount of original issue discount that is treated as having accrued as described above under "Tax Matters *Tax Accounting Treatment of Tax-Exempt Discount Bonds.*" Such gain or loss will be a long-term capital gain or loss if at the time of the sale or retirement the Bonds has been held for more than one year. Present law taxes both long and short-term capital gains of corporations at the rates applicable to ordinary income. For noncorporate taxpayers, however, net capital gains will be taxed at a maximum rate of 15%, while short-term capital gains and other ordinary income will be taxed at a maximum rate of 35%. Net capital gains are the excess of net long-term capital gains (gains on capital assets held for more than one year) over net short-term capital losses. Because of the limitation on itemized deductions and the deduction for personal exemptions applicable to higher income taxpayers, the effective rate of tax may be higher in certain circumstances. The operation of sunset, effective date and similar timing provisions in current law would result in a change in the tax rates in certain future time periods.

*Market Discount.* If a holder acquires a Bond after its original issuance at a discount below its principal amount (or in the case of a Bond issued at an original issue discount, at a price that produces a yield to maturity higher than the yield to maturity at which such bond was first issued), the holder will be deemed to have acquired the Bond at "market discount," unless the amount of market discount is *de minimis*, as described in the following paragraph. If a holder that acquires a Bond with market discount subsequently realizes a gain upon the disposition of the Bond, such gain shall be treated as taxable interest income to the extent such gain does not exceed the accrued market discount attributable to the period during which the holder held such Bond, and any gain realized in excess of such market discount will be treated as capital gain. Potential purchasers should consult their tax advisors as to the proper method of accruing market discount.

In the case of a Bond not issued at an original issue discount, market discount will be *de minimis* if the excess of the Bond's stated redemption price at maturity over the holder's cost of acquiring the Bond is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years between the date the holder acquires the Bond and its maturity date. In the case of a Bond issued with original issue discount, market discount will be *de minimis* if the excess of the Bond's revised issue price over the holder's cost of acquiring the Bond is less than 0.25% of the revised issue price multiplied by the number of complete years between the date the holder acquires the Bond and its stated maturity date. For this purpose, a Bond's "revised issue price" is the sum of (i) its original issue price and (ii) the aggregate amount of original issue discount that is treated as having accrued with respect to the Bond during the period between its original issue date and the date of acquisition by the holder.

*Amortizable Bond Premium.* A Bond will be considered to have been purchased at a premium if, and to the extent that, the holder's tax basis in the Bond exceeds the amount payable at maturity (or, in the case of a Bond callable prior to maturity, the amount payable on the earlier call date). Under tax regulations applicable to the Bonds, the amount of the premium would be determined with reference to the amount payable on that call date (including for this purpose the maturity date) which produces the lowest yield to maturity on the Bonds. The holder will be required to reduce his tax basis in the Bond for purposes of determining gain or loss upon disposition of the Bond by the amount of amortizable bond premium that accrues, determined in the manner prescribed in the regulations. Generally, no deduction (or other tax benefit) is allocable in respect of any amount of amortizable bond premium on the Bonds.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not discuss all aspects of federal income taxation that may be relevant to a particular holder of the Bonds in light of such holder's particular circumstances and income tax situation. Each holder of the Bonds should consult such holder's tax advisor as to the specific tax consequences to such holder of the ownership and disposition of the Bonds, including the application of State, local, foreign and other tax laws.

## **CONTINUING DISCLOSURE UNDERTAKING**

In order to enable participating underwriters, as defined in Rule 15c2-12 of the Securities and Exchange Commission (“Rule 15c2-12”) to comply with the requirements of paragraph (b)(5) of Rule 15c2-12, the County will execute and deliver a continuing disclosure agreement (the “Continuing Disclosure Agreement”) on or before the date of issuance and delivery of the Bonds, the form of which is attached to this Official Statement as Appendix D. Potential purchasers of the Bonds should note that the definition of Reportable Events in Appendix D is intended to completely restate the events specified in Rule 15c2-12. It is noted that certain Reportable Events are expected to have no applicability to the Bonds, such as the possibility of unscheduled draws on debt service reserves and matters affecting collateral for the Bonds.

The County has not failed to comply with any prior continuing disclosure undertaking made pursuant to Rule 15c2-12.

## **LEGALITY OF THE BONDS**

The authorization, sale, issuance and delivery of the Bonds will be subject to legal approval by McKennon Shelton & Henn LLP, Bond Counsel, and a copy of their unqualified approving legal opinion with respect to the Bonds will be delivered upon request, without charge, to the successful bidders for the Bonds. The opinion is expected to be substantially in the form of the draft opinion attached to this Official Statement as Appendix C.

## **LITIGATION**

The County is currently processing numerous claims for damages and is also a defendant in a number of lawsuits which are expected to be paid, when applicable, through its self-insurance program. Management and legal counsel believe that the self-insurance program is adequately funded to cover such claims and lawsuits to be paid out of the program. In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits and actions arising in the normal course of business. In the opinion of the County Attorney, the possible liability of the County in the resolution of these cases will not exceed \$1,550,000, and it appears that, of this amount, the County will probably not incur any liability. However, in any event, none of such claims and suits will materially affect the County’s ability to perform its obligations to the holders of its bonds.

## **RATINGS**

Rating reviews for this issue have been received from Fitch Ratings, Moody’s Investors Service, Inc., and Standard & Poor’s Rating Group. A rating reflects only the view of the rating organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## **INDEPENDENT PUBLIC ACCOUNTANTS**

The audited basic financial statements of the County included in Appendix B to this Official Statement have been audited by Clifton Gunderson, LLP (Clifton Gunderson), independent public accountants, as indicated in their report with respect thereto. In that report, Clifton Gunderson states that with respect to certain of the County’s component units, its opinion is based on the reports of other independent public accountants. The report of Clifton Gunderson also contains an explanatory paragraph which states that Clifton Gunderson did not audit certain identified supplementary information and expressed no opinion thereon. Such audited basic financial statements have been included in reliance upon the qualification of said firm to issue said report.



## **CERTIFICATE OF COUNTY OFFICIALS**

The Chief Administrative Officer and the Director of Finance of the County will furnish a certificate to the successful bidders for the Bonds to the effect that, to the best of their knowledge and belief, this Official Statement, as of the date of sale and the date of delivery of the Bonds, is true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact, required to be stated or necessary to be stated, to make such statements, in the light of the circumstances under which they were made, not misleading.

## **INFORMATION IN OFFICIAL STATEMENT**

All quotations, summaries and explanations in this Official Statement of State and County laws and the Montgomery County Charter do not purport to be complete and reference is made to pertinent provisions of the same for complete statements. Any estimates or opinions herein, whether or not expressly so stated, are intended as such and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date as of which such information is stated or the date hereof. This Official Statement shall not be construed as part of any contract between the County and the purchasers or holders of its bonds. The County has been advised by McKennon Shelton & Henn LLP, Baltimore, Maryland, Bond Counsel, in connection with legal statements contained in this Official Statement; however, Bond Counsel has not passed upon or assumed responsibility for the accuracy of the statistical data, financial statements and economic data contained herein.

Any questions regarding this Official Statement or the Bonds should be directed to Ms. Jennifer E. Barrett, Director, Department of Finance, Montgomery County, Maryland, 101 Monroe Street, 15th floor, Rockville, Maryland 20850, Telephone: (240) 777-8860.

## **SELECTED DEBT AND FINANCIAL INFORMATION**

The information (including Tables 1 through 7) presented on the following pages has been updated to reflect the effect of the Bonds and of the County's issuance of an additional amount of its general obligation bonds in the aggregate principal amount of \$393,755,000 issued on November 17, 2009 on the current debt of the County and to provide current information on Montgomery County's financial position. For more information on the County, and a complete overview of the County's debt, please see Appendix A, "INFORMATION ABOUT THE COUNTY AS OF JANUARY 15, 2009" and Appendix B, "BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008."

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**Table 1**  
**Statement of Direct and Overlapping Debt As of June 30, 2009**  
**and Including Proposed Bonds**

Direct Debt:		
General Obligation Bonds Outstanding	\$1,331,371,371	
Proposed General Obligation Bonds, Series B	232,000,000	
Proposed General Obligation Refunding Bonds, Series A	161,755,000	
Proposed General Obligation Bonds, Series A	78,000,000	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANs/Commercial Paper Outstanding	190,000,000	
Revenue Bonds Outstanding	<u>94,030,000</u>	
Total Direct Debt		\$2,187,156,371
Overlapping Debt:		
Gross Debt:		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	885,925,181	
Housing Opportunities Commission	720,703,667	
Montgomery County Revenue Authority	99,517,578	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	42,153,188	
Kingsview Village Center Development District	2,075,000	
West Germantown Development District	15,060,000	
Towns, Cities and Villages within Montgomery County	<u>47,851,848</u>	
Total Overlapping Debt		<u>1,813,286,462</u>
Total Direct and Overlapping Debt		4,000,442,833
Less Self-Supporting Debt:		
County Government Revenue Bonds	94,030,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	885,925,181	
Housing Opportunities Commission	720,703,667	
Montgomery County Revenue Authority	99,517,578	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	<u>4,522,821</u>	
Total Self-Supporting Debt		<u>(1,804,699,247)</u>
Net Direct and Overlapping Debt		<u>\$2,195,743,586</u>
Ratio of Debt to June 30, 2009 Assessed Valuation of (100% Assessment):		\$162,053,662,492
Direct Debt		1.35%
Net Direct Debt *		1.29%
Direct and Overlapping Debt		2.47%
Net Direct and Overlapping Debt		1.35%
Ratio of Debt to June 30, 2009 Market Value of:		\$167,959,062,589
Direct Debt		1.30%
Net Direct Debt *		1.25%
Direct and Overlapping Debt		2.38%
Net Direct and Overlapping Debt		1.31%

\*Net Direct Debt of \$2,093,126,371 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

**Table 2**  
**Statement of Legal Debt Margin**  
**As of June 30, 2009**  
**and Including Proposed Bonds**

June 30, 2009 Assessed Valuation – Real Property	\$158,133,491,472
Debt Limit (% of Assessed Valuation)	<u>6%</u>
Subtotal Limitation – Real Property	<u>\$ 9,488,009,484</u>
June 30, 2009 Assessed Valuation – Personal Property	\$3,920,171,020
Debt Limit (% of Assessed Valuation)	<u>15%</u>
Subtotal Limitation – Personal Property	<u>\$ 588,025,653</u>
Total Assessed Valuation – Real and Personal Property	\$162,053,662,492
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	\$10,076,035,137
Less Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds Outstanding	\$1,331,371,371
Proposed General Obligation Bonds, Series B	232,000,000
Proposed General Obligation Refunding Bonds, Series A	161,755,000
Proposed General Obligation Bonds, Series A	78,000,000
General Obligation Variable Rate Demand Obligations	100,000,000
Short-Term BANs/Commercial Paper	<u>190,000,000</u>
Net Direct Debt	<u>2,093,126,371</u>
Legal Debt Margin	<u>\$7,982,908,766</u>
Net Direct Debt as a Percentage of Assessed Valuation	<u>1.29%</u>

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**Table 3**  
**General Obligation Debt of the County**  
**As of June 30, 2008**  
**and June 30, 2009 and Including Proposed Bonds**

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Original Interest Rates</u>	<u>TIC*</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2008</u>	<u>Principal Outstanding June 30, 2009, including Proposed Bonds</u>
GO Refunding Bonds	07/01/92	\$273,038,054	2.75-5.80%	5.7431%	1993-10	\$ 12,903,054	\$ 5,541,371
GO Bonds	04/01/99	120,000,000	4.00-5.00	4.4764	2000-19	12,000,000	6,000,000
GO Bonds	01/01/00	130,000,000	5.00-6.00	5.4853	2001-13	19,500,000	6,500,000
GO Bonds	02/01/01	140,000,000	4.00-5.00	4.5447	2002-21	35,000,000	14,000,000
GO Refunding Bonds	11/15/01	146,375,000	3.60-5.25	4.5107	2003-19	126,735,000	120,470,000
GO Bonds	02/01/02	160,000,000	3.00-5.00	4.4619	2003-22	56,000,000	32,000,000
GO Refunding Bonds	11/15/02	93,595,000	2.75-5.25	3.2799	2005-13	65,060,000	55,145,000
GO Bonds	05/01/03	155,000,000	1.50-4.00	3.6304	2004-23	116,250,000	93,000,000
GO Refunding Bonds	05/01/03	49,505,000	2.00-5.00	2.2900	2004-11	23,790,000	16,955,000
GO Bonds	03/15/04	154,600,000	3.00-5.00	3.8290	2005-24	123,680,000	92,760,000
GO Refunding Bonds	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	97,690,000	93,285,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	170,000,000	120,000,000
GO Refunding Bonds	06/01/05	120,355,000	5.00	3.7817	2011-21	120,355,000	120,355,000
GO Bonds	05/01/06	100,000,000	4.25-5.00	3.8711	2007-16	80,000,000	70,000,000
GO VRDO**	06/07/06	100,000,000	variable	variable	2017-26	100,000,000	100,000,000
GO Bonds	05/01/07	250,000,000	5.00	4.0821	2008-27	237,500,000	175,000,000
GO Refunding Bonds	03/20/08	70,295,000	2.75-5.00	2.8965	2009-15	70,295,000	60,360,000
GO Bonds	07/15/08	250,000,000	3.00-5.00	4.1809	2009-28	--	250,000,000
GO Bonds***	11/17/09	232,000,000	3.75-5.50	4.8782	2015-29	--	232,000,000
GO Refunding Bonds	11/17/09	161,755,000	2.00-5.00	2.6487	2011-20	--	161,755,000
GO Bonds	12/02/09	78,000,000	2.00-5.00	1.1823	2010-14	--	78,000,000
Total						<u>\$1,466,758,054</u>	<u>\$1,903,126,371</u>

\* True Interest Cost

\*\* Variable Rate Demand Obligations

\*\*\* Federally Taxable Build America Bonds – Direct Pay

*(The remainder of this page has been left blank intentionally.)*

**Table 4**  
**General Obligation Bonds Authorized – Unissued**  
**As of September 30, 2009 and Including Proposed Bonds**

<u>Purpose</u>	<u>Chapter</u>	<u>Act</u>	<u>Amount</u>	<u>Amount Unissued</u>	<u>Additional Bonds</u>	<u>Bonds</u>
General County, Parks, and Consolidated Fire Tax District	17	2003	\$ 63,600,000	\$ 3,090,000	\$ 3,090,000	--
	18	2004	31,200,000	31,200,000	29,910,000	\$ 1,290,000
	19	2005	44,100,000	44,100,000	--	28,710,000
	43	2006	92,000,000	92,000,000	--	--
	12	2007	51,300,000	51,300,000	--	--
	36	2008	68,200,000	68,200,000	--	--
	29	2009	<u>58,700,000</u>	<u>58,700,000</u>	<u>--</u>	<u>--</u>
			<u>409,100,000</u>	<u>348,590,000</u>	<u>33,000,000</u>	<u>30,000,000</u>
Road & Storm Drainage	19	2005	53,500,000	19,940,000	17,500,000	2,440,000
	43	2006	66,700,000	66,700,000	--	19,560,000
	12	2007	45,800,000	45,800,000	--	--
	36	2008	36,000,000	36,000,000	--	--
	29	2009	<u>64,600,000</u>	<u>64,600,000</u>	<u>--</u>	<u>--</u>
			<u>266,600,000</u>	<u>233,040,000</u>	<u>17,500,000</u>	<u>22,000,000</u>
Public Schools and Community College	43	2006	157,100,000	83,368,000	83,368,000	--
	12	2007	118,900,000	118,900,000	65,632,000	26,000,000
	36	2008	222,500,000	222,500,000	--	--
	29	2009	<u>272,500,000</u>	<u>272,500,000</u>	<u>--</u>	<u>--</u>
			<u>771,000,000</u>	<u>697,268,000</u>	<u>149,000,000</u>	<u>26,000,000</u>
Mass Transit	17	2001	6,700,000	2,705,000	2,705,000	--
	21	2002	1,600,000	1,600,000	1,600,000	--
	17	2003	900,000	900,000	900,000	--
	12	2007	2,400,000	2,400,000	2,400,000	--
	36	2008	800,000	800,000	800,000	--
	29	2009	<u>57,100,000</u>	<u>57,100,000</u>	<u>24,095,000</u>	<u>--</u>
			<u>69,500,000</u>	<u>65,505,000</u>	<u>32,500,000</u>	
Public Housing	17	1981	2,650,000	2,590,000	--	--
	13	1982	995,000	995,000	--	--
	8	1983	230,000	230,000	--	--
	20	1985	900,000	900,000	--	--
	13	1986	855,000	855,000	--	--
	29	2009	<u>1,000,000</u>	<u>1,000,000</u>	<u>--</u>	<u>--</u>
			<u>6,630,000</u>	<u>6,570,000</u>	<u>--</u>	<u>--</u>
Parking Districts: Silver Spring	9	1983	2,945,000	2,045,000	--	--
	6	1984	<u>1,220,000</u>	<u>1,220,000</u>	<u>--</u>	<u>--</u>
			<u>4,165,000</u>	<u>3,265,000</u>	<u>--</u>	<u>--</u>
Bethesda	19	1981	7,325,000	3,040,000	--	--
	14	1982	775,000	775,000	--	--
	10	1983	<u>1,050,000</u>	<u>1,050,000</u>	<u>--</u>	<u>--</u>
			<u>9,150,000</u>	<u>4,865,000</u>	<u>--</u>	<u>--</u>
Total Parking Districts			<u>13,315,000</u>	<u>8,130,000</u>	<u>--</u>	<u>--</u>
Total General Obligation Bonds			<u>\$1,536,145,000</u>	<u>\$1,359,103,000</u>	<u>\$ 232,000,000</u>	<u>\$78,000,000</u>

In addition to the above noted authority, the County has authority under the provisions of section 56-13 of the Montgomery County Code 1994, as amended, to issue County bonds, within statutory debt limits, to finance approved urban renewal projects.

**Table 5**  
**Bond Anticipation Notes Outstanding**  
**As of September 30, 2009 and**  
**After Effect of Proposed Bonds**

<u>Issue</u>	<u>Balance July 1, 2009</u>	<u>BANs Issued</u>	<u>Balance Sept. 30, 2009</u>	<u>BANs to be Retired</u>	<u>Balance After Effect of Proposed Bonds</u>
BAN Series 2002-L	\$ 50,000,000	\$ --	\$ 50,000,000	\$ 50,000,000	\$ --
BAN Series 2002-M	150,000,000	--	150,000,000	28,000,000	122,000,000
BAN Series 2002-N	100,000,000	--	100,000,000	32,000,000	68,000,000
BAN Series 2009-A	<u>--</u>	<u>200,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>	<u>--</u>
Total	<u>\$300,000,000</u>	<u>\$200,000,000</u>	<u>\$500,000,000</u>	<u>\$310,000,000</u>	<u>\$190,000,000</u>

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**Table 6**  
**Montgomery County, Maryland**  
**Schedule Of General Fund Revenues, Expenditures, & Transfers In (Out)**  
**(Budgetary, Non-GAAP Basis)**

	Fiscal Year Actual <sup>(1)</sup>			Fiscal Year Budget 2009 <sup>(2)</sup>	Actual July 1, 2008 to May 31, 2009 (Unaudited)
	2006	2007	2008		
Revenues:					
Taxes:					
Property, including interest & penalty	\$ 782,131,830	\$ 791,299,455	\$ 796,770,740	\$ 965,098,723	\$ 947,885,128
Transfer tax and recordation tax	241,718,411	179,575,410	135,038,965	148,984,500	94,529,563
County income tax	1,044,561,989	1,265,377,139	1,291,339,613	1,325,440,000	1,028,905,867
Other taxes	<u>164,792,549</u>	<u>168,113,476</u>	<u>168,735,248</u>	<u>185,780,000</u>	<u>143,826,434</u>
Total Taxes	2,233,204,779	2,404,365,480	2,391,884,566	2,625,303,223	2,215,146,992
Licenses and permits	10,335,016	10,496,148	9,279,207	9,118,400	8,248,318
Intergovernmental revenue	137,164,714	138,069,464	132,669,827	101,031,438	84,606,054
Charges for services	12,814,029	11,979,461	12,220,040	14,145,350	13,376,597
Fines and forfeitures	9,381,741	10,216,457	20,335,482	25,579,750	21,748,252
Investment income	8,675,618	13,236,271	8,880,917	4,426,030	1,304,282
Miscellaneous	<u>11,024,284</u>	<u>10,125,190</u>	<u>10,418,813</u>	<u>11,028,690</u>	<u>14,377,587</u>
Total Revenues	<u>2,422,600,181</u>	<u>2,598,488,471</u>	<u>2,585,688,852</u>	<u>2,790,632,881</u>	<u>2,358,808,082</u>
Expenditures (including encumbrances):					
General County:					
General government	196,495,344	223,391,051	241,768,119	259,971,549	236,216,249
Public safety	281,263,093	313,532,989	343,516,856	361,515,317	324,223,484
Public works and transportation	47,335,525	58,265,269	56,432,172	52,569,804	50,935,151
Health and human services	197,337,883	208,632,008	232,979,224	216,209,867	189,387,917
Culture and recreation	46,412,919	53,032,039	55,872,703	53,528,217	49,313,869
Housing and community development	7,343,508	5,284,806	5,606,887	5,917,255	4,965,709
Environment	<u>3,574,260</u>	<u>3,795,318</u>	<u>4,473,884</u>	<u>5,855,871</u>	<u>4,716,934</u>
Total Expenditures	<u>779,762,532</u>	<u>865,933,480</u>	<u>940,649,845</u>	<u>955,567,880</u>	<u>859,759,313</u>
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	12,448,820	13,915,724	15,470,240	17,164,980	17,164,980
Enterprise Funds	25,534,770	27,585,780	27,734,670	38,503,220	33,222,555
Component Units	<u>601,158</u>	<u>606,183</u>	<u>598,645</u>	<u>328,420</u>	<u>591,084</u>
Total Transfers In	<u>38,584,748</u>	<u>42,107,687</u>	<u>43,803,555</u>	<u>55,996,620</u>	<u>50,978,619</u>
Transfers Out:					
Special Revenue Funds	(18,657,868)	(27,614,179)	(26,366,223)	(13,463,067)	(13,484,028)
Debt Service Fund	(195,435,109)	(203,384,307)	(215,900,200)	(226,016,610)	(190,869,194)
Capital Projects Fund	(49,879,689)	(36,435,691)	(43,259,243)	(56,840,680)	(21,126,975)
Enterprise Funds	(2,702,365)	(4,270,955)	(3,121,110)	(3,068,957)	(2,988,617)
Internal Service Funds	(1,053,172)	(1,171,249)	(1,551,516)	(1,339,580)	--
Component Units	<u>(1,387,791,173)</u>	<u>(1,497,615,804)</u>	<u>(1,570,726,627)</u>	<u>(1,671,800,310)</u>	<u>(1,590,354,556)</u>
Total Transfers Out	<u>(1,655,519,376)</u>	<u>(1,770,492,185)</u>	<u>(1,860,924,919)</u>	<u>(1,972,529,204)</u>	<u>(1,818,823,370)</u>
Net Transfers In (Out)	<u>(1,616,934,628)</u>	<u>(1,728,384,498)</u>	<u>(1,817,121,364)</u>	<u>(1,916,532,584)</u>	<u>(1,767,844,751)</u>
Excess of revenues and transfers in over (under) expenditures, encumbrances and transfers out	<u>25,903,021</u>	<u>4,170,493</u>	<u>(172,082,357)</u>	<u>(81,467,583)</u>	<u>(268,795,982)</u>
Fund Balances, July 1 as previously stated	234,440,615	273,333,694	295,785,593	146,932,820	146,932,820
Net Adjustment for previous year encumbrances	<u>12,990,058</u>	<u>18,281,406</u>	<u>23,229,584</u>	<u>18,018,477</u>	<u>18,018,477</u>
Fund Balances, July 1 restated	247,430,673	291,615,100	319,015,177	164,951,297	164,951,297
Equity transfers in (out)	--	--	--	--	--
Budgetary Fund Balance – Subtotal	<u>\$ 273,333,694</u>	<u>\$ 295,785,593</u>	<u>\$ 146,932,820</u>	\$ 83,483,714	\$ (103,844,685)
Projections through year end:					
Revenue/Transfers In Remaining				--	359,112,151
Expenditures/Transfers Out Remaining				--	(142,319,710)
Budgetary Fund Balance Projected to June 30				<u>\$ 83,483,714</u>	<u>\$ 112,947,756</u>

(1) Amounts for FY06-08 are audited.

(2) Updated for budget adjustments as of May 31, 2009.

**Table 7**  
**General Fund**  
**Schedule Of Budgetary Fund Balance to**  
**GAAP Fund Balance Reconciliation**

	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Projected July 1, 2008 to June 30, 2009 (Unaudited)
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above	\$273,333,694	\$295,785,593	\$146,932,820	\$112,947,756
Plus encumbrances outstanding	19,184,118	24,603,431	24,158,117	24,000,000
Adjustment for prior year encumbrances	(909,010)	(902,723)	(1,373,849)	(1,400,000)
Unrealized investment gain (loss)	(4,788,474)	(5,473,442)	(641,355)	(641,355)
Net differences between beginning fund balances <sup>(1)</sup>	<u>1,966,087</u>	<u>2,738,749</u>	<u>3,737,073</u>	<u>8,502,864</u>
GAAP Fund Balance as Reported	<u>\$288,786,415</u>	<u>\$316,751,608</u>	<u>\$172,812,806</u>	<u>\$143,409,265</u>
Elements of GAAP Fund Balance:				
Reservations	\$ 7,016,227	\$ 7,774,404	\$ 8,465,100	\$ 8,000,000
Designated for General Fund	155,304,163	143,723,513	56,609,030	56,693,710
Unreserved – Designated for Encumbrances	19,184,118	24,603,431	24,158,117	24,000,000
Unreserved / Undesignated	<u>107,281,907</u>	<u>140,650,260</u>	<u>83,580,559</u>	<u>54,715,555</u>
	<u>\$288,786,415</u>	<u>\$316,751,608</u>	<u>\$172,812,806</u>	<u>\$143,409,265</u>

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

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

**AUTHORIZATION OF OFFICIAL STATEMENT**

The execution of this Official Statement and its delivery have been duly authorized by the County. This Official Statement is hereby deemed final for the purposes of Rule 15c2-12 of the Securities and Exchange Commission.

/s/ Timothy L. Firestine

Timothy L. Firestine

Chief Administrative Officer

/s/ Jennifer E. Barrett

Jennifer E. Barrett

Director, Department of Finance

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**APPENDIX A**

**INFORMATION ABOUT THE COUNTY AS OF JANUARY 15, 2009**

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Appendix A - Basic Financial Statements

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## **STATISTICAL HIGHLIGHTS**

### **Debt**

General Obligation Bonds and Notes Outstanding	\$1,466,758,054
Total Assessed Value	\$146,276,982,963
Direct Debt (incl. Revenue Bonds)	\$1,821,443,054
Ratio of Direct Debt to Assessed Value	1.25%
Net Direct Debt	\$1,766,758,054
Ratio of Net Direct Debt to Assessed Value	1.21%

### **Budgets**

Approved FY09 Operating Budget	\$4.342 billion
Approved FY09 General Fund Undesignated Surplus	\$80.9 million
FY08 General Fund Unreserved Undesignated Balance	\$83.6 million
FY08 Revenue Stabilization Fund Balance	\$119.6 million
FY09-14 Capital Budget and Amendments	\$3.380 billion

### **FY08 Major Revenues**

Income Tax	\$1.291 billion
Property Tax	\$800.1 million
Transfer and Recordation Tax	\$135.0 million
Other Taxes	\$168.7 million

### **Demographics**

Population 2007 (est.)	956,000
Households 2007 (est.)	355,425
Median Age 2000	36.8 years
Employment	
Private Sector 2007	380,492
Public Sector 2007	78,854
Unemployment Rate (Jan - June 2008)	2.8%
Personal Income 2008 (est.)	\$65.4 billion
Per Capita Income 2008 (est.)	\$70,038
Average Household Income 2008 (est.)	\$186,600
MCPS K-12 Projected FY09 Enrollment	137,763
MCPS Per Pupil Operating Expenditures (FY09)	\$14,289
Montgomery College Enrollment (Fall 2007)	23,866

## **DEBT SUMMARY**

### ***Overview***

The County Government, four of its agencies, 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 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, such as long-term loans, which are classified as long-term notes payable.

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, long-term notes payable, 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 can help reveal 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 the 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 Table 1 on the following page. For additional discussion of particular elements of the County's debt, see the sections that follow.

*(The remainder of this page has been left blank intentionally.)*

**Table 1**  
**Statement of Direct and Overlapping Debt**  
**As of June 30, 2008**

Direct Debt:		
General Obligation Bonds Outstanding	\$1,366,758,054	
General Obligation Variable Rate Demand Obligations	100,000,000	
Short-Term BANs/Commercial Paper Outstanding	300,000,000	
Revenue Bonds Outstanding	<u>54,685,000</u>	
Total Direct Debt		\$1,821,443,054
Overlapping Debt:		
Gross Debt:		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	910,329,893	
Housing Opportunities Commission	786,897,454	
Montgomery County Revenue Authority	87,416,163	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	42,134,866	
Kingsview Village Center Development District	2,145,000	
West Germantown Development District	15,270,000	
Towns, Cities and Villages within Montgomery County	<u>52,321,022</u>	
Total Overlapping Debt		<u>1,896,514,398</u>
Total Direct and Overlapping Debt		3,717,957,452
Less Self-Supporting Debt:		
County Government Revenue Bonds	54,685,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	910,329,893	
Housing Opportunities Commission	786,897,454	
Montgomery County Revenue Authority	87,416,163	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	<u>5,630,044</u>	
Total Self-Supporting Debt		<u>(1,844,958,554)</u>
Net Direct and Overlapping Debt		<u>\$1,872,998,898</u>
Ratio of Debt to June 30, 2008 Assessed Valuation of (100% Assessment):		\$146,276,982,963
Direct Debt		1.25%
Net Direct Debt *		1.21%
Direct and Overlapping Debt		2.54%
Net Direct and Overlapping Debt		1.28%
Ratio of Debt to June 30, 2008 Market Value of:		\$149,181,195,934
Direct Debt		1.22%
Net Direct Debt *		1.18%
Direct and Overlapping Debt		2.49%
Net Direct and Overlapping Debt		1.26%

\*Net Direct Debt of \$1,766,758,054 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 by 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 2 below.

**Table 2**  
**Statement of Legal Debt Margin**  
**As of June 30, 2008**

June 30, 2008 Assessed Valuation – Real Property	\$142,306,435,593
Debt Limit (% of Assessed Valuation)	<u>6%</u>
Subtotal Limitation – Real Property	<u>\$ 8,538,386,130</u>
June 30, 2008 Assessed Valuation – Personal Property	\$3,970,547,370
Debt Limit (% of Assessed Valuation)	<u>15%</u>
Subtotal Limitation – Personal Property	<u>\$ 595,582,106</u>
Total Assessed Valuation – Real and Personal Property	\$146,276,982,963
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds	\$9,133,968,236
Less Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds Outstanding	\$1,366,758,054
General Obligation Variable Rate Demand Obligations	100,000,000
Short-Term BANs/Commercial Paper	<u>300,000,000</u>
Net Direct Debt	<u>1,766,758,054</u>
Legal Debt Margin	<u>\$7,367,210,182</u>
Net Direct Debt as a Percentage of Assessed Valuation	<u><u>1.21%</u></u>

## ***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 30 years.

Over the past three decades the composition of County general obligation debt has changed. As more general County bonding was shifted towards schools and roads, a related shift occurred away from general County facilities, parks, and mass transit. In addition, in recent years general obligation debt has not been issued to finance parking lot district or solid waste projects. Such projects are financed with revenue bonds or current revenues.

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 3 below.

**Table 3**  
**General Obligation Bonded Debt Ratios**  
**1999 – 2008**

<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>
1999	1.56%	9.66%	\$ 1,374	3.02%	72.33%
2000	1.64	9.17	1,472	3.11	72.06
2001	1.57	8.72	1,459	2.97	71.83
2002	1.55	8.32	1,508	3.03	71.32
2003	1.45	8.47	1,543	2.90	71.10
2004	1.45	7.98	1,608	2.88	70.94
2005	1.30	7.74	1,527	2.61	70.20
2006	1.30	7.77	1,701	2.71	69.75
2007	1.30	7.83	1,861	2.81	68.92
2008	1.18	7.95	1,848	2.70	71.39

\* Amounts restated due to restatement of population data.

\*\* Figures restated due to restatement of actual income in May 2001.

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The County's general obligation indebtedness by issue is presented in Table 4. Annual debt service payments for the County's debt is displayed in Table 5. Table 6 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2008.

**Table 4**  
**General Obligation Debt of the County**  
**As of June 30, 2008**

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Original Coupon Rates</u>	<u>TIC*</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2008</u>
GO Refunding Bonds	07/01/92	\$273,038,054	2.75-5.80%	5.7431%	1993-10	\$ 12,903,054
GO Bonds	04/01/99	120,000,000	4.00-5.00	4.4764	2000-19	12,000,000
GO Bonds	01/01/00	130,000,000	5.00-6.00	5.4853	2001-13	19,500,000
GO Bonds	02/01/01	140,000,000	4.00-5.00	4.5447	2002-21	35,000,000
GO Refunding Bonds	11/15/01	146,375,000	3.60-5.25	4.5107	2003-19	126,735,000
GO Bonds	02/01/02	160,000,000	3.50-5.00	4.4619	2003-22	56,000,000
GO Refunding Bonds	11/15/02	93,595,000	2.75-5.25	3.2799	2005-13	65,060,000
GO Bonds	05/01/03	155,000,000	1.50-4.00	3.6304	2004-23	116,250,000
GO Refunding Bonds	05/01/03	49,505,000	2.00-5.00	2.2900	2004-11	23,790,000
GO Bonds	03/15/04	154,600,000	3.00-5.00	3.8290	2005-24	123,680,000
GO Refunding Bonds	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	97,690,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	170,000,000
GO Refunding Bonds	06/01/05	120,355,000	5.00	3.7817	2011-21	120,355,000
GO Bonds	05/01/06	100,000,000	4.25-5.00	3.8711	2007-16	80,000,000
GO VRDO**	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	237,500,000
GO Refunding Bonds	03/12/08	70,295,000	2.75-5.00	2.8965	2009-15	<u>70,295,000</u>
Total						<u>\$1,466,758,054</u>

\* True Interest Cost

\*\* Variable Rate Demand Obligations

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**Table 5**  
**Summary of General Obligation**  
**Debt Service Requirements by Fiscal Year**  
**As of June 30, 2008**

Fiscal Year	General Obligation Bonds and Notes		
	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2009	\$ 120,196,683	\$ 75,426,691	\$ 195,623,374
2010	120,787,086	66,630,352	187,417,438
2011	117,639,285	55,835,102	173,474,387
2012	112,930,000	47,377,656	160,307,656
2013	109,830,000	42,045,175	151,875,175
2014	103,715,000	36,557,006	140,272,006
2015	98,720,000	31,560,013	130,280,013
2016	93,925,000	26,480,169	120,405,169
2017	87,720,000	22,159,738	109,879,738
2018	81,705,000	18,706,512	100,411,512
2019	75,755,000	15,542,600	91,297,600
2020	69,580,000	12,647,225	82,227,225
2021	62,865,000	9,943,863	72,808,863
2022	55,680,000	7,596,387	63,276,387
2023	47,980,000	5,601,713	53,581,713
2024	40,230,000	3,838,187	44,068,187
2025	32,500,000	2,375,000	34,875,000
2026	22,500,000	1,250,000	23,750,000
2027	<u>12,500,000</u>	<u>625,000</u>	<u>13,125,000</u>
Total	<u>\$1,466,758,054</u>	<u>\$482,198,389</u>	<u>\$1,948,956,443</u>

\* Excludes monthly variable interest for general obligation notes issued on June 7, 2006.

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**Table 6**  
**General Obligation Bonds Authorized – Unissued**  
**As of June 30, 2008**

<u>Purpose</u>	<u>Chapter</u>	<u>Act</u>	<u>Amount</u>	<u>Amount Unissued</u>
General County, Parks, and Consolidated Fire Tax District	17	2003	\$ 63,600,000	\$ 32,590,000
	18	2004	31,200,000	31,200,000
	19	2005	44,100,000	44,100,000
	43	2006	92,000,000	92,000,000
	12	2007	<u>51,300,000</u>	<u>51,300,000</u>
			<u>282,200,000</u>	<u>251,190,000</u>
Road & Storm Drainage	18	2004	97,500,000	39,440,000
	19	2005	53,500,000	53,500,000
	43	2006	66,700,000	66,700,000
	12	2007	<u>45,800,000</u>	<u>45,800,000</u>
			<u>263,500,000</u>	<u>205,440,000</u>
Public Schools and Community College	19	2005	131,100,000	71,268,000
	43	2006	157,100,000	157,100,000
	12	2007	<u>118,900,000</u>	<u>118,900,000</u>
			<u>407,100,000</u>	<u>347,268,000</u>
Mass Transit	17	2001	6,700,000	5,205,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
	12	2007	<u>2,400,000</u>	<u>2,400,000</u>
			<u>11,600,000</u>	<u>10,105,000</u>
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	<u>855,000</u>	<u>855,000</u>
			<u>5,630,000</u>	<u>5,570,000</u>
Parking Districts: Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	<u>1,220,000</u>	<u>1,220,000</u>
			<u>4,165,000</u>	<u>3,265,000</u>
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	<u>1,050,000</u>	<u>1,050,000</u>
			<u>9,150,000</u>	<u>4,865,000</u>
Total Parking Districts			<u>13,315,000</u>	<u>8,130,000</u>
Total General Obligation Bonds			<u>\$983,345,000</u>	<u>\$827,703,000</u>

In addition to the above noted authority, the County has authority under the provisions of section 56-13 of the Montgomery County Code 1994, 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 12 years, and planned for substitution over the six years beginning FY09, are displayed below.

**Table 7**  
**PAYGO Substitutions**  
**(Actual FY97-08, Budgeted FY09-14)**

<u>Fiscal Year</u>	<u>PAYGO Amount</u>	<u>Fiscal Year</u>	<u>PAYGO Amount</u>
1997	\$ 3,925,000	2006	\$ 11,737,000
1998	13,000,000	2007	27,500,000
1999	13,400,000	2008	27,500,000
2000	24,600,000	2009	5,406,000
2001	40,705,000	2010	30,000,000
2002	40,155,000	2011	30,000,000
2003	17,374,000	2012	30,000,000
2004	6,240,000	2013	30,000,000
2005	7,275,000	2014	30,000,000

### 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, under a note program that matures on June 30, 2022. 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, 2007 through June 30, 2008 are presented in Table 8 below.

**Table 8**  
**Bond Anticipation Notes Outstanding**  
**As of June 30, 2008**

<u>Issue</u>	<u>Balance</u> <u>July 1, 2007</u>	<u>BANs Issued</u>	<u>BANs Retired</u>	<u>Balance</u> <u>June 30, 2008</u>
BAN Series 2002-K	\$150,000,000	\$ --	\$ --	\$150,000,000
BAN Series 2002-L	--	150,000,000	--	150,000,000
Total	<u>\$150,000,000</u>	<u>\$150,000,000</u>	<u>\$ --</u>	<u>\$300,000,000</u>

## Revenue Bonds

County revenue bonds are authorized by the County to finance specific projects such as parking garages and solid waste facilities, with debt service to be 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.

County revenue bonds are used in the Bethesda and Silver Spring Parking Districts, supported by parking fees and fines, together with parking district property taxes. County revenue bonds were also issued for County Solid Waste Management facilities, supported with the revenues of the Solid Waste Disposal System. County revenue bond indebtedness by issue is presented in Table 9. Annual debt service payments for the County's revenue bond debt are displayed in Table 10. Table 11 sets forth the amount of revenue bonds authorized to be issued by the County as of June 30, 2008.

**Table 9**  
**Revenue Bond Debt of the County**  
**As of June 30, 2008**

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Original Coupon Rates</u>	<u>TIC*</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2008</u>
Parking Refunding Revenue Bonds (Bethesda PLD)	05/01/02	\$ 14,560,000	3.00%-5.00%	3.1941%	2003-09	\$ 1,575,000
Parking Refunding Revenue Bonds (Silver Spring PLD)	05/01/02	12,130,000	3.00%-5.00%	3.1398%	2003-09	825,000
Parking Revenue Bonds (Bethesda PLD)	06/01/02	26,000,000	3.00%-4.75%	4.4231%	2003-21	19,770,000
Solid Waste Refunding Revenue Bonds	04/03/03	31,075,000	3.00%-5.00%	3.5982%	2004-13	16,600,000
Parking Revenue Bonds (Bethesda PLD)	08/01/05	16,495,000	3.625%-5.00%	4.0471%	2007-25	<u>15,915,000</u>
Total						<u>\$ 54,685,000</u>

\* True Interest Cost.

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**Table 10**  
**Summary of Revenue Bond Debt Service Requirements by Fiscal Year**  
**As of June 30, 2008**

<u>Fiscal Year</u>	<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 7,420,000	\$ 2,349,273	\$ 9,769,273
2010	5,260,000	2,018,335	7,278,335
2011	5,465,000	1,815,985	7,280,985
2012	5,685,000	1,596,885	7,281,885
2013	4,770,000	1,328,260	6,098,260
2014	2,180,000	1,105,025	3,285,025
2015	2,275,000	1,013,663	3,288,663
2016	2,375,000	918,003	3,293,003
2017	2,485,000	818,654	3,303,654
2018	2,595,000	711,541	3,306,541
2019	2,720,000	596,651	3,316,651
2020	2,845,000	474,551	3,319,551
2021	2,980,000	345,776	3,325,776
2022	1,035,000	210,889	1,245,889
2023	1,080,000	168,049	1,248,049
2024	1,125,000	122,706	1,247,706
2025	1,170,000	75,371	1,245,371
2026	<u>1,220,000</u>	<u>25,620</u>	<u>1,245,620</u>
Total	<u>\$ 54,685,000</u>	<u>\$ 15,695,237</u>	<u>\$ 70,380,237</u>

**Table 11**  
**Revenue Bonds Authorized – Unissued**  
**As of June 30, 2008**

<u>Purpose</u>	<u>Resolution No.</u>	<u>Year</u>	<u>Amount</u>	<u>Amount Unissued</u>
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 42,088,000
	14-921	2001	35,000,000	9,000,000
	15-931	2005	<u>18,000,000</u>	<u>1,505,000</u>
			<u>104,163,000</u>	<u>52,593,000</u>
Solid Waste Disposal	12-1010	1993	<u>56,935,000</u>	<u>6,255,000</u>
Total Revenue Bonds			<u>\$161,098,000</u>	<u>\$ 58,848,000</u>

### ***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 4-101 of Article 29 of the Annotated Code of Maryland (2003 Replacement Volume and 2006 Cumulative Supplement), the County must guarantee payment of principal and interest on WSSC bonds, unless the WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to each outstanding bond issue.

### **Housing Opportunities Commission**

The Montgomery County Housing Opportunities Commission (HOC) issues revenue bonds for its Multi-Family Mortgage Purchase Program and its Single-Family Mortgage Purchase Program which are paid through mortgages and rents. A portion of this revenue bond debt is guaranteed by Montgomery County pursuant to Section 2-103 of Article 44A of the Annotated Code of Maryland. The County may by local law provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County 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 Airport. The County also uses MCRA as a conduit for alternative capital project funding arrangements. These include financing for several County aquatic facilities and the Montgomery County Conference Center. For these projects, the MCRA issues the bonds and the debt service is paid through revenues from long-term lease agreements with the County. See "County Facility Lease Obligations" below.

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

The Maryland-National Capital Park and Planning Commission (M-NCPPC) issues general obligation debt for the acquisition and development of local parks and certain special parks and advance land acquisition, with debt limited to that supportable within mandatory tax rates. The Commission also issues revenue bonds funded by its enterprise operations. Pursuant to Section 6-101 of Article 28 of the Annotated Code of Maryland (1997 Replacement Volume and 2000 Supplement), the County must guarantee payment of principal and interest on the debt of M-NCPPC that is not self-supporting.

### **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.

### **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. Bonds have not yet been issued for the Clarksburg Town Center development district.

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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 \$13,571,000 for FY08. Long-term leases with the Maryland Economic Development Corporation (MEDCO) and the Montgomery County Revenue Authority are subject to annual appropriations, but are related to the debt service on bonds that MEDCO and the Revenue Authority issued on the County's behalf.

Following is a listing of significant lease agreements for FY09:

<u>Payee</u>	<u>Location</u>	<u>Use</u>	<u>Total Rent For FY09</u>
Eldridge, Inc.	255 Rockville Pike, Rockville	Various Agencies	\$4,713,651
Maryland Economic Development Corp.	921 Wayne Avenue, Silver Spring	Parking Garage	3,101,381
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	2,662,970
Maryland Economic Development Corp.	801 Ellsworth Drive, Silver Spring	Parking Garage	2,498,248
F.S. Peoples Realty Co.	14935 Southlawn Lane, Rockville	Fire & Rescue/Liquor Control	2,138,030
Montgomery County Revenue Authority	5701 Marinelli Drive, Rockville	Conference Center	1,898,791
FP Gude LLC	7300 Calhoun Drive, Derwood	Juvenile Assessment Center	1,386,723
Argo Orchard Ridge, LC	101 Orchard Ridge Dr., Gaithersburg	DGS/Homeland Security	1,268,227
Alexandria Real Estate	1300 Quince Orchard Blvd., Gaithersburg	Emergency Communications Center	1,051,838
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public Facilities/Family Justice Center	1,032,477
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	876,233
Felland Limited Partnership	4901-43 Nicholson Ct., Kensington	DOT/Transit Services	833,144
Investment Properties, Inc.	701-C Dover Road, Rockville	Fire & Rescue Warehouse	701,126
1335 Piccard LLC, c/o Wellstone Corp.	1335 Piccard Drive, Rockville	Health Center	653,454
Tri Peaks Investors, LLC	18749 Frederick Road, Gaithersburg	Police/Board of Elections	636,344
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	632,700
The Gudelsky Comp.	8630 Fenton Street, Silver Spring	Health Center	547,665
Williamson, Harry E. and Helga R.	12500 Ardennes Avenue, Rockville	Corrections	488,201
Rockville Metro Plaza I, LLP	111 Rockville Pike, Rockville	Economic Development	474,387
401 North Washington, LLC	401 N. Washington Street, Rockville	Commission for Women	470,386
McShea Gaither Road Ltd. Partnership	9121-25 Gaither Road, Rockville	Police/S.O.D.	439,316
Halcyon Associates	8641-63 Grovemont Circle, Gaithersburg	Police/Fire & Rescue	398,003
IGPF Shady Grove LLC	9210 Corporate Boulevard, Rockville	Police/S.I.D.	326,023
Halcyon Associates	8300-8434 Helgerman Court, Gaithersburg	Police	317,244
Betty B. Casey Trust	8516-40 Anniversary Circle, Rockville	Records Center/Warehouse	312,758



## ***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 \$37,880,000 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 \$4,745,000 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.

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 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 for such fiscal year by the Montgomery County Council of funds from which such payment can be made. The obligation of the County under the agreement does not constitute a pledge of the full faith and credit or of the taxing powers of the County.

### **Certificates of Participation – Equipment Acquisition Program**

The County entered into a conditional purchase agreement dated October 1, 2007 with U.S. Bank National Association for the purpose of borrowing \$33,580,000 to acquire equipment for use in the County’s fire and rescue program. The County’s obligation to make purchase installments under the agreement 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 moneys to make such purchase installments, the County is required to return the equipment to the seller without any additional financial liability. The obligation of the County under the agreement does not constitute a pledge of the full faith and credit or of the taxing powers of the County. The certificates of participation mature on October 1, 2017.

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## **GENERAL FINANCIAL INFORMATION**

### ***Accounting System***

The 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 its assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Montgomery 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) more times than any other county in the nation. Since 1951, the County received the award 38 times and in 36 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 FY08 CAFR continues to meet the Certificate of Achievement Programs 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 Community 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, 2008).

