Montgomery County, Maryland

ANNUAL INFORMATION STATEMENT

In Connection With Bonds and Other Obligations

Department of Finance

January 15, 2019

MONTGOMERY COUNTY, MARYLAND
OFFICIAL ROSTER OF COUNTY OFFICIALS

COUNTY EXECUTIVE

Marc Elrich

COUNTY COUNCIL

Nancy Navarro	*President*
Sidney Katz	*Vice-President*
Gabe Albornoz	
Andrew Friedson	
Evan Glass	
Tom Hucker	
Will Jawando	
Craig Rice	
Hans Riemer	

The terms of the County Executive and all County Council members expire in December, 2022.

APPOINTED OFFICIALS

Andrew Kleine	*Chief Administrative Officer*
Alexandre A. Espinosa	*Director, Department of Finance*
Richard S. Madaleno	*Director, Office of Management and Budget*
Marc P. Hansen	*County Attorney*
Megan Limarzi	*Clerk of the Council*

BOND COUNSEL

McKennon Shelton & Henn LLP
Baltimore, Maryland

INDEPENDENT PUBLIC ACCOUNTANTS

CliftonLarsonAllen LLP
Baltimore, Maryland

DEBT MANAGEMENT AND DISCLOSURE INFORMATION

Department of Finance
101 Monroe Street, 15th Floor
Rockville, MD 20850
240/777-8860
240/777-8857 (Fax)
http://bonds.montgomerycountymd.gov

ANNUAL INFORMATION STATEMENT
IN CONNECTION WITH BONDS AND OTHER OBLIGATIONS

This Annual Information Statement ("AIS"), dated January 15, 2019 is prepared by Montgomery County, Maryland ("the County"), to provide, as of this date, certain general information concerning the County and its operations. Included is information on the County 1) government, organizational structure and services, 2) financial information, 3) annual budgets, 4) results of fiscal years 2014-2018, 5) retirement system, 6) revenue sources, and 7) selected demographic and economic statistics, and information including population, employment and income.

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

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

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

(This page has been left blank intentionally.)

TABLE OF CONTENTS

LIST OF TABLES

STATISTICAL HIGHLIGHTS

Debt as of June 30, 2018

General Obligation Bonds and Notes Outstanding	$3,265,230,000
Total Assessed Value	$188,182,435,927
Direct Debt (incl. Revenue Bonds)	$3,795,710,000
Direct Debt to Assessed Value	2.02%
Net Direct Debt	$3,595,230,000
Ratio of Net Direct Debt to Assessed Value	1.91%

Budgets

Approved FY19 Operating Budget	$5.6 billion
Approved FY19 General Fund Unassigned Surplus	$154.1 million
FY18 General Fund Unassigned Balance	$102.7 million
FY18 Revenue Stabilization Fund Balance	$308.7 million
FY19-24 Amended Capital Improvements Program	$4.4 billion

FY18 Major Revenues

Income Tax	$1,469.3 million
Property Tax (General Fund)	$1,268.8 million
Transfer and Recordation Tax	$158.6 million
Other Taxes	$274.2 million

Demographics

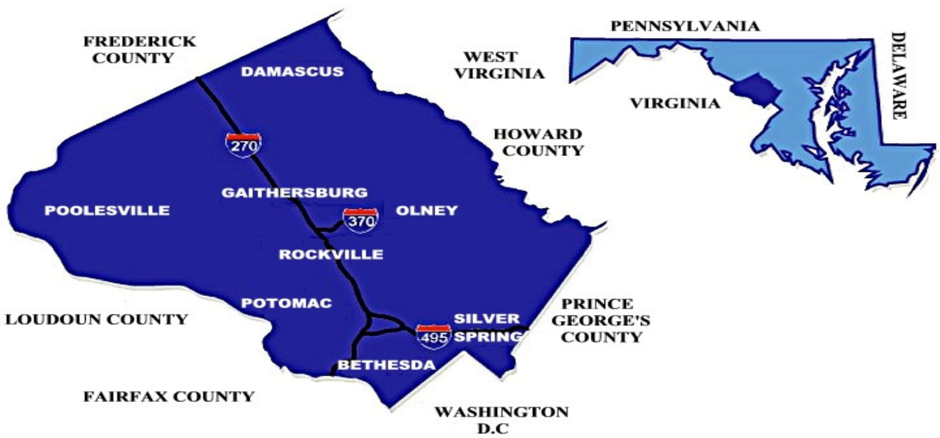
Population 2017	1,058,810
Households 2017	373,219
Median Age 2017	39 years old

Employment

Private Sector 2017	377,714
Public Sector 2017	91,086
Unemployment Rate 2017	3.3%
Personal Income 2017	$91.2 billion
Per Capita Income 2017	$86,136
Average Household Income 2017	$244,366
MCPS K-12 Projected FY19 Enrollment	163,184
MCPS Per Pupil Operating Expenditures (FY19)	$15,911
Montgomery College Enrollment (Fall 2017)	22,874

General Obligation Bonds Rating 2018

Moody's Investors Service, Inc.	Aaa
S&P Global Ratings	AAA
Fitch Ratings	AAA



MONTGOMERY COUNTY - HISTORY AND GOVERNMENT

Location

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

History

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

Government

The County Council is comprised of nine members, four of whom are elected by the qualified voters of the entire County. Each of the five other members of the Council must, at the time of their election, reside in a different one of five Council manic 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 Council manic districts are substantially equal.

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

County Officials

County Executive – Marc Elrich

Marc Elrich was elected as Montgomery County's 7th County Executive on November 6, 2018 and sworn in on December 3, 2018. He had previously served three terms (12 years) on the Montgomery County Council as an at-large member, being first elected in 2006. He served as a Councilmember on the Takoma Park City Council from 1987-2006. For 17 years, he was a teacher at Rolling Terrace Elementary School in Takoma Park.

As a County Councilmember, he was the chief sponsor of several landmark pieces of legislation and programs. He led the successful effort to increase the Montgomery County minimum wage in coordination with surrounding jurisdictions to $11.50 an hour and subsequent legislation that will eventually increase the minimum wage to $15 an hour. He was the first elected official to propose building a Bus Rapid Transit (BRT) system throughout the County to address Montgomery's transportation and environmental problems. Ground was broken in Fall 2018 for the first BRT line, which will run along Route 29.

Throughout his political career, he has been a champion of improving tenants' rights and for making developers pay for a greater share of the infrastructure cost to build schools and transportation solutions. He was a leader in the fight to preserve Ten Mile Creek in the Clarksburg area by limiting the proposed development that would have threatened the health of Montgomery County's last best stream which flows into the County's backup water reservoir.

President, County Council – Nancy Navarro

Nancy Navarro was elected to represent District 4 on the Montgomery County Council in a special election in May 2009 and was re-elected in 2010, 2014 and 2018. Since December 2010, she has chaired the Government Operations and Fiscal Policy (GO) Committee and serves on the Health and Human Services Committee. In October 2011, Ms. Navarro was appointed as a member of the U.S. President's Commission on Educational Excellence for Hispanics, where she serves on the Early Childhood Education Committee.

Prior to her election to the Council, Ms. Navarro served on the Montgomery County Board of Education, where she served on the Board's Strategic Planning Committee and chaired the Communication and Public Engagement Committee. Before entering public life, Ms. Navarro co-founded a non-profit, community-based organization whose mission is to assist the economic and educational development of Latino and other immigrant communities. Ms. Navarro has also served in a number of volunteer leadership roles, including PTSA co-president; chair of the Youth, Schools, and Childcare Work Group of the Long Branch Revitalization Task Force.

Council President Navarro is currently focused on several priorities including closing the opportunity gap in academic achievement, a full-scale early care and education initiative, implementing a senior agenda, sustainable redevelopment and revitalization efforts, job creation, civic engagement, and making Montgomery County very business-friendly.

Chief Administrative Officer – Andrew Kleine

Andrew Kleine is a nationally recognized leader in budgeting for outcomes, long-term financial planning, lean government, and pension and health benefits reform. He received the 2016 National Public Service Award from the American Society for Public Administration and the National Academy of Public Administration. He is the author of the new book, City on the Line: How Baltimore Transformed its Budget to Beat the Great Recession and Deliver Outcomes.

Mr. Kleine served as Baltimore's budget director from 2008 to 2018, after nearly 15 years of federal government service that included budget and policy positions in the U.S. Department of Transportation, White House Office of Management and Budget, and the Corporation for National and Community Service.

Mr. Kleine has served as treasurer of Casa de Maryland and moderator of the President's Council of Silver Spring Civic Associations, and currently sits on the board of the Montgomery County Revenue Authority. He co-founded the nonprofit CHEER (Community Health and Empowerment through Education and Research), which supports low-income families in Long Branch and Takoma Park. Mr. Kleine holds a B.A. in Political Science from Washington University in St. Louis and a Master of Public Policy from the University of Michigan.

Director, Department of Finance – Alexandre A. Espinosa

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

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

Director, Office of Management and Budget – Richard S. Madaleno, Jr.

Richard S. Madaleno, Jr. was appointed Director of the Office of Management and Budget on December 21, 2018. Prior to his appointment, he served sixteen years as a member of the Maryland General Assembly. During his legislative career, he served on both chambers' budget committees and pension subcommittees. He previously worked for the Montgomery County Office of Intergovernmental Relations as a fiscal analyst and the Maryland Department of Legislative Services as a budget analyst.

Mr. Madaleno received his Bachelor of Science in history and Russian studies and a Master in Public Administration from Syracuse University.

County Attorney – Marc P. Hansen

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

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

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

COUNTY GOVERNMENT SERVICES

Human Resources

As of the end of September 2018, the County government employed 8,401 full-time and 815 part-time regular employees, of which 7,452 employees are in bargaining unit positions and represented by one of the three labor organizations that are certified under County law to bargain over wages, fringe benefits, and working conditions. The table below summarizes the current status of County labor agreements.

Table 1
County Bargaining Units

Bargaining Unit	Number of Employees	Contract Expiration Date
Service, Labor & Trades (MCGEO)	1,448	June 30, 2019
Office, Professional & Technical (MCGEO)	3,632	June 30, 2019
Police Officers (FOP)	1,234	June 30, 2019
Firefighters/Rescuers (IAFF)	1,138	June 30, 2019

Public school teachers in the County are not County government employees, but are employed by the Montgomery County Board of Education (the "Board"). As of October 2018, the Board employed 22,142 full-time equivalent (FTE) employees. This number includes 72 non-represented employees and 22,070 employees in bargaining units. The Board bargains collectively with employees on matters concerning wages, hours, and other conditions of employment. There are four bargaining units, which are comprised of teachers, professional/administrative, non-certified supervisors, and support/maintenance employees, as presented in the table below.

Table 2
Board of Education Bargaining Units

Bargaining Unit	Number of FTE Employees	Contract Expiration Date
Teachers & Other Professional (MCEA)	13,147	June 30, 2020
Administrative & Supervisory (MCAAP/MCBOA)	799	June 30, 2020
Support Services (SEIU Local 500)	8,124	June 30, 2020

Arts and Leisure

The Montgomery County Department of Recreation provides a wide range of programs including: aquatics, camps, classes, youth and adult sports, summer fun centers, special events, children and toddler, teen, senior citizen, and therapeutic programs. The Department operates 21 community recreation centers that facilitate leisure activity, social interaction, family participation, and civic involvement. Its newest community center, the Good Hope Community Recreation Center, opened in the Fall of 2018. This new facility will have a strong partnership with Strathmore Arts to bring both arts educational opportunities and live performances. Five Senior Centers provide full services to residents throughout the County. Additionally, twelve program sites serve additional senior populations, offering adults aged 55 and above classes, sports and fitness, trips, neighborhood and special programs for frail and isolated seniors. There are seven large public outdoor swimming pools and four indoor aquatic complexes that offer a variety of instructional, recreational, and competitive aquatic programs countywide. The Department also administers contracted grants for the Takoma Park Community Center, the Arts and Humanities Council and the Public Arts Trust. It also provides specialized recreational programming for at-risk teens, and works cooperatively with the Montgomery County Public Schools to provide a wide range of recreation and leisure opportunities for elementary, middle school and high school students throughout the County. The Recreation Department's administrative office is also home to a small black box 208 seat theater that is used nearly every weekend by small theater and arts groups who rent the space hourly for performances. Such groups as Home School Talent, Unexpected Theater Company and the Russian Opera regularly perform there.

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

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

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

Economic Development

The County Executive's Comprehensive Economic Strategy for Montgomery County as identified during County Executive Leggett's tenure from 2006 – 2018 defines the economic development vision for the County as being a global magnet for creative companies, technologies and people.

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

Consistent with these overarching strategies, the County pursues target industries as economic drivers for future growth while focusing on retaining and growing existing businesses to expand the jobs and tax bases. These target industries include: bio-health/bioscience; information technology/cybersecurity; financial services; advanced manufacturing; corporate & regional headquarters; and entrepreneurs/innovators. The Office of the County Executive leads the effort in cultivating a business climate conducive to the County's ongoing growth and viability.

Montgomery County Economic Development Corporation

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

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

Existing and prospective new businesses also receive an array of professional assistance from MCEDC, including site selection (information on a variety of available office, R&D, and industrial space in the County), provision of socioeconomic statistics and other data, training and employment assistance through WorkSource Montgomery, and other targeted services to meet the needs of small and minority-owned businesses.

For more information about MCEDC, please visit website: www.thinkmoco.com

Montgomery County Government Economic Development Services and Programs

Numerous County Government departments also continue to provide support to existing and prospective businesses, including direct financial assistance, permit expediting, and targeted programs and services to assist small businesses navigate the County's processes. The County's business incubator program for early-stage companies also provide targeted services for businesses.

Economic Development Fund and Other Financial Incentives

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

In FY18, six grants and loans were accepted under the Economic Development Fund Grant and Loan Program for a total of $1,780,000. The economic impact of these transactions is estimated to include 1,003 jobs retained and 520 new jobs added, leveraging over $107 million in private capital investment.

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

- A new local SBIR/STTR Matching Grant Fund program was established for FY19. Montgomery County companies who were awarded a SBIR or STTR Phase I or Phase II grant from the National Institutes of Health (NIH) and conduct at least 51 percent of its research & development operations in Montgomery County may apply for a local Montgomery County match. In the first year of the program, $425,000 was awarded to 12 qualified companies, nine for Phase I awards and three for Phase II awards.
- In FY18, the Montgomery County Council created a Microlending program to provide loans ranging from $500 to $15,000 for County residents needing additional help to start or grow a small business. For FY18, twenty-eight microloans were made for a total of $100,400 to small businesses throughout the County in a variety of industries, including: food services, tax preparation services, painting/construction, photography.
- The Biotechnology Investor Incentive Program was approved by the County Council in FY11 to provide additional incentives to investors of biotechnology companies located in the County. The program operates in conjunction with the State Biotechnology Investment Tax Credit Program by offering an additional supplement to investors who have received a State Biotechnology Investment Tax Credit for their investment in a Montgomery County-based company. In FY18, a total of $500,000 was awarded to 60 qualified investors.
- The Cybersecurity Supplement Program was approved by the County Council in FY14 to provide financial incentives for companies that invest in Montgomery County cybersecurity companies and receive the State Cybersecurity Investment Tax Credit. Three companies qualified for supplemental incentives totaling $165,000 under this program in FY18.
- The Small Business Assistance Program was approved by the County Council in FY13 to provide assistance to small businesses located in either an enterprise zone or an urban renewal area that are adversely impacted by redevelopment projects located on property that is owned by the County or redevelopment projects that are financed in whole or in part by the County. Beginning in FY18, the County is providing financial assistance for adversely impacted small businesses in downtown Wheaton as the County, in a public-private partnership with Stonebridge Carras, redevelops County Parking Lot #13. Through December 31, 2018, 17 impacted businesses have received 31 disbursements for a total of approximately $491,000 in financial assistance.
- The Impact Assistance Fund provides financial assistance and/or technical assistance to certain financially healthy small businesses in designated areas of the County that are adversely impacted by a redevelopment project initiated by the County, a redevelopment project located on County-owned property, or a redevelopment project constructed by a private entity for use in whole or in part by the County as a public facility. Currently, assistance is available for businesses in Silver Spring who are impacted by the Studio Plaza redevelopment project. Through December 31, 2018, 7 companies have received disbursements for a total of $175,000 in financial assistance.

- The MOVE (Make Office Vacancies Extinct) Program was added in FY14 to provide assistance to companies opening an office in Montgomery County for the first time. Through the program, businesses receive financial assistance based on the amount of commercial space that they lease, providing one-time upfront financial assistance to help offset tenant fit-out costs. In 2017, craft alcohol production facilities were added as qualified space, to encourage the growth in this unique industry sector. In FY18, 26 companies received MOVE grants for a total of approximately $957,600 in assistance.

Education

Montgomery County Public Schools (MCPS) is governed by an elected Board of Education comprised of eight members, including one student member. The Board, which was created by State law, appoints the Superintendent and all other employees. The system operates 204 elementary and secondary schools. The operating budget is $2.596 billion for FY19, a 3.2 percent increase over the prior year. The approved FY19-24 Capital Improvement Program is $1.777 billion, an increase of $33.8 million over the previously approved CIP. The emphasis that County residents place on education is reflected in budgeted per pupil operating expenditures of $15,911 in FY19, and in the high percentage of high school graduates who continue formal education. In FY19, projected enrollment is 163,184 students.