### ***Basis of Accounting***

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 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.

## **ANNUAL BUDGETS**

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

On May 22, 2008 the County Council approved the FY09 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating \$4.342 billion. This budgetary level represents an increase of 4.3 percent over the adopted budget for FY08.

The FY09 operating budget provides the greatest share (51.1 percent) of total tax supported resources to Montgomery County Public Schools, including funding necessary to maintain progress in closing the achievement gap by reducing class size, increasing special education staffing, and other initiatives. Funds for Montgomery College are included for an increase greater than enrollment growth. In addition, affordable housing, public safety and criminal justice, health and human services, public works, and transit are funded for important improvements in FY09, as well as compensation improvements.

The approved FY09 budget provided for an undesignated surplus of \$80.9 million in the General Fund and \$108.4 million across all tax supported funds. For FY09, the estimated effective real property tax rate for the County remained at \$0.903 per \$100 of assessed valuation compared to the actual effective real property tax rate of \$0.903 per \$100 of assessed valuation in FY08.

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

The County Council approved the FY09 Capital Budget and FY09-14 Capital Improvements Program for the County government and the required agencies, except for WSSC, aggregating \$3.380 billion for FY09-14. This approved program provided for County bond funding aggregating \$1.616 billion over the FY09-14 approved six-year period. The Council approved a Capital Improvements Program for WSSC totaling \$863.9 million for FY09-14.

### ***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, a six-year Public Services Program (PSP), and Fiscal Policy.

The Capital Improvements Program includes a statement of the objectives of capital programs and the relationships 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<sup>th</sup> 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 any 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 FY09 Capital Budget and the approved FY09-14 CIP is \$13.8 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.

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

### ***Status of the General Fund***

Montgomery County concluded the fiscal year ending June 30, 2008, with an unreserved undesignated balance for the General Fund of \$83.6 million. The County's governmental funds reported combined ending fund balances of \$582.6 million, a decrease of \$207.3 million over the prior year's ending fund balances. The Revenue Stabilization Fund (RSF), including related investment income, was \$119.6 million at the close of FY07. Following the mandatory contribution requirement, half of actual General Fund receipts from the (i) income tax, (ii) transfer tax, (iii) recordation tax, and (iv) investment income above the budget estimate must be transferred to the RSF. Since actual revenues fell below estimated revenues in FY08, there was no mandatory contribution made to the RSF. Therefore, the amount in the fund remained \$119.6 million at the end of FY08.

### ***General Fund Revenues***

Actual revenues for the General Fund totaled \$2,585.7 million and were 2.3 percent below the budget estimate for the fiscal year and 0.5 percent below actual revenues for FY07. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the transfer tax (\$40.4 million below the budget estimate), followed by the recordation tax (\$17.8 million below the budget), and finally, the fuel and energy tax (\$1.7 million below the estimate). Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were \$168.7 million in FY08. That amount was \$2.3 million or 1.4 percent below the budget estimate. Investment income was approximately \$6.1 million below the budget estimate while charges for services came in 2.6 percent below budget estimate. Licenses and permits came in 6.5 percent above budget estimates.

Intergovernmental revenues were 1.6 percent below the budget estimate. Such a decrease was attributed to Federal reimbursements which came in 4.4 percent below the budget estimate, and State reimbursements which were 1.1 percent below the budget estimate. Other intergovernmental revenues, which represent only 0.1 percent of total intergovernmental revenues, came in 2.8 percent above the budget estimate.

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

### **Income Tax**

The largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$1,291.3 million and represented 54 percent of actual tax revenues and 49.9 percent of total actual revenues in FY08. Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expansion of the employment base in the County, and growth in capital gains. With a Standard & Poor's 500 index increasing 13.6 percent in calendar year (CY) 2007, 3 percent in CY06, 9 percent in CY05, and 26.4 percent in 2004, and an average annual growth rate of 1.2 percent in the County's resident employment during the CY03-CY06 period, income tax revenues increased 10.4 percent in FY04, 8.2 percent in FY05, 11 percent in FY06, and 21.1 percent in FY07. However, with no growth in resident employment in CY07, income taxes increased only 2.1 percent in FY08. Total quarterly distributions for withholding and estimated payments increased 4.9 percent in FY08, 20.5 percent in FY07, 5.6 percent in FY06, 6.1 percent in FY05, and 15.1 percent in FY04.

### **Property Tax**

Property tax collections in the General Fund amounted to \$796.8 million in FY08, which were \$1.2 million (0.2 percent) above the budget estimate and 0.7 percent above actual revenues in FY07. Actual property taxes, excluding penalties and interest and other items, were \$794.9 million in FY08, an increase of 1.3 percent over last year. Collections from penalties and interest were \$1.8 million, a 71.4 percent decrease compared to FY07. The reason for the modest increase in property tax revenues compared to the budget estimate is attributed to a slightly better increase in personal property taxable assessments which offset the decline in the amount for penalties and interest. The modest increase in property tax collections for the General Fund was also attributed to actions by the County to limit the amount of increase in real property taxes to the rate of inflation as required by the Charter Limit. Such actions by the County included an income tax offset of \$613 per owner-occupied residence yielding a total amount of \$151.1 million for the credit, and the County supplemental Homeowner's Tax Credit Program, both of which were applied to (deducted from) the General Fund.

The taxable assessments for real property increased 13.2 percent from FY07 to FY08. This was the second largest increase in over 18 years. New construction, which added \$1.5 billion to the base in FY08, was 7.6 percent lower than in FY07. The real estate market, particularly the annual double-digit price increases during prior fiscal years (FY02-FY06), fueled the increase in the reassessment rate from 21.8 percent to 65 percent for Cycle Two reassessments of the County's real property with the three-year phase in starting in levy year (LY) 2005, which preceded an increase in the rate from 36.3 percent to 63.3 percent for Cycle Three reassessments in LY06. However, the reassessment rate declined from 51.8 percent to 36.3 percent for Cycle One in LY07, indicating a significant deceleration in the growth of average sales prices during FY07 (up 2 percent) and FY08 (up 0.4 percent). However, because of the homestead credit, annual increases in homeowners' taxable assessments are limited to 10 percent per year although other property such as commercial and investment residential properties are not affected by this credit. While there were dramatic increases in the reassessment rates, which added nearly \$21.6 billion to the assessable base in FY08, such increases were potentially offset by the homestead tax credit, which excluded an additional \$6.5 billion from the real property taxable base in FY08.

Assessments of personal property increased 2.8 percent in FY99, 3.2 percent in FY00, 5.1 percent in FY01, 3 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed

to adjustments to individual personal property undertaken by the Maryland Department of Assessments and Taxation. However, because of the rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. For the past four fiscal years (FY05-FY08), taxable assessments for personal property averaged \$3.913 billion, ranging from a low of \$3.832 billion in FY06 to a high of \$3.971 billion in FY08. Despite the weaker trend in personal property since FY04, the total taxable assessment grew 9.6 percent in FY05, 11.9 percent in FY06, 13.4 percent in FY07, and 12.8 percent in FY08.

### **Transfer and Recordation Taxes**

The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY08 were \$135 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions), 30.1 percent below the budget estimate and 24.8 percent below actual revenues in FY07. The FY08 decline in collections from transfer and recordation taxes was the second consecutive decrease, thus resulting in a decline of \$106.7 million over the two-year period. The drop in housing sales (31.3 percent decrease) during FY08 was the major factor in the decline. The total amount collected from these taxes increased from \$93.0 million in FY99 to a peak of \$241.7 million in FY06, before declining to \$135 million in FY08, the lowest amount since the increase in the recordation tax rate beginning in FY03 from \$4.40 per \$1,000 to \$6.90 per \$1,000 of the value of the contract, excluding the first \$50,000 exempted from taxation for residential properties.

General Fund revenues from the transfer tax experienced a decline of 24.8 percent in FY08, the same decline shown by the recordation tax. Because of the decrease attributed to a dramatic reduction in home sales in FY08 (down 31.3 percent), revenues from the residential sector were \$68.5 million, 26 percent less than in FY07 – the second consecutive decrease since FY95. The number of residential transfers declined to approximately 13,100 (a 28.9 percent decrease) – the lowest level in over eighteen years and reflecting the dramatic drop in housing sales.

The commercial market performed better in FY08 than the residential sector, with revenues increasing 1.8 percent from \$9.9 million to \$10.1 million. The number of transfers were the same (240) as FY07 – the lowest level of activity since FY04 (222).

### **Other Taxes**

The remaining tax sources, consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes, totaled \$168.7 million and were approximately \$2.3 million, or 1.4 percent, below the budget estimate. Revenues from the telephone tax were 0.8 percent above the budget estimate. That modest increase was attributed to increases in the use of cellular telephones, which represented nearly 70 percent of total revenues, and offset the decline in landlines. The remaining consumption/excise taxes were below budget estimates. Revenues from the hotel/motel industry of \$17.8 million in FY08 were 3.4 percent below the budget estimate. The fuel/energy tax was 1.4 percent below the budget estimate, which was attributed to a mild winter and therefore a decline in revenues from fuel oil (down 13.2 percent) and no change in revenues from natural gas. The dramatic decrease in the admissions tax (11.6 percent below the budget estimate) was attributed to the decline in tax receipts from three sources which represent 82 percent of total revenues – movie theaters (0.3 percent below budget), arcades (0.2 percent below), and golf activities (17.4 percent below).

### **Investment Income**

In the General Fund, investment income decreased from \$13.2 million in FY07 to \$8.9 million and was 40.6 percent below the budget estimate. The dramatic decrease in FY08 was the result of a significant accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to April 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to 2 percent. The justification for such a decrease was the significant global credit crisis that began in August 2007. Because of this 325 basis point decrease over the seven-month period, short-term or money market rates decreased as well, hence the average yield on cash equity for the County decreased from 5.21 percent in FY07 to 4.41 percent in FY08. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$42.8 million or 11.4 percent below last fiscal year.

However, with the decrease in investment income coupled with a lesser rate of increase in spending, the average daily portfolio balance increased from \$930.9 million in FY07 to \$971.4 million in FY08.

### ***General Fund Appropriations and Transfers***

Expenditure savings in FY08 amounted to \$16 million. Savings occurred predominantly in departmental expenditures (\$14.5 million) compared to non-departmental expenditures (\$1.5 million). Even though all departmental and most non-departmental units recognized some savings this year, the majority of the savings occurred in lower than projected operating costs for the Health and Human Services (\$9.2 million), and Libraries (\$0.6 million).

County law requires that half of General Fund receipts from the income tax, transfer and recordation taxes, and investment income above the budget estimate must be transferred to the Revenue Stabilization Fund. Because of lower than expected receipts, there were no mandatory contributions to the Revenue Stabilization Fund in FY08.

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**Table 12**  
**Montgomery County, Maryland**  
**Schedule of General Fund Revenues, Expenditures, & Transfers In (Out)**  
**(Budgetary, Non-GAAP Basis)**

	Fiscal Year Actual(1)				Fiscal Year Budget
	2005	2006	2007	2008	2009
Revenues:					
Taxes:					
Property, including interest & penalty	\$ 792,149,705	\$ 782,131,830	\$ 791,299,455	\$ 796,770,740	\$ 965,098,723
Transfer tax and recordation tax	260,955,053	241,718,411	179,575,410	135,038,965	148,984,500
County income tax	940,858,931	1,044,561,989	1,265,377,139	1,291,339,613	1,325,440,000
Other taxes	<u>162,073,381</u>	<u>164,792,549</u>	<u>168,113,476</u>	<u>168,735,248</u>	<u>185,780,000</u>
Total Taxes	2,156,037,070	2,233,204,779	2,404,365,480	2,391,884,566	2,625,303,223
Licenses and permits	9,476,136	10,335,016	10,496,148	9,279,207	9,105,400
Intergovernmental revenue	118,353,371	137,164,714	138,069,464	132,669,827	100,981,438
Charges for services	15,600,267	12,814,029	11,979,461	12,220,040	14,157,340
Fines and forfeitures	7,726,337	9,381,741	10,216,457	20,335,482	25,560,760
Investment income	3,722,932	8,675,618	13,236,271	8,880,917	4,426,030
Miscellaneous	<u>9,603,137</u>	<u>11,024,284</u>	<u>10,125,190</u>	<u>10,418,813</u>	<u>11,098,690</u>
Total Revenues	<u>2,320,519,250</u>	<u>2,422,600,181</u>	<u>2,598,488,471</u>	<u>2,585,688,852</u>	<u>2,790,632,881</u>
Expenditures (including encumbrances):					
General County:					
General government	179,009,067	196,495,344	223,391,051	241,768,119	255,336,835
Public safety	251,608,042	281,263,093	313,532,989	343,516,856	363,433,415
Transportation and public works	44,628,602	47,335,525	58,265,269	56,432,172	53,480,186
Health and human services	173,813,810	197,337,883	208,632,008	232,979,224	218,022,516
Culture and recreation	44,333,319	46,412,919	53,032,039	55,872,703	56,305,727
Housing and community development	6,889,713	7,343,508	5,284,806	5,606,887	6,008,023
Environment	<u>3,280,633</u>	<u>3,574,260</u>	<u>3,795,318</u>	<u>4,473,884</u>	<u>6,087,511</u>
Total Expenditures	<u>703,563,186</u>	<u>779,762,532</u>	<u>865,933,480</u>	<u>940,649,845</u>	<u>958,674,213</u>
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	12,538,500	12,448,820	13,915,724	15,470,240	17,164,980
Enterprise Funds	27,102,810	25,534,770	27,585,780	27,734,670	38,503,220
Component Units	<u>1,010,826</u>	<u>601,158</u>	<u>606,183</u>	<u>598,645</u>	<u>328,420</u>
Total Transfers In	<u>40,652,136</u>	<u>38,584,748</u>	<u>42,107,687</u>	<u>43,803,555</u>	<u>55,996,620</u>
Transfers Out:					
Special Revenue Funds	(23,733,932)	(18,657,868)	(27,614,179)	(26,366,223)	(13,004,212)
Debt Service Fund	(186,529,027)	(195,435,109)	(203,384,307)	(215,900,200)	(226,016,610)
Capital Projects Fund	(19,027,068)	(49,879,689)	(36,435,691)	(43,259,243)	(56,841,563)
Enterprise Funds	(2,700,331)	(2,702,365)	(4,270,955)	(3,121,110)	(2,981,300)
Internal Service Funds	(605,796)	(1,053,172)	(1,171,249)	(1,551,516)	(1,332,650)
Component Units	<u>(1,350,046,288)</u>	<u>(1,387,791,173)</u>	<u>(1,497,615,804)</u>	<u>(1,570,726,627)</u>	<u>(1,652,002,396)</u>
Total Transfers Out	<u>(1,582,642,442)</u>	<u>(1,655,519,376)</u>	<u>(1,770,492,185)</u>	<u>(1,860,924,919)</u>	<u>(1,952,178,731)</u>
Net Transfers In (Out)	<u>(1,541,990,306)</u>	<u>(1,616,934,628)</u>	<u>(1,728,384,498)</u>	<u>(1,817,121,364)</u>	<u>(1,896,182,111)</u>
Excess of revenues and operating transfers in over (under) expenditures, encumbrances and operating transfers out	<u>74,965,758</u>	<u>25,903,021</u>	<u>4,170,493</u>	<u>(172,082,357)</u>	<u>(64,223,443)</u>
Fund Balances, July 1 as previously stated	146,804,572	234,440,615	273,333,694	295,785,593	146,932,820
Adjustment for previous year encumbrances(2)	<u>12,670,285</u>	<u>12,990,058</u>	<u>18,281,406</u>	<u>23,229,584</u>	<u>--</u>
Fund Balances, July 1 restated	159,474,857	247,430,673	291,615,100	319,015,177	146,932,820
Equity transfers in (out)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Budgetary Fund Balance, June 30	<u>\$ 234,440,615</u>	<u>\$ 273,333,694</u>	<u>\$ 295,785,593</u>	<u>\$ 146,932,820</u>	<u>\$ 82,709,377</u>

(1) Audited amounts.

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

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



**Table 13**  
**General Fund**  
**Schedule of Budgetary Fund Balance to**  
**GAAP Fund Balance Reconciliation**

	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above	\$234,440,615	\$273,333,694	\$295,785,593	\$146,932,820
Plus encumbrances outstanding	13,899,185	19,184,118	24,603,431	24,158,117
Adjustment for prior year encumbrances	(1,170,407)	(909,010)	(902,723)	(1,373,849)
Unrealized investment gain (loss)	(2,338,309)	(4,788,474)	(5,473,442)	(641,355)
Net differences between beginning fund balances	<u>1,718,083</u>	<u>1,966,087</u>	<u>2,738,749</u>	<u>3,737,073</u>
GAAP Fund Balance as Reported	<u>\$246,549,167</u>	<u>\$288,786,415</u>	<u>\$316,751,608</u>	<u>\$172,812,806</u>
Elements of GAAP Fund Balance:				
Reservations	\$ 5,971,759	\$ 7,016,227	\$ 7,774,404	\$ 8,465,100
Designated for CIP Transfers	--	--	--	--
Designated for General Fund	99,507,092	155,304,163	143,723,513	56,609,030
Unreserved - Designated for Encumbrances	13,899,185	19,184,118	24,603,431	24,158,117
Designated for subsequent years expenditures	--	--	--	--
Unreserved / Undesignated	<u>127,171,131</u>	<u>107,281,907</u>	<u>140,650,260</u>	<u>83,580,559</u>
	<u>\$246,549,167</u>	<u>\$288,786,415</u>	<u>\$316,751,608</u>	<u>\$172,812,806</u>

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

### ***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, the County established a Revenue Stabilization Fund effective July 1, 1994.

The Revenue Stabilization Fund (the “Fund”) supplements the reserve or operating margin the County annually sets aside. The County’s Charter, Section 310, sets a five percent annual limit on General Fund surplus. The State law authorizing counties to set up rainy day funds expressly prevails over any contrary County charter provision. Revenues in the Fund are allowed to go as high as 10 percent of the aggregate revenue from certain sources in the preceding three fiscal years. The Revenue Stabilization Fund provides a mechanism to level out the revenue stream and adjusts for year-to-year fluctuations beyond a certain baseline level. County law requires that 50 percent of the growth above the average of the six preceding fiscal years in certain taxes (income, property transfer, recordation, but not the property tax) and General Fund investment income be set aside in a restricted fund. Also, 50 percent of the annual revenue from these sources in excess of the Council’s original projection in the budget resolution goes to the Fund.

The Council, acting on the Executive’s recommendation, may release up to half the balance in the Fund only if certain recessionary economic conditions occur. Two of the following three conditions must be met: 1) the Director of Finance estimates that total General Fund revenues will fall more than 2 percent below the original projected revenues; 2) resident employment in the County has declined for six consecutive months compared to the same period in the previous year; and 3) a local index of leading economic indicators has declined for three consecutive months. Amounts released from the Fund can only be used for appropriations that have become unfunded.

As the result of lower than estimated transfer and recordation tax revenues and investment income, there were no mandatory contributions to the Revenue Stabilization Fund at the end of FY08. There was a mandatory transfer of \$11.9 million made to the Fund at the end of FY07, a mandatory contribution of \$6.6 million made to the Fund at the end of FY06, \$5.2 million made to the Fund at the end of FY05, and \$8.8 million at the end of FY04, but there was no

mandatory contribution in FY03. Prior to FY03, mandatory transfers were made in FY97 (\$18.7 million), FY98 (\$21.4 million), FY99 (\$5.5 million), FY00 (\$8.4 million), FY01 (\$8.9 million), and FY02 (\$7.7 million) as well as the discretionary transfers made in FY95 (\$10 million) and FY96 (\$4.5 million). With earned interest, the Revenue Stabilization Fund reached its maximum allowable size of \$119.6 million at the close of FY07. Since the Fund reached more than half of its maximum size, according to the County law that established the Fund, interest earned from the fund must be transferred to PAYGO. The interest transfer in FY08 was \$5.8 million.

## **DEMOGRAPHICS**

### ***Population***

The population of the County, according to the 2000 Census, was 878,683, an increase of 15.7 percent since the 1990 Census. The Maryland-National Capital Park and Planning Commission (M-NCPPC) population estimate shows 990,000 for the County by July 1, 2010.

**Table 14**  
**Households and Population**

	<u>Households</u>	<u>Population</u>	<u>Population Percent Change from Prior Census</u>
2010	351,636	990,000	12.7%
2007	355,425	956,000	8.8
2006	341,438	925,327	5.3
2005	344,038	921,016	4.8
2004	337,838	915,967	4.2
2003	336,613	911,968	3.8
2002	334,500	904,813	3.0
2001	329,000	892,818	1.6
2000 (U.S. Census)	324,565	878,683	15.7
1990 (U.S. Census)	283,400	759,600	31.2
1980 (U.S. Census)	207,195	579,053	10.8
1970 (U.S. Census)	156,674	522,809	53.3
1960 (U.S. Census)	92,433	340,928	107.4
1950 (U.S. Census)	45,264	164,401	--

Note: Data for total population for 2001 to 2006 from the Bureau of Economic Analysis, U.S. Department of Commerce. Data for 2007 and 2010 from the Maryland-National Capital Park and Planning Commission, Research and Technology Center, Round 7.1 Cooperative Estimates (July 2008). Data for households for 2001 and 2002 from *Sales and Marketing Management* issues of "Survey of Buying Power." Data for households in 2003 to 2006 from the American Community Survey, Bureau of the Census, U.S. Department of Commerce, and household data for 2007 and 2010 derived from the Demographic Forecast Model from M-NCPPC (Round 7.1).

**Table 15**  
**Median Age**

	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
Median Age	29.5	28.1	27.9	32.1	33.9	36.8

Sources: U.S. Bureau of the Census and M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center, revised May 2001.

## 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 82.8 percent of the total workforce in 2007, the latest available annual data. The following tables present the County's employment by industrial sector.

**Table 16**  
**Payroll Employment**

	<u>1990</u>	<u>2000</u>	<u>2007</u>
TOTAL PRIVATE SECTOR	307,490	365,022	380,492
PUBLIC SECTOR EMPLOYMENT:			
Federal	42,713	39,615	40,319
State	1,634	1,100	1,066
Local	<u>27,011</u>	<u>33,084</u>	<u>37,469</u>
TOTAL PUBLIC SECTOR	<u>71,358</u>	<u>73,799</u>	<u>78,854</u>
GRAND TOTAL	<u>378,848</u>	<u>438,821</u>	<u>459,346</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 17**  
**Payroll Employment Shares by Industry**

	<u>1990</u>	<u>2000</u>	<u>2007</u>
TOTAL PRIVATE SECTOR	81.2%	83.2%	82.8%
PUBLIC SECTOR EMPLOYMENT:			
Federal	11.3	9.0	8.8
State	0.4	0.3	0.2
Local	<u>7.1</u>	<u>7.5</u>	<u>8.2</u>
TOTAL PUBLIC SECTOR	<u>18.8</u>	<u>16.8</u>	<u>17.2</u>
GRAND TOTAL	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

Due to reclassification by the Bureau of Labor Statistics, U.S. Department of Commerce, of private-sector industrial categories from the U.S. Standard Industrial Classification (SIC) system to the North American Industrial

Classification System (NAICS) beginning with the 2001 employment statistics, there is no longer a historical comparison available within the private sector employment categories for years prior to 2001. The table below provides a comparison of the payroll employment data for 2006 and 2007 based on the new classification system.

**Table 18**  
**Payroll Employment**  
**(NAICS Series)\***

	<u>2006</u>	<u>2007</u>	<u>Difference</u>	<u>Percent Change</u>
TOTAL PRIVATE SECTOR	386,583	380,492	(6,091)	-1.6%
GOODS-PRODUCING	45,939	45,818	(121)	-0.3
Natural Resources and Mining	745	806	61	8.2
Construction	30,891	30,449	(442)	-1.4
Manufacturing	14,303	14,563	260	1.8
SERVICE PROVIDING	340,036	334,002	(6,034)	-1.8
Trade, Transportation, and Utilities	64,349	62,631	(1,718)	-2.7
Information	15,208	14,089	(1,119)	-7.4
Financial Activities	35,797	35,371	(426)	-1.2
Professional and Business Services	106,477	103,189	(3,288)	-3.1
Education and Health Services	58,365	58,983	618	1.1
Leisure and Hospitality	37,878	37,614	(264)	-0.7
Other Services	21,962	22,125	163	0.7
UNCLASSIFIED	608	672	64	10.5
PUBLIC SECTOR EMPLOYMENT	78,250	78,854	604	0.8
Federal Government	39,785	40,319	534	1.3
State Government	1,068	1,066	(2)	-0.2
Local Government	37,397	37,469	72	0.2
GRAND TOTAL	464,833	459,346	(5,487)	-1.2

\* North American Industrial Classification System.

During first six months of 2008, the County's unemployment rate averaged 2.8 percent. The following table presents the County's labor force, employment and unemployment for the calendar years 1997 through 2007, and annualized data based on the first six months of 2008.

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**Table 19**  
**Montgomery County's Resident Labor Force**  
**Employment & Unemployment\***

	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
2008**	514,100	499,818	14,282	2.8%
2007	512,310	498,279	14,031	2.7
2006	512,434	498,078	14,356	2.8
2005	507,556	491,643	15,913	3.1
2004	498,237	482,131	16,106	3.2
2003	497,820	481,200	16,620	3.3
2002	496,101	478,782	17,319	3.5
2001	490,213	475,049	15,164	3.1
2000	489,050	476,197	12,853	2.6
1999	478,946	470,018	8,928	1.9
1998	472,944	462,620	10,324	2.2
1997	466,600	455,285	11,315	2.4

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

\* Data for 2005 through 2007 were revised by DLLR and BLS to incorporate intercensal population controls for 2000.

\*\* Based on the rate of change in the averages of the first six months of 2007 and 2008.

### ***Federal Government Employment***

The County is home to 23 Federal agencies in which nearly 69,000 civilians are employed, including a significant number of non-Federal employees working as consultants or researchers. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation's centers of medical research. The following is a partial list of Federal agencies in the County and their estimated employment in 2008.

Department of Health and Human Services	39,979
National Institutes of Health	
Food and Drug Administration	
Other	
Department of Defense	14,709
Naval Medical Command	
National Geospatial Intelligence Agency	
Walter Reed Army Medical Center/Institute of Research	
Naval Surface Warfare Center	
Army Laboratory Center	
Other	
Department of Commerce	8,749
National Oceanic & Atmospheric Administration	
National Institute of Standards & Technology	
Nuclear Regulatory Commission	2,972
Department of Energy	2,070
Consumer Product Safety Commission	338

Source: M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center (2008 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.

<b><u>Name of Firm</u></b>	<b><u>Est. No. of Employees</u></b>
Adventist Healthcare*	8,090
Lockheed Martin	7,518
Giant Food Corporation	3,816
Marriott International, Inc. (Headquarters)	3,000
International Business Machines (IBM)	2,750
Holy Cross Hospital	2,533
MedImmune/Astra Zeneca	2,500
Clark Enterprises	2,450
Government Employees Insurance Company (GEICO)	2,243
BAE Systems	2,106
Discovery Communications, Inc.	2,100
Chevy Chase Bank (Headquarters)	1,600
General Conference Corporation	1,550
Suburban Hospital	1,550
Hughes Network Systems	1,500
Westat, Inc.	1,500
Montgomery General Hospital	1,275
JDA Software Group, Inc.	1,150
Kaiser Foundation Health Plan	1,067
Hebrew Home of Greater Washington	1,000
Ritz-Carlton Hotel Co. LLC	1,000
Sodexo	1,000

\*Includes Shady Grove and Washington Adventist Hospitals

Note: The employee numbers listed are best estimates taken during the Spring of 2008 from various sources, including first-hand research by the County's Department of Economic Development, and Dun & Bradstreet's online database.

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## ***Personal Income***

Actual personal income of County residents reached \$59 billion in calendar year 2006 and is estimated to total approximately \$62.9 billion in 2007 and \$65.4 billion in 2008. Income in 2006 experienced a growth rate of 6.1 percent, lower than the nation's growth rate of 7.1 percent, but higher than the State's rate at 5.8 percent. By contrast, growth in 2007 is estimated to increase 6.6 percent then decelerate to 4 percent in 2008, which is well below the seven-year (1999-2006) annual average growth rate of 6.1 percent. The slowdown in resident employment (0.4% increase) for the first nine months of 2008, the latest date for which data are available, compared to the same period in 2007 is the primary reason for the estimated deceleration in personal income growth.

The County, which accounts for just over 16.5 percent of the State's population, accounted for nearly 24 percent of the State's total personal income in 2006, a share that remained virtually unchanged the past ten years.

**Table 20**  
**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>
2008 (est.)	\$65,400	\$273,603	\$12,125,912	23.9%
2007 (est.)	62,900	262,072	11,631,571	24.0
2006	58,992	246,542	10,977,312	23.9
2005	55,619	232,931	10,252,849	23.9
2004	51,907	219,937	9,711,271	23.6
2003	48,534	205,737	9,150,320	23.6
2002	47,042	198,823	8,872,521	23.7
2001	45,538	191,657	8,718,165	23.8
2000	43,575	181,957	8,422,074	23.9
1999	39,050	167,075	7,796,137	23.4

Notes: Actual data from U.S. Department of Commerce, Bureau of Economic Analysis, revised May 2008 (County).  
Estimates for Montgomery County (2007-2008) by Montgomery County Department of Finance.  
Estimates for Maryland (2008) by State of Maryland, Bureau of Revenue Estimates, and the United States (2008) by the Montgomery Department of Finance based on forecasts from Economy.com and Global Insight.

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### ***Average Household and Per Capita Personal Income***

The County's total personal income reached \$59 billion in calendar year 2006, up from \$55.6 billion in 2005, and per capita income is expected to reach nearly \$70,038 in 2008, up from \$63,753 in 2006. Average household income is expected to increase from \$172,776 in 2006 to \$186,600 in 2008.

**Table 21**  
**Per Capita and Average Household Income, 2006**

<u>County</u>	<u>Per Capita Income</u>	<u>County</u>	<u>Average Household Income</u>
Marin, CA	\$86,062	Marin, CA	\$211,419
Fairfield, CT	74,281	Fairfield, CT	203,756
Westchester, NY	70,519	Westchester, NY	200,706
Morris, NJ	67,788	Somerset, NJ	193,476
Somerset, NJ	67,196	Morris, NJ	189,594
San Mateo, CA	66,839	Nassau, NY	187,746
Fairfax, VA	64,698	San Mateo, CA	186,083
Arlington, VA	63,827	Fairfax, VA	184,759
<b>Montgomery, MD</b>	<b>63,753</b>	<b>Montgomery, MD</b>	<b>172,776</b>
Nassau, NY	62,278	Bergen, NJ	164,100
Bergen, NJ	61,264	Santa Clara, CA	163,831
Montgomery, PA	58,451	Rockland, NY	163,673
Norfolk, MA	58,357	Lake, IL	161,857
Collier, FL	57,446	Howard, MD	152,400
Santa Clara, CA	55,735	Montgomery, PA	152,028
Howard, MD	55,730	Chester, PA	151,621
Middlesex, MA	55,555	Norfolk, MA	150,590
Palm Beach, FL	55,311	Arlington, VA	150,384
Chester, PA	54,772	Collier, FL	148,725
Oakland, MI	53,865	Chester, PA	136,110

Notes: A major affluent suburban county is defined as a county in either a Metropolitan Statistical Area (MSA) or a Primary Metropolitan Statistical Area (PMSA) with a population of at least 200,000 where income levels are considerably higher than in the central city and other jurisdictions in the area. These counties are primarily suburban in nature; no city or town accounts for 40 percent or more of the total population.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business", May 2008, for total personal income and per capita data; the Department of Finance used data from the U.S. Department of Commerce, Bureau of the Census, *American Community Survey* for 2006, for the number of households in each county.

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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 \$252 million to the local economy. Over \$84 million comes from the County's thriving equine industry, about \$126 million from horticulture, and \$42 million from traditional agriculture. There are more than 577 farms and 350 horticultural enterprises in the County. 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. While the total market value of Maryland agricultural products sold has fallen since the last USDA Census, Montgomery's market value increased more than that of any other county in the State, rising more than 40 percent from 1997 to 2002.

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 \$19.3 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 (70,832 acres), and has the highest percentage of land in farms preserved in the nation (94 percent).

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. These programs include:

- Montgomery County Agricultural Easement Program (AEP)
- Maryland Agricultural Land Preservation Foundation (MALPF)
- Maryland Environmental Trust (MET), and other private trust organizations
- Montgomery County Transferable Development Rights Program (TDR)
- Montgomery County Rural Legacy Program (RLP)
- Montgomery County Legacy Open Space (LOS)
- Conservation Reserve Enhancement Program (CREP)

The Department of Economic Development-Agricultural Services Division 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 Division also provides programs and technical assistance for farmers; these initiatives include Fuel-Energy Tax Relief, Deer Donation Program, Weed Control Services, Agricultural Product and Farm Logo Program, and many more.

### ***Federal Spending***

Federal spending remains an important contributor to the Washington area's economy. According to a George Mason University study, total Federal spending accounts for nearly a third of the metropolitan Washington gross regional product. The success of the region's economy is closely linked to the Federal economy, and the Federal government remains, either directly as an employer or indirectly through Federal spending, the primary source of regional economic growth.

The importance of Federal spending in the Washington metropolitan region, and in Montgomery County in particular, is exhibited in the percent of total Federal spending targeted to the Washington MSA. While total Federal spending in Federal fiscal year (FFY) 2006 amounted to \$2,455 billion nationwide, the Washington MSA

received \$119 billion, a 4.8-4.9 percent share. Montgomery County received \$16.5 billion, a 0.7 percent share of the total Federal spending and 13.9 percent of the region's share. Even though the overall share of the region compared to national spending has grown modestly by nearly 5 percent, some categories of spending growth are far more significant. For example, the region receives 13.6 percent of total Federal spending on salaries and wages, and services and goods in the private sector through the procurement process. While growth in total Federal spending is robust for all categories, by far the strongest growth is in procurement. As the table below shows, this category grew 8.7 percent annually nationwide since 1997, but 11.2 percent for the Washington MSA and 10.4 percent for the County. These data also show that Federal procurement spending in Montgomery County achieved significant gains in that period, closely tracking growth in the region as a whole. The more than \$16.5 billion in total Federal spending in Montgomery County is estimated to represent approximately 28 percent of total personal income for the County as the Federal government boosts economic activity through salaries and wages, transfer payments, and purchases of goods and services with the County's private sector industries. Federal procurement for the County reached \$7.8 billion in FFY06, an increase of 1.3 percent, which, based on available data, was the highest level for the County to date.

**Table 22**  
**Federal Procurement Trends**  
**1997 – 2006\***  
**(\$ billions)\*\***

<u>Federal Fiscal Year</u>	<u>Montgomery County</u>	<u>Washington MSA</u>	<u>U.S.</u>
2006	\$7.8	\$57.4	\$408.7
2005	7.7	54.6	381.0
2004	7.5	52.8	339.7
2003	5.7	44.2	327.4
2002	5.0	37.3	271.0
2001	3.9	32.3	246.2
2000	3.8	29.2	223.3
1999	3.4	26.2	208.1
1998	3.5	24.4	209.3
1997	3.2	22.0	193.0
Average Annual Percent Change 1997-2006	10.4%	11.2%	8.7%

\* Federal fiscal year (October 1 through September 30).

\*\* Amounts shown in current dollars (not adjusted for inflation).

Source: U.S. Bureau of the Census, Consolidated Federal Funds Report, FY 1997-2006.

### ***New Construction***

Between FY99 and FY02, the number of new construction projects increased each year at an average annual rate of 13 percent. At the same time, the value of new construction added to the real property tax base increased at an average of 9 percent per year. However, such increases in new construction were not sustained from FY02 to FY08. In fact, two entirely different patterns occurred. The number of projects declined steadily at an annual average rate of 24.1 percent. Conversely, the value of new construction between FY02 and FY05 increased from \$1.5 billion in FY02 to nearly \$1.7 billion in FY05, an annual average increase of 3.4 percent. Since that time, the value of new construction declined from \$1.7 billion in FY05 to slightly less than \$1.5 billion in FY08, an average annual decrease of 3.8 percent. While each category within the tax base exhibited volatility from year to year, such volatility did not affect the growth in new construction between FY99-FY05. However, because of the decline in the construction of apartments in FY06 and FY07 and commercial/industrial properties in FY06, FY07, and FY08, the combined total non-inflation adjusted value of all new construction during those fiscal years were at their lowest levels since FY02.

**Table 23**  
**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>
2008	923	\$ 882.7	\$25.8	\$318.5	\$256.6	\$ 0.0	\$1,483.6
2007	985	1,040.1	22.9	211.4	312.6	19.5	1,606.5
2006	1,580	978.3	41.2	132.9	384.6	4.8	1,541.8
2005	2,077	874.2	82.5	121.2	588.4	1.7	1,668.0
2004	2,758	892.4	21.0	176.4	559.1	3.0	1,651.9
2003	4,062	1,023.5	49.9	133.2	426.9	1.2	1,634.7
2002	4,807	896.1	19.4	70.8	520.7	1.3	1,508.3
2001	4,555	878.5	53.7	88.2	276.0	4.4	1,300.8
2000	4,038	843.4	93.8	108.4	233.6	7.5	1,286.7
1999	3,329	<u>787.4</u>	<u>11.0</u>	<u>55.9</u>	<u>287.1</u>	<u>24.5</u>	<u>1,165.9</u>
10-Year Summary		\$9,096.6	\$421.2	\$1,416.9	\$3,845.6	\$67.9	\$14,848.2
Categories as Percent of Total		61.3%	2.8%	9.5%	25.9%	0.5%	100.0%

Notes: Property assessed at full cash value effective in FY2002 with prior years adjusted to full cash value.  
Construction starts for fiscal year 2006 are revised.

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. Bonds have not yet been issued for Town Center.

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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.

### **Technology Corridors**

The I-270 Technology Corridor is an internationally recognized life sciences and advanced technology center. It is home to over 500 biotechnology and advanced technology companies, including Human Genome Sciences, Lockheed Martin, MedImmune/Astra-Zeneca, IBM, and Hughes Network Systems. The corridor continues to grow with over 30 million square feet of additional commercial and industrial development in the pipeline.

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. The \$900 million FDA Headquarters Consolidation project is well underway, occupying 130 acres of the 660-acre Federal Research Center in White Oak. The new FDA campus will include over 2.1 million square feet of office, lab and support facilities. There are already over 2,800 FDA employees located on the campus, which will house 7,700 total employees by project completion in 2010.

Recognizing the economic importance of such a large Federal user like the FDA, the County is planning a new Science and Technology Center on a 115-acre site just northeast of the FDA campus. The East County Center for Science and Technology will feature 800,000 square feet of development, including laboratory and biotech manufacturing facilities, a technology business incubator, a higher education facility, a telecommuter facility, and several build-to-suit sites.

### **Central Business Districts**

The County is committed to promoting new investment in its Central Business Districts (CBD). 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.

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

Since 1998, the State and Montgomery County invested a total of over \$186 million for 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.

The redevelopment project includes 500,000 square feet of retail, restaurant and entertainment space, 255,000 square feet of office space, a hotel, a community facility, and two new parking garages. The first phase was completed in 2000, and features 100,000 square feet of retail space, including Whole Foods Market, Strosniders Hardware, and a Sprint PCS Store. In 2001, the project was expanded to include Baja Fresh, Hollywood Video, Next Day Blinds, MotoPhoto, Interior Accents, Adega Wine Cellars, and Family Dry Cleaners.

Since the beginning of 2004, an array of new restaurants and shops were added as new sections were completed, including Borders Books and Music, Red Lobster, Panera Bread, Austin Grill, Macaroni Grill, Pier 1, Men's Wearhouse, Ann Taylor Loft, Starbucks, Washington Sports Club, Maryland Youth Ballet, Golf etc., and Pacers running shoes, among many others. The Majestic 20 movie theater with its 20 screens and 4,500 seats has, along with AFI, made downtown Silver Spring a significant entertainment destination. Each year the American Film Institute Silver Theatre and Discovery Communications co-sponsor the Silverdocs international documentary film festival which attracts 20,000 people.

In 2008 construction began on a new Civic Building and Veterans Plaza with an ice skating rink. Funding and approval for a new music hall, a Fillmore operated by Live Nation, were acquired in 2008 and construction should be completed by 2011. Also in 2008, Easter Seals occupied its new Inter-Generational Center and Regional Headquarters building, while local drug company United Therapeutics began the eight-story Phase II building of the headquarters/research/laboratory campus designated for downtown Silver Spring.

Elsewhere in the central business district, the Takoma Park/Silver Spring campus of Montgomery College is in the midst of an \$96 million expansion that has extended the campus into the heart of south Silver Spring. Construction on Phase I, the 98,000 square foot Health Sciences Center was completed in 2004. Phase II, the Student Life Center and Pedestrian Bridge, opened in time for the fall 2006 semester. Phase III, the Cultural Arts Center began construction in 2007 with completion expected by 2009. Renovation of the 180,000 square foot Giant bakery building, acquired in 2002 for future expansion, began in 2005 and in 2007 reopened as the Morris and Gwendolyn Cafritz Foundation Art Center housing an expanded Art department and art studios.

A new \$193.6 million Transit Center mixed-use development project, including retail, residential, hotel, and restaurants alongside an inter-modal transportation hub linking bus, rail, and other transportation services, is currently under construction. This expanded gateway to downtown Silver Spring is scheduled to be completed in 2011.

The County's new \$5.2 million Innovation Center, a business incubator facility, and the State's new \$18.4 million District Courthouse opened in 2005; the new \$13.3 million fire station, including a satellite police station and Urban District office, opened in 2006; and the acquisition of land for a new \$13.6 million public library was completed in 2006.

New investment in downtown Silver Spring exceeded \$2 billion with more than 60 percent of the projects already completed or under construction. More than 75 percent of this new investment is privately funded.

In addition to being a destination for work, entertainment, and shopping, downtown Silver Spring is established as a place where people are attracted to live. About 1,230 new units of residential development were recently occupied, including 750 condominium units, adding to the existing base of 5,000 residential units in downtown. Delivery of 626 more residential units is expected within months. Another 1,570 residential units are under construction or ready to start. An additional 2,500 residential units are in various stages of planning.

### *Wheaton*

Maryland-National Capital Park and Planning Commission (M-NCPPC) began its review of the Wheaton Central Business District (CBD) Sector Plan in June 2008. The plan is anticipated to allow for greater levels of density in the CBD. The Plan's estimated completion is the first quarter of 2010 with County Council adoption by the third quarter. Wheaton is both an Enterprise Zone and an Arts & Entertainment District. In July 2006, the Montgomery County Council enacted legislation amending the Wheaton Retail Preservation Overlay Zone. All these elements provide opportunity to promote new transit-oriented "smart growth" development in downtown Wheaton. Such development will enhance Wheaton's strong retail base, which includes a newly renovated regional shopping mall (Westfield Wheaton), and over 300 locally owned and operated small businesses, including more than 80 restaurants. By capitalizing on the "Wheaton Marketplace", improving it further by attracting more arts-related entities, and encouraging more mixed-use development, the County seeks to enhance the urban character of the area.

Bozzuto Development Corp. and the Housing Opportunities Commission recently completed Metro-Pointe, a mixed-use residential/retail project situated over the existing Wheaton Transit Station Kiss-and-Ride lot. Approximately 30 percent of the 173 residential units in this project are designated as affordable housing. Centex Homes and Avalon Bay Communities, with additional residential and mixed-use projects planned or under construction, will bring almost 500 more dwelling units and add 68,000 square feet of retail space to downtown Wheaton. The first phase of Georgia Crossing was completed in spring 2008, and construction of a second phase is under way that will add a total of 27,000 additional square feet of retail space as well. Bozzuto Development, with

partner Spaulding & Slye Investments, also seeks to develop Metro Square at Wheaton Plaza, up to 500,000 square feet of Class A office and mixed use-space, situated above the Wheaton Metro station.

### *Bethesda*

Downtown Bethesda is one of the County's major urban business and entertainment centers with nearly 200 restaurants along with the density of both high-rise office and residential buildings. Downtown Bethesda is a thriving, 24/7 destination offering residents, visitors and its workforce alike multi-cultural dining, live theater, cinema, unique shops and numerous special events and festivals. Bethesda has a workforce of over 44,000, and includes employees who work for some of the region's largest and most notable employers, including Chevy Chase Bank, Clark Construction Group, CoStar Group, and American Capital Strategies.

In the past several years, Bethesda opened Round House Theatre, Imagination Stage and Bethesda Row Landmark Theatre as marquee entertainment organizations that highlight classical plays, children's theatre, and independent and foreign films. Also, in October 2007 Nederlander World Wide re-opened the landmark Art Deco Bethesda Theater into a showcase venue for Broadway-caliber productions.

Several new luxury apartment buildings including The Palisades, The Whitney, and the Residence at Rosedale Park recently opened, creating 1,500 new housing units in downtown Bethesda. Other recent luxury condominium projects include Adagio on Wisconsin Avenue, Lionsgate at Woodmont Corner, and the Trillium Condo project at Wisconsin Avenue and Battery Lane.

The 43,000 square foot final phase of the 477,000 square foot mixed-use Bethesda Row project held its grand opening in June 2008. This phase includes 180 luxury apartments above upscale retail stores such as The Little Shoebox, Ginger, and Urban Country.

The County awarded development rights for Parking Garage 31 to PN Hoffman/Stonebridge joint venture firms. PN Hoffman/Stonebridge will construct two mixed-use buildings providing for 357,000 square feet of retail space. The project will provide 1,300 underground parking spaces.

In late 2008, the JBG Companies began marketing a proposed 200,000 square foot office building at Woodmont East, on the site of the former Thyme Square Restaurant at the intersection of Woodmont and Bethesda avenues.

### *Friendship Heights*

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

The Friendship Heights area has the first top-tier luxury shopping center on the east coast outside of New York City. The Collection at Chevy Chase, part of the Chevy Chase Center mixed-used development, is a 112,000 square foot project facing Wisconsin Avenue developed and managed by The Chevy Chase Land Company of Montgomery County, Maryland. The Collection brought retailers such as Christian Dior, Jimmy Choo and Barney's New York Co-op to this area for the first time. Tiffany & Company, Georgette Klinger and Cartier have been in Chevy Chase for many years and moved down the street to join Collection tenants such as Bulgari, Ralph Lauren, Gucci, Max Mara and Louis Vuitton.

The second component of Chevy Chase Center is 100,000 square feet of neighborhood-oriented retail, anchored by Giant Food and Pharmacy, which was an original tenant of the Center when it was first developed in the 1950s. Other tenants include Clyde's Restaurant, Sushi Ko Restaurant, Lacoste, Potomac Pizza, Giffords Ice Cream and many other familiar area and national retailers.

The third component of the project is the 200,000 square foot office tower, which was originally leased in its entirety by The Mills Corporation in 2006. Mills subsequently filed for bankruptcy and put the entire building on the market

for sublease, and the space was immediately backfilled by such tenants as American Capital Strategies, Choice Hotels, Columbia Partners, New Enterprise Associates, and The Travel Channel, which moved into 30,000 square feet in early 2008, and expanded into an additional 11,000 square feet in October 2008. Additional tenants moved into this building in 2008, including Bosley Medical Group, Boulder Ventures, Delaney, McKinney, and Clark, Hill-Townsend Capital, and TAP Pharmaceuticals.

The latest project approved and under construction in Friendship Heights is Wisconsin Place, a one million square foot mixed-used development on Wisconsin Avenue. Wisconsin Place will consist of 305,000 square feet of retail (Bloomingdale's and Whole Foods are the anchor tenants), 400,000 square feet of residential, and 285,000 square feet of office space. Capital Source pre-leased 161,000 square feet in the office component of Wisconsin Place and will occupy the building when it delivers in May 2009. The approval of Wisconsin Place will account for a significant portion of the development allowed in Friendship Heights under the Friendship Heights Sector Plan. This Plan concentrates new growth in the Metro-served area while preserving the surrounding neighborhoods. The Plan originally allowed for a total of over 1.4 million additional square feet of office and retail space, and an estimated 635 dwelling units on the former Hecht's and adjacent Geico properties. One of the first major projects constructed in this Plan was the Chase Tower, a 240,000 square foot retail and office building that was delivered in November 2001. This luxury Class A tower is now home to the new corporate headquarters for Ritz Carlton. Other tenants in this building include Capital Trust, Capital Source, and the JBG Companies.