Finance

The Department of Finance is responsible for the financial administration of the County government, including accounting, fiscal management, revenue collection, and risk management. The Controller's Division is responsible for the analysis, interpretation, and presentation of the County's financial position and results of operations through timely, accurate, and professional financial reports, and for timely and accurate payments to vendors for goods and services provided to the County. The Treasury Division is responsible for the collection of property taxes and excise taxes, and for the collection and processing of transfer and recordation taxes. The Fiscal Management Division is responsible for economic and revenue analyses and forecasting, economic development programs and special programs, such as the public election fund, and Cash Management, including the investment of the County's investment portfolio. Fiscal Management is also responsible for Debt Management, including managing the timely and economic issuance of short- and long-term financial obligations; developing and maintaining strong rating agency and investor relations; preparing accurate and timely financing documents, including the County's Annual Information Statement; ensuring strict compliance with disclosure requirements; coordinating bond counsel review; providing high-quality consulting services for County agencies, managers, staff, elected officials, and residents on issues related to debt and cash management. The County maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet County financial obligations, and maximization of the investment yield on the County's short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's investment policy, as approved by the County Council. The average maturity of the working capital portfolio is generally less than six months. For FY18, the County managed an average of $870.6 million in its pooled consolidated investment portfolio and earned investment income of $11.7 million with an average rate of return of 1.34%.

Libraries

Montgomery County Public Libraries (MCPL) is a key resource in the community. The system has 21 library branches, visited over 4.5 million times in FY18, each providing 32 to 68 hours of service per week. Thirteen of these branches are open seven days per week.

Weekend evening hours are available for the summer at five branches: Connie Morella (Bethesda), Gaithersburg, Germantown, Rockville Memorial, and Silver Spring from June to August. These branches are open from 10am to 9pm on Fridays and Saturdays during the summer. Libraries play a vital role in our community, and the extended weekend hours over the summer allowed residents who were out shopping or dining during the long summer evenings to enjoy the services and resources of the libraries.

Additional hours were added to the Kensington Park, Little Falls and Twinbrook Libraries. Those branches are now open Monday through Thursday from 10am to 8pm, and Friday and Saturday from 10am to 6pm, for a total of 56 open hours. Eight new staff were also added to augment the increase in public service hours at these three branches.

The added positions support increased programming and services, supplement technical and digital services, and provide support to the diverse needs of each respective branch.

Continuing the building refresh program, the Aspen Hill, Connie Morella (Bethesda), Little Falls, Quince Orchard and the White Oak Libraries reopened in FY18 following significant improvements. The Department received positive customer responses to the physical improvements, refreshed materials collection and technology enhancements such as credit card payments at the service desks, improved power source availability, and laptops for in-branch lending.

Construction is ongoing on a new combined Wheaton Library and Community Recreation Center that will replace two older separate Wheaton Library and Wheaton Community Center buildings on the same campus. This facility is scheduled to open in summer of 2019.

The library materials budget supported the addition of new formats to enhance the collection to better meet customer needs and demands. New formats include Kanopy, an on-demand film streaming service. With a library card, customers can view popular films in multiple genres from any computer, television, mobile device or platform. The resources of well-known professional development site, Lynda.com are also now available to library card holders. Fifteen students have graduated from our Career Online High School program, receiving a high school diploma and focused career training which will allow them to either enter the workforce or go on to higher education. Seventeen more students are currently active in the program.

MCPL has received two NACO 2018 Achievement Awards for outstanding programs: 1) The Reading and Educating to Advance Lives (REAL) Program, an innovative partnership between Montgomery County Department of Health and Human Services (DHHS); the Jewish Council for the Aging; and Montgomery County Public Libraries. The REAL Program brings together staff and volunteers from these organizations with the goal of transforming the time children spend waiting at DHHS service centers into a fun and educational experience. The REAL Program was also awarded a 2018 Honorable Mention Innovation Award from the Urban Libraries Council, an association of urban library systems throughout the US and Canada. 2) Library Matters is MCPL's podcast that is released every two weeks. Podcast topics range from library programs (Summer Read and Learn, Workforce Development) to services (online readers' advisory, refresh building projects) to books (romance novels, cookbooks) to topics of more general interest (New Year's resolutions, Academy Awards). The podcast is available in audio and transcript formats on our website and various podcast apps. The podcast is an innovative way to reach customers, new and old, in various places and to share information about parts of the library's services that might normally not be seen.

Liquor Control

State legislation established a Liquor Control Board in Montgomery County on December 5, 1933, shortly after the end of nationwide Prohibition, giving the Board monopoly power for the issuance of liquor, wine, and beer licenses in the County; the distribution of beverage alcohol at the wholesale level to County licensees; and the retail sale of liquor package goods for off-premise consumption. The Department of Liquor Control was created by Article 2B of the Annotated Code of Maryland, effective July 1, 1951. This newly-created Department assumed wholesale and retail control powers, and the Montgomery County Board of License Commissioners retained the authority to issue licenses for the retail sale of liquor, wine, and beer within the County. In 1997, the unification of Takoma Park gained Montgomery County four additional establishments, with one that is allowed to sell liquor package goods for off-premise consumption. On August 8, 2006, the Office of the Board of License Commissioners was reorganized into a new division of the Department of Liquor Control entitled, "Licensure, Regulation and Education". The Board remains an independent body.

As of October, 2018, the Department of Liquor Control's responsibilities include the operation of 25 County retail stores and a warehouse that distributes beverage alcohol to the County liquor stores and to approximately 1,070 licensed establishments (including beer and wine stores, restaurants, country clubs, etc.); and inspections of licensed premises, training and education programs, and community partnering. The Department is a self-supporting business enterprise with all operating requirements included in the Department's annual budget. Income in excess of departmental needs is transferred to the County's General Fund to pay for general governmental services. In the last five fiscal years (FY14 through FY18) the Department transferred $140.78 million to the General Fund.

Parks

The Maryland-National Capital Park and Planning Commission administers just under 37,000 acres of parkland in the County. This includes 5 regional and 11 recreational parks, many consisting of over 200 acres, and featuring more than 600 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake, and Pine Lake. Of the 421 parks in the Montgomery Parks system, 405 smaller park and open space areas serve as urban, local, and neighborhood, stream valley, and conservation parks, among others. Additionally, Seneca Creek State Park is located in the heart of the County, and Patuxent River State Park is located along the County's northeastern border. The National Park Service provides additional park facilities including the C & O Canal National Historic Park, Great Falls National Park, and Glen Echo Park. Several municipalities and towns within the County, including Rockville, Takoma Park, Kensington, Gaithersburg, Poolesville, Montgomery Village, and Washington Grove, also maintain their own local parks.

Public Safety

Fire and Rescue Service

The Montgomery County Fire and Rescue Service (MCFRS) is an all-hazard fire and rescue service. MCFRS is one of the largest combination career/volunteer fire and rescue departments in the nation. MCFRS components include fire suppression, emergency medical services, emergency communications, apparatus management, fire and explosive investigations, community outreach, training and administration. The department is comprised of approximately 1,300 employees and several hundred active volunteers who respond from 37 fire and rescue stations and provide support from various other sites.

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

Police Department

The Montgomery County Police Department (MCPD) is a highly-trained merit system force of 1,298 sworn officers and 663 civilian staff for a total complement of 1,961 personnel. MCPD operates 23 facilities, including six district police stations, and is accredited by the Commission for the Accreditation of Law Enforcement Agencies (CALEA).

Renovations, replacements, and/or upgrades at several facilities are planned for the Department. There are approved projects for two of the six district stations. The construction of a new 2nd District Police Station is complete, and replacement of the 6th District Police Station is programmed for FY23. In conjunction with the Smart Growth Initiative, a new Public Safety Training Academy (PSTA) was built and opened in Fall of 2016, replacing the previous aging facility, and a new Montgomery County Public Safety Headquarters, which incorporates a new 1st District Police Station within the Headquarters facility, is in operation.

Correction and Rehabilitation

The Department of Correction and Rehabilitation (DOCR) personnel complement includes 538 approved positions consisting of Correctional Officers, program staff, and other professionals who provide progressive and comprehensive correctional services through a wide variety of detention and community supervision programs. The Department operates facilities for incarceration and intensive community re-entry planning: the Montgomery County Detention Center (MCDC), the Montgomery County Correctional Facility (MCCF), and the Pre-Release and Re-entry Services (PRRS). In addition, the Pre-Trial Services Unit (PTSU) supervises over 1,500 defendants in the community on a daily basis.

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

Solid Waste Management

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

The County Council has approved Executive Regulation 7-12 which sets a new recycling goal for the County to recycle 70 percent of waste generated by 2020. The regulation specifies that the County will adopt the State of Maryland methodology per the Maryland Recycling Act to measure the County's recycling, and will include the Source Reduction Credit used to calculate the Waste Diversion Rate. Solid Waste Services manages County-provided separate curbside recycling collection from 217,583, single-family households of yard trim, glass bottles and jars, metal and plastic containers, and all types of clean, unsoiled paper. The County has enacted mandatory multi-family and commercial recycling regulations, and continues efforts to coordinate and integrate the execution and completion of recycling outreach, education, and training to ensure that the maximum amount of recycling is achieved.

During FY18, the County collected $4.82 million in material sales revenue from the Material Recovery Facility (MRF) operations; this included $1.1 million in plastics sales, $0.72 million in bimetal and aluminum can sales, $3.1 million in mixed paper sales, and incurred a net expense for glass of $0.096 million. The net glass expense included sales revenue of $39,452 for flint and gramber glass, and an expense of $135,639 for mixed glass. Additionally, the County's Transfer Station collected $1.539 million in material sales revenue, which included $39,695 in recycled battery sales and $1.50 million in scrap metal sales. The MRF separates plastics for sale into various types, which includes PET, HDPE, Tubs and Lids, and Rigid Mixed. The plastics are sorted by type, baled, and shipped to buyers. A similar process is followed for glass, aluminum cans and foil, bimetal cans, and paper.

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

Transportation

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

Ride-On Bus System

The County Ride-On Bus system operates on 78 routes and is designed to complement the service provided by other transit operators in the County, while 76 of those routes serve one or more of the 12 Metrorail Red Line or MARC Rail Stations in the County. In FY18, approximately 21.59 million passenger trips took place on the County Ride-On Bus system. The entire fleet consists of 364 buses owned and operated by the County, which travel approximately 15.9 million miles per year.

Parking Lot Districts

There are three parking lot districts in the major urbanized areas of the County - Bethesda, Silver Spring and Wheaton. Prior to 1987, general obligation bonds were issued by the County to finance the construction of parking facilities in these areas. In 1987, the County began using parking revenue bonds. Through FY15, a special ad valorem tax was levied on certain commercial and residential properties located within each district to pay for debt service used to finance parking facilities within the district, maintenance and operation of such facilities, and capital construction projects within each district. In May 2015, the County Council set the ad valorem tax rate to zero for FY16 and subsequent years. Current significant sources of revenue used to finance the parking program are meter collections, fees from off-street lots and parking garages, and parking fines. The County has issued parking revenue bonds for land acquisition, construction, repair and renovation of parking facilities. During FY18, the three districts collectively had in service 20 garages with approximately 16,859 parking spaces, 20 surface lots with 1,190 spaces, and 2,386 on-street metered spaces for a total of 20,435 spaces.

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

OTHER SERVICES

Transportation Services

Airports

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

Ronald Reagan Washington National Airport is located in Arlington County, Virginia, across the Potomac River from Washington, D.C. Reagan National is accessible to Montgomery County also by Metrorail. In 2017, the airport served approximately 23.9 million passengers, continuing the trend of domestic and international growth. The airport's popularity is fueled by its proximity to Washington, D.C. and its convenient access to Metrorail.

Dulles International Airport is located in adjacent Fairfax/Loudoun counties in Virginia and offers commercial, general aviation and commuter service. Dulles served 22.7 million passengers in 2017. Reported growth was fueled by additions of new international airlines and destinations that further strengthen Dulles as the region's largest international hub.

Baltimore-Washington International Thurgood Marshall Airport (BWI) is located in Anne Arundel County, Maryland. BWI surpassed 26 million passengers in 2017, setting a record for passengers for the third consecutive year and likely remains the busiest of the tree airports in the Washington region. A new secure connector between domestic D concourse and E concourse was completed in 2017 and BWI is poised to begin work on the next phase of its international terminal expansion.

Metrorail Transit System

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

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

Metrobus

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

MARC Rail and Commuter Bus

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

Water and Sewer Service

WSSC

Operation and maintenance of the public water and sewer systems in the County (excluding the City of Rockville and the Town of Poolesville) are the responsibilities of a State-chartered agency, the Washington Suburban Sanitary Commission (WSSC) that serves both Montgomery and Prince George's Counties. WSSC operates under State law and is governed by a six-member Commission. The County Executives of Montgomery County and Prince George's County each appoint three members, subject to confirmation by the respective County Councils. The FY19 approved operating budget for WSSC totals $781.6 million; the approved capital budget totals $656.3 million.

The Potomac and Patuxent Rivers are WSSC's two sources of raw water supply, with filtration plants located in Potomac and Laurel respectively. WSSC has 14 billion gallons of water supply storage and an effective filtration capacity of 344 million gallon per day (MGD). The Jennings Randolph Reservoir near Bloomington on the North Branch Potomac River and Little Seneca Lake near Boyds on Little Seneca Creek can supplement flows to Potomac River water users, including WSSC and Rockville. These reservoirs can provide an additional 17 billion gallons of raw water, if needed, during low flow periods. An approved expansion of the Patuxent Water Filtration Plant, which was completed in November 2018, increased normal capacity there from 56 MGD to 72 MGD, and increased emergency capacity up to 110 MGD.

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

City of Rockville

Approximately 70% of the geographic area of the City receives water and sewer services from the City of Rockville. The remaining 30% receives water and sewer services from WSSC. The approved FY19 Operating Budget for Rockville totals $13.8 million for the water enterprise fund and $14.6 million for the sewer enterprise fund.

Rockville owns and operates an 8.0 MGD water treatment plant which is located in Potomac, MD. Rockville has an appropriation permit issued by the Maryland Department of Environment (MDE) to withdraw an average of 7.1 MGD of Potomac River water and a maximum not-to-exceed amount of 12.1 MGD. Consistent with regional and national trends in the water industry, the average daily production has declined from 4.88 MGD in 2011 to 4.62 MGD in 2016 and the average maximum daily production has declined from 7.5 MGD in 2011 to 6.23 MGD in 2016. Rockville's planning projections predict an average daily demand of 6.55 MGD by the year 2040 which can be accommodated by the existing Potomac River allocation. Rockville has 11 MG of potable water storage in the following tanks: Hunting Hill and Carr Avenue. The water distribution system consists of 170 miles of water lines.

In FY09, Rockville initiated a program to renew the aging water lines on a 100-year cycle. This ongoing water main rehabilitation project accounts for a total $0.6 million of the total $2.0 million FY18 Capital Improvement Program for the water enterprise fund.

Rockville provides wastewater collection services through 148-miles of City-owned and maintained sewer lines in three sewer sheds: Watts Branch, Cabin John and Rock Creek. Rockville does not have any combined sewers. The wastewater is conveyed through WSSC and District of Columbia Water and Sewer Authority (DC Water) facilities for treatment at the Blue Plains advanced wastewater treatment plant. The average daily wastewater flow for 2016 calendar year was 5.9 MGD. Rockville's planning projections (from the 2010 Comprehensive Master Plan - Water Resource Element) predict an average of 7.4 MGD by the year 2040 which is well within the City's existing 9.31 MGD allotment of Blue Plains regional treatment capacity.

Rockville has an aggressive preventative maintenance, pipe-lining and dig-and-replace plan for the wastewater collection system that will help prevent blockages and overflows, identify and prioritize capital improvements, and reduce opportunities for infiltration and inflow of rain and groundwater into the system. The ongoing sewer main rehabilitation project accounts for $0.2 million of the total $3.6 million FY18 Capital Improvement Program for the sewer enterprise fund.

Town of Poolesville

The Town of Poolesville operates its own water and wastewater systems, which serve the majority of the Town. Raw water for the Town's system is supplied by ten groundwater wells, with an average daily demand of approximately 0.5 MGD. The Town has acquired withdrawal permits for Potomac River water of up to 0.65 MGD on an annual daily average. Treatment consists of chlorination except for a cartridge filtration unit on one well that was deemed to be under the influence of surface water and a uranium and radon removal system on two other wells.

Two additional wells are currently under construction and projected to be completed in 2019. Upon completion, one well will be used as a redundant well and another to support a new subdivision. Both wells are designed with radon removal units. A five-hundred-thousand-gallon elevated tank and a one-million-gallon standpipe serve as storage and fire protection.

The Town's Waste Water Treatment Plant is permitted to discharge 0.75 MGD and has completed minor treatment improvements to meet the Enhanced Nutrient Removal limits, but is now working with the MDE to install denitrification filters to further enhance treatment. Efforts over the last 10 years to reduce inflow and infiltration to the sewer system through pipe lining and manhole rehabilitation has significantly reduced inflow and infiltration. Ongoing efforts continue and include additional relining and manhole repairs. The Town's approved water and sewer operating budget in FY19 is $1,331,306, while the planned CIP budget is $462,122.

Utilities

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

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

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

The County is currently implementing energy-efficiency projects on major facilities using energy performance contracting. The projects are funded by a revenue supported master lease repaid by the energy savings from the project. In addition, the County's on-site renewable energy projects are anticipated to provide $10.5 million in savings over 20 years.

The County has also contracted with a third party to design, finance, own and operate solar photovoltaic systems on County facilities as a public-private partnership. The County receives electricity from these systems at pre-determined negotiated rates for 20 or more years. Projects installed to date are expected to save the County approximately $1.5 million annually for the next 20 years. Additional projects are under development. The County is also installing two microgrids using a similar public-private partnership on critical facilities enabling them to operate independently from the utility grid during long term power outages.

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

Healthcare

There are six accredited hospitals located in the County: Holy Cross Hospital in Silver Spring, Suburban Hospital-Johns Hopkins Medicine in Bethesda, Washington Adventist Hospital in Takoma Park, Shady Grove Adventist Hospital in Rockville, Holy Cross Germantown Hospital, and MedStar Montgomery Medical Center in Olney. There is also a free-standing Shady Grove Adventist Emergency Center in Germantown with 21 emergency treatment beds. In addition, a military hospital, Walter Reed National Military Medical Center (a consolidation of the National Naval Medical Center and Walter Reed Army Medical Center), is located in Bethesda, and the National Institutes of Health in Bethesda operates one of the world's foremost centers of medical research. Accessible to the County are Frederick Memorial Hospital in Frederick County; Laurel Regional Hospital and Prince George's Hospital Center in Prince George's County; and various hospitals in the District of Columbia and Northern Virginia. In 2015, the Maryland Health Care Commission approved Washington Adventist Hospital's certificate of need (CON) for the construction of a replacement hospital facility to be located in the White Oak area of Silver Spring. Construction on the new hospital continues and will be renamed to Adventist HealthCare White Oak Medical Center when it opens in the summer of 2019, at 12100 Plum Orchard Drive off Route 29 and Cherry Hill Road.