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

As of November 2008, Montgomery County has over 127 million square feet of commercial real estate space (office, flex, R&D, industrial, retail). The weighted direct vacancy rate for the County rose since November 2007 from 6.5% to 7.03%.

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 87 million square feet of commercial space. Notable buildings along the I-270 corridor include the 700,000 square foot Chevy Chase Bank headquarters in Bethesda, and the 260,000 square foot Tower Building in Rockville. The Route 29 corridor connects Silver Spring to Burtonsville and includes over 28 million square feet of commercial space. Discovery Communications' 550,000 square foot corporate headquarters in downtown Silver Spring is the signature building in the corridor. Also featured along Route 29 is the Westech Business Park, which includes over three million square feet of office, R&D, light industrial, and retail development.

**Table 24**  
**Office/Flex/Industrial/Commercial Space Availability by Major Submarkets**  
**As of November 2008**

<u>Montgomery County Office Market</u>	<u>Total Inventory (Square Feet)</u>	<u>Direct Vacant (Square Feet)</u>	<u>Direct Vacancy Rate</u>	<u>Vacancy Rate w/ Sublet</u>
Bethesda/Chevy Chase	15,624,117	572,431	3.66%	5.25%
Gaithersburg	20,534,611	1,627,264	7.92%	9.35%
Germantown	6,671,975	600,570	9.00%	10.33%
Kensington/Wheaton	7,320,839	163,108	2.23%	2.37%
North Bethesda/Potomac	16,485,336	1,567,913	9.51%	10.49%
North Rockville	21,065,785	1,799,914	8.54%	9.97%
North Silver Spring/Rt 29	8,086,474	461,447	5.71%	6.67%
Rockville	17,621,509	1,432,740	8.13%	8.96%
Silver Spring	<u>13,688,846</u>	<u>705,543</u>	5.15%	5.51%
Total County	127,099,492	8,930,930	7.03%	8.11%

Note: These figures are provided by CoStar Property, the County's source for commercial real estate information.

## ***Office/Industrial Projects***

### **Summary**

Throughout 2008, Montgomery County continued to make significant progress developing two strategic Science and Technology Centers. The County also had continued success expanding its Business Innovation (incubator) Network, resulting in the opening of the new Germantown Innovation Center. Additionally, several private new office buildings and development projects were completed or started in 2008. Details on many of these projects appear below.

### **Public/Private Projects**

#### ***East County Center for Science and Technology (ECCST)***

The East County Center for Science and Technology (ECCST) is a public-private partnership among Montgomery County, the Washington Suburban Sanitary Commission (WSSC) and a private developer to be selected by the County in early 2009. Under the proposed arrangement, a 115-acre site owned by WSSC and located off Route 29 in eastern Montgomery County will be conveyed to the County, with the goal of developing and constructing a science and technology park modeled after the County-owned Shady Grove Life Sciences Center in Rockville. The private development partner that will be selected will be charged with developing a plan that focuses on eastern Montgomery County's needs for biotechnology and high technology development, along with public amenity needs in the area. The County's vision for the ECCST includes laboratory and biotech manufacturing facilities, a technology business incubator, a higher education facility, a telecommuter building, built-to-suit sites, and a daycare center. As of November 2008 the County was in the process of finalizing the land transfer agreement with WSSC and reviewing responses from private developers to a Request For Proposal (RFP) for the project.

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

In early 2003, Montgomery College settled on the purchase of a 20-acre site adjacent to the College's Germantown campus. This property will be combined with 20 acres of existing undeveloped land on the campus to form a 40-acre site on which a one million square foot science and technology center will be constructed. The purchase of the 20-acre site was made possible by a total of \$6.1 million in funding appropriations to the College from the State and County. The preliminary plan for the science and technology center calls for primarily high technology research and development space, with a focus on the life sciences, which will complement the biotechnology programs and curriculum already offered at the Germantown campus. The plan also calls for facilities for incubator "graduates" as well as space for mature biotech and high technology companies. Once built out, the center could be home to nearly 4,000 employees. In early 2004, the College received several proposals for development plans and ultimately selected Foulger Pratt as its development partner. The project is scheduled to break ground in 2009.

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

The Montgomery County Business Innovation Network is a program of business incubator facilities that has successfully assisted start-up technology and professional services companies grow and expand in the County since the first facility, The Maryland Technology Development Center (MTDC), opened its doors in 1998. To date nearly 50 companies graduated from the County's incubators to lease nearly 600,000 square feet of private office space and create over 2,000 jobs in the County. The County opened a second incubator in 2004, in downtown Silver Spring, called the Silver Spring Innovation Center (SSIC). The SSIC is nearly fully leased to start-up information technology facilities. The success and demand for the incubator program spurred the County to develop three additional incubators since the opening of the SSIC. The Wheaton Business Innovation Center (WBIC) opened in downtown Wheaton in 2006, and the Rockville Innovation Center (RIC) opened in downtown Rockville in 2007. The latest addition to the incubator program is the Germantown Innovation Center (GIC), which opened in October 2008 adjacent to the campus of Montgomery College – Germantown (described below). In addition, the County's sixth business incubator will be incorporated into the East County Center for Science and Technology project described above.



### *Germantown Innovation Center (GIC)*

The Germantown Innovation Center (GIC) is the fifth incubator facility in the County's award winning Business Innovation Network. The 32,000 square foot facility opened in October 2008, in a building adjacent to the campus of Montgomery College – Germantown. The GIC will be home to 30-40 start-up and emerging technology companies, and features 11 wet labs, two modular clean rooms, 45 offices, as well as a new academic center for Montgomery College.

### **Private Real Estate Projects Delivered in 2008**

#### *Bethesda Row/Festival Street, Downtown Bethesda*

The 43,000 square foot final phase of the 477,000 square foot mixed-use project in downtown Bethesda held its grand opening in June 2008. This phase includes 180 luxury apartments above upscale retail stores such as The Little Shoebox, Ginger, and Urban Country.

#### *9707 Key West Avenue/Danac Stiles Corporate Campus, Rockville*

The 72,000 square foot Class A office building delivered on the Danac Stiles Corporate Campus in February 2008. MRIS, Inc. leased 48,000 square feet in the building.

#### *Milestone Business Park, Building Three, Germantown*

Building Three, which consists of 157,000 square feet of Class A office space just off I-270 in Germantown, is the latest addition to the Milestone Business Park. Milestone Business Park is a master planned 44-acre campus that will eventually total over 800,000 square feet of office space.

#### *10001 New Hampshire Avenue, North Silver Spring*

This Class A office building delivered in October 2008 and is LEED Gold Certified. It consists of 52,000 square feet located adjacent to the I-495 (Capital Beltway) interchange at New Hampshire Avenue.

#### *1 Preserve Parkway, The Preserve at Tower Oaks, Rockville*

Delivered in March 2008, 1 Preserve Parkway consists of 184,000 square feet of Class A office space in The Preserve at Tower Oaks master-planned community in the City of Rockville. The Preserve at Tower Oaks will ultimately contain 1.2 million square feet of Class A office space. The first tenants at 1 Preserve Parkway are Booz Allen & Hamilton and Adminstaff.

#### *6720 Rockledge Drive, Piedmont Pointe II, North Rockville*

Piedmont Pointe II delivered in June 2008, consisting of 220,000 square feet of Class A office space. Piedmont Pointe is located in Rock Spring Park in North Bethesda.

#### *2000 Tower Oaks Blvd., Rockville*

Located in the Tower Oaks mixed-use community in the City of Rockville, 2000 Tower Oaks Blvd. is a 200,000 square foot Class A office building that was certified LEED Gold. The building is the new corporate headquarters location for both The Lerner Companies and The Tower Companies.

## **Commercial Projects Started in 2008**

### *North Bethesda Market*

Although technically the groundbreaking for this project was in December 2007, construction began in earnest throughout 2008. North Bethesda Market will consist of 400 high end residences and over 220,000 square feet of upscale retail. Whole Foods and L.A. Fitness have already signed on as anchor tenants in the project. The development is strategically located on Rockville Pike just south of the White Flint Metro station.

### *9711 Washingtonian Blvd., Gaithersburg*

This 200,000 square foot Class A office building is scheduled to be delivered in March 2009. It will be the latest addition to the mixed-use Washingtonian Center development located at the intersection of I-270 and I-370 in the City of Gaithersburg.

### *40 Southlawn Court, Rockville*

40 Southlawn Court is a 40,000 square foot warehouse facility that will deliver in early 2009.

## ***New Business Additions and Expansions***

Montgomery County's Department of Economic Development worked with nearly 500 companies in 2008 that were interested in expanding in or relocating to the County. The companies that signed commitments to locate or expand in Montgomery County in 2008 are projected to retain and create nearly 3,000 jobs, lease or construct over 780,000 square feet of office space, and generate over \$100 million in capital investment over the next three to five years. Some highlights of the Department's efforts in 2008 include:

### *Lentigen Corporation*

In September 2008, Lentigen announced its relocation from the University of Maryland Baltimore County's Tech Center to a 26,000 square foot headquarters and lab facility in Gaithersburg. The new facility will accommodate Lentigen's future growth needs as the leading developer and manufacturer of lentiviral vectors (LVs) and proteins for a wide range of clinical and research applications. Lentigen's move created 25 new jobs in Montgomery County and the company projects to add an additional 30 new jobs in a two year period.

### *Aronson & Company*

Aronson, a leading accounting and consulting firm, announced in 2008 that it will be moving into 75,000 square feet of newly constructed office space in the Rockville King Farm development. This move will nearly double the size of their current space in Rockville, and the new office will be home for nearly 300 Aronson employees when they complete the move in March 2009.

### *EdgeBio*

EdgeBio expanded its Gaithersburg headquarters and lab facility by 6,000 square feet in September 2008. EdgeBio is an established research reagents company providing high-quality nucleic acid purification products to the scientific research community. The company employs 25 people in Montgomery County with plans to add over 30 more in the next two years.

### *OpGen, Inc.*

Montgomery County welcomed OpGen from Madison, Wisconsin in September 2008. OpGen opened a 15,000 square foot lab and headquarters facility in Gaithersburg, bringing 35 new jobs to the County. The company is a leader in microbial genome analysis.

### *Wolpoff & Abramson*

The Rockville law firm expanded its presence in Montgomery County by 51,548 square feet in 2008. The company employs approximately 500 people in the County.

### *Europ Assistance*

Europ Assistance moved its U.S. headquarters from Washington, DC to Bethesda in February 2008. The travel insurance company brought 175 jobs to Montgomery County and projects to create an additional 25 jobs in the next two years.

### *EKA Systems*

EKA Systems, who develops wireless sensor hardware and software applications for the energy utilities industry, expanded into 10,000 square feet of space in Germantown in 2008. The company currently has 36 employees with plans to double the number of employees within the next year.

### *Infospherix (The Active Network)*

Infospherix was acquired in 2008 by The Active Network, a company that delivers software technology and marketing solutions for community service organizations. The Maryland office of The Active Network moved from Beltsville to Clarksburg in early 2008, bringing 50 jobs to the County.

### *Tower Companies and Lerner Enterprises*

The Tower Companies developed and constructed 2000 Tower Oaks Boulevard which delivered in 2008. It is a 200,000 square foot Class A LEED Gold certified building in the City of Rockville. Both the Tower Companies and Lerner Enterprises expanded into this building in 2008. Lerner leased 46,000 square feet and employs 75 people in Montgomery County. The Tower Companies leased 23,000 square feet, which is home to their 35 employees.

## ***Retail Sales***

Retail sales measured by sales tax data collected for the first eight months of 2008, declined in Maryland and Montgomery County based on adjusted data for the rate increase. Compared to the prior year, when retail sales in the County grew 0.1 percent, sales declined 2.8 percent during the first eight months of 2008 compared to the same period in 2007, showing the effect of the slowdown in housing sales (purchases of furniture and appliances declined 15.9 percent and purchases of building and industrial supplies were down 11.1 percent). With consumer confidence during this eight-month period down 44.2 percent for the region compared to the same eight-month period in 2007, retail sales are traditionally one of the first indicators to reflect changes in consumer behavior.

Retail sales in Montgomery County reflect a slightly different spending pattern compared to the State. After retail sales in the County improved in the past few years, growing 6 percent (1999) and 7 percent (2000), with growth in 2000 reaching a six-year high, the growth rate declined to 3.8 percent in 2001, increased a modest 0.9 percent in 2002, grew 4 percent in 2003, and a robust 6.7 percent in 2004, then moderated to 5 percent in 2005 and moderated further to 3.5 percent in 2006, and with a mere 0.1 percent in 2007. The slowdown during 2007 was attributed to decreases in furniture and appliances (8.8%) and building and industrial supplies (15.2%). Purchases of nondurable goods increased 2.8 percent through August 2008, and were attributed mainly to sales of general merchandise and utilities and transportation. Led by the decline in purchases of furniture and appliances and building and industrial supplies, purchases of durable goods were down 11.1 percent during the first eight months of 2008 compared to the same period in 2007.

**Table 25**  
**Sales & Use Tax Receipts**  
**by Principal Business Activity**

	Montgomery County						Maryland	
	2006		2007		Jan.-Aug. 2008		Jan.-Aug. 2008	
	<u>Growth(1)</u>	<u>Share of Total</u>	<u>Growth(2)</u>	<u>Share of Total</u>	<u>Growth(3)</u>	<u>Share of Total</u>	<u>Growth(3)</u>	<u>Share of Total</u>
Food and Beverages	2.7%	24.1%	4.1%	24.9%	2.7%	26.4%	0.9%	21.3%
Apparel	2.6	6.1	3.9	6.4	-1.8	6.2	-3.4	4.6
General Merchandise	3.0	17.5	1.1	17.7	1.9	17.2	-0.6	16.9
Automotive	1.4	7.6	-0.7	7.5	-6.6	7.6	-7.4	6.7
Furniture & Appliances	-17.2	8.8	-8.8	8.1	-15.9	7.0	-10.1	9.9
Building & Industrial Supplies	2.9	11.6	-15.2	9.8	-11.1	9.6	-9.3	13.9
Utilities & Transportation	11.0	7.9	7.6	8.5	8.1	9.7	3.5	10.2
Hardware, Machinery & Equipment	-1.7	1.3	3.5	1.4	-9.6	1.4	-4.7	2.7
Miscellaneous	21.9	14.5	1.3	14.7	-5.9	14.3	-0.4	13.5
Other	32.0	<u>0.6</u>	73.1	<u>1.0</u>	-38.9	<u>0.6</u>	-40.0	<u>0.3</u>
Total Retail Sales Tax	3.5%	<u>100.0%</u>	0.1%	<u>100.0%</u>	-2.8%	<u>100.0%</u>	-3.1	<u>100.0%</u>

(1) Growth between 2005 and 2006.

(2) Growth between 2006 and 2007.

(3) Growth between the period January through August 2007, and the same period in 2008.

Source: Maryland Comptroller of the Treasury, Revenue Administration Division.

### ***Major Retail Centers***

Montgomery County is served by four regional shopping malls. They are Lakeforest Mall in Gaithersburg, Westfield Shoppingtown Montgomery in Bethesda, Westfield Shoppingtown Wheaton in Silver Spring, and White Flint Mall in North Bethesda.

Lakeforest Mall, located along Maryland Route 355 and Montgomery Village Avenue near I-270, opened in 1978. This 1.1 million square foot mall features over 165 stores, including four major department stores: Macy's, JC Penney, Lord & Taylor, and Sears Roebuck & Co.

Westfield Shoppingtown Montgomery, formerly known as Montgomery Mall, opened in 1968, and covers 1.6 million square feet of space. It features Nordstrom, Macy's, Macy's Home Store, Sears Roebuck & Co., 220 other stores, three parking garages, and is served by a Montgomery County Transit Center.

Westfield Shoppingtown Wheaton, formerly known as Wheaton Plaza, is located adjacent to the Wheaton Metro Center at the intersection of Georgia Avenue and Veirs Mill Road in the Wheaton CBD. 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 229 other stores.

White Flint Mall, which is located east of Rockville Pike in North Bethesda close to the White Flint Metro Station, opened in 1977 and features three enclosed levels, luxury department stores such as Lord & Taylor and Bloomingdale's, plus 114 other stores. The 900,672 square foot mall also features a five-auditorium cinema, an office center with professional space, numerous kiosks and specialty pushcarts and a Border's Bookstore.

### ***Property Tax Information***

The County levies real and personal property taxes on all taxable property within its boundaries. Annual payments of taxes are due in full on July 1 and become delinquent on the following October 1. Semi-annual payments are the standard in Maryland for residential property owners only, with the semi-annual payments becoming delinquent after

September 30 and December 31. Tax sales to recover delinquent real property taxes are held on the second Monday in June in the fiscal year that taxes are due and payable. Legal action may be taken to enforce payment of both real and personal property taxes.

### 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 each year. 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.

Because of growth in new construction of nearly \$1.6 billion per year between FY03-FY08, and improved valuation of properties, the real property taxable base increased at an average annual rate of 11.5 percent over the last six years, measured through FY08. Due to a decline in business investment in personal property from FY03 to FY04 attributed to an adjustment by the SDAT to assessments of individual personal property, the personal property base decreased at an average annual rate of 1.2 percent during five fiscal years (FY03-FY08). However, excluding FY03, personal property remained essentially constant through the FY04-FY08 period. Because of the dramatic growth in the real property assessable base attributed to real estate price appreciation from the exceptionally strong housing market, the total assessed values increased at an average annual rate of 11 percent during the six-year period.

**Table 26**  
**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>
2008	\$142,306,435,593	\$3,970,547,370	\$146,276,982,963	12.82%	98.05
2007	125,710,776,118	3,948,949,550	129,659,725,668	13.38	95.63
2006	110,529,249,116	3,831,629,230	114,360,878,346	11.92	93.41
2005	98,281,724,723	3,902,612,110	102,184,336,833	9.61	93.54
2004	89,263,005,267	3,963,801,610	93,226,806,877	7.61	91.35

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

Tax-exempt properties are excluded from the above figures. In FY08, such exemptions for real property owned by Federal, State, County, and other governmental units, and certain non-profit organizations totaled \$15.1 billion on July 3, 2007, based on data from the State Department of Assessments and Taxation. Tax-exempt real property constitutes 10.3 percent of the total 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 27**  
**Tax Levies and Revenue**

Fiscal Year	General County Tax Levy (including Education)	Revenue From Current Year Assessment	Ratio of Current Yr. Revenue to Tax Levy	Revenue From Prior Year Assessment	Total Revenue	Ratio of Total Revenue to Tax Levy	Accumulated Delinquent Taxes	Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy
2008	\$848,638,685	\$822,982,107	96.98%	\$(22,930,874)	\$800,051,233	94.27%	\$12,156,570	1.43%
2007	808,175,965	801,178,612	99.13	(8,146,428)	793,032,184	98.13	14,118,766	1.75
2006	784,435,018	788,440,342	100.51	1,053,372	789,493,714	100.64	16,757,606	2.14
2005	793,578,688	797,622,605	100.51	(2,576,941)	795,045,664	100.18	31,022,367	3.91
2004	738,731,341	738,902,755	100.02	(4,201,792)	734,700,963	99.45	32,220,479	4.36

**Table 28**  
**Tax Rates and Tax Levies, by Purpose**

Fiscal Year	General County (including Education)		Transit		State		Total	
	Rate	Levy	Rate	Levy	Rate	Levy	Rate	Levy
2008	\$0.627	\$848,638,685	\$0.058	\$78,263,664	\$0.112	\$160,027,167	\$0.797	\$1,086,929,516
2007	0.624	808,175,965	.053	68,439,347	.112	141,503,123	0.789	1,018,118,435
2006	0.679	784,435,018	.042	50,359,821	.132	146,071,317	0.853	980,866,156
2005	0.734	793,578,688	.044	47,407,995	.132	130,281,662	0.910	971,268,345
2004	0.751	738,731,341	.044	43,265,229	.132	117,987,242	0.927	899,983,812

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 \$1.567 in FY08, \$1.560 in FY07, \$1.698 in FY06, \$1.835 in FY05, and \$1.878 in FY04; the personal property rate for Transit was \$.145 in FY08, \$.133 in FY07, \$.105 in FY06, \$.110 in FY05, and \$.110 in FY04 (the State does not tax personal property).

**Table 29**  
**Ten Highest Commercial Property Taxpayers' Assessable Base**  
**As of June 30, 2008**

Taxpayer	Total	Real Property	Personal Property	Ratio: Taxpayer Base to Total Assessable Base
Potomac Electric Power Co.	\$ 689,238,812	\$ 7,280,832	\$ 681,957,980	0.47%
Verizon	677,976,920	32,000,000	645,976,920	0.46
Westfield Shoppingtown Montgomery	388,230,580	387,662,500	568,080	0.27
7501 Wisconsin Ave. LLC	220,262,500	220,262,500	--	0.15
Washington Gas Light Co.	219,256,160	--	219,256,160	0.15
Federal Realty Investment Trust	217,618,610	216,118,430	1,500,180	0.15
Mirant Mid-Atlantic LLC	199,580,310	78,291,600	121,288,710	0.14
Camalier, Anne D et al, Trustee	196,269,158	196,269,158	--	0.13
Democracy Associates	184,676,600	184,676,600	--	0.13
Westfield Shoppingtown Wheaton	180,823,356	179,792,566	1,030,790	0.12
Total	<u>\$ 3,173,933,006</u>	<u>\$1,502,354,186</u>	<u>\$1,671,578,820</u>	<u>2.17%</u>
Assessable Base (June 30, 2008)	<u>\$146,276,982,963</u>			

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

## ***Impact Tax***

Significant 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), nearly all 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. The tax is imposed prior to the issuance of a building permit.

The original impact tax law was enacted in 1990, was applied for 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.

The following table illustrates impact tax collections over the last 12 years.

**Table 30**  
**Impact Tax Collections**

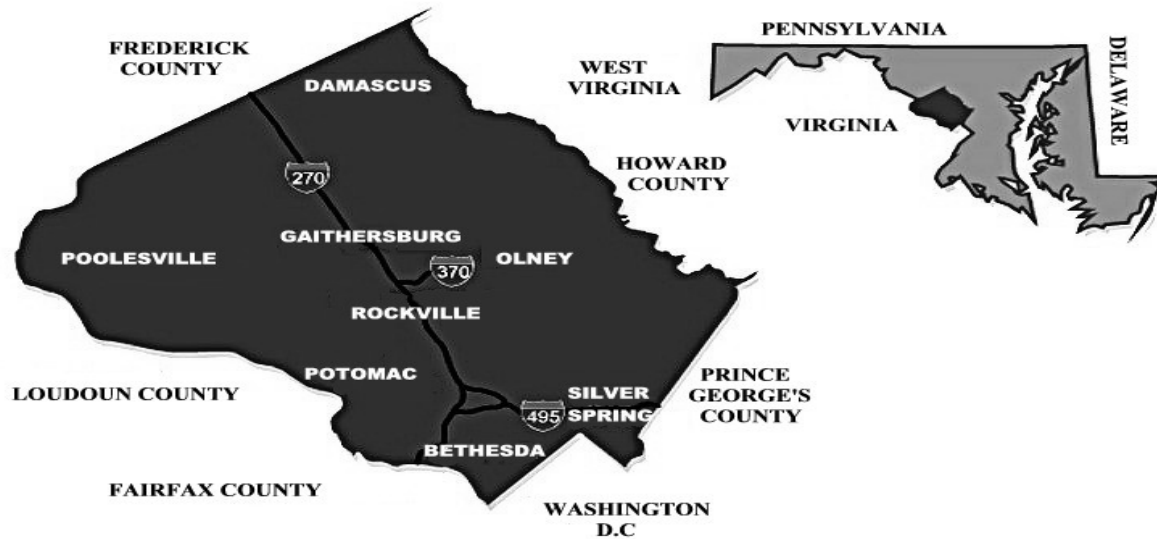
<u>Fiscal Year</u>	<u>Transportation Impact Tax</u>	<u>Schools Impact Tax</u>
2008	\$ 9,743,841	\$6,766,534
2007	11,501,000	9,563,000
2006	6,252,000	6,960,000
2005	8,471,000	7,695,000
2004 (1)	5,245,000	435,000
2003 (2)	1,790,000	--
2002 (3)	1,990,000	--
2001	3,100,000	--
2000	990,000	--
1999	1,400,000	--
1998	1,020,000	--
1997	1,280,000	--

(1) added Schools Impact tax

(2) added County area

(3) added Clarksburg area

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

### ***Location***

Montgomery County is located adjacent to the nation's capital, Washington, D.C., and includes 497 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 the County Executive and the 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.



## ***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. 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 since 1975. He served as the law school's assistant dean from 1979 to 1986.

A native of Alexandria, Louisiana, Mr. Leggett earned a Bachelor of Arts degree from Southern University in Baton Rouge, Louisiana, a Master of Arts degree and a law degree from Howard University, and a Master of Laws degree from George Washington University.

### **President, County Council – Phil Andrews**

Phil Andrews was elected to his third term on the Council on November 7, 2006, and was recently elected Council President by his colleagues. Mr. Andrews served a one-year term as Council Vice-President beginning in December 2007. He chairs the Council's Public Safety Committee and is also a member of the Education Committee.

Mr. Andrews holds a Bachelor's degree in political science from Bucknell University, and a Master's degree in governmental administration from the University of Pennsylvania. He served as executive director of Common Cause of Maryland from 1988 to 1994, and as managing director of Montgomery County's AmeriCorps program, Community Assisting Police, from 1994 to 1998.

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

Timothy L. Firestine was appointed Chief Administrative Officer on November 30, 2006 and confirmed on December 12, 2006. Prior to his appointment as CAO, Mr. Firestine was the County's Director of Finance for 15 years. He previously served in various management positions in the County's Office of Management and Budget. Before coming to the County, Mr. Firestine was the Budget Officer for the Allegheny County, Pennsylvania, Controller's Office.

Mr. Firestine received his Bachelor of Arts Degree from Albright College and his Master of Public Administration Degree from the University of Pittsburgh. He served as President of the Maryland Government Finance Officers Association and on the Board of Trustees for Suburban Health Care System, Inc., in Bethesda, Maryland. Mr. Firestine is a principal member of the District of Columbia Water and Sewer Authority where he also serves as Chair of the Audit Committee. For several years Mr. Firestine was an adjunct professor at the University of Maryland, Graduate School of Public Policy where he taught Public Finance.

### **Director of Finance – Jennifer E. Barrett**

Jennifer E. Barrett was appointed Director, Department of Finance on January 8, 2007 and confirmed on January 30, 2007. Prior to her appointment, Ms. Barrett served as the Finance Department's Chief Operating Officer for four years. From 1982 to 2002, she served in various management positions in the County's Department of Finance and Office of Management and Budget.

Ms. Barrett received her Bachelor of Science Degree from the University of Maryland, and her Master of Business Administration from Hood College. She is a member of the Board of Investment Trustees for the Employees' Retirement System of Montgomery County, and Chairperson of the Montgomery County Conference Center Management Committee. Ms. Barrett is also a member of the Government Finance Officers Association and serves on GFOA's Committee on Governmental Debt Management, and is President-Elect of the Maryland Government Finance Officers Association.

#### **Director, Office of Management and Budget – Joseph F. Beach**

Joseph F. Beach was appointed Director of the Office of Management and Budget on April 24, 2007 and confirmed on May 8, 2007. Prior to his appointment, he served in a variety of senior level positions with Montgomery County Government including as Assistant Chief Administrative Officer, Operating Budget Coordinator, and Senior Budget Analyst. Mr. Beach's service for the County included extensive work in the areas of collective bargaining, criminal justice, multi-year budgeting, and contract review.

Mr. Beach holds a Bachelor of Arts from the University of Michigan, a Master of Arts Degree from the George Washington University in Public Affairs, and a Juris Doctorate degree from the University of Baltimore. Mr. Beach was admitted to the State Bar of Maryland in December 1995. He serves on the Board of Investment Trustees for the Employees' Retirement System of Montgomery County and the Board of Directors for the Strathmore Hall Arts Foundation.

#### **County Attorney - Leon Rodriguez**

Leon Rodriguez was appointed County Attorney in April 2007 and confirmed on May 1, 2007. From May 2001 until his appointment, he was a shareholder in the Washington, D.C., office of Ober, Kaler, Grimes & Shriver, where he was a litigator specializing in white collar criminal defense and health care law. For 13 years prior to entering private practice, Mr. Rodriguez was a federal and state prosecutor in various jurisdictions. From 1997 to 2001, he was an Assistant U.S. Attorney in Pittsburgh, Pennsylvania, serving as the First Assistant U.S. Attorney from 1999-2001, and as the Chief of the White Collar Crimes Section from 1998-1999.

From 1994 to 1997, Mr. Rodriguez served as a trial attorney in the Criminal Section of the U.S. Department of Justice, Civil Rights Division, where he handled a variety of civil rights criminal matters involving involuntary servitude, hate violence and law enforcement misconduct. Prior to joining the Justice Department, Mr. Rodriguez was an Assistant District Attorney in Brooklyn, New York. Mr. Rodriguez received a Bachelor of Arts degree in History from Brown University in 1984 and his law degree from Boston College Law School in 1988.

## **COUNTY GOVERNMENT SERVICES**

### ***Human Resources***

The County government employs approximately 9,059 full- and part-time employees. Approximately 7,454 employees are in bargaining unit positions (including 516 employees to be assigned to bargaining units at the end of their probationary periods) and are represented by one of the three labor organizations that are certified under County law to bargain over the wages, fringe benefits, and working conditions of bargaining unit employees. The table below summarizes the current status of County labor agreements.

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**Table 31**  
**County Bargaining Units**

<u>Bargaining Unit</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Service, Labor & Trades (MCGEO)	1,222	June 30, 2010
Office, Professional & Technical (MCGEO)	3,481	June 30, 2010
Police officers (FOP)	1,144	June 30, 2010
Firefighters/Rescuers (IAFF)	1,091	June 30, 2011

Public school teachers in the County are not County government employees, but are employed by the Montgomery County Board of Education (the "Board"). The Board employs approximately 20,769 full-time equivalent (FTE) employees. This number includes 90 non-represented employees and 20,679 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, noncertified supervisors, and support/maintenance employees, as presented in the table below.

**Table 32**  
**Board of Education Bargaining Units**

<u>Bargaining Unit</u>	<u>Number of FTE Employees</u>	<u>Contract Expiration Date</u>
Teachers (MCEA)	11,770	June 30, 2010
Professional/Administrative (MCAASP)	690	June 30, 2010
Noncertified Supervisors (MCBOA)	85	June 30, 2010
Support Services (SEIU Local 500)	8,134	June 30, 2010

## ***County Employee Retirement Plans***

### **Employees' Retirement System**

The Employees' Retirement System (System) is a cost-sharing multiple-employer defined benefit pension plan established in 1965. Nine other agencies and political subdivisions elected to participate, including the: Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, independent fire/rescue corporations, Town of Chevy Chase, Strathmore Hall Foundation, Inc., Washington Suburban Transit Commission, Montgomery County Employees Federal Credit Union, and certain employees of the State Department of Assessments and Taxation and the District Court of Maryland. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. All covered full-time employees of the County and participating agencies must become members of the System as a condition of employment. The System is a contributory plan with employees contributing a percentage of their base annual salary depending on their group classification which also determines retirement eligibility. The payroll for employees covered by the System for the years ended June 30, 2008 and 2007 was approximately \$372.2 million and \$352.6 million, respectively. The total payroll for Montgomery County Government in FY08 and FY07 was \$669.4 million and \$614.4 million, respectively.

Deferred Retirement Option Plans (DROP), established in FY00, 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 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 benefit 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. At June 30, 2008 there were 33 participants in the DROP.

The Board of Investment Trustees is responsible for managing the investment programs of the Montgomery County Employee Retirement Plans. The System's assets are invested in a diversified portfolio of equities, bonds, real estate and other investment vehicles 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.

**Table 33**  
**Employees' Retirement System**

	<u>Fiscal Year End</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total Assets (billions)	\$2.619	\$2.714	\$2.308
Actuarial Value (billions)	\$2.701	\$2.470	\$2.223
Actuarial Liabilities (billions)	\$3.342	\$3.101	\$2.918
Funded Ratio	80.8%	79.7%	76.2%
Participants:			
Active	5,060	5,294	5,362
Retired	5,811	5,495	5,333

### **Retirement Savings Plan**

The Retirement Savings Plan (RSP) is a cost-sharing multiple-employer defined contribution plan established in 1994. 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 by the Plan. All covered full-time employees of the County and participating agencies must become members of the RSP as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis.

The County Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select. As of June 30, 2008, the defined contribution plan had 5,536 participants with assets totaling \$128.5 million. As of June 30, 2007, the plan had 4,964 participants and assets of \$120.7 million.

### **Deferred Compensation Plan**

Employees of the County may participate in the Montgomery County Deferred Compensation Plan (DCP), which was established pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. The County Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select. Under the DCP, contributions are sent to the provider for the different types of investments as selected by participants. Legislation enacted in December 2004 allows the County to sponsor one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. At June 30, 2008 there were 3,940 participants in the County's DCP with \$242.1 million in assets.

Additional information on the County's retirement plans is available in Appendix A, "Notes to Financial Statements" Note IV-F, Pension Plan Obligations; or the Comprehensive Annual Financial Report prepared by the Board of Investment Trustees for the Montgomery County Employee Retirement Plans.

### ***Other Post Employment Benefits***

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other than Pensions* (GASB 45), which addresses how state and local governments should account for and report their costs and obligations related to other post employment benefits

(OPEB). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The County implemented GASB 45 as required in FY08.

In November 2007, the County obtained actuarial valuation information addressing the extent of the County's liability to its retirees for OPEB as of July 1, 2007. The OPEB report is subject to a number of actuarial and economic assumptions; these assumptions were generally similar to the assumptions used in evaluating the County's pension fund liabilities.

Based on the assumptions and qualifications stated therein, the OPEB report concluded that, assuming full prefunding, the FY09 annual required contribution (ARC) for the County and its tax supported agencies is \$251 million, and the related actuarial accrued liability (AAL) is \$2.6 billion. In May 2008, the County Council passed resolution number 16-555, calling for an eight-year phase-in to the ARC. Consistent with this approach, the County appropriated \$40.6 million in its FY09 operating budget for the tax-supported agencies. This is in addition to the \$38.6 million appropriated and funded in FY08.

### ***Arts and Leisure***

The County Department of Recreation provides a wide range of programs including: aquatics, camps, classes, youth and adult sports, summer fun centers, special events, teen, senior citizen and therapeutic programs. The Department operates 18 community centers that facilitate leisure activity, social interaction, family participation, and neighborhood civic involvement. Four regional centers ensure that a full range of administrative operations are available and convenient to the public. An additional 12 program sites serve select senior populations, offering adults aged 55 and above classes, sports and fitness, trips, neighborhood programs, and special programs for frail and isolated seniors. Three new community centers are proposed for development within the next six years. The Department of Recreation operates the Charles W. Gilchrist Center for Cultural Diversity, a unique facility that serves as a cultural and community focal point. The Department funds the Gaithersburg Senior Center and the Takoma Park Community Center through significant grants. 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.

There are seven large public outdoor swimming pools and four indoor aquatic complexes that provide for a variety of instructional, recreational, and competitive aquatic programs. The Germantown Indoor Aquatic Center, the newest of the four indoor aquatic complexes, opened in January 2006.

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

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

## ***Economic Development***

### *Department of Economic Development*

The mission of the Montgomery County Department of Economic Development (DED) is to develop strategies and implement programs that will maintain and expand the County's economic base, promote business growth, generate employment opportunities, and increase tax revenues.

To achieve this mission, DED provides services to help existing businesses expand, new businesses to locate in the County, small and minority-owned businesses grow, promote high technology development, attract foreign investments, expand the County's export base, preserve farmland, and enhance the viability of the agricultural industry.

DED's responsibilities also include initiatives to enhance the presence of higher education in the County, to oversee the continued development of public/private science and technology parks (including the County-owned Shady Grove Life Sciences Center), and to operate and expand the County technology business incubator program, which consists of five existing facilities: the Maryland Technology Development Center, Silver Spring Innovation Center, Wheaton Business Innovation Center, Rockville Innovation Center, and Germantown Innovation Center, as well as two additional planned incubators. In addition, DED oversees the County training and employment programs through its Division of Workforce Investment Services, tourism promotion programs operated by the Montgomery County Conference and Visitor's Bureau, and the small and minority business services provided by the Department's newly established Division of Business Empowerment.

### *Economic Development Services and Programs*

Existing and prospective new businesses receive an array of professional assistance from DED. This assistance can take the form of site searches (DED maintains an inventory listing of available office, R&D and industrial space in the County), information on zoning, comparative tax data, socioeconomic statistics, and permit expediting.

### *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. Established in 1995, the Economic Development Fund provides assistance to private employers who will either retain jobs in the County, or create new jobs through the expansion of current businesses or location of new businesses to the County. The Economic Development Fund is administered by the County's Department of Finance.

As of November 12, 2008, 145 offers for grants and loans totaling \$22.89 million were accepted under the Economic Development Fund Grant/Loan Program. The economic impact of these transactions is estimated to include: over 27,700 jobs retained or gained, over \$1.13 billion in private investment, and an annual net revenue return of over \$34 million.

In addition to the original Economic Development Fund program, four other financial incentive programs were added. The Technology Growth Program (TGP) was developed to facilitate the growth of early-stage technology-based companies located or desiring to locate in the County. The Program is aimed at leveraging private sector financing and State Challenge and Equity Investment funds. Since the beginning of the TGP in 1999, 63 companies received funding for a total of \$3.57 million. The Small Business Revolving Loan Program was created to help small business concerns in the County and to finance economic development projects that cannot be financed through traditional private and public sources. Since the beginning of this Program, 25 small businesses received loans totaling \$1.6 million. The Demolition Loan Program is administered by the Department of Housing and Community Affairs. This innovative program provides assistance to owners of obsolete, underutilized commercial buildings to demolish buildings and clear the land to ready it for redevelopment. In FY 05, the Impact Assistance Program was created to help mitigate any adverse impacts small businesses might experience due to County initiated and funded development, redevelopment, or renovation projects. 24 companies received funding totaling \$444,521 from this program since its inception. Through all of these programs, DED works to develop offers of assistance, frequently in close cooperation and coordination with the State of Maryland, as well as frequently leveraging additional offers of assistance from other State sources.

### *Economic Advisory Council (EAC)*

This 30-member blue ribbon group advises the County government on important economic development policies, as well as on fiscal, budgetary, and management issues. Comprised of business, education, and community group representatives, the EAC helps DED evaluate economic trends and develop strategies related to the County's employment base and the attraction, retention, and expansion of businesses. This past year the EAC developed a strategic plan for economic development, a visionary blueprint for the future.

### *Shady Grove Life Sciences Center*

The Shady Grove Life Sciences Center (the "Center") is a 300-acre advanced research and technology park exclusively oriented to the needs of the biotechnology and healthcare industries. The Center is owned, developed, and operated by the County, with the Department of Economic Development taking the lead responsibility for the Center's promotion and management.

The Center was developed in the early-to-mid 1980's in response to the cancer research and gene therapy advances developed in County-based Federal agencies such as the National Institutes of Health. Many of the government scientists most responsible for this research would use their skills and knowledge to form their own private biotechnology companies. Montgomery County recognized the growth potential of the biotechnology industry and quickly developed the concept of the Life Sciences Center to provide these new entrepreneurs with the facilities and resources necessary to stimulate the rapid growth of their new companies.

## ***Education***

The 2005 Census Update Survey indicated that County residents, on average, are highly educated. The proportion of County residents 25 years old or over completing four or more years of college increased from 33.2 percent in 1970 to 63.6 percent in 2005. Advanced degrees are held by 35 percent of the adult population. High school graduates account for 92.2 percent of the County population aged 25 and over, above the 79.5 percent proportion in 1970, the 87.3 percent in 1980, and the 90.3 percent in 2000.

Within a 40-mile radius of Montgomery County, there are 32 colleges and universities offering degrees in various disciplines. Many of those 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 34**  
**Secondary Education**

<u>School</u>	<u>Student Enrollment</u>
American University, Washington, DC	11,293
Catholic University, Washington, DC	6,705
Hood College, Frederick, MD	2,522
Howard University, Washington, DC	10,586
Johns Hopkins University, Baltimore, MD	18,289
Montgomery College, Rockville, MD (2-year)*	23,866**
University of Maryland, College Park, MD	59,714

\* 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.

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 200 elementary and secondary schools. The operating budget is \$2.066 billion for FY09, a 4.1 percent increase over the prior year, and the FY09-14 capital improvements budget is \$1.288 billion. The emphasis that County residents place on education is reflected in budgeted per pupil operating expenditures of \$14,289 in FY09, and in the high percentage of high school graduates who continue formal education. In FY09, projected enrollment is 137,763 students.

## ***Finance***

The Department of Finance is responsible for the financial administration of the County government, including accounting, debt and cash 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 for the processing of transfer and recordation taxes.

The County maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet County financial obligations, and maximization of the investment yield on the County's short-term working capital.

Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's short-term investment policy, as approved by the County Council. The average maturity of the working capital portfolio is generally less than six months.

At June 30, 2008, the County managed \$764.5 million in its pooled consolidated investment portfolio. During FY08 the County earned investment income of \$42.8 million, with an average rate of return of 4.41%.

## **Risk Management**

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 treatment.

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, City of Rockville, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, Rockville Housing Enterprises, Town of Somerset, Villages of Martin's Additions, Drummond, and Friendship Heights, and the Bethesda Urban Partnership. The City of Takoma Park and the City of Gaithersburg also 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, 2009. It is expected this coverage will be maintained but is dependent on market conditions and price at the time of the policy renewal.



A summary of FY08 operations of the program is outlined below:

	<u>(\$000's)</u>
Revenues:	
Contributions from participating agencies	\$31,254
Interest on investments	5,183
Recovered losses	508
Other income	<u>558</u>
Total Revenues	<u>37,503</u>
Expenses:	
Claims expense	31,229
Claims administration, loss control, external insurance, and other administrative expenses	<u>12,274</u>
Total Expenses	<u>43,503</u>
Net loss	(6,000)
Retained earnings, July 1, 2007	<u>20,322</u>
Equity balance, June 30, 2008	<u>\$14,322</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 \$200,000 for an individual claim, and \$500,000 for all claims arising from one occurrence. This act, combined with the law limiting the public school system's liability to \$100,000, 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 FY08 operations for these two elements of the insurance program are not reflected above.

### ***Libraries***

There are 22 libraries located throughout the County. During FY07 the collection was over 3.1 million volumes and total circulation was almost 12.0 million. Per capita circulation of 12.5 books is among the highest in Maryland and nationally.

The County library system provides an array of services to the community, including computers with Internet access; books on tapes and CDs; numerous special collections such as business, children's, and disability resource centers; and quiet study rooms and public meeting rooms.

### ***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.

The Department of Liquor Control's responsibilities include the operation of 25 County retail stores (one in a shopping center currently under construction) and a warehouse that distributes beverage alcohol to the County stores and to 930 licensed establishments (including beer and wine stores, restaurants, country clubs, etc.); 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 (FY04 through FY08) the Department transferred over \$106 million to the General Fund.

## ***Parks***

The Maryland-National Capital Park and Planning Commission administers 34,201 acres of parkland in the County. This includes 13 developed and three undeveloped regional and recreational parks, many consisting of over 200 acres, and featuring more than 640 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake and Pine Lake. Of the 407 parks in the Montgomery Parks system, 308 smaller park and open space areas serve as local and neighborhood parks. Additionally, Seneca Creek State Park is located in the heart of the County, and Patuxent River State Park is located along the County's northeastern border. The National Park Service provides additional park facilities including the C & O Canal National Historic Park, Great Falls National Park, and Glen Echo Park. Several municipalities within the County, including Rockville, Takoma Park, Kensington, Gaithersburg, Poolesville, and Washington Grove, among others, maintain local parks.

## ***Public Safety***

### **Fire and Rescue Service**

The Montgomery County Fire and Rescue Service (MCFRS) is an all-hazard fire and rescue service. MCFRS is one of the largest combination career/volunteer fire and rescue departments in the nation. MCFRS manages all components of the County's fire suppression, Emergency Medical Services, Emergency Communications, apparatus management, Fire Code Enforcement, Fire/Explosive Investigations, Community Outreach, Wellness, Safety and Training, and administration. MCFRS is comprised of approximately 1,800 personnel, including 1,155 career uniformed employees, 112 civilian employees, over 600 call active volunteers and 19 Local Fire and Rescue Departments. MCFRS operates 34 fire and rescue stations and 12 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 is adding four additional stations to serve the Upcounty area: Germantown-Milestone, Germantown-Kingsview, Travilah, and Clarksburg. An interim fire station to serve the Clarksburg area was opened in November 2005. The Takoma Park Station will be rebuilt at its current location. Construction on the Germantown-Kingsview Station will be complete early in calendar year 2009. Construction on the Takoma Park Station began in the fall of 2008. The existing station in Wheaton is scheduled to be replaced. Stations in Rockville, Cabin John, and Glen Echo are scheduled to be renovated; an addition to the Burtonsville Station is scheduled as well. The relocated Silver Spring Station was completed and became operational in early 2006. In addition, 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 standards.

### **Police Department**

The Montgomery County Police Department (MCPD) is a highly-trained merit system force of 1,188 sworn officers and 664 civilian staff for a total complement of 1,852 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). In coordination with other County agencies, the Department is a major participant in the County's Public Safety Communication System (PSCS) project. This system encompasses a computer-aided dispatch system, 800-MHz radio system, mobile data system with laptop computers in public safety vehicles, in-car report writing, automated vehicle location system, and a mapping system interfaced with the County's Geographic Information System (GIS). This PSCS became operational in the summer of 2003. The system also includes a record management system, anticipated to be operational in early 2009.

Renovations, replacements, and/or upgrades at several facilities are planned for the Department. The Vehicle Recovery Facility Project at the abandoned vehicle lot which includes a forensics garage for the examination of vehicles used in crimes and/or vehicles involved in fatal collisions is under construction. The project is slated for completion at the end of December 2008. There are approved projects for three of the six district stations, in the 1st, 3rd, and 6th police districts, to replace the existing stations. Other capital projects include the renovation of the 5th District Police Station and the Outdoor Firearms Training Center. A new police sub-station, incorporated as a part of the Fire Station No. 1 building, was established in downtown Silver Spring in early 2006, and an additional satellite facility was opened in retail space in 2006 in the Piney Branch-Flower Avenue area. There is also an approved project to replace the current County Animal Shelter with a state-of-the-art facility to be located in Gaithersburg. In conjunction with the County Executive's Smart Growth Initiative, a new Public Safety Training Academy (PSTA) and a new Montgomery County Police and Fire and Rescue Headquarters, which incorporates a new 1st District Police Station within the Headquarters facility, are being planned to replace existing aging facilities. The Smart Growth Initiative is designed to achieve significant savings and cost avoidance in replacing the various aging facilities.

The Department is also expanding the Automated Traffic Enforcement Unit in FY09. The Unit operates the Photo Red Light Enforcement Program, with 40 automated red-light cameras currently in operation throughout the county. The expansion of this Unit includes an addition to the Photo Speed Camera Enforcement Program from 30 fixed cameras to 60 fixed cameras while maintaining six mobile cameras. This program was enacted into law by the Maryland General Assembly in late 2006. This program utilizes fixed and mobile camera units throughout the County primarily on roadways where schools are located and in communities where speed limits are 35 mph or less. Operation of the Speed Camera program in the County commenced in January 2007, and the first warning citations were issued beginning in March 2007, with actual citations issued in May 2007. Follow-up studies have shown that this program is effective in changing driver behavior by reducing road speeds to improve safety for pedestrians and other drivers.

### **Correction and Rehabilitation**

The Department of Correction and Rehabilitation (DOCR) personnel complement includes 568 approved positions in FY09 for 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 three 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 Center (PRC).