Higher Education

In the most recent American Community Survey taken in 2017, the 5-year estimates indicated that County residents, on average, are highly educated. According to the 2017 Survey, 58.3 percent of County residents 25 years old or over completed four or more years of college. Advanced degrees are held by 31.6 percent of the adult population, while high school graduates account for 91.1 percent of the County population aged 25 and over.

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

Table 3
Post Secondary Education

College	Estimated Student Enrollment
American University, Washington, DC	13,300
Catholic University, Washington, DC	6,650
George Washington University, Washington, DC	26,600
Georgetown University, Washington, DC	18,400
Hood College, Frederick, MD	2,200
Howard University, Washington, DC	10,000
Johns Hopkins University, Baltimore, MD	22,600
Montgomery College, 3 Campuses in County (2-year)	23,900
Universities at Shady Grove, Montgomery County	4,000
University of Maryland, College Park, MD	38,100

Note: Most current data available on each institution's website

Travel and Tourism

According to the most recent report released by Tourism Economics, an Oxford Economics Company, the tourism industry in Montgomery County generated $1.92 billion in expenditures in 2017 up 3.8% from $1.85 billion in 2016. In 2017, total Tourism State and Local Tax Receipts were $296 million up 4% from 2016. Local room rental transient tax (7% levied) collections generated $21 million in FY 2018, flat to Fiscal Year 2017. Montgomery County lodging occupancy as reported by Smith Travel Research from 2016 to 2017 was up by 1%. The average hotel occupancy of the Washington, D.C./Maryland/VA lodging market was down by 0.1%. Montgomery County welcomed 9 million day and overnight visitors in 2017, up 3.5% from the previous year.

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

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

DEBT SUMMARY

Overview

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

The County continues to maintain its status as a top-rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its general obligation bonds, the County is a 'Triple AAA' rated County, and received ratings of Aaa from Moody's Investors Services, Inc., AAA from S&P Global Ratings, and AAA from Fitch Ratings. The County's general obligation bonds have been consistently awarded the highest credit rating from Moody's Investors Services, Inc. and S&P Global Ratings since 1973 and 1976, respectively, and from Fitch Ratings since 1991. Montgomery County is one of only 14 'Triple AAA' rated counties in the nation with a population greater than 900,000.

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

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

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

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

The County's Net Direct and Overlapping Debt is derived by subtracting Direct Self-Supporting Debt from the Total Direct and Overlapping Debt. A summary statement of direct and overlapping debt for Montgomery County is provided in Table 4 on the following page. For additional discussion of particular elements of the County's debt including amortization schedules, see the sections that follow, Appendix A – Basic Financial Statements, Note III (F) and the Debt Service Book at the following link:

https://www.montgomerycountymd.gov/finance/resources/files/data/financial/FY18_DEBT_SERVICE_BOOK.pdf

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

Table 4
Statement of Direct and Overlapping Debt
As of June 30, 2018
And Including 2018 General Obligation Bonds

Direct Debt:		
General Obligation Bonds Outstanding	$3,095,230,000	
Short-Term BANs/Commercial Paper Outstanding[(1)]	170,000,000	
2018 General Obligation Bonds Series A	330,000,000	
Revenue Bonds Outstanding	200,480,000	
Total Direct Debt		$3,795,710,000
Overlapping Debt as of June 30, 2017		
Washington Suburban Sanitary Commission Applicable to Montgomery County	$2,371,362,000	
Housing Opportunities Commission	1,083,030,421	
Montgomery County Revenue Authority	78,883,464	
Maryland-National Capital Park and Planning Commission Applicable to Montgomery County	51,330,000	
Kingsview Village Center Development District	728,223	
West Germantown Development District	10,020,000	
Towns, Cities and Villages within Montgomery County	46,703,434	
Total Overlapping Debt		$3,642,057,552
Total Direct and Overlapping Debt		$7,437,767,552
Less Self-Supporting Debt:		
County Government Revenue Bonds	$200,480,000	
Washington Suburban Sanitary Commission Applicable to Montgomery County	2,371,362,000	
Housing Opportunities Commission	1,083,030,421	
Montgomery County Revenue Authority	78,883,464	
Total Self-Supporting Debt		($3,733,755,885)
Net Direct and Overlapping Debt		$3,704,011,667
Ratio of Debt to June 30, 2018 Assessed Valuation of (100% Assessment):		$188,182,435,927
Direct Debt		2.02%
Net Direct Debt[(2)]		1.91%
Direct and Overlapping Debt		3.95%
Net Direct and Overlapping Debt		1.97%
Ratio of Debt to June 30, 2018 Market Value of:		$199,028,527,137
Direct Debt		1.91%
Net Direct Debt		1.81%
Direct and Overlapping Debt		3.74%
Net Direct and Overlapping Debt		1.86%

(1) Net of amount retired with proceeds of the Series 2018 bonds.
(2) Net Direct Debt of $3,595,230,000 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

Debt Affordability

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

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

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

Table 5
Statement of Legal Debt Margin
As of June 30, 2018
And Including 2018 General Obligation Bonds

June 30, 2018 Assessed Valuation – Real Property		$183,993,870,661
Debt Limit (% of Assessed Valuation)		6%
Subtotal Limitation – Real Property		$11,039,632,240
June 30, 2018 Assessed Valuation – Personal Property		$ 4,188,565,266
Debt Limit (% of Assessed Valuation)		15%
Subtotal Limitation – Personal Property		$ 628,284,790
Total Assessed Valuation – Real and Personal Property		$188,182,435,927
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds		$11,667,917,030
Less Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds Outstanding	$3,095,230,000	
2018 General Obligation Bonds Series A	330,000,000	
Short-Term BANs/Commercial Paper Outstanding(1)	170,000,000	
Net Direct Debt		$3,595,230,000
Legal Debt Margin		$8,072,687,030
Net Direct Debt as a Percentage of Assessed Valuation		1.91%

(1) Net of amount retired with the proceeds of the Series 2018 bonds.

Direct Debt

General Obligation Bonds Payable

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Public Housing Facilities, and (9) Parking Facilities. All bonds are valid and legally binding general obligations of the County and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County. Bonds are normally issued in serial maturities from one to 20 years, with five percent of the principal retired each year. This practice produces equal annual payments of principal over the life of the bond issue and declining annual payments of interest on the outstanding bonds. The Charter limits the term of any bond to a maximum of 30 years.

Variable Rate Demand Obligations

The County issued variable rate demand obligations (VRDOs) on June 7, 2006, in the amount of $100 million. These obligations would not have matured in total until 2026; however, the County was required by the Note Order to make annual sinking fund payments to retire one-tenth of the notes each year beginning in 2017. On November 15, 2017, the County issued $78,270,000 of general obligation refunding bonds to defease VRDOs 2006 Series A and B outstanding in the amount of $90,000,000.

On December 19, 2017, the County issued new VRDOs in the amount of $170 million. The bonds are subject to optional redemption at par in whole on any date or in part on any interest payment date upon 15 days' notice. Additionally, the bonds are subject to mandatary sinking fund redemption on November 1 in each of the years 2028 through 2037.

The interest rate on the obligations, which re-sets daily, is established by the remarketing agents and is payable on the first business day of each month. Other potential modes for the obligations include a Weekly Mode, a Commercial Paper Mode, a Term Rate Mode or a Fixed Rate Mode. Subject to certain terms and conditions in the Note Order, the County may affect a change in mode with respect to the obligations. The obligations are subject to optional tender and purchase on the demand of the owners thereof, upon certain terms. All such obligations are general obligations of the County to the payment of which the full faith and credit and unlimited taxing power of the County is irrevocably pledged.

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

Table 6
General Obligation Bond Debt Ratios
2014 – 2018

Fiscal Year	Net Direct Debt to Market Value	GO Bond Debt Service to General Fund Expenditures	Net Direct Debt Per Capita	Net Direct Debt Per Capita to Per Capita Income	GO Bond Payout Ratio
2014	1.61	8.96	2,819	3.88	68.64
2015	1.57	9.62	2,761	3.76	67.41
2016	1.73	9.36	3,132	4.07	67.88
2017	1.74	10.01	3,220	3.99	67.26
2018	1.81	10.33	3,364	3.94	68.42

The County's general obligation indebtedness by issue is presented in Table 7. Table 8 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2018. Also see Subsequent Events, Note 5 on page 29.

Table 7
General Obligation Debt of the County
As of June 30, 2017 and June 30, 2018
And Including 2018 General Obligation Bonds

Issue	Dated Date	Original Issue Size	Original Coupon Rates	TIC [1]	Maturity	Principal Outstanding June 30, 2017	Principal Outstanding June 30,2018[5]
GO Refunding Bonds	06/01/2005	$120,355,000	5.00	3.7817	2011-21	$12,585,000	-
GO VRDO[2]	06/07/2006	100,000,000	Variable	Variable	2017-26	90,000,000	-
GO Bonds	07/15/2008	250,000,000	3.00-5.00	4.1809	2009-28	36,100,000	10,650,000
GO Bonds[3]	11/03/2009	232,000,000	3.75-5.00	3.1774	2015-29	201,070,000	185,605,000
GO Refunding Bonds	11/03/2009	161,755,000	2.00-5.00	2.6487	2011-20	82,445,000	59,360,000
GO Bonds	07/08/2010	195,000,000	2.00-5.00	2.2596	2011-22	97,500,000	48,750,000
GO Bonds[4]	07/08/2010	130,000,000	4.75-5.40	5.0708	2023-30	130,000,000	130,000,000
GO Bonds	08/11/2011	320,000,000	2.00-5.00	3.2268	2012-31	144,000,000	32,000,000
GO Refunding Bonds	08/11/2011	237,655,000	2.00-5.00	1.9896	2012-22	156,015,000	134,245,000
GO Bonds	10/24/2012	295,000,000	2.50-5.00	2.2599	2013-32	236,000,000	118,000,000
GO Bonds	11/26/2013	295,000,000	3.00-5.00	3.1270	2014-33	250,750,000	206,500,000
GO Refunding Bonds	11/26/2013	24,915,000	5.00	2.7745	2023-24	24,915,000	24,915,000
GO Bonds	11/19/2014	500,000,000	4.00-5.00	2.7745	2015-32	450,000,000	375,000,000
GO Refunding Bonds	11/19/2014	297,990,000	5.00	2.3437	2016-28	284,365,000	270,590,000
GO Refunding Bonds	03/26/2015	58,520,000	5.00	1.2264	2018-21	58,520,000	58,520,000
GO Bonds	12/01/2015	300,000,000	3.00-5.00	2.8036	2016-35	285,000,000	270,000,000
GO Bonds	12/13/2016	340,000,000	3.00-5.00	3.2816	2017-37	340,000,000	323,000,000
GO Bonds	11/15/2017	170,000,000	5.00	1.7265	2018-27	-	170,000,000
GO Refunding Bonds	11/15/2017	78,270,000	5.00	1.6316	2018-26	-	69,640,000
GO Refunding Bonds	11/15/2017	294,625,000	3.00-5.00	2.0707	2019-31	-	294,625,000
GO Refunding Bonds	11/15/2017	143,830,000	3.00-4.00	2.1002	2020-29	-	143,830,000
GO VRDO[2]	11/22/2017	170,000,000	Variable	Variable	2028-37	-	170,000,000
GO Bonds	11/08/2018	330,000,000	3.00-5.00	3.2796	2019-38	-	330,000,000
Total						$2,879,265,000	$3,425,230,000

(1) True Interest Cost
(2) Variable Rate Demand Obligations
(3) Federally Taxable – Build America Bonds – Direct Pay ("BABs")
(4) Includes Federally Taxable – Build America Bonds $106.3 million – Direct Pay
(5) Principal Outstanding as of June 30, 2018 includes the Series 2018 Bonds issued and delivered by the County on November 8, 2018. The balance excluding the November 2018 issuance is $3,095,230,000.

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

Table 8
General Obligation Bonds Authorized - Unissued
As of June 30, 2018

Purpose	Chapter	Act	Amount	Amount Unissued
General County, Parks, and	26	2013	331,600,000	242,580,477
Consolidated Fire Tax District	31	2014	167,400,000	167,400,000
	49	2015	148,100,000	148,100,000
			647,100,000	558,080,477
Road & Storm Drainage	31	2014	$49,300,000	7,043,107
	49	2015	$113,600,000	113,600,000
			$162,900,000	$120,643,107
Public Schools and	31	2014	$162,000,000	39,238,171
Community College	49	2015	$267,200,000	267,200,000
			$429,200,000	306,438,171
Mass Transit	49	2015	$34,200,000	17,441,245
			$34,200,000	17,441,245
Public Housing	17	1981	$2,650,000	1,890,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
	22	2009	1,000,000	1,000,000
	54	2010	46,400,000	46,400,000
			53,030,000	52,270,000
Easements				
Agricultural Easements	24	2011	2,000,000	2,000,000
Façade Easements	24	2011	1,100,000	1,100,000
	26	2013	2,200,000	2,200,000
			5,300,000	5,300,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
	19	2012	20,115,000	1,193,000
			24,280,000	4,458,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	$1,050,000	$1,050,000
			9,150,000	4,865,000
Total Parking Districts			$33,430,000	$9,323,000
Total General Obligation Bonds			$1,365,160,000	$1,069,496,000

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

Current Revenue Substitution for General Obligation Bonds (PAYGO)

The County follows a practice of budgeting significant current revenue substitution for general obligation bonds over the six-year Capital Improvements Program. This "pay-as-you-go" approach to funding debt-eligible capital improvement projects, known as PAYGO, helps manage the County's debt burden and retain funding flexibility. The amounts of PAYGO substitutions over the past five years, and planned for substitution over the five years beginning FY19, are displayed below.

Table 9
PAYGO Substitutions
(Actual FY14-18, Budgeted FY19-23)

Fiscal Year	PAYGO Amount
2014	$29,500,000
2015	29,950,000
2016	34,000,000
2017	34,000,000
2018	34,000,000
2019	33,000,000
2020	32,000,000
2021	31,000,000
2022	30,000,000
2023	30,000,000

Bond Anticipation Notes Payable/Commercial Paper

The County utilizes Bond Anticipation Notes (BANs)/commercial paper for short-term capital financing of capital expenditures with the expectation that the principal amount will be refinanced with the proceeds of long-term general obligation bonds. Interest costs incurred are usually at lower rates than with long-term financing. The County has BANs/commercial paper authorized, issued, and outstanding as financing sources for capital construction and improvements. BANs/commercial paper are issued at varying maturities to a maximum of 270 days. The County reissues the notes upon maturity until they are refinanced with long-term bonds. Changes in BANs/commercial paper during the period July 1, 2017 through June 30, 2018 are presented in Table 10.

Table 10
Bond Anticipation Notes Outstanding
As of June 30, 2018

Issue	Balance July 1, 2017	BANs Retired	BANs Issued	Balance June 30, 2018
BAN 2009-A	$100,000,000	$30,000,000	$30,000,000	$100,000,000
BAN 2009-B	100,000,000	30,000,000	30,000,000	100,000,000
BAN 2010-A	150,000,000	140,000,000	140,000,000	150,000,000
BAN 2010-B	150,000,000	140,000,000	140,000,000	150,000,000
Total	$500,000,000	$340,000,000	$340,000,000	$500,000,000

Revenue Bonds Payable

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

In October 2015, the County issued $9.2 million of Bethesda Parking Lot District (PLD) bonds via direct bank placement to refund the outstanding 2005 Bethesda PLD bonds for debt service savings. In March 2017, the County converted the Bethesda Parking Lot District Series 2015 Bonds from a tax-exempt to a taxable obligation in the amount of $8.5 million, which will allow the County more flexibility in the future operation of Garage 11 which was funded with the proceeds of the Bond. The amortization schedule for the Series 2015 Bond which matures in 2026, remains the same, except for conversion of the existing tax-exempt interest rate of 2.55% to a taxable rate of 3.57%. The increased debt service is approximately $390,000 on a net present value basis over the remaining life of the loan.

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

County revenue bond indebtedness by issue is presented in Table 11. Annual debt service payments for the County's revenue bond debt are displayed in the Debt Service Book. Table 12 sets forth the amount of revenue bonds authorized to be issued by the County as of June 30, 2018.

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

Table 11
Revenue Bond Debt of the County
As of June 30, 2018

Bond Description	Date	Original Issue Size	Original Coupon Rates	TIC*	Maturity	Principal Outstanding June 30, 2018
Parking Revenue Bonds (Bethesda PLD)	05/16/12	$ 24,190,000	3.00%-5.00%	2.8367%	2015-23	$ 22,155,000
Parking Revenue Refunding Bonds (Bethesda PLD)	05/16/12	13,750,000	1.25%-1.93%	2.8367%	2013-17	5,210,000
Parking Revenue Bonds (Bethesda PLD)**	10/19/15	9,174,000	2.55%	2.5504%	2017-26	7,895,000
Water Quality Protection Revenue Bonds	07/18/12	37,835,000	0.25%-5.00%	4.1195%	2013-32	29,950,000
Water Quality Protection Revenue Bonds	04/06/16	46,500,000	2.25%-5.00%	2.6199%	2017-36	42,995,000
Liquor Control Revenue Bonds	05/12/09	46,765,000	3.00%-5.00%	4.2826%	2010-29	30,605,000
Liquor Control Revenue Bonds	04/28/11	34,360,000	2.00%-5.00%	3.9326%	2012-31	25,570,000
Liquor Control Revenue Bonds	07/30/13	46,645,000	3.125%-5.00%	3.3148%	2014-33	38,100,000
Total						$ 200,480,000

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

Table 12
Revenue Bonds Authorized – Unissued
As of June 30, 2018

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

Other Long -Term Obligations

Capital Lease Obligations

Montgomery County has entered into various lease agreements as lessee with the Montgomery County Revenue Authority (MCRA) for financing the construction or acquisition of certain County facilities including the Conference Center and Aquatic Centers. These lease agreements qualify as capital leases for accounting purposes. MCRA issues bonds on the County's behalf and loans the proceeds to the County. This results in lease payments from the County to MCRA, which in turn pays the debt service on the bonds. The principal amount owed by the County as of June 30, 2018 was $6.1 million

Certificates of Participation (COPs) and Taxable Limited Obligation Certificates

The County entered into a conditional purchase agreement (COPs) dated October 1, 2007 with U.S. Bank National Association for the purpose of borrowing $33.6 million to acquire equipment for use in the County's fire and rescue program. In FY18 the COPs were fully paid off.