The Department also operates pretrial and diversion programs that supervise over 2,500 defendants in the community on a daily basis (as of early FY09). The Detention Center, located in Rockville, is a 200-bed, 72-hour holding facility for detainees who are subject to an initial court appearance, and handles all arrest booking, initial assessment of arrestees, maintenance of all inmate records, and release of all inmates. The District Court Commissioners who handle bail and bond hearings are also housed in this facility. The MCCF, a 1,029-bed facility located in Boyds, houses and provides programs for adult men and women serving sentences up to 18 months or awaiting trial or sentencing.

In FY08, the local inmate average daily population was approximately 151 at the Detention Center and 679 at the MCCF. A combined average population of approximately 32 Federal inmates was being held in these two facilities. The average total population at the Pre-Release Center was 145 residents with an additional 29 in the non-residential, prerelease home confinement program also managed by the PRC staff.

The County is currently engaged in the planning and design of a new Criminal Justice Complex (CJC) to replace the existing Detention Center, and to construct a dedicated DOCR training facility at the Montgomery County Correctional Facility in Clarksburg. A full array of programs will be located at the CJC relating to the central processing function, as well as serving as the site for the 24/7 District Court of Maryland, Health and Human Services Intake Screening, DOCR Pre-Trial Services, Assessment Section and next day court hearings, public defense operations, centralized

property storage and prisoner release, and jail booking, screening and initial classification for those not released from the Central Processing Unit (CPU). The County is also engaged in planning and design for the renovation and addition of the kitchen and expansion of the dining area at the Pre-Release Center.

## ***Solid Waste Management***

The County maintains a comprehensive program 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 continues to strive to meet its aggressive goal of achieving a source reduction and recycling rate of 50 percent. As of July 1, 2008, the program included County-provided separate curbside collection from 209,306 single-family households of yard trim, glass bottles and jars, metal and plastic containers, and all types of clean, unsoiled paper. Under a contract with the County, the Maryland Environmental Service (MES) constructed and operates two facilities for the processing and marketing of the materials. The first is a 42-acre composting facility located in the northwest part of the County which processes yard trimming materials collected in conjunction with a ban prohibiting disposal of yard waste. The second is a Materials Recovery Facility (MRF), located mid-County and capable of processing 100 tons of recyclable containers per eight-hour shift (current operations require only one shift). During FY08, the County collected \$3.8 million in MRF material sales revenue, plus \$1.3 million in other recycled metal sales revenue. To assure the processing and marketing of all County residential mixed paper collected, the County utilizes a long-term agreement with Office Paper Systems (OPS), which began in July 2002. The County also enacted mandatory multi-family and commercial recycling regulations, and conducts technical outreach and enforcement in this connection.

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 Mirant Corporation 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 under a long term contract to Mirant. In October 1997, the County began the export of RRF residue and non-processible waste under a long-term disposal contract utilizing committed capacity at a landfill outside the County. A new landfill, within the County (known as Site 2) and located approximately two miles from the RRF, was permitted (refuse disposal permit) with adequate capacity for the disposal of all ash, by-pass, and non-processible waste. Under a County Council resolution adopted in May 1996, the County will not develop the Site 2 landfill unless economic conditions or changes in law render out-of-County waste disposal infeasible. The Oaks Landfill discontinued accepting solid waste in October 1997, and all capping and closure activities are complete. The Solid Waste Enterprise Fund maintains restricted cash sufficient to complete 30-year post-closure requirements.

## ***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'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 80 routes and is designed to complement the service provided by other transit operators in the County. All but three of those routes serve one or more of the 12 Metrorail Red Line or MARC

Rail Stations in the County. In FY08, approximately 29.6 million passenger trips took place on the County system. The entire fleet consists of 375 buses owned and operated by the County which travel approximately 14 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. A special ad valorem tax is levied on certain commercial and residential property located within each district to pay debt used to finance parking facilities within the district, the maintenance and operation of such facilities, and capital construction projects within each district. Other 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 issued parking revenue bonds in the amount of \$97.6 million for land acquisition, construction, repair and renovation of parking facilities. During FY08, the four districts collectively had in service 18 garages with approximately 17,050 parking spaces, 22 surface lots with 1,902 spaces, and 2,269 on-street metered spaces.

## **OTHER SERVICES**

### ***Transportation***

#### **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 by Metrorail. In 2007, the airport served approximately 18.7 million passengers on commercial, general aviation and commuter flights, a 0.7 percent increase from 2006.

Dulles International Airport is located in adjacent Fairfax/Loudoun counties in Virginia and offers commercial, general aviation and commuter service. Dulles served 24.7 million passengers in 2007, a 7.5 percent increase from 2006. The 16-mile Dulles Access Highway provides two dedicated lanes in each direction and a direct connection to Interstate 66 and the Capital Beltway.

Baltimore-Washington International Thurgood Marshall Airport (BWI) is located in Anne Arundel County, Maryland. More than 21 million passengers used the airport in 2007, an increase of 1.7 percent over 2006. As part of a recently completed five-year expansion program, BWI added a new terminal facility, parking garages, multiple skywalks, and a new rental car facility.

#### **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 13,368 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 a 106-mile regional network connecting 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 29.4 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, Viers Mill Road, and Colesville Road. Approximately 150 Metrobuses operate on 39 routes in the County.

## **MARC Rail**

The Maryland Mass Transit Administration operates MARC commuter rail service with 10 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***

Operation and maintenance of the public water and sewer systems in the County (exclusive of those for the City of Rockville and for 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 FY09 approved operating budget for WSSC totals \$552.7 million; the approved capital budget totals \$361.0 million.

The Potomac and Patuxent Rivers are WSSC's two major 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 320 million gallons 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 approximately 17 billion gallons of raw water, if needed during low flow periods. An approved expansion of the Patuxent Filtration Plant will increase normal capacity there from 56 MGD to 72 MGD, and emergency capacity from 72 MGD 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 (DC WASA), has a treatment capacity of 370 MGD, of which WSSC's allocated capacity totals approximately 170 MGD. The County maintains membership on the DC WASA Board. WSSC's Seneca Creek Wastewater Treatment Plant provides 20 MGD of treatment capacity in the Seneca basin, serving the communities of Gaithersburg, Germantown, and Clarksburg. An approved expansion will increase treatment at the Seneca Plant to its planned capacity of 26 MGD, with completion expected in 2011. WSSC also operates two smaller treatment plants in the County which serve the communities of Damascus and Hyattstown.

The City of Rockville operates its own water and wastewater system, which serves approximately 75 percent of the City's residential population. Rockville's Water Treatment Plant, located on Sandy Landing Road in Potomac, draws raw water from the Potomac River. The plant is currently rated at 8.0 MGD. Rockville has 12 MG of water supply storage in the following tanks: Hunting Hill, Carr Avenue and Talbott Street. Wastewater treatment for Rockville's sewerage system is provided at Blue Plains via WSSC's and DC WASA's transmission facilities. Rockville is allocated 9.31 MGD of treatment capacity of WSSC's 170 MGD capacity at Blue Plains. The approved FY09 Operating Budget for Rockville totals \$7.1 million for the water fund and \$6.9 million for the sewer fund. The approved FY09 Capital Budget for Rockville totals \$10.5 million for the water fund and \$8.1 million for the sewer fund.

Rockville recently initiated water supply systems upgrade and rehabilitation projects that will improve fire flows, water quality, and water production. The Mayor and Council approved a financing plan to fund these programs through user rates, starting with a 25 percent rate hike for FY2009. The City is also undertaking an aggressive preventative maintenance and lining plan for the sewage collection system that will help prevent blockages and overflows, identify

and prioritize capital improvements, and reduce opportunities for infiltration and inflow of rain and ground water into the system. Rockville plans to invest \$7.1 million in capital projects for the wastewater collection system over the next five years.

The Town of Poolesville also operates its own water and wastewater systems, which serve the majority of the Town. Raw water for the Town's system is supplied by nine groundwater wells, with an average daily demand of approximately 0.5 MGD. Developers drilled several new wells on their respective properties to supplement the water supply for existing and future residents. The Town acquired withdrawal permits for two of the larger producing wells and increased the overall withdrawal permit from 0.55 MGD to 0.65 MGD on an annual daily average. The new wells are under construction and will be completed early in 2009. The Town expanded its wastewater treatment plant from 0.625 MGD to 0.75 MGD and also enhanced the level of treatment to meet the Biological Nutrient Removal limits of the State. A further upgrade to an Enhanced Nutrient Removal system is underway to satisfy new State standards. These upgrades are expected to be completed late in 2009.

## ***Utilities***

Potomac Electric Power Company (PEPCO) serves the major portion of the County, with additional service from the Baltimore Gas and Electric Company (BGE), and Allegheny Power Company. Three natural gas transmission pipeline companies (Columbia Gas Transmission, Dominion Transmission, and Transcontinental Gas Pipeline Corporation) traverse the County, supplying it with Appalachian and Southwest natural gas. Washington Gas and Baltimore Gas and Electric distribute this natural gas.

In early 1999, the Maryland General Assembly enacted The Electric Customer Choice and Competition Act of 1999 that effectively deregulates the market for electric power generation. Under a companion act (Senate Bill 344 / House Bill 366), the General Assembly restructured the tax laws affecting the electric industry to ensure that Maryland companies are not put at a competitive disadvantage in relation to out-of-state electric generators. The tax law restructuring accounted for potential revenue losses at both the State and local level, and effectively mitigated any adverse tax impact to county and municipal governments.

PEPCO took advantage of the Customer Choice and Competition Act regarding the disposition of its generation assets by selling these assets in 2000 to the Mirant Corporation, which now runs the generating units in the Dickerson area of the County. PEPCO continues to own and operate its transmission and distribution system. Baltimore Gas and Electric restructured in 1996 under the name Constellation Energy Group (CEG), with BGE owning and operating the transmission and distribution system and various other CEG entities owning the generation assets. Potomac Edison, which does business as Allegheny Power, is the regulated transmission and distribution utility for Allegheny Energy Supply Company, LLC, which owns the company's generation assets. As of November 2008, there were 26 companies licensed as electricity suppliers to Montgomery County residents, but only five of them were actively seeking new customers.

## ***Financial Institutions***

The State of Maryland is home to 139 FDIC insured financial institutions, which in turn operate 1,829 branch banking locations with an estimated \$96 billion in deposits. Montgomery County houses 36 of these institutions and dominates the majority market share of these deposits with an estimated \$24 billion in deposits. The financial institutions in the County include 26 Federal and State chartered banks with 230 branch locations, and 10 Federal savings and loan banks with 91 branch locations; in total these offices represent 18 percent of the total branch locations within the State. In addition to these FDIC institutions, the County has 19 national credit unions with an estimated \$1.84 billion in share deposits and a membership base of over 286,500.

**Table 35**  
**Summary of Market Share**  
**by Location**  
**As of June 30, 2008**

<u>City/County</u>	<u>Number of Branch Offices</u>	<u>Deposits (000)</u>	<u>Market Share</u>
Montgomery	321	\$23,954,716	25%
Baltimore	309	16,342,485	17
Baltimore City	119	14,746,192	15
Anne Arundel	181	7,743,462	8
Prince George's	176	7,482,318	8
Howard	81	3,879,396	4
Frederick	86	3,094,886	3
Carroll	62	2,792,635	3

**Table 36**  
**FDIC Institutions Market Share**  
**As of June 30, 2008**

<u>Institution Name</u>	<u>Number of Branch Offices</u>	<u>Deposits (000)</u>	<u>Market Share</u>
Chevy Chase FSB	71	\$6,207,345	26%
Bank of America, NA	32	3,037,753	13
SunTrust Bank	38	2,941,579	12
Wachovia Bank, NA	14	2,909,000	12
PNC Bank, NA	17	818,828	3

Source: FDIC Summary of Deposit Market Share Report for the State of Maryland, NCUA Credit Union Data Report.

## ***Healthcare***

There are five accredited hospitals located within the County: Holy Cross Hospital in Silver Spring, Suburban Hospital in Bethesda, Washington Adventist Hospital in Takoma Park, Shady Grove Adventist Hospital, in Gaithersburg, and Montgomery General Hospital in Olney. A military hospital, Bethesda Naval Hospital, is located in the County 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.

## ***Travel and Tourism***

According to the most recent statistics available by Global Insight in partnership with D.K. Shifflet & Associates, Ltd., travel and tourism in Montgomery County generates over \$1.66 billion in travel-related expenditures, \$579 million in direct payroll, and 36,871 jobs in the County. State and local tax receipts (excluding hotel/bed taxes) in 2006 were in excess of \$160 million. Local room rental transient tax collections generated \$17.7 million in FY 2008, down from \$17.9 million collected in FY 2007.

The Conference and Visitors Bureau of Montgomery County, Maryland, Inc. (CVB) is a public-private non-profit membership organization dedicated to the promotion of travel and tourism to the County. The CVB serves as a subcontractor to the Montgomery County Department of Economic Development. On behalf of its membership, the



Bureau participates in travel industry trade shows across the country, sponsors familiarization tours for tour operators, travel agents and travel writers, implements a \$100,000 advertising campaign annually, manages a direct sales initiative for the meetings, group tour and sports markets, implements marketing programs specifically targeting large groups that could meet in the Montgomery County Conference Center, markets all of the County's assets, including the Music Center at Strathmore and the American Film Institute, and manages a Visitor Information Center in Germantown.

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**APPENDIX B**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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## **Independent Auditor's Report**

The Honorable County Council  
of Montgomery County, Maryland

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, 2008 which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of Montgomery Community College, Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc. which represent 100% of the assets, net assets and revenues of the nonmajor component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned component units, is based solely on the reports 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

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 fund information of the County as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2008 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 22 and the schedule of funding progress on page 113 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clifton Henderson LLP*

Baltimore, Maryland  
December 22, 2008

## 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.

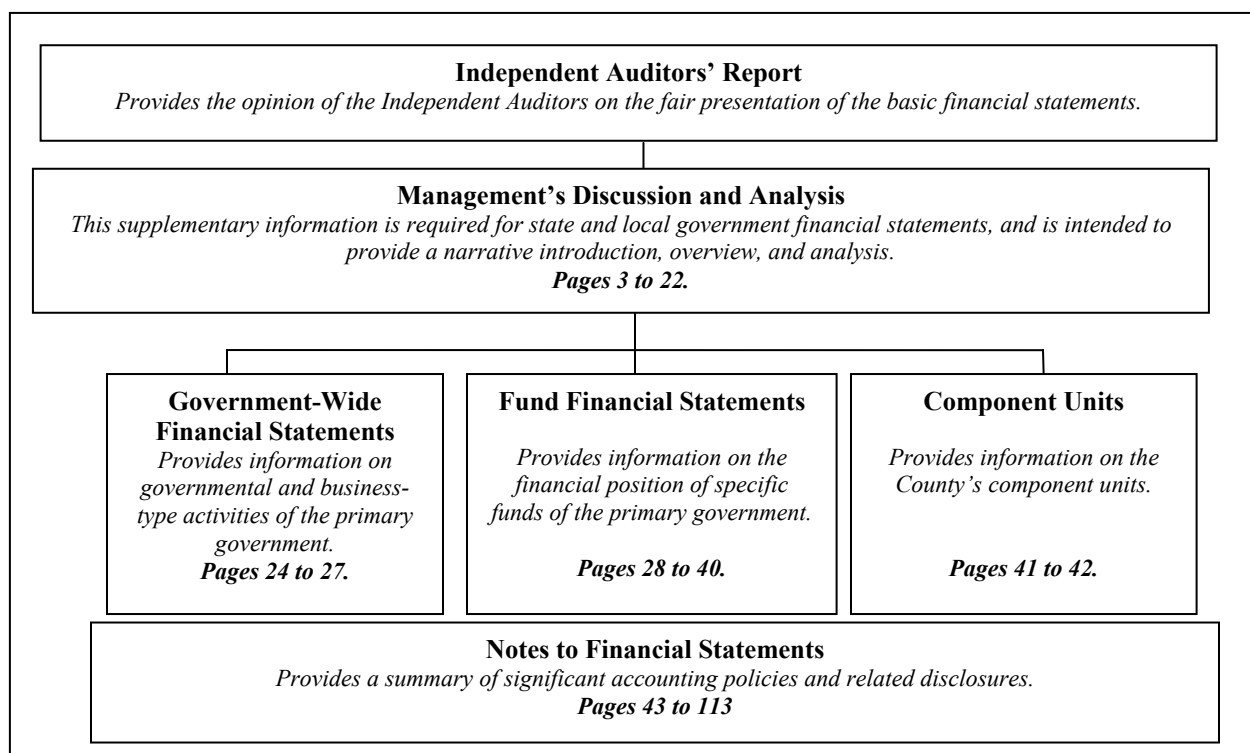
### FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY08 by \$1,912.2 million. That amount is net of a \$578 million unrestricted deficit. The deficit occurs because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery College (MCC), 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 \$1,023 million at June 30, 2008. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$445 million.
- The County's total government-wide net assets decreased by \$252.4 million.
- As of the close of FY08, the County's governmental funds reported combined ending fund balances of \$582.6 million, a decrease of \$207.3 million over the prior year's ending fund balances. Of the total ending fund balances, \$363.8 million is available for spending at the County's discretion.
- At the end of FY08, unreserved fund balance for the General Fund was \$164.3 million, or 6.6 percent of total General Fund expenditures.
- The County's government-wide long-term debt increased by \$66.5 million during FY08. The key factors in this increase are:
  - The issuance of \$70.3 million in general obligation (GO) refunding bonds, used to refund \$72.8 million in GO bonds previously issued at higher rates;
  - The issuance of \$150 million in bond anticipation notes (BANs) and \$33.6 million in certificates of participation; and
  - The retirement of \$143.4 million in GO bonds.
- During FY08, the County implemented GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Implementing these statements required reporting accrual basis information related to retiree benefits, which previously were reported on a pay-as-you-go basis. The County has established a fiduciary fund, the Retiree Health Benefits Trust, to account for and report on its postemployment healthcare benefits activities. Because the County is phasing into full funding of the actuarially calculated contribution for these benefits, which contribution must be recorded as an expense, a liability of \$58.6 million has been recognized on the County's Statement of Net Assets. For more information, see Note IV-G of the Notes to Financial Statements.

## 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 are designed to be corporate-like in that all governmental and business-type activities are reported in columns which add to a total for the primary government. The focus of the statement of net assets is designed to provide bottom line results for the County's governmental and business-type activities. This statement reports governmental funds' current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the County, and infrastructure dedicated by developers since 1970, are included in the accompanying government-wide financial statements. The difference between the County's assets and liabilities is reported as net assets. Over time, increases or decreases in net assets 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 statement of activities is focused on both the gross and net cost of various functions, including governmental and business-type activities. This is intended to summarize and simplify the users' analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities included 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 (MCC), Montgomery County Revenue Authority (MCRA), and Bethesda Urban Partnership, Inc. (BUPI).

### **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 will 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 three major governmental funds – General, Debt Service, and Capital Projects – and 17 nonmajor funds (16 special revenue funds and one permanent fund).

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 nonmajor 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 Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2008 and 2007:

Summary of Net Assets *						
June 30, 2008 and 2007						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	\$ 1,383,926,199	\$ 1,630,704,598	\$ 175,201,707	\$ 185,718,501	\$ 1,559,127,906	\$ 1,816,423,099
Capital assets, net	2,716,099,259	2,627,754,382	221,507,629	224,091,918	2,937,606,888	2,851,846,300
Total Assets	4,100,025,458	4,258,458,980	396,709,336	409,810,419	4,496,734,794	4,668,269,399
Liabilities:						
Long-term liabilities outstanding	2,087,553,294	2,000,934,120	83,092,973	103,188,517	2,170,646,267	2,104,122,637
Other liabilities	379,263,571	359,501,357	34,637,625	40,022,123	413,901,196	399,523,480
Total Liabilities	2,466,816,865	2,360,435,477	117,730,598	143,210,640	2,584,547,463	2,503,646,117
Net assets:						
Invested in capital assets, net of related debt	1,875,327,937	1,880,672,363	166,059,652	160,807,324	2,003,119,670	1,999,920,988
Restricted	410,457,623	440,714,792	76,590,751	72,370,254	487,048,374	513,085,046
Unrestricted (deficit)	(652,576,967)	(423,363,652)	36,328,335	33,422,201	(577,980,713)	(348,382,752)
Total Net Assets	\$ 1,633,208,593	\$ 1,898,023,503	\$ 278,978,738	\$ 266,599,779	\$ 1,912,187,331	\$ 2,164,623,282
* Primary Government						

The County’s current and other assets decreased by \$257.3 million or 14.2 percent from FY07. The County’s assets exceeded its liabilities at the close of FY08 by \$1,912.2 million. By far the largest portion of the County’s net assets 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. Governmental capital lease obligations of \$38.3 million, related to business-type activity capital assets, are classified as a component of unrestricted net assets for governmental activities purposes, but reclassified to invested in capital, net of related debt, for total primary government purposes.

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 MCC 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 \$1,023 million at June 30, 2008. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$445 million. An additional portion of the County's net assets (\$487 million or 25.5 percent) represents resources that are subject to restrictions on how they may be used. This amount includes \$119.6 million in net assets restricted for revenue stabilization for periods of economic downturn.

The County's total net assets decreased by \$252.4 million for FY08 or 11.6 percent over FY07. This decline largely reflects flat general revenue in both property and county income taxes and overall increased expenses.

## Statement of Activities

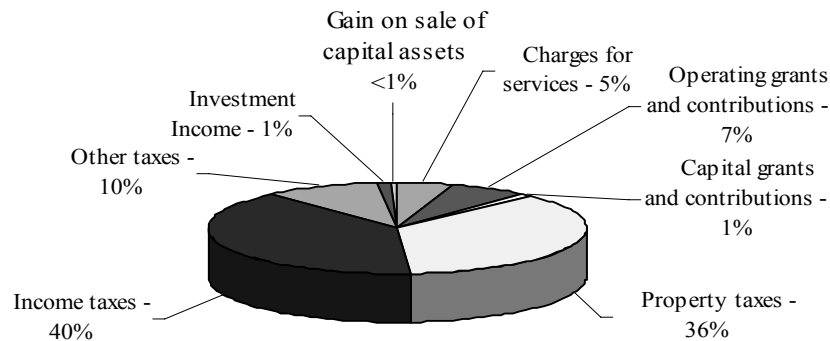
The following table summarizes the County's change in net assets for the years ended June 30, 2008 and 2007:

Summary of Changes in Net Assets *						
For the Fiscal Years Ended June 30, 2008 and 2007						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>REVENUES</b>						
Program Revenues:						
Charges for services	\$ 147,895,246	\$ 134,172,562	\$ 378,413,979	\$ 360,435,582	\$ 526,309,225	\$ 494,608,144
Operating grants and contributions	216,393,101	231,568,832	10,000	11,135	216,403,101	231,579,967
Capital grants and contributions	33,306,804	51,450,977	-	-	33,306,804	51,450,977
General revenues:						
Property taxes	1,146,965,583	1,126,632,925	11,266,747	9,562,592	1,158,232,330	1,136,195,517
Income taxes	1,246,939,067	1,388,927,139	-	-	1,246,939,067	1,388,927,139
Other taxes	313,132,911	352,310,153	-	-	313,132,911	352,310,153
Investment income	42,586,707	42,003,532	7,330,179	8,339,098	49,916,886	50,342,630
Gain on sale of capital assets	13,309,573	6,209,594	-	34,637	13,309,573	6,244,231
Total Revenues	3,160,528,992	3,333,275,714	397,020,905	378,383,044	3,557,549,897	3,711,658,758
<b>EXPENSES</b>						
Governmental Activities:						
General government	304,526,806	274,005,357	-	-	304,526,806	274,005,357
Public safety	601,156,598	529,748,046	-	-	601,156,598	529,748,046
Public works and transportation	233,193,597	210,395,916	-	-	233,193,597	210,395,916
Health and human services	286,907,329	252,066,273	-	-	286,907,329	252,066,273
Culture and recreation	118,017,417	103,765,006	-	-	118,017,417	103,765,006
Community development and housing	19,134,520	18,213,040	-	-	19,134,520	18,213,040
Environment	14,967,339	12,962,711	-	-	14,967,339	12,962,711
Education	1,783,953,133	1,669,681,121	-	-	1,783,953,133	1,669,681,121
Interest on long-term debt	95,931,334	81,262,618	-	-	95,931,334	81,262,618
Business-type Activities:						
Liquor control	-	-	190,742,139	180,243,618	190,742,139	180,243,618
Solid waste activities	-	-	98,166,937	103,455,706	98,166,937	103,455,706
Parking lot districts	-	-	27,854,499	26,622,097	27,854,499	26,622,097
Permitting services	-	-	26,977,767	23,463,486	26,977,767	23,463,486
Community use of public facilities	-	-	8,456,433	7,657,662	8,456,433	7,657,662
Total Expenses	3,457,788,073	3,152,100,088	352,197,775	341,442,569	3,809,985,848	3,493,542,657
Increase / (decrease) in Net Assets Before Transfers	(297,259,081)	181,175,626	44,823,130	36,940,475	(252,435,951)	218,116,101
Transfers	32,444,171	34,073,566	(32,444,171)	(34,073,566)	-	-
Increase / (decrease) in Net Assets	(264,814,910)	215,249,192	12,378,959	2,866,909	(252,435,951)	218,116,101
Net Assets, beginning of year	1,898,023,503	1,682,774,311	266,599,779	263,732,870	2,164,623,282	1,946,507,181
Net Assets, end of year	\$ 1,633,208,593	\$ 1,898,023,503	\$ 278,978,738	\$ 266,599,779	\$ 1,912,187,331	\$ 2,164,623,282
* Primary Government						

## **Governmental Activities**

Revenues for the County's governmental activities were \$3,160.5 million for FY08. Sources of revenue are comprised of the following items:

**Revenues by Source - Governmental Activities  
For the Fiscal Year Ended June 30, 2008**

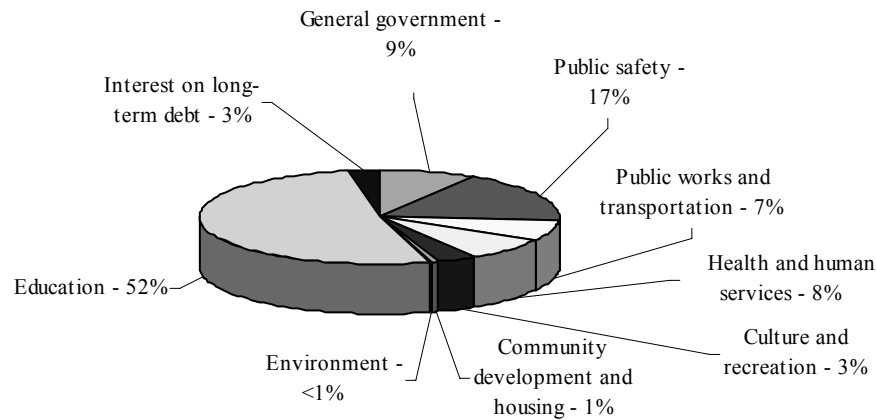


- Taxes constitute the largest source of County revenues, amounting to \$2,707 million for FY08. Property and local income tax combined comprise 75.7 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2008 and 2007. 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 (\$102.7 million or 47.5 percent), public works and transportation (\$65.5 million or 30.3 percent) and public safety (\$29.4 million or 13.6 percent).

A more detailed discussion of the County's revenue results for FY08 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 FY08 was \$3,457.8 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1.8 billion. Public safety expenses totaled \$601.2 million, general government services totaled \$304.5 million, and health and human services, the fourth largest expense for the County, totaled \$286.9 million.

**Expenses by Function - Governmental Activities  
For the Fiscal Year Ended June 30, 2008**



The following table presents the cost and program revenues of each of the County's six largest programs – education, public safety, general government, health and human services, public works and transportation, 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, 2008 and 2007							
	Expenses		Revenues		Net Cost of Services		
	2008	2007	2008	2007	2008	2007	
Education	\$ 1,783,953,133	\$ 1,669,681,121	\$ -	\$ -	\$ 1,783,953,133	\$ 1,669,681,121	
Public safety	601,156,598	529,748,046	64,907,226	60,750,807	536,249,372	468,997,239	
General government	304,526,806	274,005,357	62,807,609	67,933,964	241,719,197	206,071,393	
Health and human services	286,907,329	252,066,273	109,198,818	117,352,426	177,708,511	134,713,847	
Public works and transportation	233,193,597	210,395,916	105,746,506	113,815,429	127,447,091	96,580,487	
Culture and recreation	118,017,417	103,765,006	36,008,463	42,982,703	82,008,954	60,782,303	
Other	130,033,193	112,438,369	18,926,529	14,357,042	111,106,664	98,081,327	
Total	<u>\$ 3,457,788,073</u>	<u>\$ 3,152,100,088</u>	<u>\$ 397,595,151</u>	<u>\$ 417,192,371</u>	<u>\$ 3,060,192,922</u>	<u>\$ 2,734,907,717</u>	

Of the total cost of governmental activities of \$3,457.8 million, \$397.6 million was paid by those who directly benefited from the programs (\$147.9 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$249.7 million). Of the \$3,060.2 million net cost of services, our taxpayers paid for these activities through County taxes which totaled \$2,707 million; also available to contribute towards such net costs were investment income and gain on sale of capital assets.

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

- General Government includes:
  - \$2.5 million increase in expenses for the acceleration of the presidential primary election and three special elections;
  - \$8.4 million increase in expenses for snow removal operations and wind and rain storm clean-up; and

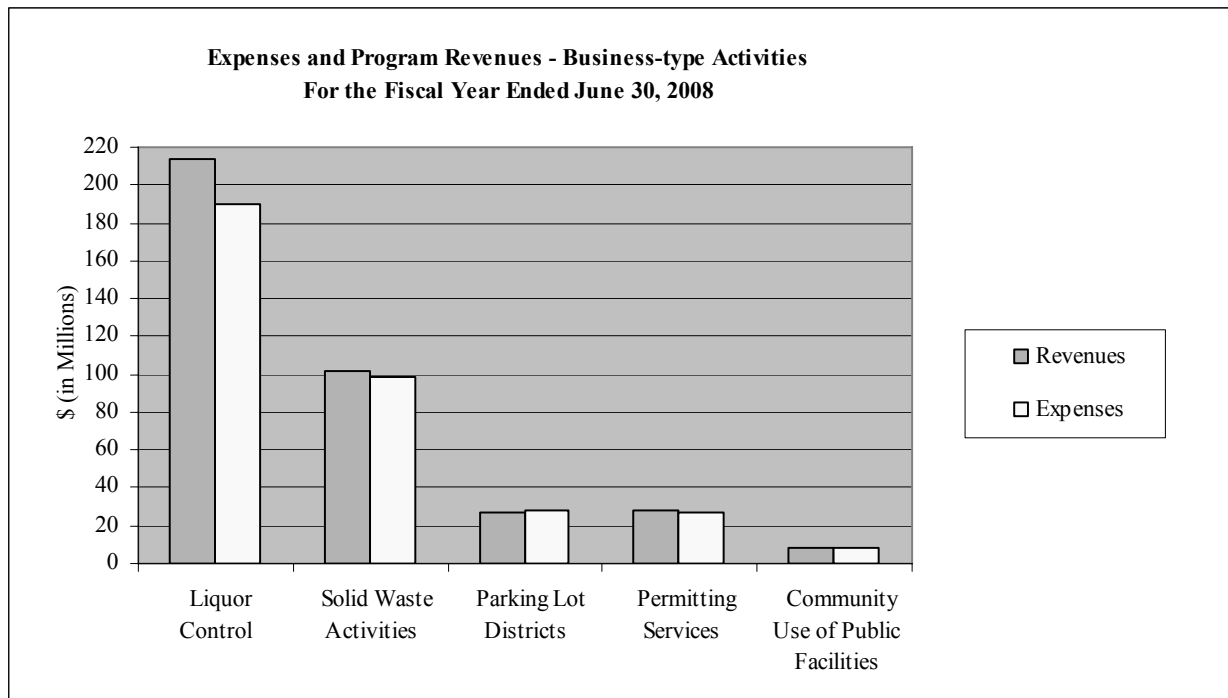
- Decrease in licenses and permits revenue of 15% or about \$1.5 million primarily due to the reorganization of the Board of License Commissioners to become a division within the Department of Liquor Control.
- Public Safety includes:
  - \$1.5 million reduction in intergovernmental (federal) reimbursements due to a decrease in disaster deployments;
  - Additional \$1.7 million in charges for services and licenses and permits due to the expansion of the Fire Code Inspection Section; and
  - \$10 million increase in fines and forfeitures for first full operational year of the Speed Camera Program.
- Public Works and Transportation includes:
  - Additional \$3.5 million for the enhancement of quality, reliability and safety of Ride On and Metrobus services. Programs and services were expanded for students, senior citizens and people with disabilities; and
  - Federal transportation capital grants for the Silver Spring Transit Center were lower than FY07 by approximately \$3.5 million.
- Culture and Recreation includes:
  - Glen Echo Park had no grants in FY08 compared to \$1.7 million for FY07; and
  - \$6.2 million reduction of park land acquisition and legacy open space grants compared to FY07.

### **Business-type Activities**

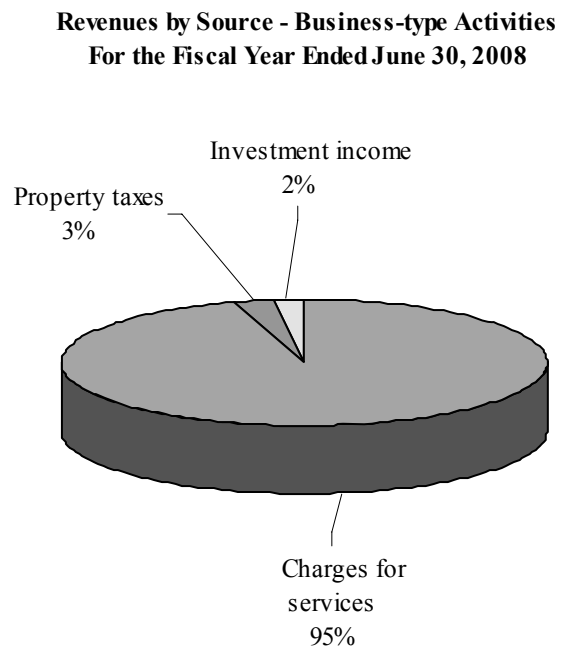
Highlights of the County's business-type activities for FY08 are as follows:

- Business-type activities experienced an increase in net assets of \$12.4 million for FY08. However, this amount is reported after total net transfers out of \$32.4 million. The most significant components of this amount include:
  - \$8.6 million in transfers of parking fees from the Parking Lot Districts to the Mass Transit Fund and Urban Districts; and
  - \$22.2 million in FY08 Liquor Enterprise Fund profits transferred to the General Fund. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.
- Charges for services to users comprise 95.3 percent of revenues, with \$213.7 million (56.5 percent of charges for services revenue) attributable to liquor control operations and \$102.1 million (27 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.
- Parking lot district property taxes of \$11.3 million is the second largest source of revenue at only 2.8 percent.
- Investment income of \$7.3 million reflects a decrease of \$1 million or 12.1 percent, primarily because of the decreases in interest rates and pooled cash and investments during the year.

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 unreserved 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 FY08, the County's governmental funds reported combined ending fund balances of \$582.6 million, a decrease of \$207.3 million from the end of FY07. Of the total ending fund balances, \$363.8 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$218.8 million is unavailable for new spending because it has been reserved for prior period commitments and legal restrictions.

The General Fund is the primary operating fund of the County. At the end of FY08, unreserved and undesignated fund balance of the General Fund was \$83.6 million, while total fund balance was \$172.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 3.1 percent of the total General Fund expenditures and transfers out, while total fund balance represents 6.2 percent of the same amount.

The fund balance of the County's General Fund decreased by \$144 million during FY08, consistent with the budgeted decrease, and primarily due to reduced income and real property transfer and recordation tax revenues.

The Capital Projects Fund has a total fund balance of \$36.1 million, a decrease of \$109.5 million from the end of FY07. The decrease was primarily due to the use of FY07 bond anticipation note proceeds, resulting in less bond anticipation notes needing to be issued in FY08.

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 unreserved fund balance; the reserved fund balance of \$3.3 million represents a debt service reserve account.

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.

Unrestricted net assets of the Liquor Fund at the end of FY08 amounted to \$32.5 million, and operating income was \$24.2 million. After a subsidy transfer to the General Fund of \$22.2 million, the fund ended FY08 with an increase in net assets of \$3.3 million.



The Solid Waste Activities Fund total net assets amounted to \$65 million, of which the unrestricted net assets were \$10.9 million. Restricted net assets of \$33.8 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund increase in net assets amounted to \$2.7 million in FY08, resulting in total ending net assets of \$169.8 million. Of this amount, \$137.9 million (81.2 percent) is invested in capital net of related debt; \$7.8 million (4.6 percent) is restricted for debt service on revenue bonds; and \$24.1 million (14.2 percent) is unrestricted.

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

### **General Fund Budgetary Highlights**

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to \$15 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:

- \$2.5 million for acceleration of the presidential primary election and three special elections;
- \$1.6 million in overtime costs for correction officers to backfill employees on long-term military and extended sick leave, and operating expenses related to increases in medical, equipment, and supply costs.;
- \$3 million for increased personnel costs as a result of improved recruitment and retention and excess compensatory leave payouts, and operating expenses related to higher fuel costs.;
- \$8.4 million for snow removal operations and wind and rain storm clean up; and
- \$1.7 million in health related services funded by Social Services State Reimbursement (HB669) revenue.

Actual revenues were less than budget amounts by \$61.9 million, while actual expenditures and net transfers out were less than final budget by \$16.0 million and \$56.9 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2008, include the following:

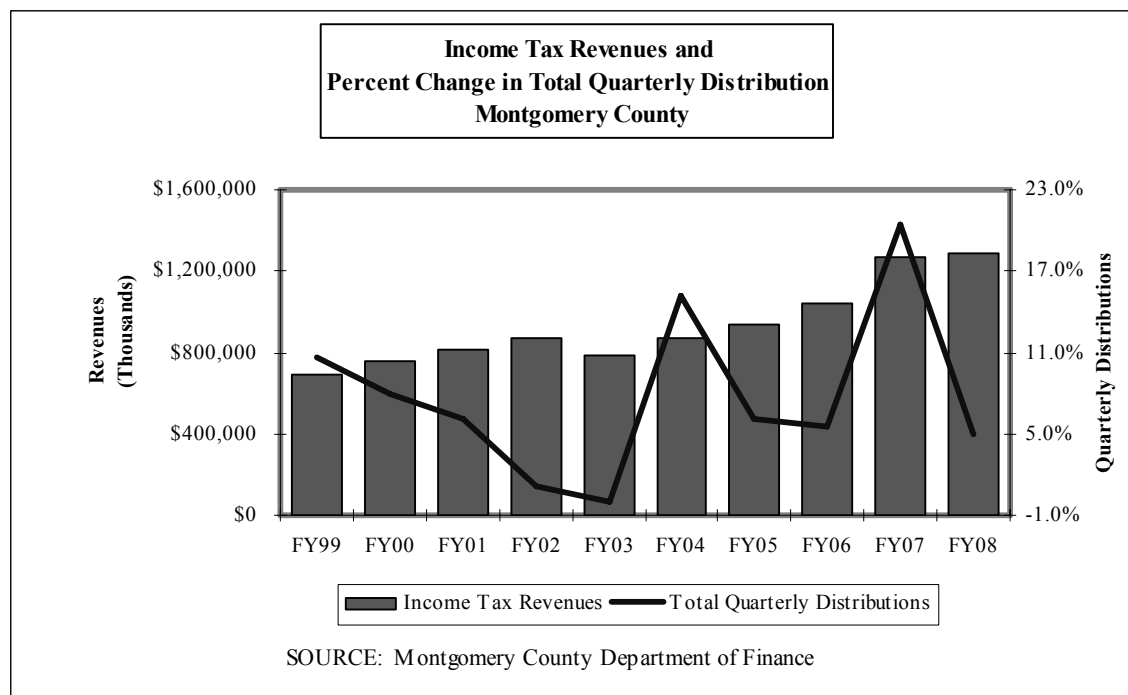
- Actual expenditures of \$940.6 million were \$16 million less than the final budget, which represents 1.7 percent of the final budget, and is attributable to savings achieved across numerous departments.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by \$52.4 million. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

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

Overview - Actual revenues for the General Fund totaled \$2,585.7 million and were 2.3 percent below the budget estimate for the fiscal year and 0.5 percent below actual revenues for FY07. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the transfer tax (↓\$40.4 million below the budget estimate), followed by the recordation tax (↓\$17.8 million below the budget), and finally, the fuel and energy tax (↓\$1.7 million below the estimate). Revenues from consumption/excise taxes which include fuel/energy,

telephone, hotel/motel, and admissions taxes, were \$168.7 million in FY08. That amount was \$2.3 million or 1.4 percent below the budget estimate. Investment income was approximately \$6.1 million below the budget estimate. Licenses and permits (↑6.5%) and charges for services (↓2.6%) came in below budget estimates. Intergovernmental revenues were 1.6 percent below the budget estimate. Such a decrease was attributed to federal reimbursements which came in 4.4 percent below the budget estimate, and State reimbursements which were 1.1 percent below the budget estimate. Other intergovernmental revenues, which represent only 0.1 percent of total intergovernmental revenues, came in 2.8 percent above the budget estimate.

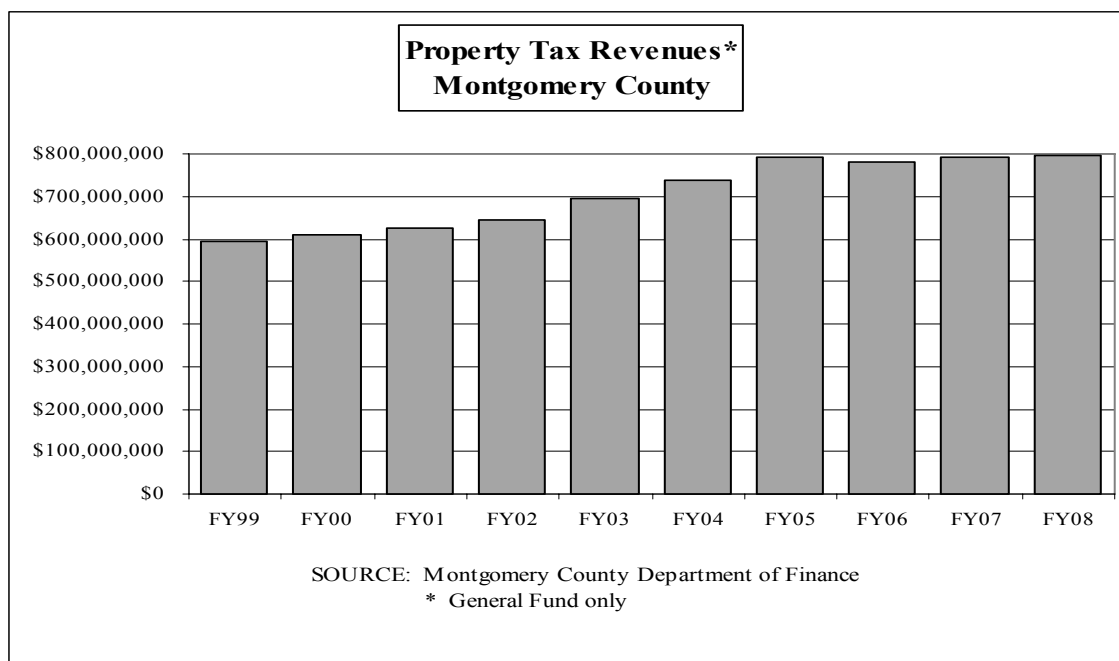
**Income Taxes** - The largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$1,291.3 million and represented 54.0 percent of actual tax revenues and 49.9 percent of total actual revenues in FY08. Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expansion of the employment base in the County and growth in capital gains. With a Standard & Poor's 500 index increasing 13.6 percent in calendar year (CY) 2007, 3.0 percent in CY2006, 9.0 percent in CY2005, and 26.4 percent in 2004 and an average annual growth rate of 1.2 percent in the County's resident employment during the CY2003-CY2006 period, income tax revenues increased 10.4 percent in FY04, 8.2 percent in FY05, 11.0 percent in FY06, and 21.1 percent in FY07. However, with no growth in resident employment in CY07, income taxes increased only 2.1 percent in FY08. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 4.9 percent in FY08, +20.5 percent (FY07), +5.6 percent (FY06), +6.1 percent (FY05), and +15.1 percent (FY04).



**Property Taxes** - Property tax collections in the General Fund amounted to \$796.8 million in FY08, which were \$1.2 million (↑0.2%) above the budget estimate and 0.7 percent above actual revenues in FY07. Actual property taxes, excluding penalties and interest and other items, were \$794.9 million in FY08 – an increase of 1.3 percent over last year. Collections from penalties and interest were \$1.8 million – a 71.4 percent decrease compared to FY07. The reason for the modest increase in property tax revenues compared to the budget estimate is attributed to a slightly better increase in personal property taxable assessments which offset the decline in the amount for penalties and interest. The modest increase in property tax collections for the General Fund was also attributed to actions by the

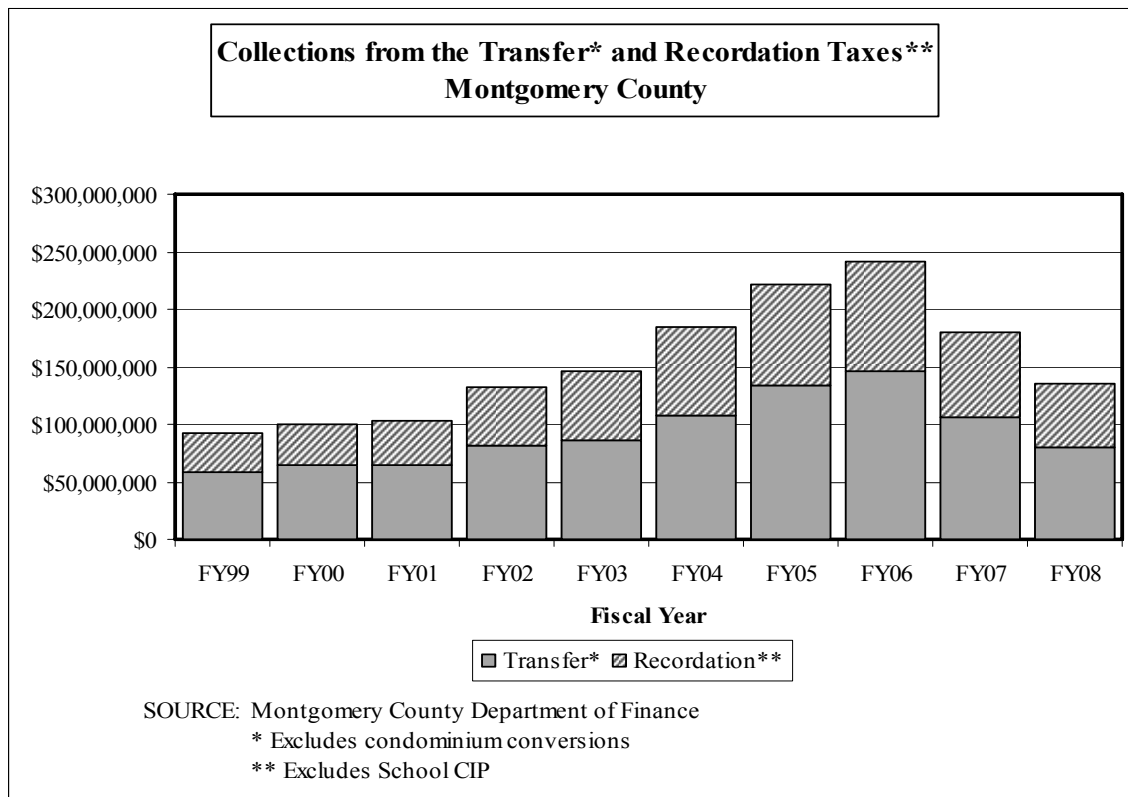
County to limit the amount of increase in real property taxes to the rate of inflation as required by the Charter Limit. Such actions by the County included an income tax offset of \$613 per owner-occupied residence yielding a total amount of \$151.1 million for the credit, and the County supplemental Homeowner's Tax Credit Program, both of which were applied to (deducted from) the General Fund.