In April 2010, the County issued $30.4 million of Taxable Limited Obligation Certificates which was supplemented by an additional issue of $28.8 million in August 2011. The proceeds of these sales were used to fund the County's Facility and Residential Development Projects - primarily projects associated with affordable housing and the Fillmore music venue. The Certificates fully amortize over 20 years. In November 2013, the County issued Taxable Limited Obligation Certificates in the amount of $38 million to continue financing this Montgomery County Housing Initiative program which promotes a broad range of affordable housing opportunities in the County. The outstanding Taxable Limited Obligation Certificates balance as of June 30, 2018 was $74.7 million.

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

In July 2016, the County was authorized and entered into a loan agreement with Montgomery College Foundation to issue its Certificates of Participation (Montgomery College Improvements), $23,050,000 Series 2016A and $1,810,000 Series 2016B to finance part of the costs of the acquisition, design, construction and equipping of certain facilities of Montgomery College. Such facilities are owned by Montgomery College Foundation and leased to the College, to be used by the College pursuant to a lease agreement between the Foundation and College. The proceeds of the Certificates of Participation were also used to pay off costs incurred by the College in connection with College's termination of certain lease agreements and the costs of issuing the COPS (Montgomery College Improvements). The debt service is to be paid from pledged lease payments and fees pursuant to a lease agreement between the Foundation and College dated as of July 1, 2016. In FY18, the pledged lease payments from the Montgomery College Foundation equals the scheduled debt service on the Certificates of Participation schedule. College COPs outstanding as of June 30, 2018 was $24.5 million

Other Leases and Notes Payable

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

The HUD Loan was authorized by the County to acquire twenty-one housing units to provide affordable housing for income qualified persons. After a loan agreement was signed between the County and HUD, the County Council approved the County to disburse and re-loan the proceeds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, principal with interest over a twenty-year period. The balance outstanding as of June 30, 2018 was $268,000.

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

During 2017, the County entered into an agreement to transfer the property to a developer that would have required the original Promissory Note to be paid in full pursuant to the original Purchase and Sale Contract. However, the County amended and restated the Promissory Note with WSSC, which revised the repayment terms commencing in FY19, and ending in FY28. The interest rate of 4.43% and other terms remain unchanged. The outstanding balance at June 30, 2018 was $9.8 million.

From 2013 through December 2017, the County entered into a series of lease agreements to finance energy efficiency projects. These leases were part of a six year program that improves energy efficiency of County facilities. Leases range from $1.9 million to $4.3 million and interest rates range from 2.103% to 5.17%. Leases maturities range from 13 to 20 years. The balance outstanding as of June 30, 2018 was $19.3 million

Master Lease/Equipment Notes

The County has entered into purchase agreements to provide financing for the acquisition of capital asset equipment. The agreements generally have terms of two to seven years with interest rates identified in the agreements. Some arrangements provide that proceeds are to be held by a trustee and disbursed to vendors. If assets are acquired prior to the note agreement, the trustee reimburses the County.

The County's obligation to make payment under the Master Leases in any fiscal year is contingent upon the County Council making an appropriation for such purpose in such year. In the event that the Council does not appropriate money to make such payments, the County is required to return the financed asset to the bank identified in the applicable Master Lease, without any additional financial liability. The obligation of the County under the agreements does not constitute a pledge of the full faith and credit or taxing powers of the County. The Equipment Notes and Master Leases had an outstanding balance of $86.3 million as of June 30, 2018.

Other Operating Payment Agreements

Lease Revenue Bonds – Metrorail Garage Projects

The County entered into a Trust Agreement dated June 1, 2002 with Wachovia Bank, N.A. related to the issuance of $37.9 million in Lease Revenue Bonds to finance the costs of parking structures and related facilities at the Shady Grove Metrorail Station and the Grosvenor Metrorail Station in Montgomery County. The County leased the garages to the Washington Metropolitan Area Transit Authority (WMATA), an interstate compact agency and instrumentality of the District of Columbia, the State of Maryland, and the Commonwealth of Virginia.

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

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

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

The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the full faith and credit nor the taxing power of the County is pledged to the payment of the bonds. Lease revenue bonds outstanding as of June 30, 2018 were $20.4 million.

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. From time to time, the County issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring and/or renovating facilities for third party facility users. Facility users may be individuals, public or private corporations, or other entities. The bonds are sometimes secured by the facilities financed or by a financial institution and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the County's financial statements.

As of June 30, 2018, there were 26 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, six were issued prior to July 1, 1996. Two issues prior to July 1, 1996 matured in FY18. The aggregate principal amount payable at June 30, 2018, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $129.5 million. The principal amount payable at June 30, 2018, for bonds issued after July 1, 1996, totaled $716 million.

The bonds do not constitute indebtedness to which the full faith and credit of Montgomery County or any other public body is pledged. The bonds are issued and sold without direct or indirect cost to the County. The borrowers are responsible for using the proceeds for the purposes outlined in their letter of intent and paying all loan payments and expenses in connection with the bond issuance.

Events Subsequent to June 30, 2018

1. On July 26, 2018 the County issued a fifth draw under the Banc of America Master Equipment Lease/Purchase Agreement of approximately $3.2 million dollars. The proceeds will fund energy performance savings projects at various County buildings for which the repayment of debt is guaranteed through energy savings.

2. On August 13, 2018, the County issued $30.2 million in Economic Development Revenue Bonds (Conduit Bonds) on behalf of the Friends House Retirement Community. On November 16, 2018, the County issued Conduit Bonds in the amount of $87.5 million on behalf of the Village at Rockville Project. The Conduit Bonds do not constitute indebtedness to which the full faith and credit of Montgomery County or any other public body is pledged.

3. On August 22, 2018 the County entered into a loan agreement with PNC Bank in the amount of $6.9 million dollars. This loan is to finance the County's Rockville Innovation Center and National Cybersecurity Center of Excellence incubator projects.

4. A sixth draw under the Banc of America Master Equipment Lease/Purchase Agreement in the amount of $5.3 million dollars was issued on September 26, 2018. The proceeds will fund the first phase of an LED streetlighting conversion project for which the repayment of debt is guaranteed through energy savings.

5. The County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of $330,000,000 on November 8, 2018. The proceeds will pay off an equivalent amount of the County's BANs which funded capital expenditures for education, transportation and other County facilities.

6. On November 19, 2018 the County issued $33.7 million in Series 2018A Taxable Limited Obligation Certificates (Facility and Residential Development Projects) to finance certain projects of the Montgomery Housing Initiative which promote a broad range of housing opportunities in the County. On the same day the County issued $22.4 million in Series 2018B Taxable Limited Obligation Refunding Certificates which refunded the 2010A Series for debt service savings.

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, capital leases, and bank loans.

Washington Suburban Sanitary Commission

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

Housing Opportunities Commission

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

Montgomery County Revenue Authority

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

Maryland-National Capital Park and Planning Commission

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

Special Taxing Districts

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

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

On August 26, 2014, the County issued $12.0 million of bonds to refund West Germantown Development District Series 2002A, 2004A, and 2004B bonds at a true interest rate of 2.8 percent for a net present value savings of $2.8 million, or 21.7 percent savings of refunded bonds through 2027. The outstanding principal balance as of June 30, 2018 was $10.02 million. On August 26, 2014, the County issued $1.4 million of bonds to refund the 1999 Series Kingsview Village Center Development District bonds at a true interest rate of 3.0 percent for a net present value savings of $0.17 million, or 11.6 percent savings of refunded bonds through 2021. The outstanding principal balance as of June 30, 2018 was $0.73 million. The district tax payers will benefit from these refundings as lower debt service costs translate into lower tax burden needed to support the debt service payments.

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

In March 2010, the County adopted a sector plan for the White Flint area of north Bethesda. This smart-growth master plan transforms the area into a pedestrian-friendly, transit-oriented, urban setting that is expected to be a leading economic engine for the County. To successfully implement the sector plan, the County adopted legislation (Bill 50-10), in December 2010 to create a new special taxing district in the White Flint area, along with an implementation strategy and a list of the infrastructure necessary to successfully implement that strategy (Resolution No 16-1570). Bill 50-10 creates the White Flint Taxing District (Chapter 68C of the County Code) in order to collect ad valorem tax revenue that will provide a stable, reliable and consistent revenue stream. The revenue collected will fund the transportation infrastructure improvements identified in the implementation and strategy Resolution by facilitating repayment of bonds authorized by the legislation.

Towns and Cities

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

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

County Facility Lease Obligations

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $23.9 million for FY18. In addition, long-term leases with the Montgomery County Revenue Authority (MCRA) are subject to annual appropriations, but are related to the debt service on bonds that MCRA issued on the County's behalf.

Following is a listing of significant lease agreements for FY18:

Payee	Location	Use	Total Rent For FY18
Eldridge, Inc.	255 Rockville Pike, Rockville	Various Agencies	$6,797,297
FS Peoples Realty LLC	14935 Southlawn Lane, Rockville	Public Safety	$2,057,911
FP Gude LLC	7300 Calhoun Drive, Derwood	Juvenile Assessment Center	$1,625,968
BSRep ll MD Office Jefferson LLC	600 East Jefferson St., Rockville	Community Use of Public	$1,146,776
BSRep ll MD Office Monroe LLC	51 Monroe Street, Rockville	Various Agencies	$354,155
Felland Limited Partnership	4901-43 Nicholson Ct., Kensington	DOT/Transit Services	$968,334
Seneca Center II, LLC	18753 N. Frederick Ave.	Board of Elections	$1,199,740
Fanaroff & Steppa c/o HBW Group	981 Rollins Avenue, Rockville	HHS-OAS Clinic	$828,281
Investment Properties, Inc.	701-C Dover Road, Rockville	Fire & Rescue Warehouse	$655,279
The Gudelsky Company	8630 Fenton Street, Silver Spring	Health Center	$577,053
ARE 25/35/45 W. Watkins Corp.	45 West Watkins Mill Rd, Gaithersburg	Public Safety	$516,601
Betty B. Casey Trust	8516-40 Anniversary Circle, Rockville	Records Center/Warehouse	$346,519
Green Squad LLC	11435 Grandview Ave	Urban Crew	$244,891
Gov.Properties Income Trust	1401 Rockville Pike, Rockville	Various Agencies	$1,276,009
Pri 19647 Fisher Ave. LLC	19627 Fisher Ave, Poolesville	Library	$216,151
ARE-20/20/1300 Firstfield	1300 Quince Orchard Blvd., Gaithersburg	PSCC	$1,198,233
First Potomac LLC	22610 Gateway Ctr. Dr. Ste 300 Clarksburg	DFRS	$205,672
Halcyon Associates	7-1 Metropolitan Ct., Gaithersburg	HHS	$138,371
Daniel, Daniel & Daniel Limited Partnership	2-4 Metropolitan Ct., Gaithersburg	DOL Warehouse	$195,874
Urban Edge Properties	199 E. Montgomery Ave., Rockville	Sheriff's Dept.	$253,709
Cornerstone	2 Taft Ct., Rockville	HHS	$195,698
The Jeri-Irrevocable Trust	5320 Marinelli Rd., Rockville	HHS	$229,255
Wheaton Plaza Regional Shopping Center	11002 Viers Mill Rd., Ste 504, Wheaton	HHS	$67,551
Wheaton Plaza Regional Shopping Center	11002 Viers Mill Rd., Ste 700, Wheaton	HHS	$138,613
M-NCPPC	18410 Muncaster Road	Co-Op Ext Serv	$150,524
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	$1,526,354
Montgomery County Revenue Authority	5701 Marinelli Drive, Rockville	Conference Center	$986,634

GENERAL FINANCIAL POLICIES

Financial Reporting Standard

Montgomery County seeks to continually maintain best practices in its financial reporting operation. The County received the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report (CAFR) for FY17 and for more times than any other county in the nation. Since 1951, the County received the award 48 times and in 46 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. 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 FY18 CAFR will again meet the Certificate of Achievement Program's requirements and submitted it to the GFOA to determine its eligibility for another certificate.

Reporting Entity

The County reporting entity is determined by criteria set forth in promulgations of the Governmental Accounting Standards Board. The reporting entity includes the fiscal activities of Montgomery County Government, as the primary government, and Montgomery County Public Schools (MCPS), Montgomery College ("the College"), Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, and the Bethesda Urban Partnership, Inc., as component units. Not included within the reporting entity are the Montgomery County portion of Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Washington Suburban Transit Commission, Washington Metropolitan Area Transit Authority, Metropolitan Washington Council of Governments, and the Northeast Maryland Waste Disposal Authority. These entities are considered joint ventures and disclosure of the County's participation in these joint ventures is presented as a footnote to the County's financial statements included in its Basic Financial Statements (refer to Appendix A for statements as of June 30, 2018).

Basis of Accounting

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and certain fiduciary fund (pension and other employee benefit trusts, and investment trust) 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, and Special Revenue) 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.

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

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

Basis of Budgeting

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

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

The Montgomery County Results

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

County Stat

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

Legal Framework for Budgeting

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

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

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

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

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

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

The cost criterion for projects in the FY19 Capital Budget and the Amended FY19-24 CIP is $16.4 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.

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

ANNUAL BUDGETS

Operating Budget and Tax Rates

On May 24, 2018 the County Council approved the FY19 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating $5.581 billion. This budgetary level represents an increase of 2.4 percent over the adopted budget for FY18.

The FY19 operating budget provides the greatest share (50.0 percent) of total tax supported resources to Montgomery County Public Schools (MCPS). Funding for MCPS accommodates enrollment growth. In addition, the budget increases reserves, fully funds the annual requirement for retiree health insurance, and funds critical services in public safety and services to vulnerable populations.

The approved FY19 budget provided for an unassigned surplus of $154.1 million in the General Fund and $163.9 million across all tax supported funds. For FY19, the estimated weighted real property tax rate for the County is $0.9814 per $100 of assessed value.

Capital Budget/Capital Improvements Program

The County Council approved the FY19 Capital Budget and FY19-24 Capital Improvements Program (CIP) for the County government and the required agencies, except for WSSC, aggregating $4.424 billion for the FY19-24 program. The FY19-24 program provided for County bond funding aggregating $1.694 billion over the FY19-24 six-year period. The Council approved a Capital Improvements Program for WSSC totaling $1.624 billion for FY19-24. (WSSC is governed by State Law and is the only agency for which the County Council adopts an annual CIP).

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

SELECTED FINANCIAL INFORMATION
GENERAL FUND AND MAJOR SOURCES OF REVENUE

General Fund Revenues

Actual revenues for the General Fund totaled $3,293.5 million and were 2.8 percent below the budget estimate for the fiscal year and 0.9 percent below actual tax revenues for FY17. The two largest contributors to the decline between the budget estimate and actual revenues were the income tax ($88.6 million) and the transfer and recordation tax ($11.8 million). Revenues from the property tax amounted to $1,267.1 million ($12.4 million), or 1.0 percent, below the budget estimate but 0.02 percent above actual tax revenues for FY17. Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and other taxes, were $274.2 million in FY18. That amount was $8.3 million or 2.9 percent below the budget estimate and that decrease was driven primarily by the fuel and energy tax ($7.1 million or 3.5%) below the budget estimate. The remaining excise taxes were $1.1 million, or 1.4 percent, below the budget estimate. Investment income was $0.8 million below the budget estimate. Licenses and Permits came in below the budget estimate (8.8%), while Charges for Services came in above the budget estimate (7.2%). Intergovernmental revenues were $0.4 million (0.7%) below the budget estimate. This decrease was solely attributed to state reimbursements, which came in 1.7 percent below budget estimates.

Major Sources of General Fund Revenue

Three of the largest revenue sources for the General Fund in FY18 were income taxes, property tax, and fuel and energy taxes. Revenues from the income tax were $1,469.3 million and represented 46.4 percent of actual tax revenues in FY18 and 44.6 percent of total actual revenues. Property taxes amounted to $1,267.1 million in FY17, which were $12.4 million or 1.0 percent below the budget estimate and only 0.02 percent above actual revenues in FY17. The tax receipts from the County's fuel and energy taxes were $197.2 million in FY18, which were 3.4 percent below the budget estimate but 2.5 percent above FY17. The remaining tax revenue sources – consisting of transfer and recordation taxes, telephone, hotel/motel, and other taxes – totaled $235.6 million in FY18 and were $13.0 million or 5.2 percent below the budget estimate and 7.5 percent below actual revenues in FY17.

General Fund Expenditures and Transfers

Expenditure savings in FY18 amounted to $80.4 million. Savings occurred in both departmental expenditures ($12.6 million) and non-departmental expenditures ($67.8 million). Even though some departmental and non-departmental units recognized savings this year, the majority of the departmental savings occurred in lower than projected operating costs for Health and Human Services ($3.1 million), Libraries ($2.0 million), and Technology Services ($1.8 million).

Montgomery County's full Annual Comprehensive Annual Financial Report can be retrieved through the following link:

https://www.montgomerycountymd.gov/finance/resources/files/data/financial/cafr/FY2018_CAFR.PDF

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

Table 13
Montgomery County, Maryland
Schedule of General Fund Revenues, Expenditures, & Transfers In (Out)
(GAAP Basis)

	Fiscal Year Actual[(1)]			Projected Fiscal Year 2019
	2016[(2)]	2017	2018	(Unaudited)
Revenues:				
Taxes:				
Property, including interest & penalty	$ 1,128,176,443	$ 1,268,546,191	$ 1,268,805,073	$ 1,322,969,280
Transfer tax and recordation tax	161,708,395	178,375,819	158,587,905	162,946,507
County income tax	1,422,428,435	1,466,625,994	1,469,251,059	1,585,159,299
Other taxes	266,344,615	268,924,060	274,215,416	273,702,501
Total Taxes	2,978,657,888	3,182,472,064	3,170,859,453	3,344,777,587
Licenses and permits	11,144,883	11,236,330	11,256,621	12,688,000
Intergovernmental revenue	61,733,732	75,066,678	64,287,818	66,353,528
Charges for services	29,143,713	30,128,687	12,494,474	9,861,388
Fines and forfeitures	27,327,136	26,826,771	29,660,682	28,672,650
Investment income	992,786	1,120,236	3,595,298	89,190
Miscellaneous	8,601,100	22,474,705	9,241,500	11,383,458
Total Revenues	3,117,601,238	3,349,325,471	3,301,395,846	3,473,825,801
Expenditures (including encumbrances):				
General County:				
General government	417,800,628	446,202,270	386,666,899	507,996,085
Public safety	400,082,511	379,644,039	392,519,611	373,145,226
Public works and transportation	87,062,413	67,413,701	70,864,322	45,814,082
Health and human services	217,471,067	237,717,134	249,913,897	240,097,744
Culture and recreation	45,043,237	45,250,504	47,205,792	42,554,538
Housing and community development	11,623,439	13,662,421	13,321,644	8,491,597
Environment	2,054,109	2,314,408	2,534,498	2,762,901
Education	1,674,058,571	1,792,988,988	1,850,884,306	1,880,875,880
Total Expenditures	2,855,195,975	2,985,193,465	3,013,910,969	3,101,738,053
Transfers In (Out):				
Transfers In:				
Special Revenue Funds	25,251,175	27,116,652	44,511,302	35,286,052
Enterprise Funds	39,857,160	26,090,797	38,549,431	38,854,497
Internal Service Funds	-	4,312	27,359,360	11,537,012
Total Transfers In	65,108,335	53,211,761	110,420,093	85,677,561
Transfers Out:				
Special Revenue Funds	(24,928,893)	(25,773,949)	(24,494,654)	(58,373,149)
Debt Service Fund	(273,627,906)	(309,582,508)	(312,020,121)	(331,251,540)
Capital Projects Fund	(45,791,407)	(55,254,099)	(46,703,653)	(44,682,000)
Enterprise Funds	(25,000)	(25,000)	(25,000)	(2,355,820)
Internal Service Funds	(39,184)	(95,623)	(609,198)	-
Component Units	-	-	-	-
Total Transfers Out	(344,412,390)	(390,731,179)	(383,852,626)	(436,662,509)
Net Transfers In (Out)	(279,304,055)	(337,519,418)	(273,432,533)	(350,984,948)
Other Financing Sources	1,739,803	22,843	367	-
Net Change in Fund Balance	(15,158,989)	26,635,432	14,052,711	21,102,800
Fund Balances, July 1 as previously stated	491,733,088	480,336,363	506,971,795	521,024,506
Adjustment Urban Districts and Economic Development Funds [(2)]	3,762,264	-	-	-
Fund Balances, July 1 restated	495,495,352	480,336,363	506,971,795	521,024,506
GAAP Fund Balance, June 30	$ 480,336,363	$ 506,971,795	$ 521,024,506	$ 542,127,306

(1) Audited.
(2) Urban Districts and Economic Development included in General Fund beginning FY16.

Table 14
General Fund
Schedule of Actual GAAP Fund Balance

	Fiscal Year Actual (1)			
	2015	2016	2017	2018
Restricted - Revenue Stabilization Fund (2)	$230,647,665	$254,406,038	$280,660,259	$308,695,745
Components of General Fund Reported Fund Balance (Net of RSF) (1) (3)				
Nonspendable	$6,799,926	$7,275,055	$8,797,529	$6,755,806
Restricted - Other	$585,905	$6,907,814	$11,784,991	$13,639,668
Committed	$70,586,279	$71,684,134	$60,445,573	$62,163,634
Assigned	$26,575,194	$27,035,009	$26,916,962	$27,071,892
Unassigned	$156,538,119	$113,028,313	$118,366,481	$102,697,761
Subtotal	$261,085,423	$225,930,325	$226,311,536	$212,328,761
Total Reported General Fund	$491,733,088	$480,336,363	$506,971,795	$521,024,506

Note:

(1) Amounts for FY15-FY18 are audited.

(2) Per Section 20-64 through 20-72, inclusive of the County Code, use of the resources in the Revenue Stabilization Fund is restricted. For financial reporting purpose, the fund is reported as part of the General Fund.

(3) Beginning in FY16, for GAAP financial reporting purposes, the Economic Development Fund and Urban District Funds, are quired to be reported as part of the General Fund.

Revenue Stabilization Fund

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

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

In FY14, the fund balance in the Revenue Stabilization Fund (RSF) was combined with the General Fund in the Comprehensive Annual Financial Report (CAFR). This amount is reported as restricted fund balance in the General Fund.

In FY18, the required mandatory contribution for the fiscal year was $24.9 million; accordingly, the required amount was transferred to the RSF. As of June 30, 2018, the ending fund balance in the Revenue Stabilization Fund was $308.7 million. The County is phasing in a 10 percent reserve requirement of Adjusted Governmental Revenues and expects to obtain this level of funding by FY20.

Table 15
Revenue Stabilization Fund
Transfers In and Fund Balance

Fiscal Year	Transfers (millions)	Fund Balance (millions)
2018	$24.9	$308.7
2017	24.7	280.7
2016	23.2	254.4
2015	22.4	230.6
2014	23.0	208.0

Note: Fund Balances include transfers in and investment income.

Enterprise Funds

The County has three major enterprise funds, liquor control, solid waste activities, and parking lot districts, which are accounted for and operated in a manner similar to private business enterprises. The results of operations for Fiscal Years 2014 – 2018 are shown in the table below.

Table 16
Enterprise Funds Paying Debt Service
Results of Operations
(In 000's)

Funds	Fiscal Year				
	2014	2015	2016	2017	2018
Liquor Control					
Operating Revenues	$268,655	$278,623	$294,574	$298,309	$296,659
Operating Expenses	237,435	247,295	263,388	272,453	266,630
Operating Income (Loss)	$31,220	$31,328	$31,186	$25,856	$30,029
Solid Waste Activities					
Operating Revenues	$109,212	$111,530	$109,413	$112,730	$115,274
Operating Expenses	129,649	109,372	106,040	92,180	100,555
Operating Income (Loss)	($20,437)	$2,158	$3,373	$20,550	$14,719
Parking Lot Districts					
Operating Revenues	$30,897	$30,897	$31,942	$35,334	$34,858
Operating Expenses	28,775	28,775	32,335	32,940	32,808
Operating Income (Loss)	$2,122	$2,122	($393)	$2,394	$2,050

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

Self-Insurance Funds

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

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

The County Finance Department, Division of Risk Management operates the Self-Insurance Program for the County and other participating agencies: MCPS, Montgomery College, M-NCPPC, various independent fire corporations, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, Bethesda-Chevy Chase Rescue Squad, Rockville Housing Enterprises, Villages of Drummond and Friendship Heights, and the Bethesda Urban Partnership. The City of Gaithersburg, Town of Somerset, Chevy Chase Village and the Town of Garrett Park 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, Fiduciary Liability, and others. Beginning March 15, 2007, Commercial Excess Liability insurance was purchased, and is effective through June 30, 2018. It is expected that this coverage will be maintained, but it is dependent on market conditions and price at the time of the policy renewal.

A summary of FY18 operations of the program is outlined below:

	($000's)
Revenues:	
Contributions from participating agencies	$ 66,630
Interest on investments	2,065
Recovered losses	666
Other income	4,018
Total Revenues	73,379
Expenses:	
Claims expense	62,122
Claims administration, loss control, external insurance, and other administrative expenses	16,665
Total Expenses	78,787
Transfers In/(Out)	(3,455)
Net Gain / (Loss)	(8,863)
Net Position, July 1, 2017	6,032
Net Position, June 30, 2018	$ (2,831)

By State law effective July 1, 1987, local government employees are protected by the Local Government Tort Claims Act. Under this legislation, the liability of the employees of local governments for common law torts, such as negligence, is limited to $400,000 for an individual claim, and $800,000 for all claims arising from one occurrence.

The County is also self-insured for unemployment benefits and maintains a minimum premium funding arrangement for employee health insurance. The FY18 operations for these two elements of the insurance program are not reflected above.

County Employee Retirement Plans

General

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

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

The Montgomery County Council passed legislation in fiscal year 2009 enabling the County to establish and maintain the GRIP, a cash balance plan that is part of the System, for employees. During fiscal year 2010, eligible County employees who were members of the Retirement Savings Plan (the "RSP") were granted the option to elect to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP. As of June 30, 2018, 6,004 active members, 6,615 retirees and beneficiaries receiving benefits and 489 terminated plan members entitled to but not yet receiving benefits were participating in the System.

Deferred Retirement Option Plans (the "DROP"), established in fiscal year 2000, allow any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to retire but continue to work for the County for a specified time period, during which pension payments are deferred. When the member's participation in the DROP ends, the member must stop working for the County, draw a pension based on the member's credited service and earnings as of the date that the member began to participate in the DROP and receive the value of the DROP payoff. As of June 30, 2018, the balance of amounts held by the System pursuant to DROP was $28.80 million.

The RSP is a cost-sharing, multiple employer defined contribution plan established in 1994. The RSP covers all non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994 unless they elect to participate in the GRIP. Employees covered by the System may make an irrevocable decision to transfer to the RSP. As of June 30, 2018, 3,516 active members and 1,013 inactive plan members were participating in the RSP with a net position of $446.15 million. The Board establishes for the RSP members a diversified slate of mutual and commingled investment funds from which participants may select their investment options.

The Deferred Compensation Plan (the "DCP") was established pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. All County non-represented employees, those County represented employees who elected to participate and employees who were retired at the time of transfer, continue to participate in the DCP. As of June 30, 2018, the DCP had a net position of $431.42 million. The Board establishes for the DCP a diversified slate of mutual and commingled investment funds from which participants may select their investment options.

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

Employees' Retirement System

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

Required employee contribution rates to the System vary from 6% to 11.25% of regular earnings as specified under the County Code. Each Participating Employer is required to contribute the remaining amount necessary to fund the System using the actuarial basis specified in the County Code.

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

An actuarial valuation will also state an actuarially recommended contribution rate. The actuarially recommended contribution consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service and (2) an amortization of the unfunded liability as a level percentage of payroll. The unfunded liability as of June 30, 2010 was amortized over an initial closed period of 18 years and with all future amortization bases being amortized over 20 years. Beginning with the actuarial valuation as of July 1, 2015, the unfunded liability is amortized over an initial period of 20 years. For Public Safety and the GRIP, a single closed amortization period of 20 years will be used. For non-Public Safety groups, a single closed amortization period of 9 years will be used. The average amortization period for the total ERS is 8.3 years.

The System uses an asset valuation method of smoothing the difference between the market value of assets and actuarial value of assets over a five-year period which dampens the volatility of asset values that could occur because of short-term fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process and prevents volatility in employer contribution rates due to short-term fluctuations in the investment markets. Assets are valued at market value but with a phase-in of investment gains and losses arising over a five-year period. As of June 30, 2018, the aggregate market value of net assets of the System was $4,149.31 million and the aggregate actuarial value of net assets of the System was $4,149.35 million.

During the past five fiscal years, the County has made the actuarially recommended contributions to the System. The actuarially recommended contribution to the System for fiscal year ended June 30, 2018 was $93.16 million and was based on the actuarial valuation as of June 30, 2017. The County intends to make the actuarially recommended contribution to the System for the next fiscal year.

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

The following tables show the historical funded status for the System for the ten year period ending June 30, 2018.

Table 17
Employees' Retirement System Historical Funded Status

Valuation Date (June 30)	Net Market Value of Assets	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio
2009	$2,145,999,195	$2,736,010,144	$3,489,057,559	$753,047,415	78.4 %
2010	2,442,692,323	2,791,144,974	3,645,576,341	854,431,367	76.6
2011	2,897,207,710	2,869,422,276	3,744,713,474	875,291,198	76.6
2012	2,936,773,694	2,891,435,563	3,768,745,962	877,310,399	76.7
2013	3,184,245,211	3,012,547,244	3,821,380,732	808,833,488	78.8
2014	3,652,867,097	3,333,484,724	3,958,929,718	625,444,994	84.2
2015	3,661,661,244	3,630,075,610	4,050,736,852	420,661,242	89.6
2016	3,641,602,614	3,798,555,275	4,141,060,968	342,505,693	91.7
2017	3,933,505,411	3,968,497,692	4,202,633,142	234,135,450	94.4
2018	4,149,307,441	4,149,354,330	4,334,296,798	184,942,468	95.7

Investments

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

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

The table below shows the Board's adopted asset allocation policy as of June 30, 2018:

Asset Class	**Target Allocation**	
Domestic Equities	16.8	%
International Equities	13.5	
Emerging Market Equities	3.4	
Global Equities	3.8	
Private Equity	8	
Private Debt	2	
High Yield Bonds	8.5	
Directional Hedge Funds	2.5	
Total Growth	58.5	
Long Duration Fixed Income	13.5	
Cash	1.0	
Diversifying Hedge Funds	2.5	
Total Risk Mitigation	17.0	
Global ILs	12.0	
Private Real Assets	5.0	
Public Real Assets	7.5	
Total Real Assets/Inflation Protection	24.5	
Total	100.0	%

Schedule of Investment Returns

FY Ending June 30	2018
Annual money weighted rate of return, net of investment expense	8.60%

Additional Information

For additional information regarding the County employee retirement plans, see the County Employee Retirement Plans Comprehensive Annual Financial Report which can be found at:

http://www.montgomerycountymd.gov/mcerp/ers/ers_reports.html

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

Other Post Employment Benefits

The County administers a cost-sharing multiple-employer defined benefit healthcare plan. Substantially all retirees of Montgomery County Government (includes Circuit Court and District Court), Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, Washington Suburban Transit Commission, Strathmore Hall Foundation, Village of Friendship Heights, Montgomery County Employees Federal Credit Union and certain retirees of the State Department of Assessments and Taxation, (collectively, the "Participating Employers") are provided post-employment benefits such as medical, life, dental, vision, and prescription coverage under the plan. Retirees may also elect coverage for their eligible dependents. Postemployment benefit provisions and eligibility requirements for retirees are described under the Montgomery County Group Insurance Summary Plan Description. As of June 30, 2018, the most recent actuarial valuation, plan membership consisted of 8,207 retirees and beneficiaries receiving benefits and 10,206 active plan members. The plan is a contributory plan in which the County and the plan members contribute, based on an actuarial valuation, certain amounts toward the current cost of healthcare benefits. During FY18, plan members and beneficiaries receiving benefits contributed $25.15 million and the County and other Participating Employers contributed $63.73 million.

The Governmental Accounting Standards Board (GASB) issued Statement No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pensions Plans* (GASB 74), which addresses how Other Postemployment Benefits (OPEB) plans should account for their financial reporting. The County implemented GASB 74 as required in FY17. The County also implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as required by GASB in FY18.

The County has retained the actuary (currently Aon Hewitt) to conduct actuarial valuations for the plan. As of June 30, 2018, the plan had an actuarial accrued liability, based on the entry age normal actuarial cost method, of $1,476.32 million and plan assets of $410.86 million. The unfunded actuarial accrued liability of the plan was $1,065.45 million as of June 30, 2018.

Below is the Projected Schedule of Funding Progress: (in $ thousands)

Valuation Date (June 30)	Discount Rate	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio
2009	8.0 %	$13,710	$1,076,582	$1,062,872	1.3 %
2010	8.0	35,279	1,161,222	1,125,943	3.0
2011	6.0	38,168	1,737,436	1,699,268	2.2
2012	6.0	47,962	1,859,450	1,811,488	2.6
2013	7.5	92,610	1,403,693	1,311,083	6.6
2014	7.5	153,327	1,093,214	939,887	14.0
2015	7.5	239,399	1,241,304	1,001,905	19.3
2016	7.5	286,572	1,320,879	1,034,307	21.7
2017	7.5	334,889	1,380,894	1,046,005	24.3
2018	7.5	410,865	1,476,319	1,065,454	27.8

The County Council enacted legislation to establish a trust effective July 1, 2007 to fund the Montgomery County Retiree Health Benefit Plan. Effective July 1, 2011, County Council enacted legislation to change the name to Consolidated Retiree Health Benefits Trust (CRBHT) due to the addition of County-funded agency retiree benefits plans for Montgomery County Public Schools and Montgomery College. The County established a Board of Trustees (Board) for the Trust to be responsible for the investment management of the Trust's assets for the exclusive benefit of the members. The Board consists of nineteen members appointed by the County Executive and confirmed by the County Council.

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

The table below shows the Board's adopted asset allocation policy as of June 30, 2018:

Asset Class	Target Allocation	
Domestic Equities	16.8	%
International Equities	13.5	
Emerging Market Equities	3.4	
Global Equities	3.8	
Private Equity	8	
Private Debt	2	
High Yield Bonds	8.5	
Directional Hedge Funds	2.5	
Total Growth	58.5	
Long Duration Fixed Income	13.5	
Cash	1.0	
Diversifying Hedge Funds	2.5	
Total Risk Mitigation	17.0	
Global ILs	12.0	
Private Real Assets	5.0	
Public Real Assets	7.5	
Total Real Assets/Inflation Protection	24.5	
Total	100.0	%

Schedule of Investment Returns

FY Ending June 30	2018
Annual money weighted rate of return, net of investment expense	8.82%

Additional Information

For additional information regarding the County OPEB plans and Consolidated Retiree Health Benefits Trust, see the Actuarial Valuation and Financial Report which can be found at https://www.montgomerycountymd.gov/crhbt/reports/reports.html.