The taxable assessments for real property increased 13.2 percent from FY07 to FY08. This was the second largest increase in over eighteen years. New construction, which added \$1.5 billion to the base in FY08, was 7.6 percent lower than in FY07. The real estate market, particularly the annual double-digit price increases during prior fiscal years (FY02-FY06), fueled the dramatic increase in the reassessment rate from 21.8 percent to 65.0 percent for Cycle Two reassessments of the County's real property with the three-year phase in starting in Levy Year (LY) 2005, that preceded an increase in the rate from 36.3 percent to 63.3 percent for Cycle Three reassessments in LY06, but declined from 51.8 percent to 36.3 percent for Cycle One in LY07 indicating a significant deceleration in the growth of average sales prices during FY07 ( $\uparrow 2.0\%$ ) and FY08 ( $\uparrow 0.4\%$ ). However, because of the homestead credit, annual increases in homeowners' taxable assessments are limited to 10 percent per year although other property such as commercial and investment residential properties are not affected by this credit. While there were dramatic increases in the reassessment rates, which added nearly \$21.6 billion to the assessable base in FY08, such increases were potentially offset by the homestead tax credit, which excluded an additional \$6.5 billion from the real property taxable base in FY08.

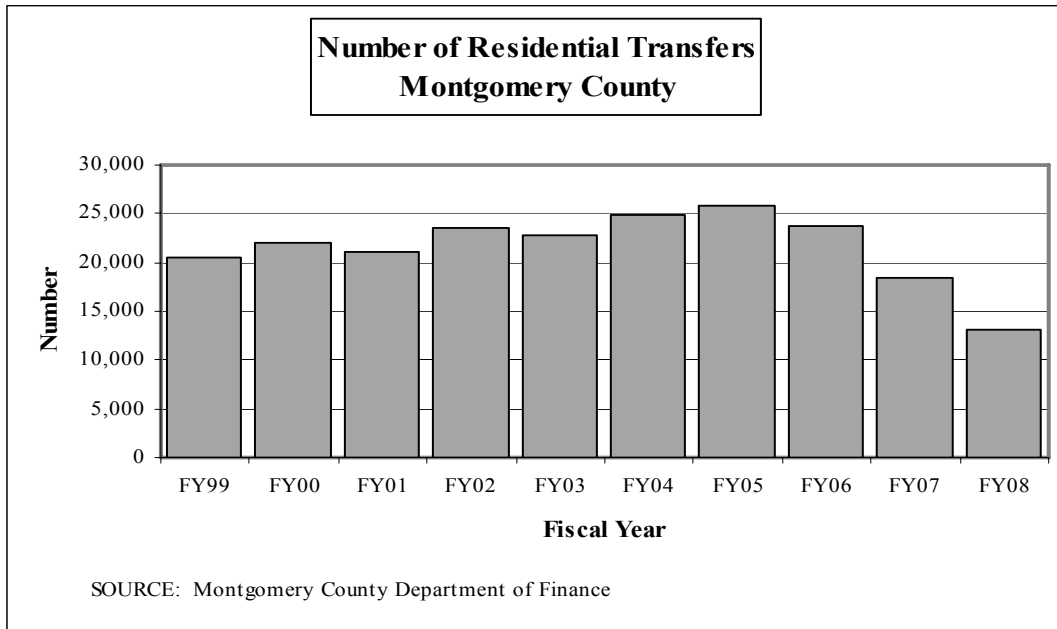


Assessments of personal property increased 2.8 percent in FY99, 3.2 percent in FY00, 5.1 percent in FY01, 3.0 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland Department of Assessments and Taxation. However, because of the rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. For the past four fiscal years (FY05-FY08), taxable assessments for personal property averaged \$3.913 billion ranging from a low of \$3.832 billion in FY06 to a high of \$3.971 billion in FY08. Despite the weaker trend in personal property since FY04, the total taxable assessment grew 9.6 percent in FY05, 11.9 percent in FY06, 13.4 percent in FY07, and 12.8 percent in FY08.

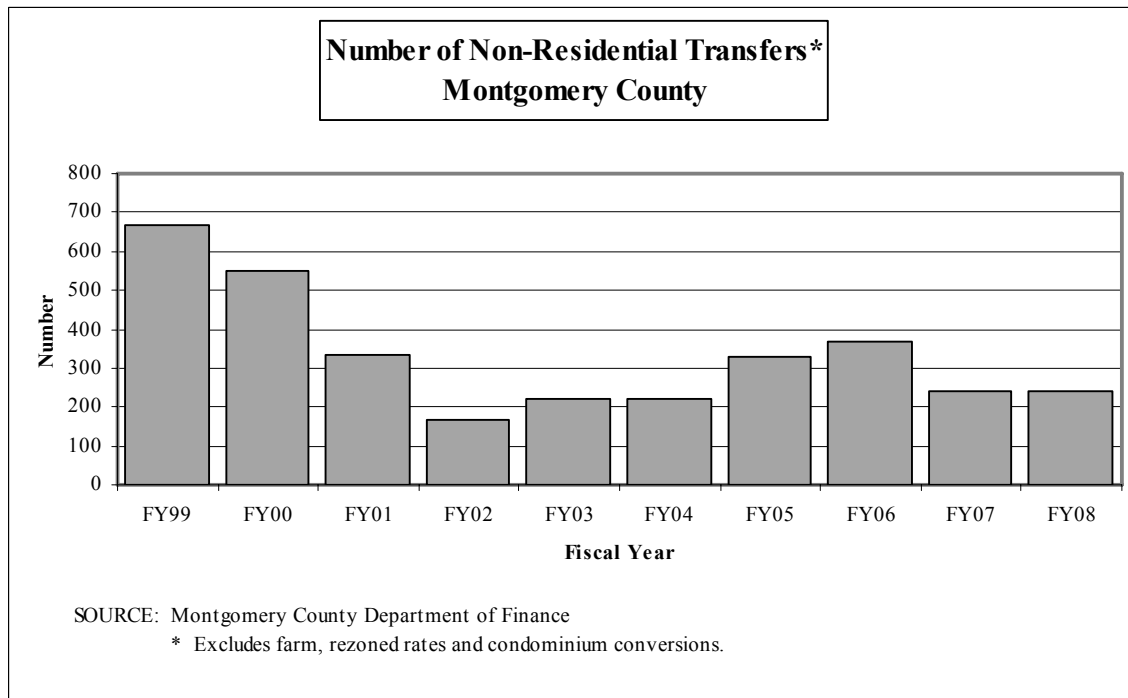
Transfer and Recordation Taxes - The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY08 were \$135.0 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions), and 30.1 percent below the budget estimate and 24.8 percent below actual revenues in FY07. The FY08 decline in collections from transfer and recordation taxes was the second consecutive decrease which represented a decline of \$106.7 million over the two-year period. The drop in housing sales (↓31.3%) during FY08 was the major factor in the decline. As the accompanying chart illustrates, the total amount collected from these taxes increased from \$93.0 million in FY99 to a peak of \$241.7 million in FY06, before declining to \$135.0 million in FY08, the lowest amount since the increase in the recordation tax rate beginning in FY03 from \$4.40 per \$1,000 to \$6.90 per \$1,000 of the value of the contract excluding the first \$50,000 exempted from taxation for residential properties.



General Fund revenues from the transfer tax experienced a decline of 24.8 percent in FY08 compared to the same decline from the recordation tax. Because of the decrease, attributed to a dramatic reduction in home sales in FY08 (↓31.3%), revenues from the residential sector were \$68.5 million, a decrease of 26.0 percent over FY07 – the second consecutive decrease since FY95. The number of residential transfers declined to approximately 13,100 (↓28.9%) – the lowest level in over eighteen years and reflecting the dramatic drop in housing sales.



The commercial market performed better in FY08 than the residential sector with revenues increasing 1.8 percent from \$9.9 million to \$10.1 million. The number of transfers were the same (240) as FY07 – the lowest level of activity since FY04 (222).



Other Taxes - The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled \$168.7 million and were approximately \$2.3 million, or 1.4 percent, below the budget estimate. Revenues from the telephone tax were 0.8 percent above the budget estimate. That modest increase was attributed to increases in the use of cellular telephones, which represented nearly 70 percent of total revenues, and offset the decline in landlines. The remaining consumption/excise taxes were below budget estimates. Revenues from the hotel/motel industry of \$17.8 million in FY08 were 3.4 percent below the budget estimate. The fuel/energy tax was 1.4 percent below the budget estimate, which was attributed to a mild winter and therefore a decline in revenues from fuel oil (↓13.2%) and no change in revenues from natural gas; and the dramatic decrease in the admissions tax (↓11.6%) from the budget estimate, which was attributed to the decline in tax receipts from three of the largest sources of revenues which represent 82.0 percent of total revenues – movie theaters (↓0.3%), arcades (↓0.2%), and golf activities (↓17.4%).

Investment Income - In the General Fund, investment income decreased from \$13.2 million in FY07 to \$8.9 million and was 40.6 percent below the budget estimate. The dramatic decrease in FY08 was the result of a significant accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to April 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to 2.00 percent — a decline of 325 basis points. The justification for such a decrease was the significant global credit crisis that began in August 2007. Because of this 325-basis-point decrease over the seven-month period, short-term or money market rates decreased as well, hence the average yield on cash equity for the County decreased from 5.21 percent in FY07 to 4.41 percent in FY08. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$42.8 million or 11.6 percent below last fiscal year. However, with the decrease in investment income coupled with a lesser rate of increase in spending, the average daily portfolio balance increased from \$930.9 million in FY07 to \$971.4 million in FY08.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The County's investment in capital assets as of June 30, 2008, amounted to \$2,937.6 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation June 30, 2008				
	Governmental Activities	Business-type Activities	Total FY08	Total FY07
Land	\$ 605,871,292	\$ 52,777,663	\$ 658,648,955	\$ 622,872,601
Buildings	484,343,273	130,820,597	615,163,870	632,570,022
Improvements other than buildings	28,973,951	26,100,535	55,074,486	55,789,443
Furniture, fixtures, equipment and machinery	103,612,263	7,720,055	111,332,318	123,923,600
Leasehold improvements	9,890,909	-	9,890,909	10,701,654
Automobiles and trucks	111,396,128	1,545,316	112,941,444	105,879,857
Infrastructure	1,113,794,087	13,347	1,113,807,434	1,116,675,529
Other assets	380,180	-	380,180	588,153
Construction in progress	257,837,176	2,530,116	260,367,292	182,845,441
Total	<u>\$ 2,716,099,259</u>	<u>\$ 221,507,629</u>	<u>\$ 2,937,606,888</u>	<u>\$ 2,851,846,300</u>

\*Certain amounts have been reclassified to conform with the current year presentation.

Changes in the County's capital assets for FY08 are summarized as follows:

<b>Change in Capital Assets</b> <b>For the Fiscal Year Ended June 30, 2008</b>				
	<b>Governmental</b> <b>Activities</b>	<b>Business-type</b> <b>Activities</b>	<b>Total</b> <b>FY08</b>	<b>Total</b> <b>FY07</b>
Beginning Balance	\$ 2,627,754,382	\$ 224,091,918	\$ 2,851,846,300	\$ 2,766,264,771
Additions*	180,275,634	9,759,858	190,035,492	185,929,502
Retirements, net*	422,156	16,613	438,769	467,433
Depreciation expense	91,508,601	12,327,534	103,836,135	99,880,540
Ending Balance	<u>\$ 2,716,099,259</u>	<u>\$ 221,507,629</u>	<u>\$ 2,937,606,888</u>	<u>\$ 2,851,846,300</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 underlying land, valued at \$9 million were transferred to the County by various developers.
- In order to improve safety, accommodate high traffic and improve accessibility throughout the County, \$20.7 million was spent to construct, realign or upgrade roads throughout Montgomery County.
- \$5 million was incurred to purchase preservation easements on farmland in agricultural zones and other zones approved by the County Council to preserve farmland not protected by Transferable Development Rights (TDRs) or State agricultural land preservation easements.
- The County incurred \$15.5 million in costs for the acquisition of replacement fire apparatus for various fire stations throughout the County and \$2.4 million for the acquisition of Ride-On buses.
- To accommodate growing business community and diversity of residential population; land purchase of \$7.3 million for the construction of a library to be built for the community of Silver Spring. The existing Silver Spring Community Library is the oldest community library in the Montgomery County Library system.

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

**Long-Term Debt:**

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2008:

<b>Long-Term Debt June 30, 2008</b>				
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total FY08</b>	<b>Total FY07</b>
General obligation bonds	\$ 1,366,758,054	\$ -	\$1,366,758,054	\$1,512,678,054
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	300,000,000	-	300,000,000	150,000,000
Revenue bonds	-	54,685,000	54,685,000	61,800,000
Lease revenue bonds	36,670,000	-	36,670,000	38,255,000
Notes payable *	9,920,647	724,795	10,645,442	14,901,561
Certificates of participation	33,580,000	-	33,580,000	-
Capital leases	74,472,783	-	74,472,783	91,349,328
Compensated absences	65,022,294	4,911,073	69,933,367	63,439,639
Other postemployment benefits	58,598,791	-	58,598,791	-
Claims and judgments	-	-	-	1,200,000
Landfill closure costs	-	22,733,923	22,733,923	24,697,923
<b>Total</b>	<b>\$ 2,045,022,569</b>	<b>\$ 83,054,791</b>	<b>\$2,128,077,360</b>	<b>\$2,058,321,505</b>

\* Notes payable include equipment notes, taxable term loans, and HUD loan.

At June 30, 2008, the County had outstanding general obligation (GO) bonds of \$1,366.8 million, with outstanding variable rate demand obligations (VRDOs) of \$100 million and bond anticipation notes (BANs) of \$300 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 adopted a policy in 1988 of initially financing capital construction 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, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY98, the County sold general obligation bond issues, exclusive of refundings, of up to \$250 million. Over the last ten fiscal years, the County's annual issues (including the June 2006 issue of \$100 million of VRDOs) averaged \$151.0 million.

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, Inc. 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.

As of June 30, 2008, Montgomery County is one of only eight 'Triple AAA' rated counties in the nation with a population greater than 900,000. According to Standard and Poor's, a deep, diverse, and growing economy; strong financial management; and a low debt burden are the hallmarks of counties rated 'AAA.' 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.



Continuing Disclosure - For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. The County is currently satisfying its disclosure requirements via electronic filings with the Municipal Advisory Council of Texas at <http://www.disclosureusa.org>. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 4, 8, 9, 11, 17-21.

Significant bond-related debt activities during FY08 were:

- General Obligation Refunding Bonds – In March 2008, the County issued GO refunding bonds in the amount of \$70.3 million. Proceeds were used to refund \$72.8 million in GO bonds previously issued at higher rates. This refunding resulted in net present value savings to the County of \$3.2 million.
- Certificates of Participation – In October 2007, the County issued Certificates of Participation in the amount of \$33.6 million. The Certificate proceeds are being used to acquire fire apparatus and warehouse/maintenance equipment for use in the County's fire and rescue program.
- Bond Anticipation Notes (BANs) – The County issued \$150 million in BANs in January 2008. The County issues BANs (commercial paper) to initially fund its capital program and uses GO bond proceeds to retire the commercial paper.

Significant debt activities relating to capital lease agreements during FY08 were:

- Temperature-Controlled Liquor Warehouse Project – The County entered into a lease financing arrangement in October 2006 to finance the construction of a temperature-controlled liquor warehouse for the Department of Liquor Control (DLC). Total proceeds were \$10.6 million, and the lease term was for eight years. During FY08, this project was suspended in anticipation of moving the DLC operation and warehouse to another location within the County. In April 2008, unspent lease proceeds in the amount of \$9.6 million were used to pay off the lease.

Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements, Notes I-D7, III-E3, and III-F.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The following economic factors are reflected in the County's FY09 budget:

- The County's economic projections in the FY09 budget assume a continued modest economic expansion in FY09 with the County experiencing low unemployment and a modest increase (↑0.7% in calendar year 2008) in total payroll employment.
- On a calendar year basis, total payroll employment increased 1.2 percent in CY07, the latest year for which data are available. That rate followed an average annual increase of slightly more than 0.9 percent between CY02 and CY06. Following a modest improvement in payroll employment during CY07, the County anticipates a deceleration in the growth of payroll employment in CY08 of 0.7 percent and an acceleration of 1.5 percent in CY09.

- The projection in the FY09 budget assumes that personal income will increase 4.0 percent in CY08 and 5.0 percent in CY09. Those rates are slightly below the estimated four-year annual average growth rate of 6.7 percent between CY03-CY07.
- On a calendar year basis, employment in Montgomery County, based on the labor force series as opposed to payroll employment, is expected to increase a modest 0.4 percent in CY08 and accelerate 1.3 percent in CY09. The rate of growth in resident employment is estimated to remain reasonably steady with an average annual rate of 1.1 percent between CY09 and CY14. That estimate is consistent with the slower estimated growth in County population moderating to 0.9 percent by CY14.
- The estimated deceleration in the growth of employment in FY08 and personal income reflects the estimated slowdown in the national economy. That slowdown is reflected in the efforts of the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System (Federal Reserve) to cut the targeted interest for federal funds from 5.25 percent during the summer 2007 to 2.00 percent by April 2008.
- Inflation, as measured by the Consumer Price Index, is expected to increase 2.8 percent in FY09. Because of the interest rates cuts by the FOMC of the Federal Reserve during FY08, the County's economic projections include a decrease in the yield on its investments from 4.00 percent in FY08 to 2.5 percent for FY09.

#### **OTHER SIGNIFICANT MATTERS**

During 2008, financial markets as a whole incurred significant declines in values. Subsequent to year-end, the investment portfolios of the County's pension plans have also incurred significant declines in the values reported in the accompanying financial statements. However, it should be noted that the recent market events did not result in any material permanent impairment to the investment portfolios of the pension plans and due to the values of investments fluctuating with market conditions, the amount of investment losses that the plans will recognize in future financial statements, if any, cannot be determined.

#### **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 Departments, Finance, Financial Reports).

## **BASIC FINANCIAL STATEMENTS**

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
JUNE 30, 2008  
**Exhibit A-1**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 563,735,892	\$ 95,680,567	\$ 659,416,459	\$ 84,132,302
Cash with fiscal agents	44,923,316	-	44,923,316	21,553,463
Cash	633,604	220,821	854,425	14,444,734
Investments-cash equivalents	-	-	-	130,591,805
Investments	-	-	-	14,521,455
Receivables (net of allowances for uncollectibles):				
Income taxes	392,224,686	-	392,224,686	-
Property taxes	16,488,523	1,210,706	17,699,229	-
Capital leases	36,670,000	-	36,670,000	34,976,276
Accounts	45,407,553	5,376,043	50,783,596	9,438,802
Special assessments	13,438	-	13,438	-
Notes	6,494,464	-	6,494,464	32,430,000
Parking violations	539,073	2,306,082	2,845,155	-
Mortgages receivable	148,524,845	-	148,524,845	367,326,466
Interest	-	-	-	4,845,291
Other	436,603	-	436,603	19,543,233
Internal balances	1,120,969	(1,120,969)	-	-
Due from primary government	-	-	-	68,749,069
Due from component units	66,933,289	57,102	66,990,391	-
Due from other governments	43,898,103	143,695	44,041,798	28,303,919
Inventory of supplies	9,992,284	27,690,983	37,683,267	10,186,079
Prepays	1,192,905	1,124,621	2,317,526	4,958,346
Deferred charges	4,696,652	850,058	5,546,710	593,180
Other assets	-	101,891	101,891	50,915,686
Restricted Assets:				
Equity in pooled cash and investments	-	36,411,912	36,411,912	3,096,797
Cash with fiscal agents	-	-	-	239,491
Cash	-	-	-	450,799
Investments - cash equivalents	-	-	-	115,190,413
Investments	-	5,148,195	5,148,195	210,301,986
Capital Assets:				
Nondepreciable assets	863,708,468	55,307,779	919,016,247	377,693,294
Depreciable assets, net	1,852,390,791	166,199,850	2,018,590,641	2,198,743,674
Total Assets	<u>\$ 4,100,025,458</u>	<u>\$ 396,709,336</u>	<u>\$ 4,496,734,794</u>	<u>\$ 3,803,226,560</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS, CONCLUDED  
JUNE 30, 2008

**Exhibit A-1**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
<b>LIABILITIES</b>				
Accounts payable	\$ 67,437,795	\$ 16,321,966	\$ 83,759,761	\$ 85,029,956
Interest payable	31,482,902	421,686	31,904,588	17,946,033
Retainage payable	5,332,041	526	5,332,567	13,487,743
Accrued liabilities	59,890,487	12,785,481	72,675,968	79,294,712
Claims payable	87,017,897	-	87,017,897	16,438,489
Deposits	266,205	311,528	577,733	10,431,490
Due to primary government	-	-	-	67,192,069
Due to component units	68,083,177	665,892	68,749,069	-
Due to other governments	11,223,926	1,974,886	13,198,812	-
Unearned revenue	48,529,141	1,578,556	50,107,697	29,358,886
Other liabilities	-	577,104	577,104	13,583,063
Noncurrent Liabilities:				
Due within one year	485,009,784	14,691,224	499,701,008	122,264,078
Due in more than one year	1,602,543,510	68,401,749	1,670,945,259	1,198,113,707
Total Liabilities	<u>2,466,816,865</u>	<u>117,730,598</u>	<u>2,584,547,463</u>	<u>1,653,140,226</u>
<b>NET ASSETS</b>				
Invested in capital, net of related debt	1,875,327,937	166,059,652	2,003,119,670	2,039,658,747
Restricted for:				
Capital projects	34,220,782	-	34,220,782	178,445
General government	136,924,506	-	136,924,506	-
Public safety	23,321,469	-	23,321,469	-
Public works and transportation	23,552,421	76,590,751	100,143,172	-
Recreation	9,834,590	-	9,834,590	-
Community development and housing	175,002,228	-	175,002,228	-
Environment	4,252,202	-	4,252,202	-
Debt service	3,349,425	-	3,349,425	45,590,885
Other purposes	-	-	-	37,311,187
Unrestricted (deficit)	(652,576,967)	36,328,335	(577,980,713)	27,347,070
Total Net Assets	<u>\$ 1,633,208,593</u>	<u>\$ 278,978,738</u>	<u>\$ 1,912,187,331</u>	<u>\$ 2,150,086,334</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, 2008  
**Exhibit A-2**

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Government Activities:				
General government	\$ 304,526,806	\$ 52,271,766	\$ 9,833,718	\$ 702,125
Public safety	601,156,598	33,618,772	29,421,302	1,867,152
Public works and transportation	233,193,597	17,750,337	65,513,498	22,482,671
Health and human services	286,907,329	6,504,109	102,694,709	-
Culture and recreation	118,017,417	27,740,357	5,084,296	3,183,810
Community development and housing	19,134,520	3,947,238	3,825,474	3,071,146
Environment	14,967,339	6,062,667	20,104	1,999,900
Education	1,783,953,133	-	-	-
Interest on long-term debt	95,931,334	-	-	-
Total Governmental Activities	<u>3,457,788,073</u>	<u>147,895,246</u>	<u>216,393,101</u>	<u>33,306,804</u>
Business-type Activities:				
Liquor control	190,742,139	213,711,131	-	-
Solid waste disposal and collection	98,166,937	102,107,187	10,000	-
Parking lot districts	27,854,499	26,486,431	-	-
Permitting services	26,977,767	28,320,497	-	-
Community use of public facilities	8,456,433	7,788,733	-	-
Total Business-type Activities	<u>352,197,775</u>	<u>378,413,979</u>	<u>10,000</u>	<u>-</u>
Total Primary Government	<u>\$ 3,809,985,848</u>	<u>\$ 526,309,225</u>	<u>\$ 216,403,101</u>	<u>\$ 33,306,804</u>
<b>Component Units:</b>				
General government (BUPI)	\$ 4,460,975	\$ 4,348,772	\$ 252,298	\$ -
Culture and recreation (MCRA)	22,640,186	19,292,142	-	1,934,597
Community development and housing (HOC)	197,507,792	103,847,684	92,376,761	8,759,800
Education:				
Elementary and secondary education (MCPS)	2,273,720,062	33,906,217	105,779,001	49,043,348
Higher education (MCC)	246,269,485	72,816,118	28,160,056	338,065
Total Component Units	<u>\$ 2,744,598,500</u>	<u>\$ 234,210,933</u>	<u>\$ 226,568,116</u>	<u>\$ 60,075,810</u>
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 Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (241,719,197)	\$ -	\$ (241,719,197)	\$ -
(536,249,372)	-	(536,249,372)	-
(127,447,091)	-	(127,447,091)	-
(177,708,511)	-	(177,708,511)	-
(82,008,954)	-	(82,008,954)	-
(8,290,662)	-	(8,290,662)	-
(6,884,668)	-	(6,884,668)	-
(1,783,953,133)	-	(1,783,953,133)	-
(95,931,334)	-	(95,931,334)	-
(3,060,192,922)	-	(3,060,192,922)	-
-	22,968,992	22,968,992	-
-	3,950,250	3,950,250	-
-	(1,368,068)	(1,368,068)	-
-	1,342,730	1,342,730	-
-	(667,700)	(667,700)	-
-	26,226,204	26,226,204	-
(3,060,192,922)	26,226,204	(3,033,966,718)	-
-	-	-	140,095
-	-	-	(1,413,447)
-	-	-	7,476,453
-	-	-	(2,084,991,496)
-	-	-	(144,955,246)
-	-	-	(2,223,743,641)
1,146,965,583	11,266,747	1,158,232,330	-
1,246,939,067	-	1,246,939,067	-
80,380,388	-	80,380,388	-
54,658,577	-	54,658,577	-
118,277,973	-	118,277,973	-
17,783,194	-	17,783,194	-
30,472,124	-	30,472,124	-
11,560,655	-	11,560,655	-
-	-	-	2,334,999,003
42,586,707	7,330,179	49,916,886	8,380,592
13,309,573	-	13,309,573	2,163
32,444,171	(32,444,171)	-	-
2,795,378,012	(13,847,245)	2,781,530,767	2,343,381,758
(264,814,910)	12,378,959	(252,435,951)	119,638,117
1,898,023,503	266,599,779	2,164,623,282	2,030,448,217
\$ 1,633,208,593	\$ 278,978,738	\$ 1,912,187,331	\$ 2,150,086,334

MONTGOMERY COUNTY, MARYLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008  
Exhibit A-3

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Equity in pooled cash and investments	\$ 86,743,201	\$ 268,153	\$ 97,598,250	\$ 234,734,303	\$ 419,343,907
Cash with fiscal agents	1,644,299	22,798,291	20,480,726	-	44,923,316
Cash	151,604	-	-	481,700	633,304
Receivables (net of allowances for uncollectibles):					
Income taxes	392,224,686	-	-	-	392,224,686
Property taxes	12,156,570	-	-	4,331,953	16,488,523
Capital leases	-	36,670,000	-	-	36,670,000
Accounts	39,289,253	-	411,950	3,601,951	43,303,154
Special assessments	-	13,438	-	-	13,438
Notes	-	-	12,068	6,482,396	6,494,464
Parking violations	539,073	-	-	-	539,073
Mortgages receivable	176,721	-	300,000	148,048,124	148,524,845
Other	-	-	35,526	398,691	434,217
Due from other funds	33,952,297	-	-	4,390,700	38,342,997
Due from component units	2,852,882	-	13,362,174	50,005,149	66,220,205
Due from other governments	23,196,462	-	10,543,015	9,907,368	43,646,845
Inventory of supplies	5,516,512	-	905,603	-	6,422,115
Prepays	428,048	-	1,335	518,657	948,040
Total Assets	<u>\$ 598,871,608</u>	<u>\$ 59,749,882</u>	<u>\$ 143,650,647</u>	<u>\$ 462,900,992</u>	<u>\$ 1,265,173,129</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 27,776,862	\$ 268,606	\$ 14,365,752	\$ 13,712,707	\$ 56,123,927
Retainage payable	19,789	-	5,277,344	34,908	5,332,041
Accrued liabilities	32,388,827	-	923,360	12,815,086	46,127,273
Deposits	-	-	100,000	166,205	266,205
Due to other funds	10,897,366	19,445,000	19,112,837	5,067,692	54,522,895
Due to component units	3,886,760	-	63,352,829	843,588	68,083,177
Due to other governments	3,156,895	-	3,043,073	5,023,958	11,223,926
Deferred revenue	347,932,303	36,686,851	1,363,334	54,869,972	440,852,460
Total Liabilities	<u>426,058,802</u>	<u>56,400,457</u>	<u>107,538,529</u>	<u>92,534,116</u>	<u>682,531,904</u>
Fund Balances:					
Reserved for:					
Legal debt restrictions	-	3,349,425	20,480,726	-	23,830,151
Long-term receivables	-	-	13,362,174	155,339,734	168,701,908
Inventory	5,516,512	-	905,603	-	6,422,115
Prepays	428,048	-	1,335	469,996	899,379
Fire-Rescue Grant	-	-	-	1,358,436	1,358,436
Donor-specified purposes	-	-	-	1,332,534	1,332,534
Other purposes	2,520,540	-	13,740,056	-	16,260,596
Total Reserved	<u>8,465,100</u>	<u>3,349,425</u>	<u>48,489,894</u>	<u>158,500,700</u>	<u>218,805,119</u>
Unreserved, designated for, reported in:					
Encumbrances - Major Funds	24,158,117	-	-	-	24,158,117
Encumbrances - Special Revenue Funds	-	-	-	17,876,926	17,876,926
General Fund	56,609,030	-	-	-	56,609,030
Special Revenue Funds	-	-	-	39,279,326	39,279,326
Unreserved, undesignated (deficit), reported in:					
General Fund	83,580,559	-	-	-	83,580,559
Capital Projects Fund	-	-	(12,377,776)	-	(12,377,776)
Special Revenue Funds	-	-	-	154,709,924	154,709,924
Total Unreserved (Deficit)	<u>164,347,706</u>	<u>-</u>	<u>(12,377,776)</u>	<u>211,866,176</u>	<u>363,836,106</u>
Total Fund Balances	<u>172,812,806</u>	<u>3,349,425</u>	<u>36,112,118</u>	<u>370,366,876</u>	<u>582,641,225</u>
Total Liabilities and Fund Balances	<u>\$ 598,871,608</u>	<u>\$ 59,749,882</u>	<u>\$ 143,650,647</u>	<u>\$ 462,900,992</u>	<u>\$ 1,265,173,129</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 ASSETS  
JUNE 30, 2008  
**Exhibit A-4**

Total fund balance - governmental funds (see Exhibit A-3)		\$ 582,641,225
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	\$ 605,848,786	
Construction in progress	257,837,176	
Depreciable capital assets:		
Buildings	749,736,077	
Improvements other than buildings	45,715,730	
Furniture, fixtures, equipment and machinery	242,218,606	
Automobiles and trucks	146,471,269	
Infrastructure	1,560,586,835	
Other capital assets	2,079,731	
Total capital assets	3,610,494,210	
Less accumulated depreciation	(927,300,255)	2,683,193,955
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	(1,366,758,054)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(300,000,000)	
Lease revenue bonds payable	(36,670,000)	
Accrued interest payable	(31,477,891)	
Capital leases payable	(74,472,783)	
Certificates of participation	(33,580,000)	
Notes payable	(9,405,654)	
Other postemployment benefits	(58,598,791)	
Compensated absences	(63,274,917)	(2,074,238,090)
Costs incurred from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements:		
Unamortized premiums	(65,845,455)	
Deferred amount on refunding	23,314,730	
Deferred issuance costs	4,696,652	(37,834,073)
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 assets:		
Assets:		
Current and noncurrent assets	158,245,300	
Capital assets	76,395,455	
Less accumulated depreciation	(43,490,151)	
Liabilities	(105,256,496)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	662,373	86,556,481
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	320,299,454	
Property taxes	13,152,759	
Intergovernmental revenue	14,941,416	
Other revenue	44,495,466	392,889,095
Net assets of governmental activities (see Exhibit A-1)		<u>\$ 1,633,208,593</u>

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
**Exhibit A-5**

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 2,391,884,566	\$ -	\$ 41,757,898	\$ 318,713,419	\$ 2,752,355,883
Licenses and permits	9,279,207	-	-	1,912,950	11,192,157
Intergovernmental	132,669,827	-	19,439,599	92,562,706	244,672,132
Charges for services	29,562,090	-	328,936	50,464,628	80,355,654
Fines and forfeitures	20,335,482	-	-	1,247,680	21,583,162
Investment income	13,713,004	9,558,717	1,693,395	12,047,485	37,012,601
Miscellaneous	9,643,609	-	1,536,391	2,739,065	13,919,065
Total Revenues	<u>2,607,087,785</u>	<u>9,558,717</u>	<u>64,756,219</u>	<u>479,687,933</u>	<u>3,161,090,654</u>
<b>EXPENDITURES</b>					
Current:					
General government	241,572,265	-	-	15,809,346	257,381,611
Public safety	340,254,544	-	-	202,946,418	543,200,962
Public works and transportation	56,644,797	-	-	115,258,426	171,903,223
Health and human services	230,463,572	-	-	42,359,484	272,823,056
Culture and recreation	52,126,530	-	-	43,884,257	96,010,787
Community development and housing	11,943,682	-	-	3,972,537	15,916,219
Environment	4,038,270	-	-	5,204,116	9,242,386
Education	1,563,374,406	-	-	-	1,563,374,406
Debt Service:					
Principal retirement:					
General obligation bonds	-	143,437,553	-	-	143,437,553
Other notes	-	2,757,146	-	-	2,757,146
Interest:					
General obligation bonds	-	70,381,335	-	-	70,381,335
Variable rate demand obligations	-	2,704,548	-	-	2,704,548
Bond anticipation notes	-	5,564,456	-	-	5,564,456
Other notes	-	299,097	-	-	299,097
Leases and other obligations	-	16,358,135	-	-	16,358,135
Issuing costs	-	937,441	-	-	937,441
Capital projects	-	-	424,518,682	-	424,518,682
Total Expenditures	<u>2,500,418,066</u>	<u>242,439,711</u>	<u>424,518,682</u>	<u>429,434,584</u>	<u>3,596,811,043</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>106,669,719</u>	<u>(232,880,994)</u>	<u>(359,762,463)</u>	<u>50,253,349</u>	<u>(435,720,389)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	41,129,150	241,949,614	58,478,734	40,876,520	382,434,018
Transfers (out)	(292,136,902)	(5,763,222)	(3,349,425)	(51,147,624)	(352,397,173)
Disposition of property	-	-	10,586,160	2,784,053	13,370,213
Payment to refunded bond escrow agent	-	(74,751,270)	-	-	(74,751,270)
Debt Issued:					
Bond anticipation notes	-	-	150,000,000	-	150,000,000
Lease revenue bonds	399,231	-	-	-	399,231
Certificates of participation	-	-	34,583,195	-	34,583,195
General obligation refunding bonds	-	70,295,000	-	-	70,295,000
Premium on general obligation refunding bonds	-	4,500,297	-	-	4,500,297
Capital lease financing	-	-	12,407	-	12,407
Total Other Financing Sources (Uses)	<u>(250,608,521)</u>	<u>236,230,419</u>	<u>250,311,071</u>	<u>(7,487,051)</u>	<u>228,445,918</u>
Net Change in Fund Balances	<u>(143,938,802)</u>	<u>3,349,425</u>	<u>(109,451,392)</u>	<u>42,766,298</u>	<u>(207,274,471)</u>
Fund Balances - Beginning of Year	<u>316,751,608</u>	<u>-</u>	<u>145,563,510</u>	<u>327,600,578</u>	<u>789,915,696</u>
Fund Balances - End of Year	<u>\$ 172,812,806</u>	<u>\$ 3,349,425</u>	<u>\$ 36,112,118</u>	<u>\$ 370,366,876</u>	<u>\$ 582,641,225</u>

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, 2008  
**Exhibit A-6**

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Net change in fund balances - total governmental funds (see Exhibit A-5) \$ (207,274,471)

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 useful lives and reported as depreciation expense:

Capital outlay	\$ 167,918,839	
Depreciation expense	<u>(84,266,995)</u>	83,651,844

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold. (60,640)

Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources. 9,119,031

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.

Deferred revenues increased (decreased) this year, as follows:

Income taxes	(44,400,546)	
Property taxes	(1,560,801)	
Intergovernmental revenues	(5,903,638)	
Other revenues	<u>(406,498)</u>	(52,271,483)

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 assets. Also, governmental funds report the effect of issuance costs, 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	(74,795,297)	
Bond anticipation notes	(150,000,000)	
Capital lease financing	(12,407)	
Lease revenue bonds	(424,220)	
Certificates of participation	(33,580,000)	
Less issuance costs	165,448	

Principal repayments:

General obligation bonds	216,212,553	
Leases payable	2,747,677	
Capital leases	7,280,000	
Notes payable	<u>2,891,969</u>	(29,514,277)

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	(10,629,198)	
Compensated absences	(5,813,162)	
Other postemployment benefits	(58,598,791)	
Amortization	<u>5,420,739</u>	(69,620,412)

The current year gain for certain activities of internal service funds is reported with governmental activities. 1,155,498

Change in net assets of governmental activities (see Exhibit A-2) \$ (264,814,910)

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

MONTGOMERY COUNTY, MARYLAND  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Revenues:							
Taxes:							
Property	\$ -	\$ 794,269,945	\$ 794,269,945	\$ -	\$ 794,269,945	\$ 794,900,915	\$ 630,970
Property - penalty and interest	-	1,254,584	1,254,584	-	1,254,584	1,842,705	588,121
Other	-	-	-	-	-	27,120	27,120
Total Property Tax	-	795,524,529	795,524,529	-	795,524,529	796,770,740	1,246,211
County Income Tax	-	1,286,890,000	1,286,890,000	-	1,286,890,000	1,291,339,613	4,449,613
Other Local Taxes:							
Real property transfer	-	120,810,000	120,810,000	-	120,810,000	80,380,388	(40,429,612)
Recordation	-	72,450,000	72,450,000	-	72,450,000	54,658,577	(17,791,423)
Fuel energy	-	119,930,000	119,930,000	-	119,930,000	118,277,973	(1,652,027)
Hotel - motel	-	18,410,000	18,410,000	-	18,410,000	17,783,194	(626,806)
Telephone	-	30,220,000	30,220,000	-	30,220,000	30,472,124	252,124
Other	-	2,490,000	2,490,000	-	2,490,000	2,201,957	(288,043)
Total Other Local Taxes	-	364,310,000	364,310,000	-	364,310,000	303,774,213	(60,535,787)
Total Taxes	-	2,446,724,529	2,446,724,529	-	2,446,724,529	2,391,884,566	(54,839,963)
Licenses and Permits:							
Business	-	4,104,310	4,104,310	-	4,104,310	4,161,704	57,394
Non business	-	4,606,050	4,606,050	-	4,606,050	5,117,503	511,453
Total Licenses and Permits	-	8,710,360	8,710,360	-	8,710,360	9,279,207	568,847
Intergovernmental Revenue:							
State Aid and Reimbursements:							
DHR State reimbursement - HB669	-	37,870,160	37,870,160	1,703,840	39,574,000	38,886,069	(687,931)
Highway user revenue	-	38,749,000	38,749,000	-	38,749,000	36,650,848	(2,098,152)
Police protection	-	13,200,000	13,200,000	-	13,200,000	13,569,439	369,439
Health and human services programs	-	6,477,510	6,477,510	-	6,477,510	5,871,307	(606,203)
Public libraries	-	4,236,232	4,236,232	-	4,236,232	4,902,039	665,807
911 Emergency	-	5,600,000	5,600,000	-	5,600,000	6,610,680	1,010,680
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,675,220	(90,780)
Other	-	1,667,520	1,667,520	-	1,667,520	1,885,533	218,013
Total State Aid and Reimbursements	-	110,566,422	110,566,422	1,703,840	112,270,262	111,051,135	(1,219,127)
Federal Reimbursements:							
Federal financial participation	-	18,155,050	18,155,050	-	18,155,050	17,288,872	(866,178)
Other	-	3,020,090	3,020,090	-	3,020,090	2,948,187	(71,903)
Total Federal Reimbursements	-	21,175,140	21,175,140	-	21,175,140	20,237,059	(938,081)
Other Intergovernmental	-	1,343,570	1,343,570	-	1,343,570	1,381,633	38,063
Total Intergovernmental Revenue	-	133,085,132	133,085,132	1,703,840	134,788,972	132,669,827	(2,119,145)
Charges for Services:							
General government	-	1,512,200	1,512,200	-	1,512,200	1,384,358	(127,842)
Public safety	-	9,084,500	9,084,500	-	9,084,500	9,076,123	(8,377)
Health and human services	-	1,669,710	1,669,710	-	1,669,710	1,642,279	(27,431)
Culture and recreation	-	10,600	10,600	-	10,600	3,577	(7,023)
Environment	-	200,000	200,000	-	200,000	46,693	(153,307)
Public works and transportation	-	65,000	65,000	-	65,000	67,010	2,010
Total Charges for Services	-	12,542,010	12,542,010	-	12,542,010	12,220,040	(321,970)
Fines and forfeitures	-	18,917,260	18,917,260	-	18,917,260	20,335,482	1,418,222
Investment Income:							
Pooled investment income	-	14,933,599	14,933,599	-	14,933,599	8,873,930	(6,059,669)
Other interest income	-	30,000	30,000	-	30,000	6,987	(23,013)
Total Investment Income	-	14,963,599	14,963,599	-	14,963,599	8,880,917	(6,082,682)
Miscellaneous Revenue:							
Property rentals	-	4,566,900	4,566,900	-	4,566,900	5,039,539	472,639
Sundry	-	6,348,210	6,348,210	11,710	6,359,920	5,379,274	(980,646)
Total Miscellaneous Revenue	-	10,915,110	10,915,110	11,710	10,926,820	10,418,813	(508,007)
Total Revenues	-	2,645,858,000	2,645,858,000	1,715,550	2,647,573,550	2,585,688,852	(61,884,698)
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	7,821,371	7,821,371	68,890	7,890,261	7,890,251	10
Operating	95,391	1,074,050	1,169,441	(62,982)	1,106,459	811,941	294,518
Totals	95,391	8,895,421	8,990,812	5,908	8,996,720	8,702,192	294,528
Board of Appeals:							
Personnel	-	513,620	513,620	3,850	517,470	517,459	11
Operating	279	73,390	73,669	(889)	72,780	46,926	25,854
Totals	279	587,010	587,289	2,961	590,250	564,385	25,865
Legislative Oversight:							
Personnel	-	1,217,199	1,217,199	13,460	1,230,659	1,199,270	31,389
Operating	-	72,390	72,390	-	72,390	24,681	47,709
Totals	-	1,289,589	1,289,589	13,460	1,303,049	1,223,951	79,098
Merit System Protection Board:							
Personnel	-	131,470	131,470	530	132,000	131,990	10
Operating	-	16,420	16,420	(530)	15,890	11,914	3,976
Totals	-	147,890	147,890	-	147,890	143,904	3,986
Zoning and Administrative Hearings:							
Personnel	-	425,639	425,639	-	425,639	412,994	12,645
Operating	-	94,940	94,940	-	94,940	65,048	29,892
Totals	-	520,579	520,579	-	520,579	478,042	42,537

(Continued)

## MONTGOMERY COUNTY, MARYLAND

## GENERAL FUND

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

## Exhibit A-7

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Inspector General:							
Personnel	\$ -	\$ 613,489	\$ 613,489	\$ 6,510	\$ 619,999	\$ 536,454	\$ 83,545
Operating	140	53,990	54,130	(140)	53,990	48,522	5,468
Capital outlay	3,715	-	3,715	-	3,715	2,352	1,363
Totals	<u>3,855</u>	<u>667,479</u>	<u>671,334</u>	<u>6,370</u>	<u>677,704</u>	<u>587,328</u>	<u>90,376</u>
People's Counsel:							
Personnel	-	224,999	224,999	1,680	226,679	226,672	7
Operating	-	14,130	14,130	(1,410)	12,720	6,457	6,263
Totals	<u>-</u>	<u>239,129</u>	<u>239,129</u>	<u>270</u>	<u>239,399</u>	<u>233,129</u>	<u>6,270</u>
Circuit Court:							
Personnel	-	7,966,660	7,966,660	(125,740)	7,840,920	7,438,759	402,161
Operating	470,570	2,321,640	2,792,210	(15,558)	2,776,652	2,744,455	32,197
Capital outlay	-	-	-	125,740	125,740	125,735	5
Totals	<u>470,570</u>	<u>10,288,300</u>	<u>10,758,870</u>	<u>(15,558)</u>	<u>10,743,312</u>	<u>10,308,949</u>	<u>434,363</u>
State's Attorney:							
Personnel	-	11,285,049	11,285,049	3,380	11,288,429	11,288,411	18
Operating	2,928	533,430	536,358	62,930	599,288	599,281	7
Totals	<u>2,928</u>	<u>11,818,479</u>	<u>11,821,407</u>	<u>66,310</u>	<u>11,887,717</u>	<u>11,887,692</u>	<u>25</u>
County Executive:							
Personnel	-	4,651,953	4,651,953	(200,899)	4,451,054	4,451,051	3
Operating	53,069	360,840	413,909	162,486	576,395	576,395	-
Totals	<u>53,069</u>	<u>5,012,793</u>	<u>5,065,862</u>	<u>(38,413)</u>	<u>5,027,449</u>	<u>5,027,446</u>	<u>3</u>
Commission for Women:							
Personnel	-	1,124,299	1,124,299	(22,820)	1,101,479	1,069,619	31,860
Operating	28,102	161,380	189,482	33,272	222,754	222,748	6
Totals	<u>28,102</u>	<u>1,285,679</u>	<u>1,313,781</u>	<u>10,452</u>	<u>1,324,233</u>	<u>1,292,367</u>	<u>31,866</u>
Regional Service Centers:							
Personnel	-	3,137,731	3,137,731	41,270	3,179,001	2,961,047	217,954
Operating	156,861	1,112,401	1,269,262	(24,271)	1,244,991	1,113,332	131,659
Totals	<u>156,861</u>	<u>4,250,132</u>	<u>4,406,993</u>	<u>16,999</u>	<u>4,423,992</u>	<u>4,074,379</u>	<u>349,613</u>
Ethics Commission:							
Personnel	-	226,579	226,579	37,930	264,509	264,503	6
Operating	365	9,830	10,195	1,785	11,980	11,977	3
Totals	<u>365</u>	<u>236,409</u>	<u>236,774</u>	<u>39,715</u>	<u>276,489</u>	<u>276,480</u>	<u>9</u>
Intergovernmental Relations:							
Personnel	-	677,988	677,988	-	677,988	677,601	387
Operating	332	175,890	176,222	-	176,222	106,978	69,244
Totals	<u>332</u>	<u>853,878</u>	<u>854,210</u>	<u>-</u>	<u>854,210</u>	<u>784,579</u>	<u>69,631</u>
Board of Liquor License Commissioners:							
Operating	267	-	267	-	267	-	267
Totals	<u>267</u>	<u>-</u>	<u>267</u>	<u>-</u>	<u>267</u>	<u>-</u>	<u>267</u>
Public Information:							
Personnel	-	1,116,588	1,116,588	(30,390)	1,086,198	1,086,198	-
Operating	40,115	243,430	283,545	52,293	335,838	335,835	3
Totals	<u>40,115</u>	<u>1,360,018</u>	<u>1,400,133</u>	<u>21,903</u>	<u>1,422,036</u>	<u>1,422,033</u>	<u>3</u>
Board of Elections:							
Personnel	-	2,339,085	2,339,085	1,354,370	3,693,455	3,693,442	13
Operating	-	3,431,930	3,431,930	1,171,990	4,603,920	4,603,916	4
Totals	<u>-</u>	<u>5,771,015</u>	<u>5,771,015</u>	<u>2,526,360</u>	<u>8,297,375</u>	<u>8,297,358</u>	<u>17</u>
County Attorney:							
Personnel	-	4,954,867	4,954,867	(81,340)	4,873,527	4,873,523	4
Operating	38,566	464,391	502,957	227,685	730,642	730,638	4
Totals	<u>38,566</u>	<u>5,419,258</u>	<u>5,457,824</u>	<u>146,345</u>	<u>5,604,169</u>	<u>5,604,161</u>	<u>8</u>
Management and Budget:							
Personnel	-	3,776,110	3,776,110	23,640	3,799,750	3,595,437	204,313
Operating	16,093	191,780	207,873	(7,848)	200,025	200,025	-
Totals	<u>16,093</u>	<u>3,967,890</u>	<u>3,983,983</u>	<u>15,792</u>	<u>3,999,775</u>	<u>3,795,462</u>	<u>204,313</u>
Finance:							
Personnel	-	9,294,780	9,294,780	(313,250)	8,981,530	8,358,645	622,885
Operating	1,183,173	2,161,390	3,344,563	(60,417)	3,284,146	3,284,134	12
Capital outlay	5,636	-	5,636	53,450	59,086	59,078	8
Totals	<u>1,188,809</u>	<u>11,456,170</u>	<u>12,644,979</u>	<u>(320,217)</u>	<u>12,324,762</u>	<u>11,701,857</u>	<u>622,905</u>
Human Resources:							
Personnel	-	5,726,510	5,726,510	(168,810)	5,557,700	5,167,681	390,019
Operating	287,327	3,537,400	3,824,727	196,201	4,020,928	4,020,925	3
Totals	<u>287,327</u>	<u>9,263,910</u>	<u>9,551,237</u>	<u>27,391</u>	<u>9,578,628</u>	<u>9,188,606</u>	<u>390,022</u>
Technology Services:							
Personnel	-	17,721,681	17,721,681	(284,320)	17,437,361	17,428,370	8,991
Operating	4,575,931	14,534,370	19,110,301	(602,545)	18,507,756	18,506,255	1,501
Capital outlay	13,925	362,010	375,935	(220,000)	155,935	155,733	202
Totals	<u>4,589,856</u>	<u>32,618,061</u>	<u>37,207,917</u>	<u>(1,106,865)</u>	<u>36,101,052</u>	<u>36,090,358</u>	<u>10,694</u>
Procurement:							
Personnel	-	2,866,020	2,866,020	(64,920)	2,801,100	2,509,157	291,943
Operating	3,894	211,480	215,374	74,026	289,400	289,392	8
Totals	<u>3,894</u>	<u>3,077,500</u>	<u>3,081,394</u>	<u>9,106</u>	<u>3,090,500</u>	<u>2,798,549</u>	<u>291,951</u>
Consumer Protection:							
Personnel	-	2,580,969	2,580,969	11,290	2,592,259	2,554,523	37,736
Operating	50,166	131,750	181,916	(166)	181,750	141,701	40,049
Totals	<u>50,166</u>	<u>2,712,719</u>	<u>2,762,885</u>	<u>11,124</u>	<u>2,774,009</u>	<u>2,696,224</u>	<u>77,785</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
Exhibit A-7