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

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 and small business owners, with the semi-annual payments becoming delinquent after September 30 and December 31. Tax lien 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 every three years. An increase in full cash value arising from such reassessment is phased in over the ensuing three tax years in equal annual amounts. A decline in assessed valuation becomes fully effective in the first year.

In FY14, real property taxable assessment increased 1.1 percent, 2.3 percent in FY15, 4.0 percent in FY16, and 4.3 percent in FY17. In FY14, personal property taxable assessment increased 2.9 percent, decreased 1.5 percent in FY15, increased 6.3 percent in FY16, and increased 4.3 percent in FY17. In FY18, real property taxable assessment increased 3.7 percent and personal property taxable assessment increased 3.4 percent. The increase in real property taxable assessment in FY18 is due to the increase in the triennial reassessment rates for residential and commercial properties in "Group 2", one of the three residential and commercial property groups in the County reassessed very three years by the State Department of Assessments and Taxations.

Table 18
Assessed Value of All Taxable
Property by Class and Fiscal Year

Fiscal Year	Real Property	Personal Property	Total Assessed Value	Percent Change From Prior Year	Ratio of Assessment to Full Market Value
2018	$183,993,870,661	$4,188,565,266	$188,182,435,927	3.66%	94.55
2017	177,495,353,018	4,051,372,468	181,546,725,486	4.30	93.24
2016	170,176,446,052	3,884,349,017	174,060,795,069	4.03	93.73
2015	163,656,758,206	3,655,133,210	167,311,891,416	2.27	96.67
2014	159,891,865,334	3,709,327,508	163,601,192,842	1.06	92.56

Tax-exempt properties are excluded from the above figures. In FY18, such exemptions for real property owned by Federal, State, County, and other governmental units, and certain non-profit organizations totaled nearly 20,500 accounts at the beginning of the fiscal year based on data from the State Department of Assessments and Taxation. Tax-exempt real property constitutes 6.0 percent of the total number of accounts for the real property assessable base. The SDAT grants exemptions from property taxes, pursuant to State law. The ratio of total assessed value to total full market value is based on studies conducted by the SDAT.

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

Table 19
Tax Levies and Revenue

Fiscal Year	General County Tax Levy	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
2018	$1,311,243,059	$1,291,885,587	98.52%	($24,617,036)	$1,267,268,551	96.65%	$11,192,439	0.85%
2017	$1,313,146,277	$1,295,425,337	98.65%	($28,250,117)	$1,267,175,220	96.50%	$10,832,703	0.82%
2016	1,172,889,804	1,148,375,647	97.91	(22,380,048)	1,125,995,599	96.00	13,853,525	1.18
2015	1,133,030,658	1,108,320,647	97.82	(21,354,590)	1,086,966,057	95.93	15,573,609	1.37
2014	1,148,085,538	1,126,029,910	98.08	(18,755,733)	1,107,274,177	96.45	14,453,739	1.26

Table 20
Tax Rates and Tax Levies, by Purpose

Fiscal	General County (including Education)		Transit		State		Total	
Year	Rate	Levy	Rate	Levy	Rate	Levy	Rate	Levy
2018	$0.7484	$1,309,565,385	$0.058	$101,468,138	$0.112	$206,998,109	$0.9184	$1,618,031,632
2017	0.7734	1,311,560,661	0.052	87,864,138	0.112	199,012,237	0.9374	1,598,437,036
2016	0.7230	1,171,363,784	0.060	96,861,676	0.112	191,350,411	0.8950	1,459,575,871
2015	0.7320	1,133,030,658	0.040	61,702,899	0.112	183,907,978	0.8840	1,378,641,535
2014	0.7590	1,148,085,538	0.042	63,303,304	0.112	179,561,927	0.9130	1,390,950,769

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 $1.8710 in FY18, $1.9335 in FY17, $1.8075 in FY16, $1.8300 in FY15, and $1.8980 in FY2014.; the personal property rate for Transit was $0.1450 in FY18, $0.1300 in FY17, $0.1500 in FY16, $0.100 in FY15, and $0.1050 in FY14 (the State does not tax personal property).

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

Table 21
Ten Highest Commercial Property Taxpayers Assessable Base
As of June 30, 2018

Taxpayer	Total	Real Property	Personal Property	Ratio: Taxpayer Base to Total Assessable Base
Potomac Electric Power Co	$954,650,036	$30,503,636	$924,146,400	0.51%
JBG Smith	660,400,167	660,400,167	-	0.35
Federal Realty Investment Trust	610,256,503	606,230,033	4,026,470	0.32
Verizon Inc.	457,599,237	35,426,967	422,172,270	0.24
Montgomery Mall LLC	412,404,677	410,286,167	2,118,510	0.22
Wash Metro Area Transit Auth	398,157,300	398,157,300	-	0.21
Fishers Lane LLC	372,966,070	372,932,700	33,370	0.20
Street Retail Inc.	347,576,968	347,576,968	-	0.18
Chevy Chase Land Co	321,457,439	320,758,899	698,540	0.17
Wheaton Plaza Reg Shopping Ctr	321,116,206	320,055,166	1,061,040	0.17
Total	$4,856,584,603	$3,502,328,003	$1,354,256,600	2.59%
Assessable Base (June 30, 2018)	$188,182,435,927			

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

Impact Tax

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

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

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

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

Table 22
Impact Tax Collections

Fiscal Year	Transportation Impact Tax	Schools Impact Tax
2018	$ 13,095,573	$ 20,795,511
2017	14,393,086	39,286,910
2016	8,591,461	23,349,333
2015	16,643,380	32,676,773
2014	20,274,781	45,837,274

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

DEMOGRAPHIC INFORMATION

Population

The population of the County, according to the 2010 Census, was 971,777, an increase of 10.6 percent since the 2000 Census exceeded 1 million in 2012 (1.005 million) and is estimated at 1.069 million in calendar year 2018 – an increase of ten percent from the 2010 Census.

Table 23
Households and Population

	Households	Population	Population Percent Change from Prior Census
2018 (est.)	378,205	1,068,721	10.0%
2017	373,219	1,058,810	9.0%
2016	373,346	1,049,477	7.4
2015	371,468	1,040,116	7.0
2014	364,854	1,030,447	6.0
2013	364,743	1,016,677	4.6
2012	361,116	1,004,709	3.4
2011	359,496	989,794	1.9
2010 (U.S. Census)	357,086	971,777	10.6
2009	345,301	959,013	9.1
2008	341,812	942,748	7.3
2007	343,540	931,694	6.0
2006	341,438	926,492	5.4
2005	339,628	921,531	4.9
2004	337,838	914,991	4.1
2000 (U.S. Census)	324,565	878,683	15.7

Note: Data for households and total population from 2011 to 2017 from the American Community Survey, U.S. Census Bureau. Data for households from the American Community Survey are defined as occupied housing units. The estimate of households and population in 2018 derived by the Montgomery County Department of Finance from Moody's Analytics and Woods & Poole Economics.

Table 24
Median Age

	1960	1970	1980	1990	2000	2010	2017
Median Age	28.1	27.9	32.1	33.9	36.8	38.6	39.0

Sources: For 2010 and 2017 the American Community Survey, U.S. Bureau of the Census. For previous years, Decennial Census, U.S. Bureau of the Census

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

Employment

The County's economic structure reveals a diversified economy with a strong service sector. The total private sector (trade, information services, financial activities, professional services, education and health, and hospitality) employed 80.6 percent of the total workforce in 2017, the latest available annual data. The following tables present the County's employment by industrial sector.

Table 25
Payroll Employment

	2010	2016	2017
TOTAL PRIVATE SECTOR	358,172	373,686	377,714
PUBLIC SECTOR EMPLOYMENT:			
Federal	45,072	48,068	48,743
State	1,199	1,217	1,208
Local	37,140	40,478	41,135
TOTAL PUBLIC SECTOR	83,411	89,763	91,086
GRAND TOTAL	441,583	463,449	468,802

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 26
Payroll Employment Shares by Industry

	2016	2017
TOTAL PRIVATE SECTOR	80.6%	80.6%
PUBLIC SECTOR EMPLOYMENT:		
Federal	10.4	10.4
State	0.3	0.2
Local	8.7	8.8
TOTAL PUBLIC SECTOR	19.4	19.4
GRAND TOTAL	100.0%	100.0%

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

Table 27 provides a comparison of the payroll employment data for 2016 and 2017 based on the classification system which shows that the County had a slight overall percentage gain in employment in 2017.

Table 27
Payroll Employment
(NAICS Series)*

	2016	2017	Difference	Percent Change
TOTAL PRIVATE SECTOR	373,686	377,714	4,028	1.1%
GOODS-PRODUCING	35,588	36,165	577	1.6%
Natural Resources and Mining	310	319	9	2.9%
Construction	23,332	23,457	125	0.5%
Manufacturing	11,946	12,388	442	3.7%
SERVICE PROVIDING	338,098	341,548	3,450	1.0%
Trade, Transportation, and Utilities	56,846	56,651	(195)	-0.3%
Information	11,780	11,075	(705)	-6.0%
Financial Activities	29,790	28,614	(1,176)	-3.9%
Professional and Business Services	102,397	105,389	2,992	2.9%
Education and Health Services	71,561	73,528	1,967	2.7%
Leisure and Hospitality	43,203	43,804	601	1.4%
Other Services	22,521	22,486	(35)	-0.2%
PUBLIC SECTOR EMPLOYMENT	89,763	91,086	1,323	1.5%
Federal Government	48,068	48,743	675	1.4%
State Government	1,217	1,208	(9)	-0.7%
Local Government	40,478	41,135	657	1.6%
GRAND TOTAL	463,449	468,802	5,353	1.2%

* North American Industrial Classification System.

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

During calendar year 2017 the County's unemployment rate averaged 3.3 percent. Table 28 presents the County's labor force, employment and unemployment for the calendar years 2013 through 2017.

Table 28
Montgomery County's Resident Labor Force
Employment & Unemployment

	Labor Force	Employment	Unemployment	Unemployment
2017*	557,412	539,132	18,280	3.3%
2016	551,392	533,201	18,191	3.3%
2015	548,499	527,034	21,415	3.9%
2014	544,210	520,288	23,922	4.4%
2013	542,690	515,689	27,001	5.0%

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

* Estimated by the Montgomery County Department of Finance.

Federal Government Employment

The County is home to 18 Federal agencies which employ over 52,000 civilians. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation's premier centers of medical research. The following is a partial list of federal agencies in the County and their estimated employment in 2017.

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

Source: Maryland Department of Commerce Brief Economic Facts

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

Private Sector Employment

There are over 32,000 private sector employers in Montgomery County. Below is a listing of some of the County's largest employers.

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

Source: Maryland Department of Commerce Brief Economic Facts 2017 data

Personal Income

Actual personal income of County residents reached $91.2 billion in calendar year 2017 which is an increase over the 2016 amount of $87.1 billion. The County's total personal income experienced an increase of 4.8 percent in 2017, greater than the nation's increase of 4.4 percent, and greater than the State's rate of 4.1 percent. The County's total personal income increase of 4.8 percent is greater than the ten-year (2007-2016) annual average growth rate of 3.6 percent.

The County accounts for 24.8 percent of the State's personal income in 2017, which is a percentage that has ranged from a low of 23.5 percent in 2007, 2009, and 2014 to its current high of 24.8 percent in 2017.

Table 29
Total Personal Income
($ millions)

Calendar Year	Montgomery County	Maryland	U.S.	Montgomery County as Percent of Maryland
2017	$91,202	$368,258	$16,820,250	24.8%
2016	87,052	353,880	16,115,630	24.6
2015	82,327	341,295	15,711,634	24.1
2014	76,406	324,968	14,983,140	23.5
2013	74,333	313,195	14,175,503	23.7
2012	76,944	314,142	13,998,383	24.5
2011	74,121	305,178	13,315,478	24.3
2010	68,848	288,606	12,541,995	23.9
2009	65,405	278,547	12,051,307	23.5
2008	66,913	280,309	12,438,527	23.9
2007	63,117	268,336	12,002,204	23.5

Notes: Data for 2007 to 2016 from U.S. Department of Commerce, Bureau of Economic Analysis, revised November 2018 (County, State, and U.S.).

Average Household and Per Capita Personal Income

According the Bureau of Economic Analysis, U.S. Department of Commerce, the County's total personal income reached $91.2 billion in calendar year 2017, up from a revised $87.1 billion in 2016, while per capita income reached $86,136 in 2017, up from $83,038 in 2016. Average household income increased from $226,381 in 2016 to $244,366 in 2017.

Table 30
Per Capita and Average Household Income, 2017

County	Per Capita Income	County	Average Household Income
Marin, CA	$124,552	San Mateo, CA	$331,154
San Mateo, CA	113,410	Marin, CA	331,867
Fairfield, CT	110,104	Fairfield, CT	310,879
Westchester. NY	101,542	Santa Clara, CA	299,777
Santa Clara, CA	98,032	Westchester, NY	283,644
Somerset, NJ	96,548	Somerset, NJ	282,073
Morris, NJ	94,259	Morris, NJ	260,435
Arlington, VA	89,487	Nassau, NY	259,709
Collier FL	87,829	**Montgomery, MD**	**244,366**
Norfolk, MA	86,746	Fairfax, VA	234,561
Montgomery, MD	**86,136**	Norfolk, MA	230,235
Nassau, NY	84,763	Loudoun, VA	229,560
Bergen, NJ	81,203	Bergen, NJ	227,502
Middlesex, MA	79,214	Collier, FL	226,871
Fairfax, VA	78,376	Contra Costa, CA	223,980
Chester, PA	77,465	Lake, IL	216,483
Montgomery, PA	77,207	Chester, PA	212,273
Contra Costa, CA	76,527	Middlesex, MA	211,802
Lake, IL	76,227	Howard, MD	208,724
Howard, MD	74,938	Alameda, CA	206,689

Notes: A major affluent suburban county is defined as a county in either a Metropolitan Statistical Area (MSA) or a Primary Metropolitan Statistical Area (P203MSA) with a population of at least 200,000 and the number of households of at least 100,000 where income levels are considerably higher than in the central city and other jurisdictions in the area.

Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA), November 2018, for total personal income and per capita data; the Department of Finance used the number of households from the American Community Survey, U.S. Census Bureau., and the total personal income from BEA.

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

ECONOMY

Agriculture

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

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

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

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

The Office of Agriculture supports retail and wholesale agricultural marketing programs, such as the County-sponsored farmer's markets and annual farm tour, and promotion of wholesale and cooperative marketing. The Office also provides programs and technical assistance for farmers; these initiatives include Fuel-Energy Tax Relief, Deer Donation Program, Weed Control Services, Montgomery Agricultural Producer and Product Marketing Promotion, New Farmer Project and an enhanced social media campaign to raise the awareness of the importance of Agriculture among the County's 1 million residents.

Statewide trends in reduced collections of agricultural transfer taxes, has created challenges for the County in purchasing preservation easements on farmland in agricultural zones, and the County was not able to purchase easements during FY18. The County focused on the privately funded preservation efforts by assisting the development community find and purchase Transferrable Development Rights (TDRs) and Building Lot Termination (BLTs) Easements. These assets acquired by the County enhance the preservation of farmland protected by Transferable Development Rights easements (TDRs) as well as other agricultural lands that are not already protected by agricultural easements. A total of $200,000 is earmarked for pending FY19 easement settlements in association with the County and State Agricultural Easement Programs.

New Construction

Between FY17 and FY18, the number of new construction projects increased 2.5 percent. At the same time, the value of new construction added to the real property tax base increased 1.0 percent to $1.657 billion. Over the prior ten-year period (from FY09 to FY18), the number of projects, both residential and non-residential increased from 738 to 1,694. During that same period, the value of new construction averaged $1.335 billion between FY09 and FY18 and ranging from a high of $1.657 billion in FY18 to a low of $0.586 billion in FY12. The decline in the construction of residential properties beginning in FY09 and ending in FY12 reached its lowest level in five fiscal years. Because of the depressed housing market beginning in late 2005, the value of new residential construction declined at an average annual rate of 25.3 percent between the peak in 2007 and 2012, but since 2012, new residential construction increased at an average annual rate of 20.6 percent from 2012 to FY2018.

Table 31
New Construction Added to Real Property Tax Base
Montgomery County
($ millions)

Fiscal Year	Construction Starts	Residential	Apartments	Condominium	Commercial/ Industrial	All Othe	Total
2018	1,694	$743.5	$49.5	$107.4	$751.5	$4.8	$1,656.7
2017	1,652	820.4	101.7	130.9	578.8	7.9	1,639.8
2016	1,797	755.2	118.6	130.1	595.2	18.5	1,617.5
2015	1,819	660.2	30.9	27.6	696.6	4.2	1,419.5
2014	1,775	652.4	73.5	59.1	517.6	6.8	1,309.4
2013	1,497	537.2	91.9	123.8	651.8	3.0	1,407.7
2012	839	241.5	39.0	60.7	241.3	3.1	585.6
2011	863	540.2	20.6	56.6	226.9	75.5	919.8
2010	833	599.4	19.7	180.3	354.7	226.6	1,380.7
2009	738	724.1	5.8	455.4	229.5	0.0	1,414.8
10-Year Summary		$6,274.0	$551.2	$1,332.0	$4,844.0	$350.4	$13,351.5
Categories as Percent of Total		47.0%	4.1%	10.0%	36.3%	2.6%	100.0%

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

Development Districts

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

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

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

The White Flint Sector Plan, with the development clustered within 430 acres around the Metro Station, increased development capacity dramatically. With 9,800 new residential units and almost 6 million square feet of additional commercial development allowed to be phased in within a ten-minute walk from Metro, this area is transitioning from a tired transportation corridor full of strip centers to a vibrant, mixed use urban neighborhood. The award-winning Pike & Rose project has delivered almost 900 new residential units, a new hotel, and over 500,000 square feet of commercial space. The County has also completed a new 800 space solar powered garage, the first phase of a road project, and new separated bike lanes on two existing streets in White Flint to allow for better local mobility and connections. Starting 2019, the County will start construction of 210,000 square feet of new office building and 500 space garage.