	Budget					Actual	Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final		
Corrections and Rehabilitation:							
Personnel	\$ -	\$ 55,837,277	\$ 55,837,277	\$ 1,165,000	\$ 57,002,277	\$ 57,002,267	\$ 10
Operating	20,693	7,464,250	7,484,943	406,990	7,891,933	7,891,915	18
Capital outlay	-	-	-	56,500	56,500	56,493	7
Totals	20,693	63,301,527	63,322,220	1,628,490	64,950,710	64,950,675	35
Human Relations Commission:							
Personnel	-	2,267,163	2,267,163	14,030	2,281,193	2,280,468	725
Operating	43,000	213,010	256,010	3,100	259,110	161,184	97,926
Totals	43,000	2,480,173	2,523,173	17,130	2,540,303	2,441,652	98,651
Police:							
Personnel	-	188,479,782	188,479,782	2,177,960	190,657,742	190,657,729	13
Operating	3,021,002	30,705,470	33,726,472	857,715	34,584,187	34,584,187	-
Totals	3,021,002	219,185,252	222,206,254	3,035,675	225,241,929	225,241,916	13
Sheriff:							
Personnel	-	16,976,236	16,976,236	241,540	17,217,776	17,217,768	8
Operating	392,268	2,078,730	2,470,998	131,821	2,602,819	2,602,810	9
Totals	392,268	19,054,966	19,447,234	373,361	19,820,595	19,820,578	17
Homeland Security:							
Personnel	-	5,024,162	5,024,162	(7,190)	5,016,972	4,645,567	371,405
Operating	672,441	986,420	1,658,861	(34,704)	1,624,157	1,624,154	3
Totals	672,441	6,010,582	6,683,023	(41,894)	6,641,129	6,269,721	371,408
Public Works and Transportation:							
Personnel	-	36,487,221	36,487,221	1,478,980	37,966,201	37,957,380	8,821
Operating	3,646,451	33,608,970	37,255,421	7,245,751	44,501,172	44,498,029	3,143
Totals	3,646,451	70,096,191	73,742,642	8,724,731	82,467,373	82,455,409	11,964
Health and Human Services:							
Personnel	-	124,877,503	124,877,503	594,357	125,471,860	122,799,966	2,671,894
Operating	1,428,373	99,951,730	101,380,103	1,927,381	103,307,484	96,778,661	6,528,823
Capital outlay	-	-	-	59,030	59,030	59,028	2
Totals	1,428,373	224,829,233	226,257,606	2,580,768	228,838,374	219,637,655	9,200,719
Libraries:							
Personnel	-	32,032,762	32,032,762	(706,570)	31,326,192	30,685,637	640,555
Operating	1,873,361	8,284,300	10,157,661	169,855	10,327,516	10,327,505	11
Capital outlay	75,960	-	75,960	-	75,960	75,960	-
Totals	1,949,321	40,317,062	42,266,383	(536,715)	41,729,668	41,089,102	640,566
Housing and Community Affairs:							
Personnel	-	5,049,428	5,049,428	22,500	5,071,928	4,759,387	312,541
Operating	50,163	658,220	708,383	206,754	915,137	847,501	67,636
Totals	50,163	5,707,648	5,757,811	229,254	5,987,065	5,606,888	380,177
Economic Development:							
Personnel	-	5,297,522	5,297,522	(509,900)	4,787,622	4,428,612	359,010
Operating	202,626	2,975,840	3,178,466	642,688	3,821,154	3,821,148	6
Totals	202,626	8,273,362	8,475,988	132,788	8,608,776	8,249,760	359,016
Environmental Protection:							
Personnel	-	3,511,230	3,511,230	(112,490)	3,398,740	3,127,352	271,388
Operating	336,543	1,253,799	1,590,342	107,966	1,698,308	1,603,113	95,195
Totals	336,543	4,765,029	5,101,572	(4,524)	5,097,048	4,730,465	366,583
Total Departments	18,789,726	785,760,333	804,550,059	17,578,477	822,128,536	807,673,252	14,455,284
Nondepartmental:							
State retirement contribution - operating	-	890,580	890,580	-	890,580	890,578	2
Retirees group insurance - operating	-	24,810,190	24,810,190	-	24,810,190	24,810,190	-
State positions supplement - personnel	-	119,330	119,330	2,660	121,990	121,990	-
Judges special pension contribution - personnel	-	3,740	3,740	10	3,750	3,749	1
Compensation adjustment - personnel	-	2,534,169	2,534,169	(2,368,700)	165,469	156,702	8,767
Compensation adjustment - operating	23,700	662,700	686,400	(110,000)	576,400	575,203	1,197
OPEB trust contributions - operating	-	12,067,320	12,067,320	-	12,067,320	12,067,320	-
Municipal tax duplication - operating	-	7,488,240	7,488,240	-	7,488,240	7,476,906	11,334
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	630,310	630,310	87,000	717,310	717,308	2
Rebate - Takoma Park library - operating	-	119,160	119,160	-	119,160	114,430	4,730
Homeowners' association roadways - operating	-	370,850	370,850	-	370,850	348,362	22,488
Contribution to risk management - operating	-	8,836,850	8,836,850	-	8,836,850	8,547,842	289,008
Historical activities - operating	-	346,280	346,280	-	346,280	346,280	-
Conference and Visitors Bureau - operating	77,995	644,350	722,345	32,423	754,768	731,317	23,451
Arts Council - operating	64,828	5,350,480	5,415,308	90,000	5,505,308	5,505,307	1
Community grants - operating	4,328,347	6,306,430	10,634,777	(144,182)	10,490,595	10,436,763	53,832
Conference Center - personnel	-	105,090	105,090	-	105,090	96,769	8,321
Conference Center - operating	124,189	500,000	624,189	(6,559)	617,630	393,458	224,172
County associations - operating	-	64,460	64,460	-	64,460	63,964	496
Metropolitan Washington C O G - operating	-	713,830	713,830	-	713,830	700,351	13,479
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	-	27,500
Independent audit - operating	-	342,500	342,500	24,010	366,510	366,504	6
Prisoner medical services - operating	-	10,000	10,000	440	10,440	10,434	6
Boards, committees and commissions - operating	-	20,000	20,000	5,170	25,170	25,167	3
Charter Review Commission - operating	-	1,500	1,500	-	1,500	934	566
Closing costs assistance - operating	-	160,500	160,500	-	160,500	80,025	80,475
Working families income supplement - operating	-	11,679,400	11,679,400	1,249,310	12,928,710	12,928,702	8
Interagency tech, policy & coord comm - operating	-	30,000	30,000	-	30,000	1,838	28,162
County Leases - operating	-	15,315,780	15,315,780	(1,220,000)	14,095,780	14,086,818	8,962
Rockville parking district - operating	260,000	377,500	637,500	(260,000)	377,500	359,444	18,056
Desktop computer modernization - operating	799,203	6,326,130	7,125,333	(228)	7,125,105	6,596,435	528,670
Utilities - operating	135,445	24,410,750	24,546,195	(3,986)	24,542,209	24,387,491	154,718

(Continued)

MONTGOMERY COUNTY, MARYLAND  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
Exhibit A-7

	Budget						Variance Positive (Negative)
	Prior Year Carryover Encumbrances	Current Year	Total Original	Revisions	Final	Actual	
Total - Nondepartmental	\$ 5,813,707	\$ 131,293,939	\$ 137,107,646	\$ (2,622,632)	\$ 134,485,014	\$ 132,976,593	\$ 1,508,421
Total Expenditures	24,603,433	917,054,272	941,657,705	14,955,845	956,613,550	940,649,845	15,963,705
Excess of Revenues over (under) Expenditures	(24,603,433)	1,728,803,728	1,704,200,295	(13,240,295)	1,690,960,000	1,645,039,007	(45,920,993)
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	-	120,750	120,750	-	120,750	120,750	-
Economic Development	-	-	-	700,000	700,000	700,000	-
Recreation	-	4,705,060	4,705,060	-	4,705,060	4,705,060	-
Mass Transit	-	6,359,410	6,359,410	-	6,359,410	6,359,410	-
Water Quality Protection	-	182,820	182,820	-	182,820	182,820	-
Urban Districts	-	351,720	351,720	-	351,720	351,720	-
Housing Activities	-	108,300	108,300	-	108,300	108,300	-
Cable TV	-	2,942,180	2,942,180	-	2,942,180	2,942,180	-
Total Special Revenue Funds	-	14,770,240	14,770,240	700,000	15,470,240	15,470,240	-
Enterprise Funds:							
Liquor	-	22,150,050	22,150,050	-	22,150,050	22,150,050	-
Parking Lot Districts	-	842,170	842,170	(344,500)	497,670	497,670	-
Solid Waste Activities	-	1,805,300	1,805,300	-	1,805,300	1,805,300	-
Community Use of Public Facilities	-	279,390	279,390	-	279,390	279,390	-
Permitting Services	-	3,002,260	3,002,260	-	3,002,260	3,002,260	-
Total Enterprise Funds	-	28,079,170	28,079,170	(344,500)	27,734,670	27,734,670	-
Total Transfers In	-	42,849,410	42,849,410	355,500	43,204,910	43,204,910	-
Transfers In - Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	328,420	-
Montgomery College	-	-	-	-	-	270,225	270,225
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	598,645	270,225
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,335,130)	(1,335,130)	-	(1,335,130)	(1,335,130)	-
Urban Districts	-	(1,101,360)	(1,101,360)	(50,360)	(1,151,720)	(1,151,720)	-
Mass Transit	-	(531,310)	(531,310)	-	(531,310)	(531,310)	-
Housing Activities	-	(20,868,360)	(20,868,360)	-	(20,868,360)	(20,868,360)	-
Economic Development	-	(2,587,860)	(2,587,860)	1,050,000	(1,537,860)	(1,537,860)	-
Grants	-	-	-	(451,341)	(451,341)	(566,643)	(115,302)
Cable TV	-	(432,000)	(432,000)	-	(432,000)	(375,200)	56,800
Total Special Revenue Funds	-	(26,856,020)	(26,856,020)	548,299	(26,307,721)	(26,366,223)	(58,502)
Internal Service Funds:							
Motor Pool	-	(893,530)	(893,530)	(674,415)	(1,567,945)	(1,551,516)	16,429
Total Internal Service Funds	-	(893,530)	(893,530)	(674,415)	(1,567,945)	(1,551,516)	16,429
Enterprise Funds:							
Community Use of Public Facilities	-	(142,450)	(142,450)	-	(142,450)	(142,450)	-
Parking Lot Districts	(87,657)	-	(87,657)	-	(87,657)	-	87,657
Solid Waste Activities	-	(1,835,230)	(1,835,230)	-	(1,835,230)	(1,835,230)	-
Permitting Services	-	(1,143,430)	(1,143,430)	-	(1,143,430)	(1,143,430)	-
Total Enterprise Funds	(87,657)	(3,121,110)	(3,208,767)	-	(3,208,767)	(3,121,110)	87,657
Debt Service Fund	-	(219,846,090)	(219,846,090)	(252,470)	(220,098,560)	(215,900,200)	4,198,360
Capital Projects Fund	(30,205,399)	(47,334,000)	(77,539,399)	(603,897)	(78,143,296)	(43,259,243)	34,884,053
Total Transfers (Out)	(30,293,056)	(298,050,750)	(328,343,806)	(982,483)	(329,326,289)	(290,198,292)	39,127,997
Transfers (Out) - Component Units and Joint Ventures:							
Montgomery County Public Schools - operating	-	(1,451,135,120)	(1,451,135,120)	-	(1,451,135,120)	(1,451,129,886)	5,234
Montgomery County Public Schools - capital	(3,885,358)	(5,162,000)	(9,047,358)	(3,125,000)	(12,172,358)	(4,466,217)	7,706,141
Total Montgomery County Public Schools	(3,885,358)	(1,456,297,120)	(1,460,182,478)	(3,125,000)	(1,463,307,478)	(1,455,596,103)	7,711,375
Montgomery College - operating	-	(100,334,960)	(100,334,960)	-	(100,334,960)	(100,334,960)	-
Montgomery College - capital	(11,595,907)	(4,181,000)	(15,776,907)	(633,210)	(16,410,117)	(7,443,343)	8,966,774
Total Montgomery College	(11,595,907)	(104,515,960)	(116,111,867)	(633,210)	(116,745,077)	(107,778,303)	8,966,774
Housing Opportunity Commission - operating	-	(5,731,290)	(5,731,290)	-	(5,731,290)	(5,636,660)	94,630
Housing Opportunity Commission - capital	-	(1,672,634)	(1,672,634)	-	(1,672,634)	(917,328)	755,306
Total Housing Opportunity Commission	-	(7,403,924)	(7,403,924)	-	(7,403,924)	(6,553,988)	849,936
M-NCPPC - operating	-	(120,700)	(120,700)	(694,800)	(815,500)	(798,233)	17,267
Total Transfers (Out) - Component Units and JV	(15,481,265)	(1,568,337,704)	(1,583,818,969)	(4,453,010)	(1,588,271,979)	(1,570,726,627)	17,545,352
Total Other Financing Sources (Uses)	(45,774,321)	(1,823,210,624)	(1,868,984,945)	(5,079,993)	(1,874,064,938)	(1,817,121,364)	56,943,574
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(70,377,754)	(94,406,896)	(164,784,650)	(18,320,288)	(183,104,938)	(172,082,357)	11,022,581
Fund Balance - Beginning of Year	70,377,754	250,011,272	320,389,026	(1,373,849)	319,015,177	319,015,177	-
Fund Balance - End of Year	\$ -	\$ 155,604,376	\$ 155,604,376	\$ (19,694,137)	\$ 135,910,239	\$ 146,932,820	\$ 11,022,581

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

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2008  
**Exhibit A-8**

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
<b>ASSETS</b>						
Current Assets:						
Equity in pooled cash and investments	\$ 15,081,555	\$ 38,060,649	\$ 22,802,372	\$ 19,735,991	\$ 95,680,567	\$ 144,391,985
Cash	36,450	3,000	181,321	50	220,821	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	1,210,706	-	1,210,706	-
Accounts	2,966,464	2,392,436	5,980	11,163	5,376,043	2,104,399
Parking violations	-	-	2,306,082	-	2,306,082	-
Due from other funds	-	5,350	-	-	5,350	6,969,240
Due from component units	-	57,102	-	-	57,102	713,084
Due from other governments	-	143,695	-	-	143,695	251,258
Inventory of supplies	27,690,983	-	-	-	27,690,983	3,570,169
Prepays	1,116,885	1,399	5,589	748	1,124,621	244,865
Other assets	101,891	-	-	-	101,891	-
Total Current Assets	46,994,228	40,663,631	26,512,050	19,747,952	133,917,861	158,245,300
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	30,061,764	6,350,148	-	36,411,912	-
Investments	-	3,715,126	1,433,069	-	5,148,195	-
Restricted Assets	-	33,776,890	7,783,217	-	41,560,107	-
Unamortized debt costs	-	290,065	559,993	-	850,058	-
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,461,478	-	52,777,663	22,506
Improvements other than buildings	-	72,687,456	53,829,434	-	126,516,890	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	7,388,354	30,728,728	180,794,310	-	218,911,392	-
Furniture, fixtures, equipment, and machinery	5,841,880	12,729,120	1,060,733	1,990,975	21,622,708	3,395,303
Automobiles and trucks	3,360,867	433,711	91,763	275,258	4,161,599	72,709,081
Construction in progress	1,487,348	554,585	488,183	-	2,530,116	-
Subtotal	18,559,879	134,982,706	270,725,901	2,266,233	426,534,719	76,395,455
Less: Accumulated depreciation	11,140,022	98,119,723	94,140,442	1,626,903	205,027,090	43,490,151
Total Capital Assets (net of accumulated depreciation)	7,419,857	36,862,983	176,585,459	639,330	221,507,629	32,905,304
Total Noncurrent Assets	7,419,857	70,929,938	184,928,669	639,330	263,917,794	32,905,304
Total Assets	54,414,085	111,593,569	211,440,719	20,387,282	397,835,655	191,150,604
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	10,350,249	4,286,725	1,350,869	334,123	16,321,966	11,313,868
Interest payable	-	62,646	358,540	500	421,686	5,011
Retainage payable	-	-	526	-	526	-
Deposits	311,528	-	-	-	311,528	-
Claims payable	-	-	-	-	-	87,017,897
Accrued liabilities	2,453,577	1,204,904	494,687	11,809,350	15,962,518	3,490,555
Due to other funds	355,826	155,104	51,270	408,014	970,214	1,911,551
Due to component units	-	-	-	665,892	665,892	-
Due to other governments	569,773	1,384,353	20,760	-	1,974,886	-
Equipment notes payable	-	-	146,945	109,974	256,919	140,121
Unearned revenue	-	-	-	1,578,556	1,578,556	565,777
Revenue bonds payable	-	3,255,000	4,165,000	-	7,420,000	-
Landfill closure costs	-	3,331,000	-	-	3,331,000	-
Other liabilities	-	-	577,104	-	577,104	-
Total Current Liabilities	14,040,953	13,679,732	7,165,701	14,906,409	49,792,795	104,444,780
Noncurrent Liabilities:						
Equipment notes payable	-	-	393,426	74,450	467,876	374,872
Revenue bonds payable	-	13,307,407	33,995,775	-	47,303,182	-
Landfill closure costs	-	19,402,923	-	-	19,402,923	-
Compensated absences	454,201	222,202	91,482	459,883	1,227,768	436,844
Total Noncurrent Liabilities	454,201	32,932,532	34,480,683	534,333	68,401,749	811,716
Total Liabilities	14,495,154	46,612,264	41,646,384	15,440,742	118,194,544	105,256,496
<b>NET ASSETS</b>						
Invested in capital, net of related debt	7,419,857	20,300,576	137,884,313	454,906	166,059,652	32,390,311
Restricted for debt service	-	33,776,890	7,783,217	-	41,560,107	-
Unrestricted	32,499,074	10,903,839	24,126,805	4,491,634	72,021,352	53,503,797
Total Net Assets	\$ 39,918,931	\$ 64,981,305	\$ 169,794,335	\$ 4,946,540	279,641,111	\$ 85,894,108
<b>ADJUSTMENTS</b>						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(662,373)	
Net assets of business-type activities					\$ 278,978,738	

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



MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
**Exhibit A-9**

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
<b>OPERATING REVENUES</b>						
Sales - net	\$ 211,914,002	\$ -	\$ -	\$ -	\$ 211,914,002	\$ -
Charges for services	13,110	101,807,902	17,898,995	10,295,135	130,015,142	211,908,969
Licenses and permits	1,586,703	10,500	-	25,698,826	27,296,029	-
Fines and penalties	155,719	102,328	7,924,258	113,671	8,295,976	-
Claim recoveries	-	-	-	-	-	1,584,237
Total Operating Revenues	<u>213,669,534</u>	<u>101,920,730</u>	<u>25,823,253</u>	<u>36,107,632</u>	<u>377,521,149</u>	<u>213,493,206</u>
<b>OPERATING EXPENSES</b>						
Cost of goods sold	152,276,889	-	-	-	152,276,889	-
Personnel costs	23,053,637	12,553,120	3,577,394	23,453,886	62,638,037	23,286,701
Other postemployment contributions	2,226,300	577,950	278,250	1,719,650	4,802,150	1,491,250
Postage	72,336	143,255	4,654	39,126	259,371	1,744,157
Self-insurance incurred and estimated claims	-	-	-	-	-	110,119,115
Insurance	574,160	706,343	26,591	10,830	1,317,924	20,181,218
Supplies and materials	455,460	626,408	451,223	442,614	1,975,705	28,498,111
Contractual services	1,779,366	76,437,977	5,726,589	4,161,146	88,105,078	12,798,120
Communications	514,647	192,430	151,814	384,440	1,243,331	643,905
Transportation	739,980	1,612,431	227,029	638,706	3,218,146	462,865
Public utility services	753,931	169,659	2,520,175	1,839,080	5,282,845	753,812
Rentals	4,831,006	31,884	1,429,874	2,082,979	8,375,743	714,544
Maintenance	776,746	737,250	2,468,593	369,920	4,352,509	10,216,222
Depreciation	875,849	2,218,544	9,083,854	149,287	12,327,534	7,241,606
Landfill closure expense	-	607,000	-	-	607,000	-
Other	565,762	654,592	16,571	243,634	1,480,559	1,679,512
Total Operating Expenses	<u>189,496,069</u>	<u>97,268,843</u>	<u>25,962,611</u>	<u>35,535,298</u>	<u>348,262,821</u>	<u>219,831,138</u>
Operating Income (Loss)	<u>24,173,465</u>	<u>4,651,887</u>	<u>(139,358)</u>	<u>572,334</u>	<u>29,258,328</u>	<u>(6,337,932)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Property taxes	-	-	11,266,747	-	11,266,747	-
Intergovernmental	-	10,000	-	-	10,000	-
Gain (loss) on disposal of capital assets	(721,220)	2,500	-	-	(718,720)	215,735
Investment income	645,672	4,139,908	1,626,957	917,642	7,330,179	6,654,152
Interest expense	(445,979)	(922,883)	(1,859,499)	(9,406)	(3,237,767)	(22,680)
Other revenue	41,597	163,100	638,189	-	842,886	384,514
Insurance recoveries	-	23,357	-	-	23,357	287,149
Total Nonoperating Revenues (Expenses)	<u>(479,930)</u>	<u>3,415,982</u>	<u>11,672,394</u>	<u>908,236</u>	<u>15,516,682</u>	<u>7,518,870</u>
Income (Loss) Before Capital Contributions and Transfers	<u>23,693,535</u>	<u>8,067,869</u>	<u>11,533,036</u>	<u>1,480,570</u>	<u>44,775,010</u>	<u>1,180,938</u>
Capital Contributions	-	-	399,231	-	399,231	-
Transfers In (Out):						
Transfers in	1,781,040	462,360	222,600	1,400,720	3,866,720	2,806,557
Transfers out	(22,168,275)	(1,805,300)	(9,454,897)	(3,281,650)	(36,710,122)	-
Total Transfers In (Out)	<u>(20,387,235)</u>	<u>(1,342,940)</u>	<u>(9,232,297)</u>	<u>(1,880,930)</u>	<u>(32,843,402)</u>	<u>2,806,557</u>
Change in Net Assets	3,306,300	6,724,929	2,699,970	(400,360)	12,330,839	3,987,495
Total Net Assets - Beginning of Year	<u>36,612,631</u>	<u>58,256,376</u>	<u>167,094,365</u>	<u>5,346,900</u>		<u>81,906,613</u>
Total Net Assets - End of Year	<u>\$ 39,918,931</u>	<u>\$ 64,981,305</u>	<u>\$ 169,794,335</u>	<u>\$ 4,946,540</u>		<u>\$ 85,894,108</u>
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					48,120	
Change in net assets of business-type activities					\$ 12,378,959	

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, 2008  
**Exhibit A-10**

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 217,616,052	\$ 98,611,263	\$ 26,336,464	\$ 35,023,626	\$ 377,587,405	\$ 210,994,712
Payments to suppliers	(168,889,384)	(88,728,654)	(15,419,638)	(11,239,385)	(284,277,061)	(77,533,282)
Payments to employees	(22,739,074)	(12,374,570)	(3,455,200)	(23,224,669)	(61,793,513)	(22,162,849)
Internal activity - operating payments from other funds	-	3,008,500	-	1,143,430	4,151,930	-
Other operating receipts	-	-	-	4,629,395	4,629,395	507,978
Other operating payments	-	-	-	(4,157,140)	(4,157,140)	-
Claims paid	-	-	-	-	-	(105,539,179)
Other revenue	41,597	186,457	638,189	-	866,243	180,932
Net Cash Provided (Used) by Operating Activities	<u>26,029,191</u>	<u>702,996</u>	<u>8,099,815</u>	<u>2,175,257</u>	<u>37,007,259</u>	<u>6,448,312</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Property tax collections	-	-	11,520,903	-	11,520,903	-
Operating subsidies and transfers from other funds	1,781,040	462,360	222,600	1,400,720	3,866,720	171,240
Operating subsidies and transfers to other funds	(22,168,275)	(1,805,300)	(9,454,897)	(3,281,650)	(36,710,122)	-
Intergovernmental revenue	-	10,000	-	-	10,000	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(20,387,235)</u>	<u>(1,332,940)</u>	<u>2,288,606</u>	<u>(1,880,930)</u>	<u>(21,312,499)</u>	<u>171,240</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from capital debt	-	-	-	34,765	34,765	-
Proceeds from sale of capital assets	10,642	2,500	-	-	13,142	795,354
Purchases of capital assets	(1,055,614)	(4,909,341)	(3,972,188)	(138,732)	(10,075,875)	(8,431,270)
Principal paid on capital debt	(10,033,172)	(3,162,447)	(4,096,327)	(94,912)	(17,386,858)	(134,823)
Interest paid on capital debt	(445,979)	(854,538)	(1,795,079)	(8,906)	(3,104,502)	(23,992)
Internal activity - payments from other funds	-	-	-	-	-	2,635,317
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,524,123)</u>	<u>(8,923,826)</u>	<u>(9,863,594)</u>	<u>(207,785)</u>	<u>(30,519,328)</u>	<u>(5,159,414)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Investment income from pooled investments	229,803	3,878,440	1,448,678	917,642	6,474,563	6,628,570
Investment income from nonpooled investments	415,869	22,310	-	-	438,179	25,582
Net Cash Provided (Used) by Investing Activities	<u>645,672</u>	<u>3,900,750</u>	<u>1,448,678</u>	<u>917,642</u>	<u>6,912,742</u>	<u>6,654,152</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,236,495)	(5,653,020)	1,973,505	1,004,184	(7,911,826)	8,114,290
Balances - Beginning of Year	20,354,500	73,778,433	27,360,336	18,731,857	140,225,126	136,277,995
Balances - End of Year	<u>\$ 15,118,005</u>	<u>\$ 68,125,413</u>	<u>\$ 29,333,841</u>	<u>\$ 19,736,041</u>	<u>\$ 132,313,300</u>	<u>\$ 144,392,285</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>						
Operating income (loss)	\$ 24,173,465	\$ 4,651,887	\$ (139,358)	\$ 572,334	\$ 29,258,328	\$ (6,337,932)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	875,849	2,218,544	9,083,854	149,287	12,327,534	7,241,606
Other revenue	41,597	186,457	638,189	-	866,243	180,932
Changes in assets and liabilities:						
Receivables, net	199,021	(256,831)	513,207	(2,067)	453,330	(1,979,087)
Inventories, prepaids and other assets	2,230,271	-	-	-	2,230,271	(197,706)
Accounts payable and other liabilities	(1,813,637)	(6,141,030)	(2,108,026)	753,985	(9,308,708)	6,527,900
Accrued expenses	322,625	43,969	111,949	701,718	1,180,261	1,012,599
Net Cash Provided (Used) by Operating Activities	<u>\$ 26,029,191</u>	<u>\$ 702,996</u>	<u>\$ 8,099,815</u>	<u>\$ 2,175,257</u>	<u>\$ 37,007,259</u>	<u>\$ 6,448,312</u>
<b>Noncash investing, capital and financing activities:</b>						
Capital asset donations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 203,582
Capital asset disposals	1,789,026	114,452	-	458,614	2,362,092	1,709,587
Assets acquired through transfers from governmental activities	-	-	399,231	-	399,231	-
Change in fair value of investments that are not cash equivalents	-	161,640	178,279	-	339,919	-

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

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2008  
**Exhibit A-11**

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts	Agency Funds
<b>ASSETS</b>				
Current Assets:				
Equity in pooled cash and investments	\$ 906,095	\$ 38,288,190	\$ 305,947	\$ 44,264,352
Cash	-	-	-	211,584
Investments:				
U.S. Government and agency obligations	443,577,797	-	-	-
Asset-backed securities	34,552,257	-	-	-
Municipal/Provincial bonds	875,646	-	-	-
Corporate bonds	373,424,224	-	-	-
Collateralized mortgage obligations	22,285,630	-	-	-
Commercial mortgage-backed securities	25,303,933	-	-	-
Common and preferred stock	1,417,024,398	-	-	-
Mutual and commingled funds	382,273,767	-	-	-
Short-term investments	194,817,255	-	-	-
Cash collateral received under securities lending agreements	347,037,914	-	-	-
Real estate	73,837,446	-	-	-
Private equity	144,270,869	-	-	-
Total investments	3,459,281,136	-	-	-
Receivables (net of allowances for uncollectibles):				
Dividends and accrued interest	11,672,596	-	-	-
Property taxes	-	-	-	5,796,641
Accounts	135,097	-	-	153,874
Due from other funds	12,090,218	-	-	-
Due from component units	201,678	-	-	-
Due from other governments	1,990,487	-	-	-
Total Current Assets	3,486,277,307	38,288,190	305,947	50,426,451
Total Assets	3,486,277,307	38,288,190	305,947	\$ 50,426,451
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	479,340,639	-	82,799	3,320
Accrued liabilities	220,999	-	-	-
Deposits	-	-	-	983,251
Claims payable	3,469,435	-	-	-
Due to other funds	3,145	-	-	-
Due to other governments	-	-	-	3,425,798
Uncollected property taxes due to governments	-	-	-	5,472,155
Undistributed taxes and refunds	-	-	-	12,478,380
Unearned revenue	97,555	-	-	-
Tax sale surplus and redemptions payable	-	-	-	2,190,235
Other liabilities	-	-	-	25,873,312
Total Current Liabilities	483,131,773	-	82,799	50,426,451
Noncurrent Liabilities:				
Compensated absences	45,067	-	-	-
Total Liabilities	483,176,840	-	82,799	\$ 50,426,451
<b>NET ASSETS</b>				
Held in trust for pension and other postemployment benefits, external investment pool participants, and other purposes	\$ 3,003,100,467	\$ 38,288,190	\$ 223,148	

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

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
**Exhibit A-12**

	Pension and Other Employee Benefit Trusts	Investment Trust	Private- Purpose Trusts
<b>ADDITIONS</b>			
Contributions:			
Employers	\$ 170,792,794	\$ -	\$ -
Members	56,772,213	-	236,509
Federal government - Medicare Part D	4,197,998	-	-
Share purchases	-	30,842,578	-
Total Contributions	<u>231,763,005</u>	<u>30,842,578</u>	<u>236,509</u>
Investment income (loss)	(72,467,434)	1,525,682	9,777
Less: Investment expenses	27,454,462	-	-
Net Investment Income (Loss)	<u>(99,921,896)</u>	<u>1,525,682</u>	<u>9,777</u>
Other income - forfeitures	<u>550,434</u>	<u>-</u>	<u>-</u>
Total Additions, net	<u>132,391,543</u>	<u>32,368,260</u>	<u>246,286</u>
<b>DEDUCTIONS</b>			
Benefits:			
Annuities:			
Retirees	105,368,941	-	-
Survivors	6,723,276	-	-
Disability	34,934,780	-	-
Claims	40,771,902	-	-
Total Benefits	<u>187,798,899</u>	<u>-</u>	<u>-</u>
Share redemptions	-	25,509,150	-
Member refunds	21,603,998	-	-
Program expenses	-	-	257,903
Administrative expenses	<u>4,699,635</u>	<u>-</u>	<u>-</u>
Total Deductions	<u>214,102,532</u>	<u>25,509,150</u>	<u>257,903</u>
Net Increase (Decrease)	(81,710,989)	6,859,110	(11,617)
Net Assets - Beginning of Year	<u>3,084,811,456</u>	<u>31,429,080</u>	<u>234,765</u>
Net Assets - End of Year	<u>\$ 3,003,100,467</u>	<u>\$ 38,288,190</u>	<u>\$ 223,148</u>

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

MONTGOMERY COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
COMPONENT UNITS  
JUNE 30, 2008  
**Exhibit A-13**

	MCPS	HOC	Nonmajor Component Units	Total
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 53,651,705	\$ 8,362,401	\$ 22,118,196	\$ 84,132,302
Cash with fiscal agents	-	17,379,727	4,173,736	21,553,463
Cash	8,624,942	15,398	5,804,394	14,444,734
Investments-cash equivalents	38,384,641	49,734,534	42,472,630	130,591,805
Investments	5,458,632	-	9,062,823	14,521,455
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	34,976,276	34,976,276
Accounts	-	2,548,074	6,890,728	9,438,802
Notes	-	-	32,430,000	32,430,000
Mortgages receivable	-	367,326,466	-	367,326,466
Interest	-	4,845,291	-	4,845,291
Other	-	17,870,363	1,672,870	19,543,233
Due from primary government	55,853,271	1,324,484	11,571,314	68,749,069
Due from other governments	20,414,664	1,178,126	6,711,129	28,303,919
Inventory of supplies	7,794,099	360,160	2,031,820	10,186,079
Prepays	344,177	2,490,035	2,124,134	4,958,346
Deferred charges	-	-	593,180	593,180
Other assets	-	37,152,376	13,763,310	50,915,686
Restricted Assets:				
Equity in pooled cash and investments	-	-	3,096,797	3,096,797
Cash with fiscal agents	-	239,491	-	239,491
Cash	-	-	450,799	450,799
Investments - cash equivalents	-	110,706,324	4,484,089	115,190,413
Investments	-	210,301,986	-	210,301,986
Capital Assets:				
Nondepreciable assets	224,051,791	91,613,145	62,028,358	377,693,294
Depreciable assets, net	1,575,784,607	347,211,115	275,747,952	2,198,743,674
Total Assets	<u>1,990,362,529</u>	<u>1,270,659,496</u>	<u>542,204,535</u>	<u>3,803,226,560</u>
<b>LIABILITIES</b>				
Accounts payable	47,131,098	8,220,892	29,677,966	85,029,956
Interest payable	13,097	17,051,327	881,609	17,946,033
Retainage payable	13,228,548	-	259,195	13,487,743
Accrued liabilities	74,225,905	4,129,402	939,405	79,294,712
Claims payable	16,438,489	-	-	16,438,489
Deposits	-	10,409,840	21,650	10,431,490
Due to primary government	475,494	65,331,626	1,384,949	67,192,069
Unearned revenue	5,242,603	18,722,512	5,393,771	29,358,886
Other liabilities	-	13,583,063	-	13,583,063
Noncurrent Liabilities:				
Due within one year	25,623,782	90,693,797	5,946,499	122,264,078
Due in more than one year	189,361,872	849,083,179	159,668,656	1,198,113,707
Total Liabilities	<u>371,740,888</u>	<u>1,077,225,638</u>	<u>204,173,700</u>	<u>1,653,140,226</u>
<b>NET ASSETS</b>				
Invested in capital, net of related debt	1,770,426,148	23,247,204	245,985,395	2,039,658,747
Restricted for:				
Capital projects	-	-	178,445	178,445
Debt service	-	40,949,685	4,641,200	45,590,885
Other purposes	1,357,484	13,108,126	22,845,577	37,311,187
Unrestricted (deficit)	(153,161,991)	116,128,843	64,380,218	27,347,070
Total Net Assets	<u>\$ 1,618,621,641</u>	<u>\$ 193,433,858</u>	<u>\$ 338,030,835</u>	<u>\$ 2,150,086,334</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, 2008  
**Exhibit A-14**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	MCPS	HOC	Nonmajor Component Units	Total
Component units:								
General government	\$ 4,460,975	\$ 4,348,772	\$ 252,298	\$ -	\$ -	\$ -	\$ 140,095	\$ 140,095
Culture and recreation	22,640,186	19,292,142	-	1,934,597	-	-	(1,413,447)	(1,413,447)
Community development and housing	197,507,792	103,847,684	92,376,761	8,759,800	-	7,476,453	-	7,476,453
Education:								
Secondary education	2,273,720,062	33,906,217	105,779,001	49,043,348	(2,084,991,496)	-	-	(2,084,991,496)
Higher education	246,269,485	72,816,118	28,160,056	338,065	-	-	(144,955,246)	(144,955,246)
Total component units	<u>\$ 2,744,598,500</u>	<u>\$ 234,210,933</u>	<u>\$ 226,568,116</u>	<u>\$ 60,075,810</u>	<u>(2,084,991,496)</u>	<u>7,476,453</u>	<u>(146,228,598)</u>	<u>(2,223,743,641)</u>
General revenues:								
Grants and contributions not restricted to specific programs					2,145,844,639	-	189,154,364	2,334,999,003
Investment income					1,995,772	2,736,801	3,648,019	8,380,592
Gain on sale of capital assets					-	-	2,163	2,163
Total general revenues					<u>2,147,840,411</u>	<u>2,736,801</u>	<u>192,804,546</u>	<u>2,343,381,758</u>
Change in net assets					62,848,915	10,213,254	46,575,948	119,638,117
Net assets - beginning					1,555,772,726	183,220,604	291,454,887	2,030,448,217
Net assets - ending					<u>\$ 1,618,621,641</u>	<u>\$ 193,433,858</u>	<u>\$ 338,030,835</u>	<u>\$2,150,086,334</u>

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

MONTGOMERY COUNTY, MARYLAND

**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2008

**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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- B GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
- C MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL  
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- B RECEIVABLES
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- D INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS
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- F LONG-TERM DEBT
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- H FUND EQUITY
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COMPONENT UNITS

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- A RISK MANAGEMENT
- B SIGNIFICANT COMMITMENTS AND CONTINGENCIES
- C SUBSEQUENT EVENTS
- D JOINT VENTURES
- E EMPLOYEE BENEFITS
- F PENSION PLAN OBLIGATIONS
- G OTHER POSTEMPLOYMENT BENEFITS

## 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:

**Montgomery County Public Schools (MCPS)** provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education are elected by the voters. (One nonvoting student member is elected by secondary students.) 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.

**Montgomery Community College (Montgomery College or MCC)** provides educational services to County citizens by offering two-year associate degrees and a continuing education program. MCC 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 MCC. The Primary Government contributes substantial funding for both the operating and capital budgets, as well as issues debt for the construction of college facilities.

**Montgomery County Revenue Authority (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.

**Housing Opportunities Commission of Montgomery County (HOC)** is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of HOC and guarantees a relatively small portion of its debt (up to \$50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though there is a large dependence on the U.S. Department of Housing and Urban Development (HUD), HOC has sufficient financial accountability to the Primary Government to be included as a component unit.

**Bethesda Urban Partnership, Inc (BUPI)** has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI, a not-for-profit corporation, is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI's funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

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	Montgomery County Revenue Authority 101 Monroe Street, 4 <sup>th</sup> Floor Rockville, MD 20850
Housing Opportunities Commission of Montgomery County, Maryland 10400 Detrick Avenue Kensington, MD 20895-2484	Bethesda Urban Partnership, Inc. 7700 Old Georgetown Road Bethesda, MD 20814	

### **Joint Ventures**

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), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA). Disclosure of the County's participation in these joint ventures is presented in Note IV-D. Complete financial statements can be obtained at the joint ventures' offices listed below:

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
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Washington Metropolitan Area  
Transit Authority  
600 Fifth Street, NW  
Washington, DC 20001

Metropolitan Washington Council  
of Governments  
777 N. Capitol Street, NE, #300  
Washington, DC 20002

Northeast Maryland Waste  
Disposal Authority  
100 South Charles St, Tower II-Suite 402  
Baltimore, MD 21201-2705

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

**Statement of Net Assets** – 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 Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. Net assets are divided into three categories – 1) invested in capital assets, net of related debt; 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 assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses.

**General Fund Budget-to-Actual Comparison Statement** - 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. For this reason, the County has chosen to make its General Fund budget-to-actual comparison statement part of the basic financial statements. The County and many other governments revise their original budgets over the course of the year for a variety of reasons; such revisions are reflected in a separate column in this statement.

**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 also use the accrual basis of accounting to recognize assets and liabilities.

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

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

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

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 deferred revenue.

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 deferred revenue.

### **Financial Statement Presentation**

The County reports the following 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.

**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. Special assessment activities are accounted for in the Debt Service Fund for practical purposes because they differ significantly from traditional special assessment practices. The principal and interest collected annually on such assessments are used as a partial source of funding for debt service on all outstanding general obligation road and storm drainage bonds. The remaining debt service requirement is financed from current governmental revenues and transfers, generally from the General Fund.

**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).

The County reports the following major enterprise funds:

**Liquor Enterprise Fund** - This fund accounts for the operations of twenty-five liquor stores and the Montgomery County Liquor Warehouse. Under State law, the Montgomery County Department of Liquor Control has a monopoly on 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, for the County. 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 downcounty residents during the late fall/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.

Additionally, the County reports the following 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. Permanent funds 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. The Housing Opportunities Commission Treasury Bonds Permanent Fund was closed during the year (see Note I-D.1).

**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.

The County reports the following 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 and/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, such as court appointed guardians, and others, and must be expended in accordance with their designated purposes.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds should be 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 Assets. 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 nonoperating 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 nonoperating 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, Liabilities, and Net Assets or Equity**

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

**Pooled Cash and Investments** – 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:**

**Governmental Fund Types** – Investments of the Housing Opportunities Commission (HOC) Treasury Bonds Permanent Fund (a primary government fund) matured during the year. In accordance with agreements between HOC and the County, proceeds from the matured investments, which represented the net assets of the Fund, were transferred to the Housing Initiative Special Revenue Fund.

**Proprietary Fund Types** – The Solid Waste Activities and the Parking Lot District enterprise funds investment 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, 2008. Fair value for real estate investments is determined using unit values supplied by the issuers, which are based upon the issuers' appraisals of underlying real estate values. Such values involve subjective judgment and may differ from amounts which would be realized if such real estate was actually sold. The fair value for private equity is based on information provided by the fund managers. 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 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 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, the reserve for inventory is equal to the amount of inventory to indicate that portion of fund balance which is not available for funding other expenditures.

**Prepaids** – Payments made to vendors for services that will benefit periods beyond the end of the fiscal year are recorded as prepaids.

**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, 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 \$5,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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) 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, 75 percent and 25 percent of such accrued leave is classified as current and long-term, respectively. 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.

#### **7) 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 assets. 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. Bond issuance costs are generally reported as a deferred asset and amortized over the term of the related debt using the straight-line method.

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.



## **8) Fund Equity/Net Assets**

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The capital assets related to component units are reported on the financial statements of MCPS and MCC, and this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (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 assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2008, the County has reported outstanding general obligation bond and variable rate demand obligation debt related to MCPS, MCC, and M-NCPPC amounting to \$1,023,021,034. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of \$370,444,067.

In the government-wide Statement of Net Assets (Exhibit A-1), the amount reported in the Business-type Activities column for net assets invested in capital, net of related debt, includes \$51,966,226 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of \$38,267,919 at June 30, 2008, is an obligation of the Governmental Activities (see Note III-E3), and the debt does not relate to a governmental capital asset, the impact of such debt is reported in the unrestricted portion of net assets in the Governmental Activities column. However, in the Total Primary Government column, the impact of such debt has been reclassified and reflected with the associated capital asset, in net assets invested in capital, net of related debt.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. However, long-term receivables in the Grants Special Revenue Fund, a nonmajor governmental fund, have not met the “available” criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than reserved fund balance. In the Capital Projects Fund, fund balance reserved for other purposes represents recordation and impact tax collections on hand that are legally restricted for use on projects of other component unit and municipality governments.

Designations of fund balances represent tentative management plans that are subject to change, which are described more fully in Note III-H.

## **9) 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 FY08. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of seven 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 2007 (i.e., FY08), in conjunction with an enhanced homeowner’s tax credit program and a one-time income tax offset credit, met 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 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.

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.

**E) Accounting Changes**

The County has adopted GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The primary impact of these statements on the County's financial statements relates to the determination of annual postemployment healthcare benefits costs and the reporting and disclosure requirements for the County's postemployment healthcare benefits activities. The County has established a fiduciary fund, the Retiree Health Benefits Trust, to account for and report on its postemployment healthcare benefits activities.

The County has also adopted GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and No. 27*, which did not have a significant impact on the County's financial statements.

**NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A) 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 except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

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 a designation 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.

Since FY07, the Department of Public Libraries is appropriated by program; the three programs within the Department of Public Libraries' budget to actual expenditures are as follows:

	Budget	Actual	Variance Positive (Negative)
Administration, Outreach and Support Services:			
Personnel	\$ 2,146,736	\$ 2,146,730	\$ 6
Operating	1,768,555	1,768,551	4
Totals	<u>3,915,291</u>	<u>3,915,281</u>	<u>10</u>
Library Services to the Public:			
Personnel	26,915,417	26,368,950	546,467
Operating	623,128	623,125	3
Capital Outlay	75,960	75,960	-
Totals	<u>27,614,505</u>	<u>27,068,035</u>	<u>546,470</u>
Collection Management:			
Personnel	2,264,039	2,169,957	94,082
Operating	7,935,833	7,935,829	4
Totals	<u>10,199,872</u>	<u>10,105,786</u>	<u>94,086</u>
Total Personnel	31,326,192	30,685,637	640,555
Total Operating	10,327,516	10,327,505	11
Total Capital Outlay	75,960	75,960	-
Grand Total	<u>\$ 41,729,668</u>	<u>\$ 41,089,102</u>	<u>\$ 640,566</u>

### **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 three major categories (personnel costs, operating, and capital outlay) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note III-H1), such encumbrances are designated as part 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 FY08, the County Council increased the operating budget through supplemental and special appropriations by \$67.7 million. In addition, supplemental appropriations increased the CIP budget by \$49.9 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 activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Proprietary fund budgets do not include depreciation and bad debts, however they do include debt service payments and capital outlay.
- Year-end incurred but not reported (IBNR) adjustments in the self-insurance internal service funds are not budgeted for, as they are incorporated into the budget preparation process of the following fiscal year.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Retirement of commercial paper bond anticipation notes through the issuance of general obligation bonds is not budgeted.
- 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 MCC.

Adjustments necessary to reconcile the General Fund budgetary and GAAP statements are as follows:

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
<b><u>General Fund:</u></b>				
As reported - budgetary basis	\$ 2,585,688,852	\$ 940,649,845	\$ (1,817,121,364)	\$ (172,082,357)
Reconciling items:				
Cancellation of prior year encumbrances	(1,373,849)	-	-	(1,373,849)
Elimination of encumbrances outstanding	-	(24,158,117)	-	24,158,117
Unrealized gains (losses)	4,832,087	-	-	4,832,087
Financing under capital lease	-	399,231	399,231	-
Other postemployment contributions	-	(5,034,720)	(5,034,720)	-
Conference Center activity	15,266,290	14,739,090	-	527,200
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	2,075,760	-	(2,075,760)	-
Public agency permits	-	1,143,430	1,143,430	-
Solid waste tipping fees	-	1,835,230	1,835,230	-
Community use of public facilities for elections	-	117,450	117,450	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	598,645	-	(598,645)	-
Component Units - Transfer out	-	1,570,726,627	1,570,726,627	-
As reported - GAAP basis	<u>\$ 2,607,087,785</u>	<u>\$ 2,500,418,066</u>	<u>\$ (250,608,521)</u>	<u>\$ (143,938,802)</u>

### NOTE III. DETAILED NOTES ON ALL FUNDS

#### A) Cash and Investments

##### 1) Overview

The Montgomery County reporting entity total cash and investments as of June 30, 2008, totaled \$4,884,534,856 of which \$4,290,011,611 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

	Primary Government	Component Units	Total Reporting Entity
<u>Statement of Net Asset Amounts:</u>			
Equity in pooled cash and investments	\$ 743,181,043	\$ 84,132,302	\$ 827,313,345
Cash with fiscal agents	44,923,316	21,553,463	66,476,779
Cash	1,066,009	14,444,734	15,510,743
Investments - cash equivalents	-	130,591,805	130,591,805
Investments	3,459,281,136	14,521,455	3,473,802,591
Restricted equity in pooled cash and investments	36,411,912	3,096,797	39,508,709
Restricted cash with fiscal agents	-	239,491	239,491
Restricted cash	-	450,799	450,799
Restricted investments - cash equivalents	-	115,190,413	115,190,413
Restricted investments	5,148,195	210,301,986	215,450,181
Total	<u>\$ 4,290,011,611</u>	<u>\$ 594,523,245</u>	<u>\$ 4,884,534,856</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 98,159,005	\$ 21,870,967	\$ 120,029,972
Investments	4,145,863,281	409,485,312	4,555,348,593
Cash on hand, fiscal agents, safe deposit escrow	45,989,325	163,166,966	209,156,291
Total	<u>\$ 4,290,011,611</u>	<u>\$ 594,523,245</u>	<u>\$ 4,884,534,856</u>

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

Government-wide	\$ 746,754,307
Fiduciary funds	<u>3,543,257,304</u>
Total	<u>\$ 4,290,011,611</u>

#### 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. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of "2a-7 like." 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 did not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest have been classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and the 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 for the current year related to all County funds (exclusive of legally separate entities' accounts reflected in the Investment Trust Fund) is recorded in the General Fund, since this amount is not material.

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

	Primary Government	Component Units	Total Reporting Entity
<u>Balance Sheet Amounts:</u>			
Equity in pooled cash and investments	\$ 743,181,043	\$ 14,278,838	\$ 757,459,881
Restricted equity in pooled cash and investments	36,411,912	-	36,411,912
Total	<u>\$ 779,592,955</u>	<u>\$ 14,278,838</u>	<u>\$ 793,871,793</u>
<u>Deposit and Investment Summary:</u>			
Deposits	\$ 98,159,005	\$ -	\$ 98,159,005
Investments, including accrued interest	681,433,950	14,278,838	695,712,788
Total	<u>\$ 779,592,955</u>	<u>\$ 14,278,838</u>	<u>\$ 793,871,793</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 include bank accounts and non-negotiable certificates of deposit. Deposits at financial institutions were fully insured or collateralized at year-end.

**Investments:**

The County, through its external investment pool, 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 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. There were no unusual variations in the mix or volume of the investment portfolio throughout the year. The County was in compliance with all applicable investment statutes throughout the fiscal year.

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Maturity Range</u>	<u>Interest Range</u>
Repurchase agreements	\$ 50,000,000	\$ 50,000,000	July 08	2.25 %
U. S. Government securities	300,067,013	300,059,850	July 08 - April 10	2.12 - 5.35
Commercial paper	27,752,509	27,594,128	September - December 08	2.83 - 3.02
Bankers' acceptances	147,724,356	147,246,239	July - December 08	2.39 - 2.98
Money market mutual funds	167,617,176	167,617,176	n/a	2.25 - 2.40
Total	<u>\$ 693,161,054</u>	<u>\$ 692,517,393</u>		

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy limits investments to maturities of one year or less. However, a portion of the portfolio may be invested in investments with longer maturities (up to two years); any investment with a maturity of over 12 months must be approved by the Director of Finance prior to execution. As of June 30, 2008, the County's investment maturities are as follows:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-2</u>
Repurchase agreements	\$ 50,000,000	\$ 50,000,000	\$ -
U. S. Government securities	300,067,013	275,258,355	24,808,658
Commercial paper	27,752,509	27,752,509	-
Bankers' acceptances	147,724,356	147,724,356	-
Money market mutual funds	167,617,176	167,617,176	-
Total	<u>\$ 693,161,054</u>	<u>\$ 668,352,396</u>	<u>\$ 24,808,658</u>

**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 Maryland Local Government Investment Pool (MLGIP), and money market mutual funds that are registered and operate in accordance with Rule 2a-7 and 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.

As of June 30, 2008, the County's investments were rated as follows:

<u>Investment Type</u>	<u>Ratings</u>		
	<u>Standard &amp; Poor's</u>	<u>Fitch</u>	<u>Moody's</u>
Repurchase agreements <sup>1</sup>	N/R	N/R	N/R
U.S. Government securities <sup>2</sup> :			
Agency discounts	A-1+	F1+	P-1
Federal Agricultural Mortgage Corp discount notes	N/R	N/R	N/R
Federal National Mortgage Association mortgage backed securities discount notes	N/R	N/R	N/R
Other U.S. Government securities	AAA	AAA	Aaa
Commercial paper <sup>3</sup>	A-1	F1	P-1
Bankers' acceptances <sup>4</sup>	N/R	N/R	N/R
Money market mutual funds	AAA	AAA	Aaa

N/R-Not Rated

**1** Disclosure of the credit risk for the County's repurchase agreements is required since the underlying securities are not issued or explicitly guaranteed by the U.S. Government.

**2** Only includes securities implicitly guaranteed by the U.S. Government.

**3** Not all commercial paper is rated by all agencies. However, each commercial paper is rated by at least one rating agency. Each such rating is of the highest investment grade.

**4** While the bankers' acceptances are not rated, County policy requires that the underlying issuer is of the highest short-term 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, 2008, the County's investments were not exposed to custodial credit risk.



## Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. It is the County's policy to diversify by investment type and institution in order to avoid unreasonable risks, with 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	50
Repurchase agreements	50
Bankers' acceptances	50
Money market mutual fund	25
Local government investment pool	25
Collateralized certificates of deposit**	25
Commercial paper	5

<u>Diversification by Institution</u>	<u>Maximum percent of Portfolio*</u>
Approved broker/dealers	50 %
Money market mutual funds by fund	25
Bankers' acceptances by country	25
Bankers' acceptances by institution	10
Commercial banks (certificates of deposit)**	10
U.S. Government agencies by agency	20

\* At time of purchase

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

As of June 30, 2008, five percent or more of the County's investments, excluding amounts issued or explicitly guaranteed by the U.S. Government, mutual funds, and pooled investments, are invested in:

<u>Issuer</u>	<u>Fair Value</u>
Bank of America	\$ 75,135,581
Dreyfus	56,561,815
Federal Home Loan Bank	141,944,331
Federal National Mortgage Association	58,470,969
Morgan Stanley	125,290,177
Wachovia	72,588,775

**External Investment Pool Condensed Financial Statements:**

The condensed financial statements of the County's external investment pool at June 30, 2008, are as follows:

Statement of Net Assets  
June 30, 2008

Assets:	
Investment in securities, at fair value	\$ 693,161,054
Cash	98,159,005
Accrued interest receivable	2,551,734
Total assets and net assets	<u>\$ 793,871,793</u>
Net assets consist of:	
Internal participants' units outstanding (\$1.00 par)	\$ 755,583,603
External participants' units outstanding (\$1.00 par)	38,288,190
Net assets	<u>\$ 793,871,793</u>
Participants net asset value, offering price and redemption price per share (\$793,871,793 / 794,464,335 units)	<u>\$ 1.00</u>

Statement of Changes in Net Assets  
For the Fiscal Year Ended June 30, 2008

Investment Income *	\$ 47,696,371
Distributions to participants:	
Distributions paid and payable	(47,696,371)
Share transactions at net asset value of \$1.00 per share:	
Purchase of units	\$ 5,542,082,273
Redemption of units	<u>(5,776,205,947)</u>
Net decrease in net assets and shares resulting from share transactions	<u>(234,123,674)</u>
Total decrease in net assets	(234,123,674)
Net assets, July 1, 2007	1,027,995,467
Net assets, June 30, 2008	<u>\$ 793,871,793</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. Major funds with significant cash and investments comprised of other than the external investment pool include the following:

**Debt Service Fund** - Cash with fiscal agents of \$22,798,291 includes 19,445,453, which is held for approximately one day in bank accounts that are not in the County's name and are not collateralized. Per the Montgomery County Code, banks receiving County funds in trust, for the purpose of paying principal and interest on bonds or other County obligations, need not furnish security for those funds. The remaining balance of \$3,352,838 represents lease revenue bond debt service reserve funds which are held in money market mutual funds and U.S Government securities. These funds, originally held in the Capital Projects Fund, were transferred to the Debt Service Fund during FY08.

**Capital Projects Fund** - Cash with fiscal agents of \$20,480,726 is held in money market mutual funds and U.S. Government securities.

**Liquor** – Cash with fiscal agents of \$10,569,308 at the end of FY07 was held in money market funds for the purpose of disbursement of construction costs for a temperature control warehouse. During FY08, construction on this project ceased; funds held with fiscal agents were used in April 2008 to pay off the loan and the balance reverted to operating cash in the Liquor Enterprise Fund.

There are no cash and investments in nonmajor funds with significantly greater risk exposures than those described above or those relating to the external investment pool.

#### **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. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by the County, any political subdivision within the County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by the County.

###### **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 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 organization that represent 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2008, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 265,058,334	25.66 %
	BBB	473,960	0.05
	BB	125,000	0.01
Foreign Government Obligations	AAA	151,959,282	14.71
	A	19,568,479	1.89
	BBB	5,500,690	0.53
	BB	892,052	0.09
Asset-Backed Securities	AAA	30,187,663	2.92
	AA	260,353	0.03
	BBB	2,958,096	0.29
	B	105,923	0.01
	Unrated	1,040,222	0.10
Commercial Mortgage-Backed Securities	AAA	21,404,440	2.07
	Unrated	3,899,493	0.38
Collateralized Mortgage Obligations	AAA	20,562,666	1.99
	AA	154,076	0.01
	BB	356,177	0.03
	Unrated	1,212,711	0.12
Municipal/Provincial Bonds	AA	875,646	0.08
Corporate Bonds	AAA	11,131,163	1.08
	AA	31,638,598	3.06
	A	52,772,429	5.11
	BBB	37,428,707	3.62
	BB	55,858,584	5.41
	B	71,681,709	6.94
	CCC	21,458,482	2.08
	D	61,250	0.01
	Unrated	3,221,831	0.31
Fixed Income Pooled Funds	Unrated	88,171,471	8.53
Short-term Investments and Other	N/A	133,126,014	12.88
Total Fixed Income Securities		<u>\$1,033,145,501</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 up/down by 8 percent.

As of June 30, 2008, 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	6.56	\$ 265,657,294	25.72 %
Foreign Government Obligations	8.89	177,920,503	17.22
Asset-Backed Securities	0.61	34,552,257	3.35
Commercial Mortgage-Backed Securities	3.89	25,303,933	2.45
Collateralized Mortgage Obligations	4.71	22,285,630	2.15
Municipal /Provincial Bonds	6.77	875,646	0.08
Corporate Bonds	4.68	285,252,753	27.62
Fixed Income Pooled Funds	N/A	88,171,471	8.53
Short-term Investments and Other	N/A	133,126,014	12.88
Total Fixed Income Securities		<u>\$1,033,145,501</u>	<u>100.00 %</u>

### 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
European Currency Unit	\$129,433,696	\$ 68,469,213	\$ (43,252,163)	\$ 154,650,746
Japanese Yen	107,538,308	-	2,223,096	109,761,404
British Pound Sterling	58,437,801	47,717,508	(53,814,838)	52,340,471
Swiss Franc	25,785,689	-	21,174,756	46,960,445
Hong Kong Dollar	21,541,736	-	12,691	21,554,427
Swedish Krona	7,636,274	31,123,299	(24,228,664)	14,530,909
Danish Krone	6,275,854	-	-	6,275,854
Malaysian Ringgit	2,834,680	1,592,858	-	4,427,538
Brazilian Real	-	2,064,924	-	2,064,924
Canadian Dollar	4,677,870	29,312,624	(36,533,106)	(2,542,612)
Other Currencies	23,695,628	6,827,852	(35,868,788)	(5,345,308)
Total International Securities	<u>\$387,857,536</u>	<u>\$187,108,278</u>	<u>\$(170,287,016)</u>	<u>\$ 404,678,798</u>

### Derivatives

The System invests in derivative instruments on a limited basis in accordance with the Board's Derivatives Policy. During FY08, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded future contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. The System entered into these investments either to increase earnings or to hedge against potential losses. 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 Derivatives Policy 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.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures and options. The futures and options with net negative fair values of approximately \$2,168,000 are held for investment purposes and included within the financial statements at June 30, 2008. Gains and losses on futures and options are determined based upon fair values and recorded in the Statement of Changes in Plan Net Assets.

Interest rate swaps, foreign currency exchange swaps, and forward foreign currency exchange contracts are held for investment purposes. At June 30, 2008, the System had approximately \$90,735,000 net exposure in foreign currency exchange and interest rate swaps and \$157,418,000 negative net exposure in forward foreign currency exchange contracts.

### **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 net assets. The Board does not restrict the amount of loans the lending agent may make on its behalf. 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, 2008, the fair value of securities on loan was \$346,642,441. Cash received as collateral and the related liability, included in accounts payable, of \$347,037,914 as of June 30, 2008, are reported on the Statement of Plan Net Assets. 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 \$14,577,497 and \$12,820,730, 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, 2008:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Non-Cash Collateral Value</u>	<u>Cash Collateral Investment Value</u>
Lent for Cash Collateral:			
U.S. Government Obligations	\$ 91,591,441	\$ -	\$ 93,555,085
Foreign Government Obligations	1,196,492	-	1,267,574
Corporate Bonds	69,393,765	-	71,265,901
Equities	174,485,453	-	180,949,354
Lent for Non-Cash Collateral:			
U.S. Government Obligations	3,437,316	3,519,916	-
Corporate Bonds	6,518	6,674	-
Equities	6,531,456	6,885,816	-
Total	<u>\$346,642,441</u>	<u>\$ 10,412,406</u>	<u>\$ 347,037,914</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, 2008, 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, 2008, the fair value of the mutual and commingled investment funds was \$126,576,941. The fair value of the investments in international mutual funds was \$21,053,000.

#### **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, 2008, the fair value of the mutual and commingled investment funds was \$241,093,028. The fair value of the investments in international mutual funds included in the County Plan was \$35,912,000.

#### **Retiree Health Benefits Trust:**

Section 33-162 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2008, the fair value of the mutual and commingled funds was \$13,566,372. The fair value of the investment in international mutual funds was \$4,694,600.

## **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, 2008, 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; certificate of deposits 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 Montgomery County Local Government Investment Pool (County external investment pool) and 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 obligation issued by government agencies or corporations; (iii) time deposits or certificate of deposits insured by the Federal Deposit Insurance Corporation; (iv) repurchase agreements backed by obligations described in (i) and (ii) above; (v) investment agreements; (vi) tax exempt obligations; and (vii) money market funds.

#### **Custodial Risk**

Amounts held in trust accounts and other demand accounts are covered by federal depository insurance, or collateralized at a level of at least 102% of fair value of principal and accrued interest. Repurchase agreement collateral for the MLGIP is segregated and held in the name of Mercantile-Safe Deposit and Trust's account at the Federal Reserve Bank.



At June 30, 2008, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value	Less than 1 year		
<u>Cash Equivalents:</u>				
General Fund:				
Repurchase Agreement	\$ 8,974,186	\$ 8,974,186		
Money Market Accounts	7,260,033	7,260,033		
U. S. Treasury Bills	8,252,142	8,252,142		
Opportunity Housing Fund:				
Investment in County External Investment Pool	8,362,401	8,362,401		
Investment in MLGIP	396,534	396,534		
Money Market Accounts	18,621,610	18,621,610		
Public Fund:				
Investment in MLGIP	4,546,849	4,546,849		
Money Market Accounts	12,487,279	12,487,279		
Multi-Family Fund - Money Market Accounts	49,294,711	49,294,711		
Single Family Fund - Money Market Accounts	48,755,230	48,755,230		
Total	<u>\$ 166,950,975</u>	<u>\$ 166,950,975</u>		
<u>Short-term Investments:</u>				
Multi-Family Fund:				
GNMA Pool	943,454	943,454		
US Treasuries	297,897	297,897		
Single Family Fund:				
DEPFA Repurchase Agreement	35,206,661	35,206,661		
Royal Bank of Canada	4,335,407	4,335,407		
Society General Repurchase Agreement	3,529,620	3,529,620		
Total	<u>\$ 44,313,039</u>	<u>\$ 44,313,039</u>		
Long-Term Investments	Fair Value	1-5 years	Long-Term	Rating
<u>Long-term Investments:</u>				
Multi-Family Fund:				
Bank One Investment Agreement	\$ 591,526	\$ -	\$ 591,526	AA/Aa2
Citigroup Global Markets	2,602,247	-	2,602,247	AAA
Freddie Mac	3,600,886	2,217,888	1,382,998	AAA
Fannie Mae	3,715,661	-	3,715,661	AAA
GNMA Pool	69,189,469	-	69,189,469	AAA
U. S. Treasury Bond	2,644,314	-	2,644,314	AAA
Single Family Fund:				
Federal Farm Credit Banks	5,769,248	-	5,769,248	AAA
Federal Home Loan Banks	1,565,231	153,337	1,411,894	AAA
Fannie Mae	890,317	-	890,317	AAA
Solomon Repurchase Agreement	2,345,800	-	2,345,800	AA1
Tennessee Valley Authority	3,385,938	-	3,385,938	AAA
Trinity Plus Investment Agreement	61,304,551	61,304,551	-	AAA
U. S. Treasury Bond	8,383,759	1,011	8,382,748	AAA
Total	<u>165,988,947</u>	<u>63,676,787</u>	<u>102,312,160</u>	
Cash balances	<u>4,227,475</u>			
Total Cash, Cash Equivalents and Investments	<u><u>\$ 381,480,436</u></u>			

## B) Receivables

### 1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2008, reported in the enterprise funds, amounted to:

Liquor	\$ 240,716
Solid Waste Activities	12,064
Parking Lot Districts	2,203,243
	<u>\$ 2,456,023</u>

### 2) Due from/to Component Units

The balances at June 30, 2008, were:

Due from Component Units /

Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	\$ 328,802	\$ 1,125,000	\$ -	\$ 1,399,080	\$ -	\$ 2,852,882
Capital Projects	-	-	-	13,362,174	-	13,362,174
Solid Waste Activities Enterprise	52,474	681	-	1,243	2,704	57,102
Nonmajor Governmental	-	-	-	50,005,149	-	50,005,149
Internal Service	94,218	8,132	215,099	383,449	12,186	713,084
Fiduciary	-	-	21,147	180,531	-	201,678
Total Due to Primary Government	<u>\$ 475,494</u>	<u>\$ 1,133,813</u>	<u>\$ 236,246</u>	<u>\$ 65,331,626</u>	<u>\$ 14,890</u>	<u>\$ 67,192,069</u>

Due to Component Units /

Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	\$ 3,328,729	\$ 86,663	\$ 15,000	\$ 456,368	\$ -	\$ 3,886,760
Capital Projects	51,324,698	11,268,114	-	760,017	-	63,352,829
Nonmajor Governmental	533,952	133,195	-	108,099	68,342	843,588
Nonmajor Enterprise	665,892	-	-	-	-	665,892
Total Due from Primary Government	<u>\$ 55,853,271</u>	<u>\$ 11,487,972</u>	<u>\$ 15,000</u>	<u>\$ 1,324,484</u>	<u>\$ 68,342</u>	<u>\$ 68,749,069</u>

In the nonmajor governmental funds, \$39,929,777 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 \$2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. 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. Fund balance has been reserved for the remaining loans.

### 3) **Due From Other Governments**

The total amount due from other governments at June 30, 2008, was comprised of the following:

	General	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	\$ -	\$ 1,333,489	\$ 57	\$ 7,586,733	\$ -	\$ 1,953,381	\$ 10,873,660
State of Maryland	23,140,802	8,693,980	5,877	1,683,888	20,820	25,320	33,570,687
Other	55,660	515,546	137,761	636,747	230,438	11,786	1,587,938
Total	<u>\$ 23,196,462</u>	<u>\$ 10,543,015</u>	<u>\$ 143,695</u>	<u>\$ 9,907,368</u>	<u>\$ 251,258</u>	<u>\$ 1,990,487</u>	<u>\$ 46,032,285</u>

## C) Capital Assets

### PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
<b>Governmental Activities</b>				
Nondepreciable Capital Assets:				
Land	\$ 570,094,938	\$ 35,776,354	\$ -	\$ 605,871,292
Construction in progress	175,087,781	116,033,847	33,284,452	257,837,176
Total Nondepreciable Capital Assets	745,182,719	151,810,201	33,284,452	863,708,468
Depreciable Capital Assets:				
Buildings	748,176,572	1,876,437	316,932	749,736,077
Improvements other than buildings	45,625,200	364,095	5,000	45,984,295
Furniture, fixtures, equipment and machinery	226,685,089	8,727,919	2,577,001	232,836,007
Leasehold improvements	12,777,902	-	-	12,777,902
Automobiles and trucks	203,713,509	22,630,681	7,163,840	219,180,350
Infrastructure	1,532,498,928	28,150,753	62,846	1,560,586,835
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	2,771,556,931	61,749,885	10,125,619	2,823,181,197
Less Accumulated Depreciation for:				
Buildings	245,958,684	19,749,852	315,732	265,392,804
Improvements other than buildings	15,687,394	1,322,950	-	17,010,344
Furniture, fixtures, equipment and machinery	108,829,835	22,920,531	2,526,622	129,223,744
Leasehold improvements	2,076,248	810,745	-	2,886,993
Automobiles and trucks	99,104,209	15,541,122	6,861,109	107,784,222
Infrastructure	415,837,320	30,955,428	-	446,792,748
Other assets	1,491,578	207,973	-	1,699,551
Total Accumulated Depreciation	888,985,268	91,508,601	9,703,463	970,790,406
Total Depreciable Assets, net	1,882,571,663	(29,758,716)	422,156	1,852,390,791
Governmental Activities Capital Assets, net	\$ 2,627,754,382	\$ 122,051,485	\$ 33,706,608	\$ 2,716,099,259
<b>Business-Type Activities</b>				
Nondepreciable Capital Assets:				
Land	\$ 52,777,663	\$ -	\$ -	\$ 52,777,663
Construction in progress	7,757,660	6,299,232	11,526,776	2,530,116
Total Nondepreciable Capital Assets	60,535,323	6,299,232	11,526,776	55,307,779
Depreciable Capital Assets:				
Buildings	211,252,606	7,658,786	-	218,911,392
Improvements other than buildings	122,964,916	3,551,974	-	126,516,890
Furniture, fixtures, equipment and machinery	19,274,297	3,246,834	898,423	21,622,708
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	4,380,211	529,808	748,420	4,161,599
Total Capital Assets being Depreciated	357,886,381	14,987,402	1,646,843	371,226,940
Less Accumulated Depreciation for:				
Buildings	80,900,472	7,190,323	-	88,090,795
Improvements other than buildings	97,113,279	3,303,076	-	100,416,355
Furniture, fixtures, equipment and machinery	13,205,951	1,578,512	881,810	13,902,653
Infrastructure	430	574	-	1,004
Automobiles and trucks	3,109,654	255,049	748,420	2,616,283
Total Accumulated Depreciation	194,329,786	12,327,534	1,630,230	205,027,090
Total Depreciable Assets, net	163,556,595	2,659,868	16,613	166,199,850
Business-Type Activities Capital Assets, net	\$ 224,091,918	\$ 8,959,100	\$ 11,543,389	\$ 221,507,629

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

Governmental activities:

General government	\$ 10,709,602
Public safety	26,556,838
Public works and transportation	43,249,586
Health and human services	1,706,433
Culture and recreation	8,100,930
Community development and housing	986,240
Environment	198,972
Total depreciation expense-governmental activities	<u>\$ 91,508,601</u>

Business-type activities:

Liquor	\$ 875,849
Solid waste activities	2,218,544
Parking lot districts	9,083,854
Permitting services	146,942
Community use of public facilities	2,345
Total depreciation expense-business-type activities	<u>\$ 12,327,534</u>

Construction commitments as of June 30, 2008, are as follows:

General Government	\$ 20,076,881
Public Safety	25,859,631
Public Works and Transportation	47,489,943
Health and Human Services	39,137
Culture and Recreation	11,808,756
Community Development and Housing	3,594,704
Environment	1,978,941
Total	<u>\$ 110,847,993</u>

## COMPONENT UNITS

Capital assets of MCPS, amounting to \$1,799,836,398 at June 30, 2008, are significant in relation to the total component unit capital assets.

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
<b>Governmental Activities</b>				
Nondepreciable capital assets:				
Land	\$ 68,140,624	\$ 723,787	\$ 3,162	\$ 68,861,249
Construction in progress	176,607,831	187,407,862	208,825,151	155,190,542
Total nondepreciable capital assets	<u>244,748,455</u>	<u>188,131,649</u>	<u>208,828,313</u>	<u>224,051,791</u>
Depreciable capital assets:				
Buildings and improvements	1,833,443,883	192,822,552	9,960,206	2,016,306,229
Site improvements	153,795,119	13,835,680	162,538	167,468,261
Vehicles and equipment	136,763,779	14,192,163	3,626,200	147,329,742
Total depreciable capital assets	<u>2,124,002,781</u>	<u>220,850,395</u>	<u>13,748,944</u>	<u>2,331,104,232</u>
Less accumulated depreciation for:				
Buildings and improvements	603,422,551	45,965,084	5,972,164	643,415,471
Site improvements	31,096,868	3,545,329	58,046	34,584,151
Vehicles and equipment	72,756,200	13,346,160	3,429,061	82,673,299
Total accumulated depreciation	<u>707,275,619</u>	<u>62,856,573</u>	<u>9,459,271</u>	<u>760,672,921</u>
Total depreciable capital assets, net	<u>1,416,727,162</u>	<u>157,993,822</u>	<u>4,289,673</u>	<u>1,570,431,311</u>
Government activities capital assets, net	<u>\$1,661,475,617</u>	<u>\$346,125,471</u>	<u>\$213,117,986</u>	<u>1,794,483,102</u>
<b>Business-Type Activities</b>				
Depreciable capital assets:				
Buildings	\$ 17,831	\$ -	\$ -	17,831
Vehicles and equipment	19,568,909	1,030,976	1,856,657	18,743,228
Total depreciable capital assets	<u>19,586,740</u>	<u>1,030,976</u>	<u>1,856,657</u>	<u>18,761,059</u>
Less accumulated depreciation for:				
Buildings	13,373	1,783	-	15,156
Vehicles and equipment	13,883,689	1,177,020	1,668,102	13,392,607
Total accumulated depreciation	<u>13,897,062</u>	<u>1,178,803</u>	<u>1,668,102</u>	<u>13,407,763</u>
Business-type activities capital assets, net	<u>\$ 5,689,678</u>	<u>\$ (147,827)</u>	<u>\$ 188,555</u>	<u>5,353,296</u>
Total MCPS government-wide capital assets				<u>\$ 1,799,836,398</u>

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

Governmental activities:	
Regular instruction	\$ 51,557,513
Special education	276,589
School administration	48,619
Student personnel services	5,468
Student transportation	8,144,494
Operation of plant	167,524
Maintenance of plant	885,105
Administration	1,771,261
Total depreciation expense-governmental activities	<u>\$ 62,856,573</u>
Business-type activities:	
Food services	\$ 1,159,360
Entrepreneurial	17,660
Real estate management	1,783
Total depreciation expense-business type activities	<u>\$ 1,178,803</u>

Commitments for ongoing construction in progress at June 30, 2008, were \$161,307,343.

#### **D) Interfund Receivables, Payables, and Transfers**

The composition of interfund receivables and payables as of June 30, 2008, is as follows:

Due To Fund	Due From Fund					Total
	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	
General	\$ -	\$ 1,604	\$ -	\$ 4,308,266	\$ 6,587,496	\$ 10,897,366
Debt Service	18,666,398	-	778,602	-	-	19,445,000
Capital Projects	15,285,899	-	3,612,098	105,346	109,494	19,112,837
Liquor	-	1,082	-	195,374	159,370	355,826
Solid Waste Activities	-	-	-	72,850	82,254	155,104
Parking Lot Districts	-	2,632	-	24,920	23,718	51,270
Nonmajor Governmental	-	32	-	1,902,785	3,164,875	5,067,692
Nonmajor Enterprise	-	-	-	167,088	240,926	408,014
Internal Service	-	-	-	190,225	1,721,326	1,911,551
Fiduciary	-	-	-	2,386	759	3,145
Total	<u>\$ 33,952,297</u>	<u>\$ 5,350</u>	<u>\$ 4,390,700</u>	<u>\$ 6,969,240</u>	<u>\$ 12,090,218</u>	<u>\$ 57,407,805</u>

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY09:

- \$13.8 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and to lag time between programming and collection of certain impact taxes; and
- \$18.7 million to the Debt Service Fund relating to a debt service payment due on the first day of the next fiscal year, that must be remitted to the County's fiscal agent one working day prior to the debt service due date.

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, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2008, consisted of the following:

Transfers In Fund							
	General	Debt Service	Capital Projects	Liquor	Solid Waste	Parking Lot Districts	Subtotal Major
<b>Transfers Out Fund</b>							
General	\$ -	\$ 215,900,200	\$ 43,259,243	\$ 1,781,040	\$ 462,360	\$ 621,831	\$ 262,024,674
Debt Service	-	-	5,763,222	-	-	-	5,763,222
Capital Projects	-	3,349,425	-	-	-	-	3,349,425
Liquor	22,150,050	-	-	-	-	-	22,150,050
Solid Waste Activities	1,805,300	-	-	-	-	-	1,805,300
Parking Lot Districts	497,670	-	331,390	-	-	-	829,060
Nonmajor Governmental	13,394,480	22,699,989	9,124,879	-	-	-	45,219,348
Nonmajor Enterprise	3,281,650	-	-	-	-	-	3,281,650
Internal Service Funds	-	-	-	-	-	-	-
Total	<u>\$ 41,129,150</u>	<u>\$ 241,949,614</u>	<u>\$ 58,478,734</u>	<u>\$ 1,781,040</u>	<u>\$ 462,360</u>	<u>\$ 621,831</u>	<u>\$ 344,422,729</u>

Transfers In Fund					
	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Subtotal Major	Total
<b>Transfers Out Fund</b>					
General	\$ 26,366,223	\$ 1,400,720	\$ 2,744,516	\$ 262,024,674	\$ 292,536,133
Debt Service	-	-	-	5,763,222	5,763,222
Capital Projects	-	-	-	3,349,425	3,349,425
Liquor	-	-	18,225	22,150,050	22,168,275
Solid Waste Activities	-	-	-	1,805,300	1,805,300
Parking Lot Districts	8,625,837	-	-	829,060	9,454,897
Nonmajor Governmental	5,884,460	-	43,816	45,219,348	51,147,624
Nonmajor Enterprise	-	-	-	3,281,650	3,281,650
Internal Service Funds	-	-	-	-	-
Total	<u>\$ 40,876,520</u>	<u>\$ 1,400,720</u>	<u>\$ 2,806,557</u>	<u>\$ 344,422,729</u>	<u>\$ 389,506,526</u>

Primary activities include:

- Transfers from the General and various non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipt and pay-go funding from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfer of certain revenues in excess of statutory formulas from the General Fund to the Revenue Stabilization Special Revenue Fund.



Included in the amounts above is \$20,868,360 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program.

Transfers at the government-wide financial statement level include \$399,231 associated with the General Fund and Silver Spring Parking Lot District (SSPLD) relating to general governmental capital lease obligations for capital assets accounted for in the SSPLD. At the fund level, such transfers are classified as capital contributions in the SSPLD, and expenditures and an other financing source in the General Fund, in accordance with generally accepted accounting principles (see Note III-E3).

## **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 \$13,571,000 for FY08. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2009	\$16,747,000
2010	13,733,000
2011	10,756,000
2012	9,714,000
2013	4,786,000
2014 - 2018	6,920,000
2019 - 2023	197,000
2024 - 2026	99,000
Total	<u><u>\$62,952,000</u></u>

### **2) Capital Lease Receivable**

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F7), 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.

The composition of the capital lease receivable is as follows:

	Shady Grove	Grosvenor	Total
Minimum lease payments receivable	\$ 26,625,788	\$26,182,126	\$ 52,807,914
Unearned lease income	<u>(8,132,299)</u>	<u>(8,005,615)</u>	<u>(16,137,914)</u>
Net investment in direct financing leases	<u><u>\$ 18,493,489</u></u>	<u><u>\$18,176,511</u></u>	<u><u>\$ 36,670,000</u></u>

At June 30, 2008, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2009	\$ 3,295,276
2010	3,294,214
2011	3,292,009
2012	3,296,303
2013	3,300,252
2014-2018	16,553,800
2019-2023	16,686,450
2024	3,089,610
Total minimum lease payments	<u>\$ 52,807,914</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	159,291
Subtotal	<u>69,065,126</u>
Less accumulated depreciation	<u>(20,105,041)</u>
Total asset value under capital leases	<u>\$ 48,960,085</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, are as follows:

Fiscal Year Ending June 30	
2009	\$ 5,194,455
2010	5,203,801
2011	4,859,933
2012	4,862,605
2013	3,955,329
2014-2018	14,875,751
2019-2023	8,645,900
Total minimum lease payments	<u>47,597,774</u>
Less: amount representing interest	<u>(11,837,774)</u>
Present value of minimum lease payments	<u>\$ 35,760,000</u>

Included in the schedules above 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.

The County has entered into a lease agreement as lessee with the Maryland Economic Development Corporation (MEDCO) to lease from MEDCO the Town Square Garage 61 and Wayne Avenue Garages, located in the Silver Spring Parking Lot District (SSPLD). The construction of these garages is being funded through the issuance of lease revenue bonds by MEDCO. The ownership of the garages will transfer to the County at the end of the lease term. Although this capital lease is a general governmental obligation, the asset is reflected in the SSPLD, as required by law, and is offset by a capital contribution. For government-wide financial statement purposes, the capital lease obligation in the governmental activities and capital asset in the business-type activities are offset by transfers out and transfers in, respectively, since any amounts that ultimately may be repaid by the SSPLD are not expected to be repaid within a reasonable time.

The assets acquired through this capital lease are as follows:

	<u>Town Square</u>	<u>Wayne Avenue</u>	<u>Total</u>
Buildings	\$29,972,673	\$ 29,601,352	\$ 59,574,025
Less accumulated depreciation	<u>(3,723,951)</u>	<u>(3,883,848)</u>	<u>(7,607,799)</u>
Total asset value under capital leases	<u>\$26,248,722</u>	<u>\$ 25,717,504</u>	<u>\$51,966,226</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Town Square</u>	<u>Wayne Ave</u>	<u>Total</u>
2009	\$ 2,477,591	\$ 3,075,925	\$ 5,553,516
2010	2,476,851	3,113,475	5,590,326
2011	2,470,554	3,073,775	5,544,329
2012	2,469,739	3,084,425	5,554,164
2013	2,461,668	3,113,219	5,574,887
2014-2017	<u>9,788,878</u>	<u>12,410,756</u>	<u>22,199,634</u>
Total minimum lease payments	22,145,281	27,871,575	50,016,856
Less: amount representing interest	<u>(3,850,281)</u>	<u>(5,476,575)</u>	<u>(9,326,856)</u>
Present value of minimum lease payments	<u>\$ 18,295,000</u>	<u>\$ 22,395,000</u>	<u>\$ 40,690,000</u>

The County entered into a capital lease agreement with Banc of America Public Capital Corporation, to finance the construction of a temperature-controlled liquor warehouse for the Department of Liquor Control (DLC). This lease agreement qualified as a capital lease for accounting purposes and, therefore, was recorded at the present value of the future minimum lease payments as of the inception date of the lease. The obligations of the County under this financing agreement were payable from the DLC revenues. The ownership of the warehouse was to transfer to the County at the end of the lease agreement. During FY08, the project was suspended in anticipation of moving the DLC operations and warehouse to another location within the County. In April 2008, the capital lease was paid off with the funds held with the fiscal agent.

**F) Long-Term Debt**

**PRIMARY GOVERNMENT**

**1) General Obligation Bonds Payable**

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) Community College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Public Housing Facilities, and (9) Parking Facilities. All bonds are valid and legally binding general obligations of the County, and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County.

Proceeds from general obligation bonds for public schools and the community college are appropriated by the County Council to MCPS and MCC (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, is reflected as Reserved Fund Balance of the Capital Projects Fund.

On March 6, 2008, the County issued \$70,295,000 in general refunding bonds dated March 12, 2008. These bonds were issued with a true interest cost of 2.88%, to current refund \$72,775,000 of general obligation (GO) refunding bonds that were previously issued. A detail listing of these refunded bonds is as follows:

	<u>Dated Date</u>	<u>Original Maturity</u>	<u>True Interest Cost</u>	<u>Originally Issued</u>	<u>Years Refunded</u>	<u>Amount Refunded</u>
GO Bonds	4/1/1998	1999-18	4.7607	\$ 115,000,000	2009	\$ 5,750,000
GO Bonds	1/1/1998	2003-15	4.64	69,510,000	2009-2015	61,025,000
GO Bonds	4/1/1999	2000-19	4.476	120,000,000	2011	6,000,000
				<u>\$ 304,510,000</u>		<u>\$ 72,775,000</u>

The net proceeds of the general obligation refunding bonds were used to purchase direct obligations, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the United States of America. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds that were refunded. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statements of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$1,976,270. This amount is being netted against the new debt and amortized over the remaining life of the new debt.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2008	\$ 282,656	\$ -	\$ 282,656
2009	15,541,165	12,503,974	3,037,191
2010	14,182,103	14,178,000	4,103
2011	19,549,102	19,545,000	4,102
2012	12,634,603	12,630,750	3,853
2013	11,998,082	11,994,500	3,582
2014	5,611,318	5,607,500	3,818
2015	5,302,880	5,302,500	380
Total	<u>\$ 85,101,909</u>	<u>\$ 81,762,224</u>	<u>\$ 3,339,685</u>

The present value of the above debt service savings (or economic gain) is \$3,164,044.

In November 2001, \$143,000,000 in general obligation bonds, which mature in FY09 and beyond, were defeased. In November 2002, \$95,750,000 in general obligation bonds, which mature in FY07 and beyond, were defeased. These defeasances were affected by placing the proceeds of general obligation refunding 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 these financial statements. As of June 30, 2008, \$45,500,000, and \$12,500,000 respectively, in general obligation bonds referred to above are considered to be defeased.

General obligation bond issues outstanding as of June 30, 2008, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2008	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2008
07/01/92 *	1993-10	2.75 - 5.8	\$ 273,038,054	\$ 12,903,054	\$ -	\$ -	\$ 12,903,054
04/01/99	2000-19	4.0 - 5.0	120,000,000	12,000,000	-	-	12,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	19,500,000	-	-	19,500,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	35,000,000	-	-	35,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	126,735,000	3,938,718	(5,045,656)	125,628,062
02/01/02	2003-22	3.0 - 5.0	160,000,000	56,000,000	973,477	-	56,973,477
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	65,060,000	2,687,522	(2,031,708)	65,715,814
05/01/03	2004-23	1.5 - 4.0	155,000,000	116,250,000	788,047	-	117,038,047
05/01/03*	2004-11	2.0 - 5.0	49,505,000	23,790,000	675,208	(305,312)	24,159,896
03/15/04	2005-24	3.0 - 5.0	154,600,000	123,680,000	6,749,110	-	130,429,110
08/15/04*	2008-17	3.0 - 5.25	97,690,000	97,690,000	4,270,630	(5,228,425)	96,732,205
05/15/05	2006-25	4.0 - 5.0	200,000,000	170,000,000	10,517,971	-	180,517,971
06/01/05*	2005-16	3.781	120,355,000	120,355,000	10,858,657	(8,913,887)	122,299,770
05/01/06	2006-17	3.871	100,000,000	80,000,000	3,439,631	-	83,439,631
05/01/07	2007-27	4.082	250,000,000	237,500,000	16,761,372	-	254,261,372
3/12/2008*	2009-15	2.750 - 5.0	70,295,000	70,295,000	4,075,619	(1,789,742)	72,580,877
Total			<u>\$ 2,260,453,054</u>	<u>\$ 1,366,758,054</u>	<u>\$ 65,735,962</u>	<u>\$ (23,314,730)</u>	<u>\$ 1,409,179,286</u>

\* Issue represents refunding bonds.

\*\* GAAP require amortization of premiums and issue costs to occur prospectively, beginning with the year of implementation.

As a result, unamortized premiums and issue costs for issues prior to FY02, are not reflected above.

Changes in general obligation bonds during FY08 are as follows:

	Balance July 1, 2007	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2008
Governmental Activities:					
General County	\$ 244,658,292	\$ 4,948,767	\$ 20,853,737	\$ 5,814,174	\$ 222,939,148
Roads and Storm Drainage	355,875,590	14,698,685	36,547,576	15,262,890	318,763,809
Parks	54,370,466	3,444,455	4,668,294	3,422,120	49,724,507
Public Schools	757,663,296	40,841,395	72,389,741	42,111,455	684,003,495
Community College	62,707,247	5,201,830	4,636,903	4,979,142	58,293,032
Consolidated Fire Tax District	25,940,548	330,388	2,281,902	351,817	23,637,217
Mass Transit	11,100,680	829,480	1,816,040	833,402	9,280,718
Public Housing	359,488	-	243,360	-	116,128
	<u>1,512,675,607</u>	<u>70,295,000</u>	<u>143,437,553</u>	<u>72,775,000</u>	<u>1,366,758,054</u>
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	2,447	-	2,447	-	-
	<u>2,447</u>	<u>-</u>	<u>2,447</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,512,678,054</u>	<u>\$ 70,295,000</u>	<u>\$ 143,440,000</u>	<u>\$ 72,775,000</u>	<u>\$ 1,366,758,054</u>

General obligation bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	General Obligation Bond Requirements		
	Principal	Interest	Total
2009	\$ 120,196,683	\$ 75,426,691	\$ 195,623,374
2010	120,787,086	66,630,352	187,417,438
2011	117,639,285	55,835,102	173,474,387
2012	112,930,000	47,377,656	160,307,656
2013	109,830,000	42,045,175	151,875,175
2014-2018	445,785,000	135,463,438	581,248,438
2019-2023	261,860,000	51,331,788	313,191,788
2024-2027	77,730,000	8,088,187	85,818,187
Total	<u>\$ 1,366,758,054</u>	<u>\$ 482,198,389</u>	<u>\$ 1,848,956,443</u>

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6 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, 2008, is \$7,367,210,188.

General obligation bonds authorized and unissued as of June 30, 2008, are as follows:

Purpose	Authority		Amount	Amount Unissued
	Chapter	Act		
General County, Parks, and Consolidated Fire Tax District	17	2003	\$ 63,600,000	\$ 32,590,000
	18	2004	31,200,000	31,200,000
	19	2005	44,100,000	44,100,000
	43	2006	92,000,000	92,000,000
	12	2007	51,300,000	51,300,000
			<u>282,200,000</u>	<u>251,190,000</u>
Roads and Storm Drainage	18	2004	97,500,000	39,440,000
	19	2005	53,500,000	53,500,000
	43	2006	66,700,000	66,700,000
	12	2007	45,800,000	45,800,000
			<u>263,500,000</u>	<u>205,440,000</u>
Public Schools and Community College	19	2005	131,100,000	71,268,000
	43	2006	157,100,000	157,100,000
	12	2007	118,900,000	118,900,000
			<u>407,100,000</u>	<u>347,268,000</u>
Mass Transit	17	2001	6,700,000	5,205,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
	12	2007	2,400,000	2,400,000
			<u>11,600,000</u>	<u>10,105,000</u>
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
			<u>5,630,000</u>	<u>5,570,000</u>
Parking Districts: Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			<u>4,165,000</u>	<u>3,265,000</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>13,315,000</u>	<u>8,130,000</u>
Total General Obligation Bonds			<u>\$983,345,000</u>	<u>\$ 827,703,000</u>

Bond authority and related amounts unissued, presented above, include amounts related to variable rate demand obligations (see Note III-F2). 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.



## 2) Variable Rate Demand Obligations

On June 7, 2006, the County for the first time issued variable rate demand obligations (VRDOs), 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 effect 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 these obligations, the County entered into a standby note purchase agreement on June 7, 2006 with Dexia Credit Local, acting through its New York Branch. Under the agreement, Dexia is obligated to purchase, through the registrar and paying agent, obligations that are tendered by their owners and have not been remarketed by the remarketing agent. The standby note purchase agreement will expire on June 7, 2011. 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 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, 2008, are as follows:

<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally Issued</u>	<u>Balance June 30, 2008</u>
06/07/06	2017-26	Variable	\$ 50,000,000	\$ 50,000,000
06/07/06	2017-26	Variable	50,000,000	50,000,000
Total			<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>

For budget and bond authority purposes, VRDO activity is reported with general obligation bonds.

Changes in VRDOs during FY08 are as follows:

	Balance July 1, 2007	VRDOs Issued	VRDOs Retired	Balance June 30, 2008
Governmental Activities:				
General County	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Roads and Storm Drainage	26,000,000	-	-	26,000,000
Parks	1,000,000	-	-	1,000,000
Public Schools	64,000,000	-	-	64,000,000
Community College	4,000,000	-	-	4,000,000
Consolidated Fire Tax District	2,100,000	-	-	2,100,000
Mass Transit	400,000	-	-	400,000
Total	<u>\$ 100,000,000</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 100,000,000</u>

VRDO requirements to maturity are as follows:

Fiscal Year	Variable Rate Demand Obligation Requirements		
Ending June 30	Principal	Interest*	Total
2009	\$ -	\$ 2,325,000	\$ 2,325,000
2010	-	2,325,000	2,325,000
2011	-	2,325,000	2,325,000
2012	-	2,325,000	2,325,000
2013	-	2,325,000	2,325,000
2014-2018	20,000,000	10,927,500	30,927,500
2019-2023	50,000,000	5,812,500	55,812,500
2024-2026	30,000,000	697,500	30,697,500
Total	<u>\$ 100,000,000</u>	<u>\$ 29,062,500</u>	<u>\$ 129,062,500</u>

\* Includes interest on VRDOs at estimated rates of 2.95 percent for Series A and 1.70 percent for series B respectively, for the June 7, 2006 issue; the interest rate on the notes is calculated daily and due monthly. The estimated rates used for this calculation were based on the rates at year-end.