Central Business Districts

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

Downtown Silver Spring

Over the past two decades, the State and Montgomery County invested a total of approximately $200 million in the redevelopment of downtown Silver Spring. Downtown Silver Spring transformed into a vibrant business, retail and entertainment hub with the American Film Institute (AFI) and Discovery Communications leading the way. Discovery Communications recently announced that the company is relocating its headquarters to New York in 2019. Other prominent locations in this district are:

- The Fillmore Silver Spring has been a huge success and brings the tradition of legendary and diverse lineups of performers across many genres of music to the 23,000 square foot venue that can host 2,000 patrons.
- The Silver Spring Civic Building which opened in July 2010 and Veterans Plaza provide an added dimension to the arts & entertainment economy in the area. The facility transformed what it meant to be in a public space in Silver Spring and is an economic engine for the nearby retail community.
- The new Silver Spring Library, which officially opened in June 2015, is 63,000 square feet, almost four times larger than the previous Silver Spring Library, and was designed to allow for a Purple Line station.
- Public transportation is being bolstered with the planned Purple Line light rail, which will add new transit options to the region, with two stations in downtown Silver Spring – and nine in the Silver Spring Regional Area.

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

Wheaton

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

- The Wheaton CBD and Vicinity Sector Plan promotes transit-oriented, "smart growth" development in downtown Wheaton. Such development will enhance Wheaton's strong retail base, which includes a renovated Westfield Wheaton regional shopping mall and over 300 locally owned and operated small businesses, 125 restaurants. A 148,000 square foot Costco Wholesale opened alongside the Westfield shopping mall in 2013.
- Four multi-unit residential projects have been completed in the past 5 years, adding over 1200 new apartments to the Wheaton CBD.
- In 2014, the Montgomery County Department of Transportation (MCDOT) entered into a joint development partnership with Stonebridge Carras which will provide a new 14-story government office building, below ground parking garage, and a town square as part of the Revitalization Strategy for this area. This mixed-use development will endeavor to improve mobility, increase Wheaton Metro Station use, diminish negative environmental impacts, reduce traffic congestion and increase the diversity of employment opportunities and services in the Wheaton area. The project is on schedule for substantial completion by May 2020.

Bethesda

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

- Residents and visitors alike continue to enjoy the artistic and enriching performances provided at the Bethesda Round House Theatre, Imagination Stage, Bethesda Row Landmark Theatre, and Bethesda Blues and Jazz Super Club. These marquee entertainment organizations highlight classical plays, children's theatre, live music, and independent and foreign films.
- Bethesda has a workforce of nearly 44,000 and includes employees who work for some of the region's most notable employers, including Capital One (formerly Chevy Chase Bank), Clark Construction Group, Calvert Investments, Cohn Reznick, and Marriott Hotels and Resort.
- Bethesda Row, located two blocks from downtown Bethesda, illustrates the redevelopment of a commercial area to a mixed-use, walkable district. It has become a sought after and prestigious address in the DC Metro area. The neighborhood delivers dining - 33 food options; shopping – 34 retail stores and 20 service-oriented venues, along with 180 high-end apartments and over 530,000 square feet of Class A office space. It is home to Riverbed Technology, Honest Tea, MIDCAP, and Tracx US to name a few of the many businesses located at Bethesda Row. The development's location on the Capital Crescent Trail and its proximity to a Metro station provide convenient connections to downtown Washington, D.C., and other parts of the region. In 2002, Bethesda Row received a Charter Award from the Congress for the New Urbanism and an Award for Excellence from the Urban Land Institute.
- The $300 million, 40-acre Intelligence Community Campus-Bethesda celebrated its grand opening in October 2015. The site is home to roughly 3,000 employees from the federal government's intelligence gathering agencies, including the Office of the Director of National Intelligence in the Washington National Capital area. The building will consume 69 percent less energy than it did before renovation and can also be zero-net energy, meaning it could produce as much energy as it consumes during a year. Running off photovoltaic solar panels, the garage, Vehicle Control Center and Vehicle Inspection Station at ICC-B already operate as zero-net energy buildings. The VCC uses groundwater heat pumps, temperature control and energy-efficient glass. The facility's garage is net-positive, meaning it generates more power than it needs. Overall, the entire campus is expected to use 31 percent less energy than before renovation.
- New Office Development has returned to downtown Bethesda after a 15-year hiatus. Marriott International will move its headquarters to a new $600 million complex in downtown Bethesda in 2020 and is considering plans to build a new 200-plus room hotel. In 2017, construction began on The Wilson and the Elm, Carr Properties, mixed use project featuring a 360,000 square foot office tower and two residential towers featuring 360 apartments. The project includes a direct link to the Purple Line Light rail project and is adjacent to the Metro Red Line. Additionally, JBG Smith is constructing a 287,000 square foot office and retail project. Tenants include Host Hotels & Resorts and Booz Allen Hamilton. JBG Smith will relocate its headquarters to the project as well.

Friendship Heights

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

- The Friendship Heights area was the first top-tier luxury shopping center on the east coast outside of New York City. It was developed in the 1950's. The Collection at Chevy Chase, formerly named the Chevy Chase Center, is a mixed-used development, with 100,000 square feet of neighborhood-oriented retail, and a 200,000 square foot office tower. On September 8, 2017, the Planning Board approved Site Plan Amendments for updates to The Collection to modify the public use and amenity space, provide on-site pedestrian and vehicular circulation, update architecture, and revise the quantity of on-site parking.
- Wisconsin Place, completed in 2009, is a mixed-used development on Wisconsin Avenue. Wisconsin Place consists of 305,000 square feet of retail (Bloomingdale's and Whole Foods are the anchor tenants), 432 luxury apartments, 295,000 square feet of office space, a 20,500 square foot community center and a 1,765 space underground parking garage.

- Friendship Heights is known as the “Rodeo Drive” of Washington, DC/Maryland. There are a large number of upscale malls and luxury retailers that give this area its nickname, including Tiffany, Cartier, Louis Vuitton, Gucci, Saks Fifth Avenue, and Saks Jandel.

Economic Development Initiatives

In an effort to grow and diversify the local economy, support sustainable economic growth and spur new investment in the County, the Montgomery County Economic Development Corporation (MCEDC) and Montgomery County Government initiate and support programs and efforts to promote and encourage this growth.

Overview of Montgomery County

Each community in Montgomery County has a master plan that creates a comprehensive view of land use trends and future development. Plans recommend land uses, zoning, transportation, schools, parks, libraries, and fire and police stations as well as address housing, historic preservation, pedestrian and trail systems and environmental issues. Some jurisdictions within Montgomery County—such as the cities of Rockville and Gaithersburg and some smaller taxing districts such as Poolesville—have independent planning and zoning authority over land within their boundaries.

The County has multiple commercial real estate submarkets, which have unique employment base features and strengths.

The I-270 Technology Corridor is a major submarket that is home to nearly 75% of the total office market in the County and is an internationally recognized life sciences and advanced technology center. Major employers including: GlaxoSmithKline (formerly Human Genome Sciences), Lockheed Martin, MedImmune/Astra-Zeneca, IBM and Hughes Communications are located in this corridor.

The U.S. Route 29 Corridor in eastern Montgomery County continues its steady transformation into the County’s other major technology and business center, with more than 100 major employers, most notably the FDA Headquarters campus that includes over 2.1 million square feet of office, lab and support facilities. This is also the area of the Viva White Oak 300-acre mixed use public-private development project, which will create a world-class life sciences, education and research campus in the eastern portion of the County.

MCEDC Strategic Plan

The Montgomery County Economic Development Corporation (MCEDC) is responsible for actively implementing a strategic economic development plan for Montgomery County. Targeted industries are defined as: Biohealth, IT/Cybersecurity, Financial Services, Advanced Manufacturing, and Corporate/Regional Headquarters.

MCEDC has identified the following Strategic Goals to support and enhance the business community in the County:

- ***Grow and Diversify the Local Economy***.
  MCEDC plans to work with the County to create an environment that supports the expansion and retention of existing targeted industries. They also plan to promote the County and Montgomery County businesses in targeted areas outside of the region as part of a business attraction strategy to recruit targeted industry businesses to locate in the County.
- ***Engage the Business Community to help establish Montgomery County as a Top 5 County to Work and Live in the U.S.***
  MCEDC will partner with local companies to promote innovative solutions that increase workforce housing near existing employment hubs. Staff will also support sustainable economic growth by addressing Land Use, Transportation, and Infrastructure challenges by engaging in master plans and relevant legislative processes.
- ***Cultivate a Local Ecosystem of Entrepreneurship & Innovation***
  Increase investments in Montgomery County start-ups from capital sources, potential investors, and grant funding opportunities. MCEDC will also link entrepreneurs looking to commercialize Federal IP/Technologies with the 18 Federal agencies located throughout the County.

Existing Office/R&D/Commercial Space

As of October 2018, Montgomery County has nearly 140 million square feet of commercial real estate space (office, flex, industrial, R&D and retail). The average vacancy rate for October 2018 is at 9.1% for all commercial use types, down from the 5-year (2013-2018) average of 9.7%, and average rental rates have risen to $26.33 per square foot in 2018, up from a 5-year average of $24.63 per square foot.

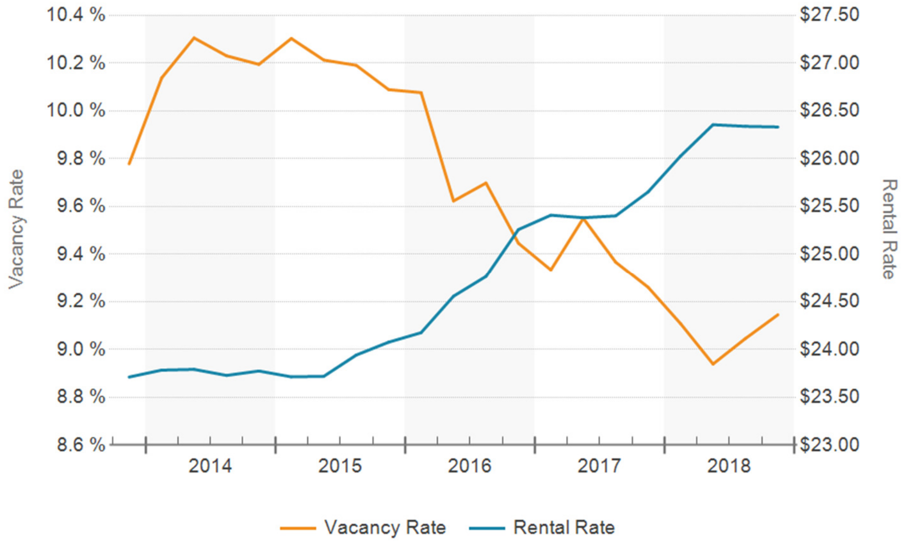
Montgomery County's largest commercial clusters are located along the I-270 Technology Corridor (Bethesda, Rockville, Gaithersburg and Germantown markets) and the MD Route 29 Corridor (Silver Spring, White Oak, Burtonsville). The I-270 corridor includes 106 million square feet of commercial space, approximately three-quarters of all commercial properties in the County. Notable properties along this corridor include the 1.27 million square foot MedImmune/Astra Zeneca headquarters building in Gaithersburg, the 1.3 million square foot JBG office building in Rockville which is home to the U.S. Department of Health and Human Services, and the 800,000 square foot Marriott headquarters in North Bethesda. The Route 29 corridor connects Silver Spring to Burtonsville and includes over 14 million square feet of commercial space. Notable properties include the 750,000 square foot Verizon Chesapeake Complex in Silver Spring and the 202,000 square foot Station Square building in Silver Spring which is Wired Certified Gold – providing protected, redundant infrastructure to building tenants through multiple high-quality internet service providers and a variety of cabling/fiber options.

Table 32
Office/Flex/Industrial/Retail Space Availability by Major Submarkets
as of October 2018

Montgomery County Submarket	Total Inventory (Square Feet)	Vacant Available (Square Feet)	Vacancy Rate (%)
Bethesda/Chevy Chase	16,008,253	1,462,789	9.1%
Gaithersburg	21,586,552	1,379,188	6.4
Germantown	8,751,163	666,248	7.6
Kensington/Wheaton	7,004,129	500,511	7.1
North Bethesda/Potomac	16,704,214	2,274,751	13.6
North Rockville	23,493,231	2,337,102	9.9
North Silver Spring/Rt 29	8,734,394	626,067	7.2
Rockville	19,422,542	1,676,513	8.6
Silver Spring	11,331,874	710,941	6.3
Other Markets*	6,528,985	653,327	15.2
Total County	139,565,337	12,287,437	9.1%

Source: CoStar Commercial Property database; Aggregate Historical data from Q1 2016 through October 2018.
*Other Markets include: I-270 North, Outlying Montgomery County East, and Outlying Montgomery County West submarkets.

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



Source: CoStar Commercial Database

Office/Industrial Projects

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

In June 2018, Marriott International broke ground for their new headquarters in downtown Bethesda. The total 825,000 square foot project will be a cutting-edge, sustainable, workplace offering state-of-the-art technology, modern amenities, and easy access to a range of transportation options, including the Bethesda Metro Station less than two blocks away. The headquarters office building, for the 3,500 Marriott employees, is designed to LEED GOLD standards, allowing for an abundance of natural light, while providing new opportunities for flexible, collaborative workspaces. The campus will also offer Marriott associates a childcare center, a fitness center, and a cafeteria. In addition to the headquarters building, the location will be home to a new Marriott Hotel, a 244-key, full-service property with more than 8,000 square feet of meeting and ballroom space, with other amenities such as a coffee shop, a roof-top bar and lounge and a contemporary neighborhood restaurant.

JBG Smith announced it would build a new 287,000 square foot trophy office building in Bethesda, a 15-story building that will include 6,000 square feet of retail space. The project is expected to deliver in 2019.

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

In a unique use of office space, local non-profit Crossroads Community Food Network opened the Takoma Park-Silver Spring Crossroads Community Kitchen, a 1,120 square foot shared commercial kitchen and storage facility, to help meet the needs of small-scale food entrepreneurs.

Public/Private Projects

Viva White Oak

The White Oak Science Gateway Master Plan was approved in 2014 and provides unique opportunities to capitalize on the presence of the U.S. Food and Drug Administration (FDA), transform the East County into a vibrant hub for technological advancement and bring much-desired amenities to the community.

The Viva White Oak project will merge County property and property owned by Global LifeSci Development Corporation (an affiliate of Percontee, Inc.) to create a 300-acre mixed-use development. Currently, the Viva White Oak community is planning for approximately 7,000,000 square feet of commercial development and 5,000 residential units. The goal is to create a world-class life sciences, education and research campus that will be an economic engine in the eastern portion of the County, and complement nearby Federal agencies, most notably the consolidated FDA headquarters. The community will also have alliances with major local, state, national and international research universities and institutions to collaborate on academic and lab research efforts. The $3 billion multi-phase development is projected to break ground on its first phase in 2019.

Pinkney Innovation Complex for Science & Technology at Montgomery College

The Pinkney Innovation Complex for Science & Technology at Montgomery College (PIC MC) is an integrated academic, business and research campus in Germantown. PIC MC, previously known as the Montgomery College-Germantown Science and Technology Park, was identified in 2001 by the County as a location to grow life sciences and technology companies. With a total of $6.1 million in funding appropriations to Montgomery College from the State and the County, the campus was able to add 20 acres to its own 20 acres to create a 40-acre park. Existing facilities on the PIC MC campus include: the Bioscience Education Center, a 151,000–square-foot building with state-of-the-art equipment including 25 wet labs, a mock biomanufacturing suite, classrooms, meeting spaces, and an 11,000-square-foot conference center; Holy Cross Germantown Hospital, a 237,000-square-foot 93-bed hospital which benefits from many jointly developed programs in the health care fields at MC; a LEED Silver-certified 80,000 square foot Medical Office Building with direct connection to the hospital and parking garage; the County's Germantown Innovation Center (GIC), a 32,000 square foot incubator targeted to life sciences companies, which offers 11 wet labs, 45 offices, and common support areas, able to accommodate up to 30 life sciences and technology start-up companies with no long-term lease obligations.

PIC MC also offers land and construction opportunities for companies that prefer to build customized facilities. Up to 27 acres are available for land-lease and build-to-suit buildings (up to 700,000 total square feet of commercial development) in an area that is zoned as a life sciences center.

Downtown Rockville

In Rockville, as part of Rockville Town Square Phase II development, a Brightview Assisted Living Facility opened in late 2017. It is a 195-unit senior living community that provides independent and assisted-living residences specializing in Alzheimer's care. The ground floor features approximately 6,500 square feet of retail while community amenities include a landscaped courtyard with public art installation and a rooftop garden.

The Metropolitan, a 6-story, 275-unit luxury apartment complex that includes approximately 6,100 square feet of retail on the ground level, opened in early 2018 as part of the Town Square expansion.

In Rockville Town Center, Duball LLC has approvals to construct a 400-unit residential building with approximately 20,000 square feet of retail space on the ground floor. Approximately 150 of the units are intended to be age-restricted senior housing.

Retail Sales

Retail sales, measured by sales tax data collected in FY18, increased in Maryland but decreased in Montgomery County. Compared to the prior fiscal year when retail sales in the County increased 2.4 percent, sales decrease 1.6 percent in FY18. The decrease was attributed to purchases of apparel items which decreased 6.0 percent, purchases of furniture and appliances which decreased 6.6 percent, and purchases of hardware, machine and equipment which were down 0.5 percent.

Major Retail Centers

Montgomery County contains approximately 24.7 million square feet of retail-appropriate space. Of this total space, 19.7 million square feet of space was occupied by over 5,600 unique retail tenants. The remaining square footage was either occupied by non-retail tenants, such as a bank or a gym, or was vacant. The vacancy rate for Retail space in the county is 6.8%. In 2014, the County adopted a new zoning ordinance addressing more generalized retail uses, called "Retail/Service Establishment", under which retail is regulated by store size rather than specific use. This provides much more flexibility in the types of services and retail that can develop across the County, with an emphasis on encouraging retail in mixed-use commercial and industrial areas.