### 3) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to finance specific projects such as parking garages for the Bethesda and Silver Spring Parking Lot Districts and Solid Waste facilities. Net revenues of Bethesda and Silver Spring Parking Lot Districts including parking fees, fines and dedicated property taxes and net revenues of the Solid Waste Disposal fund are pledged against the timely repayment of principal and interest of the outstanding revenue bonds of the respective funds.

The term of the commitments and approximate amounts of the pledged revenues are as follows:

	<u>Terms of Commitment</u>	<u>Approximate amount of Pledge</u>
Parking Lot Districts:		
Bethesda Parking Lot District	18	\$ 50,669,799
Silver Spring Parking Lot District	1	855,938
Solid Waste Disposal Fund:	5	18,854,500
Total		<u>\$ 70,380,237</u>

The pledged net revenues recognized during FY08 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	<u>Net Available Revenue for Debt Service</u>	<u>Debt Service</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Parking Lot District:				
Bethesda Parking Lot District	\$ 14,056,552	\$ 3,175,000	\$ 1,709,435	\$ 4,884,435
Silver Spring Parking Lot District	7,685,433	780,000	60,188	840,188
Solid Waste Disposal Fund:	11,491,683	3,160,000	854,450	4,014,450

Revenue bond issues outstanding as of June 30, 2008, are as follows:

	<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally Issued</u>	<u>Balance June 30, 2008</u>	<u>Unamortized Premium/ (Discount)</u>	<u>Unamortized Deferred Difference</u>	<u>Carrying Value June 30, 2008</u>
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	\$ 14,560,000	\$ 1,575,000	\$ 8,132	\$ (16,838)	\$ 1,566,294
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	825,000	5,633	(9,449)	821,184
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	19,770,000	(14,090)	-	19,755,910
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	16,600,000	396,590	(434,183)	16,562,407
Parking Revenue 2005:								
Bethesda Parking Lot District	08/31/05	2007-25	3.62 - 5.00	16,495,000	15,915,000	102,387	-	16,017,387
Total				<u>\$ 100,260,000</u>	<u>\$ 54,685,000</u>	<u>\$ 498,652</u>	<u>\$ (460,470)</u>	<u>\$ 54,723,182</u>

Changes in revenue bond principal during FY08 are as follows:

	<u>Balance July 1, 2007</u>	<u>Bonds Issued</u>	<u>Bonds Retired</u>	<u>Balance June 30, 2008</u>
Bethesda Parking Lot District	\$ 40,435,000	\$ -	\$ 3,175,000	\$ 37,260,000
Silver Spring Parking Lot District	1,605,000	-	780,000	825,000
Solid Waste Disposal	19,760,000	-	3,160,000	16,600,000
Total	<u>\$ 61,800,000</u>	<u>\$ -</u>	<u>\$ 7,115,000</u>	<u>\$ 54,685,000</u>

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Silver Spring Parking Lot District	
	Principal	Interest	Principal	Interest
2009	\$ 3,340,000	\$ 1,566,585	\$ 825,000	\$ 30,938
2010	1,840,000	1,429,335	-	-
2011	1,915,000	1,355,235	-	-
2012	1,995,000	1,278,135	-	-
2013	2,085,000	1,194,010	-	-
2014-2018	11,910,000	4,566,886	-	-
2019-2023	10,660,000	1,795,916	-	-
2024-2026	3,515,000	223,697	-	-
Total	<u>\$37,260,000</u>	<u>\$ 13,409,799</u>	<u>\$ 825,000</u>	<u>\$ 30,938</u>

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2009	\$ 3,255,000	\$ 751,750	\$ 7,420,000	\$ 2,349,273	\$ 9,769,273
2010	3,420,000	589,000	5,260,000	2,018,335	7,278,335
2011	3,550,000	460,750	5,465,000	1,815,985	7,280,985
2012	3,690,000	318,750	5,685,000	1,596,885	7,281,885
2013	2,685,000	134,250	4,770,000	1,328,260	6,098,260
2014-2018	-	-	11,910,000	4,566,886	16,476,886
2019-2023	-	-	10,660,000	1,795,916	12,455,916
2024-2026	-	-	3,515,000	223,697	3,738,697
Total	<u>\$16,600,000</u>	<u>\$ 2,254,500</u>	<u>\$ 54,685,000</u>	<u>\$ 15,695,237</u>	<u>\$ 70,380,237</u>

Revenue bonds authorized and unissued as of June 30, 2008, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 25,593,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Total			<u>\$143,098,000</u>	<u>\$ 40,848,000</u>

Restricted assets related to these revenue bonds, classified as “Investments” or “Equity in Pooled Cash and Investments” for statement of net asset purposes, include the following:

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	\$ 1,202,653	\$ 1,666,014	\$ -
Debt Service Account - Used to pay debt service on bonds	410,153	71,328	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	1,433,069	-	3,715,126
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	3,924,521
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	22,521,773
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	3,615,470
Total	<u>\$ 4,545,875</u>	<u>\$ 3,237,342</u>	<u>\$ 33,776,890</u>

In lieu of Debt Service Reserve Accounts, the 2002 Series Parking Refunding Bonds and the 2002 Series A Parking Revenue Bonds are being secured with a municipal bond insurance policy. The County is in compliance with all significant financial bond covenants.

#### 4) **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 FY08 are as follows:

	Balance July 1, 2007	BANs Issued	BANs Retired	Balance June 30, 2008
BAN Series 2002-K	\$ 150,000,000	\$ -	\$ -	\$ 150,000,000
BAN Series 2002-L	-	150,000,000	-	150,000,000
Total	<u>\$ 150,000,000</u>	<u>\$ 150,000,000</u>	<u>\$ -</u>	<u>\$ 300,000,000</u>

The interest rate changes based on market conditions; during FY08, the rate of interest varied from .90 to 3.78 percent. Interest earned on BAN proceeds totaled \$5,068,687 during FY08, which was accounted for in the Debt Service Fund.

BANs totaling \$150 million were issued during FY08 at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002, and was amended on July 16, 2002, July 29, 2003, July 27, 2004, July 26, 2005, November 30, 2006 and September 18, 2007, to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY09, and intends to use the proceeds for capital construction and improvements. In connection with these BANs, the County entered into a line of credit agreement on June 15, 2005, with Fortis Bank S.A./N.V., acting through its Connecticut branch, under which the County may borrow, on a revolving basis, up to \$300 million to pay the principal on the notes, and up to \$22,191,781 to pay the 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 FY08, the County passed Resolution No. 16-298 dated September 18, 2007 to increase the County's authority to issue BANS by \$218.4 million. Cumulative BANs authorized and unissued as of June 30, 2008, including amounts authorized and unissued from prior years, is \$517,303,000.

##### 5) Certificates of Participation

In October 2007, the County issued Certificates of Participation (certificates) for its Equipment Acquisition Program dated October 24, 2007, in the amount of \$33.58 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, for acquisition of certain equipment to be used in the fire and rescue program of the County. The CPA requires the County, as purchaser; to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing powers of the County.

The certificates were issued at interest rates ranging from 4.0 to 5.0 percent and have maturity schedules as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2009	\$ 3,105,000	\$ 1,448,500	\$ 4,553,500
2010	3,220,000	1,322,000	4,542,000
2011	3,335,000	1,174,225	4,509,225
2012	3,455,000	1,004,475	4,459,475
2013	3,590,000	828,350	4,418,350
2014 - 2018	16,875,000	1,804,100	18,679,100
Total	<u>\$ 33,580,000</u>	<u>\$ 7,581,650</u>	<u>\$ 41,161,650</u>

6) **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 five years with interest rates identified in the agreements. 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 agreements as of June 30, 2008:

Fiscal Year Ending June 30	Equipment Notes Requirements		
	Principal	Interest	Total
2009	\$ 2,957,730	\$ 273,064	\$ 3,230,794
2010	2,939,164	162,322	3,101,486
2011	1,905,238	62,931	1,968,169
2012	264,864	5,041	269,905
Total	<u>\$ 8,066,996</u>	<u>\$ 503,358</u>	<u>\$ 8,570,354</u>

7) **Lease Revenue Bonds**

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of \$37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA). The 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 \$52,807,914. 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. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund of \$3,349,425, included in Capital Projects 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.

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 in June 1, 2024. In FY08, pledged revenue of \$3,292,339 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2008, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2008	Unamortized Premium	Carrying Value June 30, 2008
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	\$ 37,880,000	\$ 32,630,000	\$ 91,669	\$ 32,721,669
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	4,040,000	17,824	4,057,824
Total				<u>\$ 42,625,000</u>	<u>\$ 36,670,000</u>	<u>\$ 109,493</u>	<u>\$ 36,779,493</u>

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

Fiscal Year Ending June 30	Lease Revenue Bond Requirements		
	Principal	Interest	Total
2009	\$ 1,645,000	\$ 1,650,276	\$ 3,295,276
2010	1,705,000	1,589,214	3,294,214
2011	1,770,000	1,522,009	3,292,009
2012	1,845,000	1,451,303	3,296,303
2013	1,925,000	1,375,252	3,300,252
2014-2018	10,970,000	5,583,800	16,553,800
2019-2023	13,865,000	2,821,450	16,686,450
2024	2,945,000	144,610	3,089,610
Total	<u>\$ 36,670,000</u>	<u>\$16,137,914</u>	<u>\$52,807,914</u>

#### 8) **Taxable Term Loans**

During FY04, the County entered into two taxable term loan agreements with U.S. Bank. The first term loan of \$4,000,000, which commenced on February 2, 2004, was used to finance the purchase of the Kay property in Germantown, which will be used for development of a biotechnology and information technology business park. The repayment period is 5 years, requiring semi-annual payments of principal and interest at 3.24 percent. The second term loan of \$1,332,000, which commenced on March 30, 2004, was used to purchase kitchen and audio-visual equipment to be used in the County's conference center project which opened in November 2004. The repayment period is 5 years, requiring semi-annual payments of principal and interest at 2.91 percent. On November 15, 2005, the County borrowed an additional \$95,432 for conference center furniture which was combined with the first term loan above. All other terms of the first term loan remain unchanged. The principal amount payable at June 30, 2008, under the taxable term loans is \$1,155,651.

#### 9) **HUD Loan**

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, 2008, for this loan is \$698,000.



## 10) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
<b>Governmental Activities</b>					
Bonds and Notes Payable:					
General obligation bonds	\$ 1,512,675,607	\$ 70,295,000	\$ (216,212,553)	\$ 1,366,758,054	\$ 120,196,683
Variable rate demand obligations	100,000,000	-	-	100,000,000	-
Bond anticipation notes	150,000,000	150,000,000	-	300,000,000	300,000,000
Lease revenue bonds	38,255,000	-	(1,585,000)	36,670,000	1,645,000
Equipment notes	10,958,965	-	(2,891,969)	8,066,996	2,957,730
Taxable term loans	2,275,328	-	(1,119,677)	1,155,651	1,155,651
HUD loan	741,000	-	(43,000)	698,000	43,000
Subtotal	1,814,905,900	220,295,000	(221,852,199)	1,813,348,701	425,998,064
Add remaining original issue premium	71,004,509	4,500,297	(9,659,351)	65,845,455	-
Less deferred amount on refundings	(25,208,826)	(1,976,270)	3,870,366	(23,314,730)	-
Total Bonds and Notes Payable	1,860,701,583	222,819,027	(227,641,184)	1,855,879,426	425,998,064
Other Liabilities:					
Certificates of participation	-	33,580,000	-	33,580,000	3,105,000
Compensated absences	58,916,381	49,979,053	(43,873,140)	65,022,294	48,766,720
Other postemployment benefits	-	58,598,791	-	58,598,791	-
Capital leases	81,316,156	436,627	(7,280,000)	74,472,783	7,140,000
Total Other Liabilities	140,232,537	142,594,471	(51,153,140)	231,673,868	59,011,720
Governmental Activities Long-Term Liabilities	\$ 2,000,934,120	\$ 365,413,498	\$ (278,794,324)	\$ 2,087,553,294	\$ 485,009,784
<b>Business-Type Activities</b>					
General Obligation Bonds:					
Solid waste disposal	\$ 2,447	\$ -	\$ (2,447)	\$ -	\$ -
Revenue Bonds:					
Parking revenue bonds	42,040,000	-	(3,955,000)	38,085,000	4,165,000
Solid waste disposal revenue refunding bonds	19,760,000	-	(3,160,000)	16,600,000	3,255,000
Subtotal	61,802,447	-	(7,117,447)	54,685,000	7,420,000
Add remaining original issue premium	719,392	-	(206,650)	512,742	-
Less remaining original issue discount	(16,052)	-	1,962	(14,090)	-
Less deferred amount on refundings	(697,891)	-	237,421	(460,470)	-
Total General Obligation and Revenue Bonds	61,807,896	-	(7,084,714)	54,723,182	7,420,000
Other Liabilities:					
Compensated absences	4,523,258	389,549	(1,734)	4,911,073	3,683,305
Capital leases	10,033,172	-	(10,033,172)	-	-
Equipment notes	926,268	34,765	(236,238)	724,795	256,919
Landfill closure costs	24,697,923	607,000	(2,571,000)	22,733,923	3,331,000
Claims and judgments	1,200,000	-	(1,200,000)	-	-
Total Other Liabilities	41,380,621	1,031,314	(14,042,144)	28,369,791	7,271,224
Business-Type Activities Long-Term Liabilities	\$ 103,188,517	\$ 1,031,314	\$ (21,126,858)	\$ 83,092,973	\$ 14,691,224

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$1,747,377 (\$1,310,532 due within one year and \$436,845 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

## **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 has issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring facilities for third party facility users or of refunding outstanding bonds. Facility users may be individuals, public or private corporations, or other entities. The bonds are secured by the facilities financed 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, 2008, there were 35 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 17 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2008, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$179,875,000. The principal amount payable at June 30, 2008, for bonds issued after July 1, 1996, totaled \$357,120,065.

## **12) Special Taxing Districts**

The County has 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, 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 with high priority for new development or redevelopment.

In December 1999, the County issued \$2.4 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessment 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 \$11,600,000 of Senior Series 2002A bonds and \$4,315,000 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. Bonds have not yet been issued for the Clarksburg Town Center development district.

The County was petitioned by property owners to form two additional development districts in the Clarksburg area, Clarksburg Village and Clarksburg Skylark (currently marketed as Arora Hills). The County Council is considering formation of these districts.

## COMPONENT UNITS

At June 30, 2008, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	\$ 71,376,097	\$670,793,024	\$ 742,169,121
Capital leases payable	230,696	20,494,053	20,724,749
Notes payable	19,087,004	157,796,102	176,883,106
Total	<u>\$ 90,693,797</u>	<u>\$849,083,179</u>	<u>\$ 939,776,976</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	\$ 410,272,322
Single Family Mortgage Purchase Program Fund	331,896,799
Total	<u>\$ 742,169,121</u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 1.90 to 11.25 percent and 2.0 to 8.5 percent, respectively, as of June 30, 2008.

Pursuant to Section 2-103 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee. The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year Ending June 30	Guaranteed Revenue Bond Requirements		
	Principal	Interest	Total
2009	\$36,675,000	\$ 1,949,817	\$ 38,624,817
2010	340,000	510,490	850,490
2011	355,000	496,023	851,023
2012	370,000	480,555	850,555
2013	385,000	464,058	849,058
2014-2018	405,000	2,128,979	2,533,979
2019-2023	2,880,000	1,731,075	4,611,075
2024-2028	-	1,371,075	1,371,075
2029-2033	5,430,000	137,108	5,567,108
Total	<u>\$46,840,000</u>	<u>\$ 9,269,180</u>	<u>\$ 56,109,180</u>

The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

Fiscal Year Ending June 30	Total Revenue Bond Requirements		
	Principal	Interest	Total
2009	\$ 71,376,097	\$ 22,805,543	\$ 94,181,640
2010	57,839,686	21,005,695	78,845,381
2011	16,226,741	20,613,347	36,840,088
2012	16,898,104	20,169,944	37,068,048
2013	16,654,619	19,720,469	36,375,088
2014-2018	83,027,714	92,104,742	175,132,456
2019-2023	68,177,548	83,451,680	151,629,228
2024-2028	69,016,880	77,672,073	146,688,953
2029-2033	142,798,110	39,451,479	182,249,589
2034-2038	85,289,337	18,948,576	104,237,913
2039-2043	103,435,000	7,549,190	110,984,190
2044-2048	12,030,000	1,117,260	13,147,260
Unamortized Bond Discount	(600,715)	-	(600,715)
Total	<u>\$ 742,169,121</u>	<u>\$ 424,609,998</u>	<u>\$ 1,166,779,119</u>

Changes in the HOC revenue bonds during FY08 are as follows:

Purpose	Balance July 1, 2007	Bonds Issued*	Bonds Retired	Balance June 30, 2008
Multi-Family Mortgage Purchase Program Fund	\$ 403,739,568	\$ 48,502,754	\$ 41,970,000	\$ 410,272,322
Single Family Mortgage Purchase Program Fund	243,912,203	139,023,412	51,038,816	331,896,799
Total	<u>\$ 647,651,771</u>	<u>\$ 187,526,166</u>	<u>\$ 93,008,816</u>	<u>\$ 742,169,121</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), and 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, 2007	\$ 338,437,152
Issuances during the year	-
Redemptions during the year	(638,247)
Bonds outstanding, June 30, 2008	<u>\$ 337,798,905</u>

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

**G) Segment Information**

The County has issued revenue bonds to finance activities relating to Solid Waste Disposal operations, including recycling, and the Silver Spring and Bethesda Parking Lot districts (PLDs). The Solid Waste Disposal operations and the Silver Spring and Bethesda PLDs are accounted for within the Solid Waste Activities Fund and the Parking Lot Districts Fund, respectively. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each activity as of and for the year ended June 30, 2008, is presented below:

**Condensed Statements of Net Assets**

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
<b>ASSETS</b>			
Current assets	\$ 38,611,097	\$ 7,447,202	\$ 17,651,452
Due from component units	57,102	-	-
Other assets	34,066,955	3,253,670	5,089,540
Capital assets	36,847,745	88,838,181	81,063,295
Total Assets	<u>109,582,899</u>	<u>99,539,053</u>	<u>103,804,287</u>
<b>LIABILITIES</b>			
Current liabilities	12,897,732	2,208,901	4,757,516
Due to other funds	140,139	21,704	26,240
Long-term liabilities	32,892,160	409,786	34,065,993
Total Liabilities	<u>45,930,031</u>	<u>2,640,391</u>	<u>38,849,749</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	20,285,338	87,476,626	43,723,704
Restricted for debt service	33,776,890	3,237,342	4,545,875
Unrestricted	9,590,640	6,184,694	16,684,959
Total Net Assets	<u>\$ 63,652,868</u>	<u>\$ 96,898,662</u>	<u>\$ 64,954,538</u>

\* Includes Solid Waste Leafing

**Condensed Statements of Revenues, Expenses, and Changes in Fund Net Assets**

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
<b>OPERATING REVENUES (EXPENSES):</b>			
Operating Revenues:			
Charges for services	\$ 95,888,830	\$ 7,797,914	\$ 9,394,586
Licenses and permits	10,500	-	-
Fines and penalties	102,328	2,499,959	4,722,806
Total Operating Revenues (pledged against bonds)	96,001,658	10,297,873	14,117,392
Depreciation	(2,216,556)	4,406,095	4,258,610
Other operating expenses	93,152,027	8,739,438	6,935,238
Operating Income (Loss)	5,066,187	(2,847,660)	2,923,544
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Property taxes	-	5,431,413	5,387,271
Intergovernmental	10,000	-	-
Gain (loss) on disposal of capital assets	2,500	-	-
Investment income	4,010,457	369,525	1,176,231
Interest expense	(922,883)	(106,937)	(1,752,562)
Other revenue	185,983	326,060	310,896
Capital contributions	-	399,231	-
Transfers in	411,000	91,320	114,160
Transfers out	(1,670,150)	(1,948,370)	(6,309,043)
Change in Net Assets	7,093,094	1,714,582	1,850,497
Beginning Net Assets	56,559,774	95,184,080	63,104,041
Ending Net Assets	\$ 63,652,868	\$ 96,898,662	\$ 64,954,538

**Condensed Statements of Cash Flows**

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	\$ 962,017	\$ 1,345,602	\$ 6,708,839
Noncapital financing activities	(1,249,150)	3,854,425	(873,146)
Capital and related financing activities	(8,923,826)	(2,506,110)	(7,054,789)
Investing activities	3,771,299	369,525	997,952
Net Increase (Decrease)	(5,439,660)	3,063,442	(221,144)
Beginning Cash and Cash Equivalents	71,578,793	5,635,591	19,747,167
Ending Cash and Cash Equivalents	\$ 66,139,133	\$ 8,699,033	\$ 19,526,023

\* Includes Solid Waste Leafing

## H) Fund Equity

### 1) Designated Fund Balances

Designated fund balances include amounts encumbered at year-end, which are reported separately in the accompanying financial statements. Designated fund balances also include committed amounts which have been appropriated as part of the next year's original budget where the source of funds is the fund balance as of the end of the current year, and amounts appropriated but unexpended in the Capital Projects Fund where the source of funds is current receipts in the governmental funds. Such amounts are as follows at June 30, 2008:

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Designated for next year's budget	\$ 4,209,100	\$ 17,910,093	\$ 22,119,193
Designated for transfers to Capital Projects Fund	<u>52,399,930</u>	<u>21,369,233</u>	<u>73,769,163</u>
Total	<u>\$ 56,609,030</u>	<u>\$ 39,279,326</u>	<u>\$ 95,888,356</u>

Designated fund balance does not include the following commitments, which otherwise meet the criteria for designation, but for which unrestricted fund balance is not available to designate:

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Total</u>
Encumbrances *	\$ 457,858	\$ 110,847,993	\$10,135,314	\$121,441,165
Total	<u>\$ 457,858</u>	<u>\$ 110,847,993</u>	<u>\$10,135,314</u>	<u>\$121,441,165</u>

\* Encumbrances relating to special revenue funds include \$10,135,314 relating to the Grants Fund, where appropriation and spending on Federal and State grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available.

### 2) Net Assets Restricted by Enabling Legislation

Net assets 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 assets 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 other component unit and municipal governments, ending fund balances of substantially all special revenue funds, and ending unrestricted net assets of the Solid Waste Activities and Parking Lot Districts enterprise funds. Such amounts, which are included with restricted net assets in the government-wide Statement of Net Assets, are as follows at year-end:

Governmental activities	\$ 385,294,938
Business-type activities	<u>35,030,644</u>
Total	<u>\$ 420,325,582</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, 2008:

	Operating	General Fund Capital *	Total	Capital Projects	Total
MCPS	\$1,451,129,886	\$ 4,466,217	\$1,455,596,103	\$ 187,708,385	\$1,643,304,488
MCC	100,334,960	7,443,343	107,778,303	32,870,342	140,648,645
HOC	5,636,660	917,328	6,553,988	-	6,553,988
Total	<u>\$1,557,101,506</u>	<u>\$ 12,826,888</u>	<u>\$1,569,928,394</u>	<u>\$ 220,578,727</u>	<u>\$1,790,507,121</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 MCC are classified as education expenditures; HOC funding is classified under community development and housing.

**2) Other Transactions**

BUPI charges for services revenue includes \$4,012,956 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.

**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, MCC, MCRA, BUPI, M-NCPPC, the City of Rockville, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the Village of Martin's Additions, the City of Gaithersburg, the Village of Drummond, the City of Takoma Park, 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 (HMO's), are offered to participants. WSTC, BUPI, Montgomery Community Television, the Strathmore Hall Foundation, Inc., Arts and Humanities Council of Montgomery County, Montgomery County Volunteer Fire & Rescue Association, and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include nonincremental 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.

Changes in the balances of Claims Payable for the self-insurance funds for FY08 and FY07 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2006	\$79,710,000	\$ 9,267,285
Claims and changes in estimates	22,623,168	111,123,106
Claim payments *	<u>(26,834,168)</u>	<u>(109,817,099)</u>
Balance June 30, 2007	75,499,000	10,573,292
Claims and changes in estimates	31,229,416	74,483,466
Claim payments *	<u>(25,897,416)</u>	<u>(78,869,861)</u>
Balance June 30, 2008 **	<u>\$80,831,000</u>	<u>\$ 6,186,897</u>

\* Includes non-monetary settlements.

\*\* Includes incurred but not reported claims of \$42,211,000 and \$6,186,897 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. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. 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 \$59,920,000, which has been fully accrued through June 30, 2008. Of the total amount accrued, \$34,615,077 in actual costs has been paid out in prior years, and \$2,571,000 was paid in FY08, resulting in a net liability of \$22,733,923 at June 30, 2008. The current and non-current portions of the adjusted liability at year-end are estimated at \$3,331,000 and \$19,402,923 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) Litigation**

In addition to those suits in which claims for liability are adequately covered by insurance, the County is 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 \$600,000. In accordance with general accepted accounting principles, none of this amount has been reflected as a liability in the accompanying financial statements, as the County's liability on none of the claims appears to be probable.

### **3) 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, 2008, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, 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.

#### **4) Other Commitments**

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amount of outstanding commitments at June 30, 2008, are as follows:

<u>Enterprise Funds:</u>	<u>Operating</u>	<u>Capital</u>	<u>Inventory</u>	<u>Total</u>
Major Funds:				
Liquor	\$ 1,714,929	\$ -	\$ 5,208,350	\$ 6,923,279
Solid Waste Activities:				
Disposal operations	5,624,802	5,349,412	-	10,974,214
Collection operations	81,667	-	-	81,667
Parking Lot Districts:				
Silver Spring	223,530	4,772,615	-	4,996,145
Bethesda	537,282	5,047,962	-	5,585,244
Wheaton	90,879	231,306	-	322,185
Montgomery Hills	9,900	-	-	9,900
Subtotal	8,282,989	15,401,295	5,208,350	28,892,634
Nonmajor Funds:				
Permitting Services	829,999	-	-	829,999
Community Use of Public Facilities	5,838	-	-	5,838
Subtotal	835,837	-	-	835,837
Total Enterprise Funds	9,118,826	15,401,295	5,208,350	29,728,471
<u>Internal Service Funds:</u>				
Motor Pool	4,284,784	-	2,084,705	6,369,489
Central Duplicating	117,706	-	-	117,706
Liability and Property Coverage Self-Insurance	29,500	-	-	29,500
Employee Health Benefits Self-Insurance	4,195,363	-	-	4,195,363
Total Internal Service Funds	8,627,353	-	2,084,705	10,712,058
Total Proprietary Funds	\$ 17,746,179	\$ 15,401,295	\$ 7,293,055	\$ 40,440,529

As of June 30, 2008, the County has \$190,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

#### **C) Subsequent Events**

On July 22, 2008, the County issued General Obligation Bonds in the amount of \$250,000,000 dated July 15, 2008. On July 23, 2008, the County retired commercial paper bond anticipation notes (BANS) totaling \$250,000,000; \$150,000,000 for 2002 series K and \$100,000,000 for 2002 series L. On September 9, 2008, the County issued BANS amounting to \$150,000,000. On October 28, 2008, the County Council approved legislation to increase the level of authorized general obligation bond principal to \$327,500,000.

#### **D) Joint Ventures**

The Primary Government participates in six joint ventures 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 joint venture 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, 2008, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$140,420,436, of which \$5,630,044 was self-supporting. Of the total amount payable, \$16,361,785 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, 2008, is \$36,504,822, 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, 2008, WSSC had outstanding notes payable and bonds payable in the amount of \$1,347,963,000, of which \$1,346,543,000 was self-supporting. Of the total amount payable, \$354,819,000 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, 2008, all WSSC debt relating to the County is self-supporting.

#### **Washington Suburban Transit Commission (WSTC)**

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. 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 State 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 \$87,787 to WSTC during FY08. The FY08 WSTC Annual Financial Report was not available when this report was published.

### **Washington Metropolitan Area Transit Authority (WMATA)**

WMATA was created in 1967 by interstate compact among the states of Maryland and 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 twelve-member Board of Directors. Maryland, Virginia, and the District of Columbia 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 Metro Rail and Metro Bus programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTC 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 and bus operating 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, effective in FY00, that the State provides 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 40 percent (effective in FY01) 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 FY08, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	\$ 45,939,165
Rail operating subsidy	27,692,432
Americans with Disabilities Act service	13,841,080
Metrobus and Metrorail capital replacement	28,586,000
Debt service on WMATA revenue bonds	4,867,500
Local bus program	25,432,234
Total	<u><u>\$146,358,411</u></u>

At June 30, 2008, WMATA had outstanding bonds payable of \$153,126,000, of which \$26,380,000 represented bonds payable due within one year. All of this debt is payable from resources of WMATA.

### **Metropolitan Washington Council of Governments (COG)**

COG is a multi-governmental regional planning organization in which local governments work together, 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 12 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 FY08 membership dues and fees for services amounting to \$700,351.

### **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 and 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, Baltimore County, Anne Arundel County, Frederick County, Harford County, Howard County, Carroll County, and City of Baltimore. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). In April 2003, NEMWDA refinanced \$205,078,908 of the 1993 bonds. At June 30, 2008, NEMWDA had outstanding bonds payable in the amount of \$214,365,000 of which \$20,310,000 represented debt due within one year. Of these amounts, \$202,920,000 related to the Project, \$18,470,000 of which represented debt due within one year. These bonds are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY08 amounted to \$32,224,164.

## **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. 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 did not elect to continue to participate in the

County Plan may 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 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, the 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 FY08, the County and its employees contributed \$83,904,130 and \$22,830,953, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$612,144, \$3,217,623, and \$49,759 for these component units, respectively, for FY08.

**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. The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board 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/bit>, or can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 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. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the independent fire/rescue corporations, 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 a member terminates employment before his retirement date and after completion of five years of credited service, he may elect to leave



his member contributions in the System and receive a pension upon reaching his normal retirement date, based on the amount of his 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 his accumulated contributions with interest.

Deferred Retirement Option (DROP) Plans, established in FY00, 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.

**Funding Policy** - Required employee contribution rates varying from 4 to 8.5 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. 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 forty-year period.

**Annual Pension Cost and Net Pension Obligation** - The annual required contributions (ARC) for FY08 were based on an actuarial valuation as of June 30, 2006, the latest valuation available on the date the County Council was required to approve the appropriation resolution. The ARC, or annual pension cost (APC), were the same as contributions actually made.

The APC and the net pension obligation (NPO) of the County and the participating agencies and political subdivisions for FY08 were as follows:

Fiscal Year	APC	Percentage of APC			NPO
		Contributed			
2006	\$ 88,184,159	100	%	\$	-
2007	109,436,001	100			-
2008	117,686,375	100			-

**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** - 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. 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 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 this Plan, employees contribute 3 percent of regular earnings up to Social Security wage base and 6 percent above Social Security wage base. The employer contributes 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. The employee and employer contribution rates are established under Section 33-116 and 33-117 of the County Code, respectively. Employee contributions are always vested under this Plan and employer contributions 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 FY08 were \$13,983,208 and \$8,118,397, respectively. In accordance with IRS 457 regulations and the County Code, \$400,000 in accumulated revenue from forfeitures was used to reduce employer contributions to \$13,583,208 for FY08.

## **3) Other**

The County contributed \$890,578 during FY08 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

## **4) Length of Service Award Program (LOSAP)**

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's Department of Fire and Rescue Service volunteers who meet certain age and service criteria. Benefit expenditures amounting to \$1,103,256 in FY08 also include disability and survivor annuities and lump-sum death benefits, and are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis. There were 463 recipients comprising former volunteers and their beneficiaries at the end of FY08. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is \$20,740,159.

**G) Other Postemployment Benefits (OPEB)**

**Plan Description** – During FY08, the Montgomery County Council enacted legislation (Bill No. 28-07) to establish a new trust effective July 1, 2007 to fund certain County retiree benefit plans. The Retiree Health Benefits Trust (Retiree Trust) 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 Investment Trustees (Board) has the exclusive authority to manage the assets of the Retiree Trust. The Board consists of thirteen trustees and functions as part of the County. Separate financial statements are not issued for the Retiree Trust.

Substantially all retirees of the County, MCRA, HOC, the independent fire/rescue corporations, and WSTC, 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 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, 2007 consisted of the following:

Retirees and beneficiaries receiving benefits	6,184
Active plan members	<u>9,700</u>
Total	<u><u>15,884</u></u>

Condensed FY08 financial statements for the Retiree Health Benefits Trust are as follows:

<b>Condensed Statement of Fiduciary Net Assets</b>		<b>Condensed Statement of Changes in Fiduciary Net Assets</b>	
<b>ASSETS</b>		<b>ADDITIONS</b>	
Cash and investments	\$ 13,699,692	Contributions	\$ 56,230,334
Other assets	<u>3,479,435</u>	Net investment income	<u>135,383</u>
Total Assets	<u>17,179,127</u>	Total Additions, net	<u>56,365,717</u>
<b>LIABILITIES</b>		<b>DEDUCTIONS</b>	
Claims payable	3,469,435	Benefits	40,771,902
Other liabilities	<u>135</u>	Administrative	<u>1,884,258</u>
Total Liabilities	<u>3,469,570</u>	Total Deductions	<u>42,656,160</u>
<b>NET ASSETS:</b>		Change in Net Assets	13,709,557
Held in trust for other		Beginning Net Assets	<u>-</u>
postemployment benefits	<u>\$ 13,709,557</u>	Ending Net Assets	<u>\$ 13,709,557</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 FY08, plan members and beneficiaries receiving benefits contributed \$12,509,125 (approximately 30 percent of current contributions). The County and other contributing entities contributed \$43,721,209, including \$29,793,209 (approximately 70 percent of current contributions) for current premiums, claims and administrative expenses, and \$13,928,000 toward prefunding future benefits.

**Funding Status and Funding Progress** – As of June 30, 2007, the most recent actuarial valuation, the actuarial accrued liability (AAL) was \$1,176,000,000 and there were no actuarial plan assets, therefore the unfunded AAL (UAAL) was \$1,176,000,000. The annual covered payroll of active employees covered by the Plan was \$602,006,000 and the ratio of the UAAL to covered payroll was 195.3 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.

During FY07, the County Council adopted Resolution No. 16-87, expressing its intent to phase in to full funding of the difference between pay-as-you-go contributions and the ARC over five years. The prefunding contributions reflected in the accompanying financial statements represent the first year of that five year phase in. During May 2008, the Council adopted Resolution No. 16-555, amending the phase in period to a total of eight years.

**Annual OPEB Cost and Net OPEB Obligation** - The ARC, or annual OPEB cost (AOC), for FY08 was based on an actuarial valuation as of June 30, 2006, the latest valuation available on the date the County Council was required to approve the FY08 budget.

The AOC and the net OPEB obligation (NOPEBO) of the County as of June 30, 2008 were as follows:

ARC/AOC	\$ 102,320,000
Contributions	<u>43,721,209</u>
NOPEBO	<u>\$ 58,598,791</u>

The percentage of AOC contributed in FY08 was 42.7 percent.

**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, 2007
Actuarial method	Projected unit credit
Amortization method	Level percentage of projected payroll
Amortization period	30 years
Investment rate of return	8.0%
Salary scale	4.25%
Mortality	RP 2000 projected 10 years, separate tables for males and females
Health care cost trend rates:	(initial, ultimate)
Medical (excluding Indemnity plan) pre-65	12.0%, 5.0%
Medical (excluding Indemnity plan) post-65	10.0%, 5.0%
Medical (Indemnity plan)	13.0%, 5.0%
Prescription drugs	12.0%, 5.0%
Dental	6.5%, 4.5%

## **REQUIRED SUPPLEMENTARY INFORMATION**

### **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)
6/30/2007	\$ -	\$ 1,176,000,000	\$ 1,176,000,000	0 %	\$ 602,006,000	195.3 %

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 this 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 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	
2008	\$ 102,320,000	38.6 %	4.1 %	\$ 58,598,791

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**APPENDIX C**

**FORM APPROVING OPINION OF BOND COUNSEL**

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[Form of Bond Counsel Opinion]

County Executive and County Council  
of Montgomery County, Maryland  
Rockville, Maryland

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance by Montgomery County, Maryland (the "County") of its Consolidated Public Improvement Bonds of 2009, Series A (Tax-Exempt Bonds) (the "Bonds").

The Bonds are dated the date of their initial delivery, and are issued in fully registered in form in the denomination of \$5,000 each or any integral multiple thereof. The Bonds are consolidated and issued pursuant to Article 25A of the Annotated Code of Maryland (2005 Replacement Volume and 2009 Supplement) ("Article 25A"), Section 2C of Article 31 of the Annotated Code of Maryland (2003 Replacement Volume and 2009 Supplement) ("Article 31" and together with Article 25A, collectively, the "Enabling Laws"), certain laws of the County, Resolution No. 16-298 of the County Council for the County (the "County Council") adopted on September 18, 2007, and effective on September 27, 2007, (the "Resolution"), provisions of the County Charter (the "Charter"), and Executive Order No.296-09 of the County Executive of the County passed as of October 20, 2009, as supplemented (the "Order").

In rendering this opinion, we have relied without investigation on the County's Tax and Section 148 Certificate dated this date made on behalf of the County by officers thereof with respect to certain material facts within the knowledge of the County relevant to the tax-exempt status of interest on the Bonds.

With respect to the executed and authenticated Bond that we have examined, and the Bonds similarly executed and identical thereto in form except for numbers, interest rates, denominations, and maturities, we are of the opinion that:

(a) The County is a validly created and existing body politic and corporate and political subdivision of the State of Maryland, possessing authority under the Enabling Laws, the Charter, the Resolution and the Order to issue the Bonds.

(b) The Bonds constitute an irrevocable pledge of the full faith and credit and unlimited taxing power of the County, and for the payment of which the County is empowered to levy ad valorem taxes upon all assessable property within the corporate limits of the County.

(c) To provide for the payment of the principal of and interest on the Bonds, the County has covenanted to levy or cause to be levied ad valorem taxes upon all the assessable property within the corporate limits of the County, in rate and amount sufficient for that purpose in each fiscal year in which provision must be made for the payment of such principal and interest.

(d) Under existing law, the Bonds, their transfer, the interest payable on them and any income derived from them, including any profit realized in their sale or exchange, shall be exempt at all times from every kind and nature of taxation by the State of Maryland or by any of its political subdivisions, municipal corporations or public agencies of any kind. No opinion is expressed as to estate or inheritance taxes, or any other taxes not levied or assessed directly on the Bonds or the interest thereon.

(e) Assuming compliance with certain covenants referred to herein, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations and decisions. It is noted that under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), there are certain restrictions that must be met subsequent to the delivery of the Bonds, including restrictions that

must be complied with throughout the term of the Bonds, in order that the interest thereon be excludable from gross income. These include (i) a requirement that certain investment earnings received from the investment of the proceeds of the Bonds be rebated (or that certain payments in lieu of rebate be made) to the United States of America under certain circumstances; (ii) other requirements applicable to the investment of the proceeds of the Bonds; and (iii) requirements applicable to the use of the proceeds of the Bonds and the use of the facilities financed with such proceeds. Failure to comply with one or more of these requirements could result in the inclusion of the interest payable on the Bonds in gross income for federal income tax purposes, effective from the date of their issuance. The County has covenanted to regulate the investment of the proceeds of the Bonds and to take such other actions as may be required to maintain the excludability of interest on the Bonds from gross income for federal income tax purposes. It is our opinion that, assuming compliance with such covenants, the interest on the Bonds will remain excludable from gross income for federal income tax purposes under the provisions of the Code.

(f) Interest on the Bonds is not includable in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment and is not taken into account in determining “adjusted current earnings” for purposes of calculating the corporate alternative minimum tax on corporations for federal income tax purposes. In addition, interest income on the Bonds will be subject to the branch profits tax imposed by the Code on foreign corporations engaged in a trade or business in the United States of America.

The opinions expressed above are limited to the matters set forth above, and no other opinions should be inferred beyond the matters expressly stated. We assume no obligation to supplement this opinion if any applicable laws or interpretations thereof change after the date hereof or if we become aware of any facts or circumstances that might change the opinions expressed herein after the date hereof.

Very truly yours,

**APPENDIX D**

**FORM OF CONTINUING  
DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement dated as of November \_\_, 2009 (this "Disclosure Agreement") is executed and delivered by MONTGOMERY COUNTY, MARYLAND (the "County") in connection with the issuance of its Consolidated Public Improvement Bonds of 2009, Series A (Tax-Exempt Bonds) (the "Bonds"). The County, intending to be legally bound hereby and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby covenant and agree as follows:

SECTION 1. *Purpose of the Disclosure Agreement.* This Disclosure Agreement is being executed and delivered by the County for the benefit of the owners of the Bonds, including beneficial owners, and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The County's obligations hereunder shall be limited to those required by written undertaking pursuant to the Rule.

SECTION 2. *Definitions.* In addition to the definitions set forth above, which apply to any capitalized term used in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

"EMMA" shall mean Electronic Municipal Market Access System maintained by the MSRB. For more information on EMMA, see [www.emma.msrb.org](http://www.emma.msrb.org).

"MSRB" shall mean the Municipal Securities Rulemaking Board, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Reportable Event" shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended or replaced from time to time.

"State" shall mean the State of Maryland.

SECTION 3. *Provision of Annual Financial Information, Operating Data and Audited Information.*

(a) The County shall provide to the MSRB, the following annual financial information and operating data, such information and data to be updated as of the end of the preceding fiscal year and made available within 275 days after the end of the fiscal year, commencing with the fiscal year ended June 30, 2009:

- (i) Statement of Direct and Overlapping Debt;
- (ii) General Bonded Debt Ratios;
- (iii) Assessed Value of All Taxable Property By Class;
- (iv) Property Tax Levies and Collections;
- (v) Property Tax Rates and Tax Levies, By Purpose; and
- (vi) Schedule of General Fund Revenues, Expenditures and Transfers In (Out).

(b) The County shall provide to the MSRB annual audited financial statements for the County, such information to be made available within 275 days after the end of the County's fiscal year, commencing with the fiscal year ended June 30, 2009, unless the audited financial statements are not available on or before such date, in which event said financial statements will be provided promptly when and if available. In the event that audited financial

statements are not available within 275 days after the end of the County's fiscal year (commencing with the fiscal year ended June 30, 2009), the County will provide unaudited financial statements within such time period.

(c) The presentation of the financial information referred to in paragraph (a) and in paragraph (b) of this Section shall be made in accordance with the same accounting principles as utilized in connection with the presentation of applicable comparable financial information included in the final official statement for the Bonds.

(d) If the County is unable to provide the annual financial information and operating data within the applicable time periods specified in (a) and (b) above, the County shall send in a timely manner a notice of such failure to the MSRB.

(e) The County hereby represents and warrants that it has not failed to comply with any prior disclosure undertaking made pursuant to the Rule.

#### SECTION 4. *Reporting of Significant Events.*

(a) This Section 4 shall govern the giving of notices of the occurrence of any of the following Reportable Events with respect to the Bonds, each of which shall constitute a Reportable Event for purposes hereof:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of owners of the Bonds;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds; or
- (11) Rating changes.

(b) Whenever the County obtains knowledge of the occurrence of a Reportable Event, the County shall as soon as possible determine if such event would constitute material information for owners of the Bonds, in accordance with the applicable "materiality" standard under then-current securities laws.

(c) If the County has determined that a Reportable Event is material, the County shall file in a timely manner a notice of such occurrence with the MSRB.

SECTION 5. *Filing with EMMA.* Unless otherwise required by the MSRB, all filings with the MSRB shall be made with EMMA and shall be accompanied by indentifying information as prescribed by the MSRB.

SECTION 6. *Termination of Reporting Obligations.* The County's obligations under this Disclosure Agreement shall terminate upon the payment in full of all of the Bonds either at their maturity or by early redemption. In addition, the County may terminate its obligations under this Disclosure Agreement if and when the County no longer remains an obligated person with respect to the Bonds within the meaning of the Rule.

## SECTION 7. *Amendments.*

(a) The County may provide further or additional assurances that will become part of the County's obligations under this Disclosure Agreement. In addition, this Disclosure Agreement may be amended by the County in its discretion, provided that:

(1) the amendment is being made in connection with a change of circumstances that arises from a change in legal requirements, change in law, change in the identity, nature or status of the County as the obligated person with respect to the Bonds, or type of business conducted by the County;

(2) this Disclosure Agreement, as amended, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(3) the amendment does not materially impair the interests of owners of the Bonds, including beneficial owners, as determined by bond counsel selected by the County or by an approving vote of at least 25% of the outstanding principal amount of the Bonds.

(b) The reasons for the County agreeing to provide any further or additional assurances or for any amendment and the impact of the change in the type of financial information or operating data being provided will be explained in narrative form in information provided with the annual financial information containing the additional or amended financial information or operating data.

SECTION 8. *Additional Information.* Nothing in this Disclosure Agreement shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including disclaimers or any other information in any disclosure made pursuant to Section 3(a) or 3(b) hereof or notice of occurrence of a Reportable Event, in addition to that which is required by this Disclosure Agreement. If the County chooses to include any information in any disclosure made pursuant to Section 3(a) or 3(b) hereof or notice of occurrence of a Reportable Event in addition to that which is specifically required by this Disclosure Agreement, the County shall have no obligation under this Disclosure Agreement to update such information or include it in any future disclosure made pursuant to Section 3(a) or 3(b) hereof or notice of occurrence of a Reportable Event.

## SECTION 9. *Limitation on Remedies and Forum.*

(a) The County shall be given written notice at the address set forth below of any claimed failure by the County to perform its obligations under this Disclosure Agreement, and the County shall be given 15 days to remedy any such claimed failure. Any suit or other proceeding seeking further redress with regard to any such claimed failure by the County shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action. Written notice to the County shall be given to Director of Finance, 15th Floor, Executive Office Building, 101 Monroe Street, Rockville, Maryland 20850, or at such alternate address as shall be specified by the County in disclosures made pursuant to Section 3(a) or 3(b) hereof or a notice of occurrence of a Reportable Event.

(b) Any suit or proceeding seeking redress with regard to any claimed failure by the County to perform its obligations under this Disclosure Agreement must be filed in the Circuit Court for Montgomery County, Maryland.

SECTION 10. *Beneficiaries.* This Disclosure Agreement shall inure solely to the benefit of the owners from time to time of the Bonds, including beneficial owners, and shall create no rights in any other person or entity.

SECTION 11. *Relationship to Bonds.* This Disclosure Agreement constitutes an undertaking by the County that is independent of the County's obligations with respect to the Bonds. Any breach or default by the County under this Disclosure Agreement shall not constitute or give rise to a breach or default under the Bonds.

SECTION 12. *Severability.* In case any section or provision of this Disclosure Agreement or any covenant, stipulation, obligation, agreement, or action, or any part thereof, made, assumed, entered into or taken under this Disclosure Agreement, or any application thereof, is for any reason held to be illegal or invalid or is at any time inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other section or provision of this Disclosure Agreement, or any other covenant, stipulation, obligation, agreement, act or action, or part thereof, made, assumed, entered into or taken under this Disclosure Agreement, which shall at the time be construed and enforced as if such illegal or invalid or inoperable portion were not contained therein.

SECTION 13. *Entire Agreement.* This Disclosure Agreement contains the entire agreement of the County with respect to the subject matter hereof and supersedes all prior arrangements and understandings with respect thereto; provided, however, that this Disclosure Agreement shall be interpreted and construed with reference to and in pari materia with the Rule.

SECTION 14. *Captions.* The captions or headings herein shall be solely for convenience of reference and shall in no way define, limit or describe the scope or intent of any provisions or sections hereof.

SECTION 15. *Governing Law.* This Disclosure Agreement and any claim made with respect to the performance by the County of its obligations hereunder shall be governed by, subject to and construed in accordance with the federal securities laws, where applicable, and the laws of the State, without reference to the choice of law principles thereof.

IN WITNESS WHEREOF, the County has caused this Disclosure Agreement to be duly executed as of the day and year first above written.

MONTGOMERY COUNTY, MARYLAND

By: \_\_\_\_\_  
Director of Finance



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