Three major retail centers in the County are: Westfield Wheaton at 1.6 million square feet; Westfield Montgomery at 1.2 million square feet; and the Clarksburg Premium Outlets at 0.4 million square feet.

Westfield Wheaton Shopping Mall is located adjacent to the Wheaton Metro Center at the intersection of Georgia Avenue and Veirs Mill Road in the Wheaton Central Business District. This was the County's first shopping mall (opened in 1960) and was remodeled in 1987 and again in 2005. JC Penney, Macy's, and Target anchor the mall, which includes 117 tenant stores.

Westfield Montgomery Shopping Mall opened in 1968. Featured retail tenants include: Nordstrom, Abercrombie & Fitch, Gap, Urban Outfitters and J. Crew. This retail center boasts 143 tenants and three parking garages. In 2016, a new $7.1 million Montgomery County Transit Center was opened at the mall, funded with $6 million from the mall to include six covered bus bays, screens with real-time bus arrival information and walled-in areas with radiant heat lamps. The property received an Energy Star label in 2016 for its operating efficiency.

Clarksburg Premium Outlets is a two-story LEED-certified venue which opened in October 2016. The outlet is located adjacent to I-270 in Clarksburg and includes over 90 top brand stores such as: Banana Republic Factory Store, Coach, kate spade new york, Nike Factory Store, Polo Ralph Lauren Factory Store, Saks Fifth Avenue Off 5th, Steve Madden, Tory Burch, Under Armour and many more. The outlet center features a Market Hall dining pavilion, covered walkways and exterior escalators and elevators.

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

APPENDIX A

BASIC FINANCIAL STATEMENTS

TABLE OF CONTENTS

(This page has been left blank intentionally)

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

The Honorable County Council
of Montgomery County, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., which represent 2.2 percent, 4.1 percent, and 0.1 percent, respectively, of the assets, net position and revenues of the non-major component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Bethesda Urban Partnership, Inc. were not audited in accordance with *Government Auditing Standards.*

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

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

The Honorable County Council
of Montgomery County, Maryland

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

During the fiscal year ended June 30, 2018, the County adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of this standard, the County reported a restatement for the change in accounting principle (See Note I.E). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 27 and the budgetary comparison information for the general, housing initiative and grants funds, the Consolidated Retiree Health Benefits Trust, Employees' Retirement System, Maryland State Retirement and Pension System, and the notes to required supplementary information on pages 168 through 170 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

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

Financial Highlights

- The government-wide assets and deferred outflows of the County exceeded its liabilities and deferred inflows of resources at the close of FY18 by $166.3 million. That amount is net of a $2,920.7 million unrestricted deficit. The deficit occurs mainly because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery College (MC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to $1,823.4 million at June 30, 2018. Absent the effect of this relationship, the County would have reported a deficit government-wide unrestricted net position of $1097.3 million.
- The County's total government-wide net position increased by $157.3 million.
- As of the close of FY18, the County's governmental funds reported combined ending fund balances of $1,166.3 million; an increase of $217.8 million over the prior year's ending fund balances. Of the total ending fund balances, $97.3 million is available for spending at the County's discretion.
- At the end of FY18, unassigned fund balance for the General Fund was $102.7 million, or 3.4 percent of total General Fund expenditures.
- The County's government-wide long-term debt and obligations decreased by $1,67.7 million during FY18 from the restated FY17 balance. See page 6 for the details. The key factors in this increase are:
  - The issuance of $170.0 million in general obligation (GO) bonds and $170.0 million in variable rate demand obligations, used to refund $340.0 million in bond anticipation notes (BANS). Included in this issuance was an addition of $28.7 million in GO premiums.
  - The issuance of $516.7 million in general obligation refunding bonds. Included in this issuance was an addition of $86.3 million in premiums.
  - The issuance of an additional $340.0 million in BANS.
  - A decrease in the net Other Postemployment Benefits (OPEB) liability of $249.0 million from the restated FY17 liability.
  - The retirement of $640.8 million in GO bond and variable rate demand obligation principal and amortization of related premiums of $69.2 million.

Overview of the Financial Statements

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The structure of the financial statements is presented below. This MD&A is intended to be an introduction to Montgomery County's basic financial statements. Montgomery County's basic financial statements comprise three components, including government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information

Independent Auditors' Report
Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis
This supplementary information is required for state and local government financial statements, and is intended to provide a narrative introduction, overview, and analysis.
Pages 3 to 27.

Government-Wide Financial Statements	Fund Financial Statements	Component Units
Provides information on governmental and business-type activities of the primary government. **Pages 30 to 33.**	Provides information on the financial position of specific funds of the primary government. **Pages 34 to 43.**	Provides information on the County's component units. **Pages 44 to 45.**

Notes to Financial Statements
Provides a summary of significant accounting policies and related disclosures.
Pages 47 to 150.

Government-Wide Financial Statements

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

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

The second statement – the statement of activities – presents information showing how the County's net position changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid. The information on governmental activities included in the statement reflects 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, three parking lot districts, permitting services, and community use of public facilities, where fees for services or products are required or designed to recover the cost of operation, including depreciation.

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

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

Fiduciary Funds

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

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

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

Statement of Net Position

The following presents a summary of the Statements of Net Position for the County as of June 30, 2018 and 2017:

Summary of Net Position *
June 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	$ 2,020,359,892	$ 1,916,290,728	$ 237,622,734	$240,962,701	$ 2,257,982,626	$ 2,157,253,429
Capital assets, net	4,851,899,173	4,563,021,889	263,086,650	267,940,685	5,114,985,823	4,830,962,574
Total Assets	6,872,259,065	6,479,312,617	500,709,384	508,903,386	7,372,968,449	6,988,216,003
Deferred outflows of resources	216,115,762	418,005,155	8,187,449	13,817,332	224,303,211	431,822,487
Liabilities						
Long-term liabilities outstanding	6,375,648,561	6,534,251,925	149,620,965	162,687,020	6,525,269,526	6,696,938,945
Other liabilities	538,477,301	638,703,194	45,260,635	36,565,897	583,737,936	675,269,091
Total Liabilities	6,914,125,862	7,172,955,119	194,881,600	199,252,917	7,109,007,462	7,372,208,036
Deferred inflows of resources	318,028,021	37,127,197	3,888,326	1,697,815	321,916,347	38,825,012
Net position:						
Net investment in capital assets	2,169,845,557	2,336,853,956	185,894,133	186,321,262	2,355,739,690	2,523,175,218
Restricted	650,720,854	441,648,621	80,545,655	68,287,578	731,266,509	509,936,199
Unrestricted (deficit)	(2,964,345,467)	(3,091,267,121)	43,687,119	67,161,146	(2,920,658,348)	(3,024,105,975)
Total Net Position	$ (143,779,056)	$ (312,764,544)	$ 310,126,907	$321,769,986	$ 166,347,851	$ 9,005,442

* Primary Government

Note: 2017 balances have been restated for the adoption of GASB No.75. See details in Note I-E.

The County's current and other assets increased by $100.7 million or 4.7 percent from FY17. The County's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of FY18 by $166.3 million. By far the largest portion of the County's net position reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to $1,823.4 million at June 30, 2018. Absent the effect of this relationship, the County would have reported a deficit government-wide unrestricted net position of $ 1,097.3 million. An additional portion of the County's net position ($731.3 million or 439.6 percent) represents resources that are subject to restrictions on how they may be used.

The County's total net position increased by $157.3 million for FY18.

(Rest of page intentionally left blank.)

Statement of Activities

The following table summarizes the County's change in net position for the years ended June 30, 2018 and 2017:

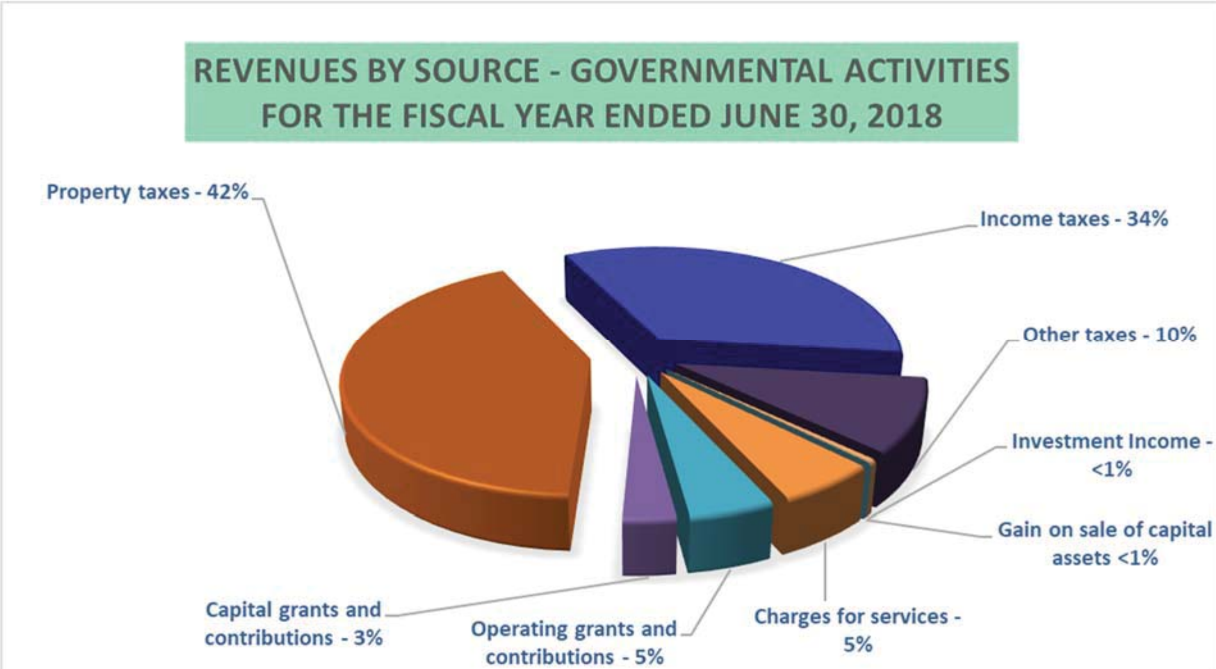
Summary of Changes in Net Position * For the Fiscal Years Ended June 30, 2018 and 2017						
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program Revenues:						
Charges for services	$ 240,192,109	$ 235,174,216	$ 505,076,615	$ 500,633,492	$ 745,268,724	$ 735,807,708
Operating grants and contributions	200,691,060	224,788,411	-	-	200,691,060	224,788,411
Capital grants and contributions	123,848,995	61,960,979	-	-	123,848,995	61,960,979
General revenues:						
Property taxes	1,789,105,013	1,792,921,614	-	(45,762)	1,789,105,013	1,792,875,852
Income taxes	1,448,372,065	1,481,806,881	-	-	1,448,372,065	1,481,806,881
Other taxes	432,905,584	447,445,749	-	-	432,905,584	447,445,749
Investment income	18,175,824	13,770,994	2,073,306	1,068,863	20,249,130	14,839,857
Gain/(loss) on sale of capital assets	2,106,453	-	197,700	162,042	2,304,153	162,042
Total Revenues	4,255,397,103	4,257,868,844	507,347,621	501,818,635	4,762,744,724	4,759,687,479
EXPENSES						
Governmental Activities:						
General government	424,387,485	540,011,504	-	-	424,387,485	540,011,504
Public safety	673,208,779	641,585,272	-	-	673,208,779	641,585,272
Public works and transportation	270,104,981	258,627,800	-	-	270,104,981	258,627,800
Health and human services	340,401,563	319,917,837	-	-	340,401,563	319,917,837
Culture and recreation	124,775,369	134,848,367	-	-	124,775,369	134,848,367
Community development and housing	73,658,830	50,618,370	-	-	73,658,830	50,618,370
Environment	32,168,215	29,095,268	-	-	32,168,215	29,095,268
Education	2,094,083,289	2,037,048,982	-	-	2,094,083,289	2,037,048,982
Interest on long-term debt	118,778,942	100,887,704	-	-	118,778,942	100,887,704
Business-type Activities:						
Liquor control	-	-	268,344,647	273,828,277	268,344,647	273,828,277
Solid waste activities	-	-	100,674,500	92,126,174	100,674,500	92,126,174
Parking lot districts	-	-	33,941,506	34,418,684	33,941,506	34,418,684
Permitting services	-	-	39,017,094	36,065,066	39,017,094	36,065,066
Community use of public facilities	-	-	11,857,115	10,386,038	11,857,115	10,386,038
Total Expenses	4,151,567,453	4,112,641,104	453,834,862	446,824,239	4,605,402,315	4,559,465,343
Net Position Before Transfers	103,829,650	145,227,740	53,512,759	54,994,396	157,342,409	200,222,136
Transfers	65,155,838	31,875,197	(65,155,838)	(31,875,197)	-	-
Change in Net Position	168,985,488	177,102,937	(11,643,079)	23,119,199	157,342,409	200,222,136
Net Position, beginning of year, as restated	(312,764,544)	(489,867,481)	321,769,986	298,650,787	9,005,442	(191,216,694)
Net Position, end of year	$ (143,779,056)	$ (312,764,544)	$ 310,126,907	$ 321,769,986	$ 166,347,851	$ 9,005,442

* Primary Government

Note: 2017 balances have been restated for the adoption of GASB No.75. See details in Note I-E.

Governmental Activities

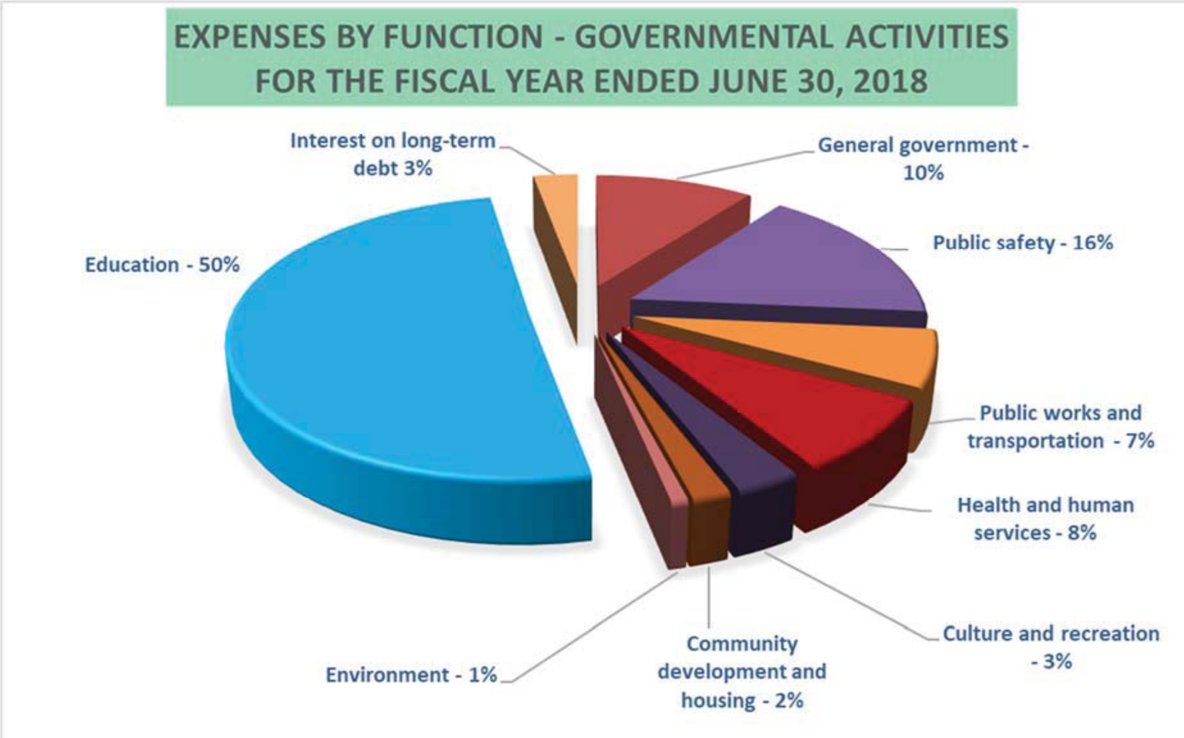
Revenues for the County's governmental activities were $4,255.4 million for FY18. Sources of revenue are comprised of the following items:



- Taxes constitute the largest source of County revenues, amounting to $3,670.4 million for FY18.
- Property and local income taxes combined comprise 76.0 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 2018 and 2017. 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 ($108.7 million or 54.1 percent), public works and transportation ($41.1 million or 20.5 percent) and public safety ($34.0 million or 17.0 percent).

A more detailed discussion of the County's revenue results for FY18 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 FY18 was $4,151.6 million. As the chart on the next page indicates, education constitutes the County's largest program and highest priority; education expenses totaled $2,094.1 million. Public safety expenses totaled $673.2 million, general government services totaled $424.4 million, and health and human services, the fourth largest expense for the County, totaled $340.4 million.



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

Net Cost of County's Governmental Activities For the Fiscal Years Ended June 30, 2018 and 2017						
	Expenses		Revenues		Net Cost of Services	
	2018	2017	2018	2017	2018	2017
Education	$ 2,094,083,289	$ 2,037,048,982	$ -	$ -	$ 2,094,083,289	$ 2,037,048,982
Public safety	673,208,779	641,585,272	92,550,618	90,861,570	580,658,161	550,723,702
General government	424,387,485	540,011,504	134,854,403	94,290,229	289,533,082	445,721,275
Public works and transportation	270,104,981	258,627,800	152,256,983	142,662,558	117,847,998	115,965,242
Health and human services	340,401,563	319,917,837	113,511,506	125,629,316	226,890,057	194,288,521
Culture and recreation	124,775,369	134,848,367	47,844,799	50,479,019	76,930,570	84,369,348
Other	224,605,987	180,601,342	23,713,855	18,000,914	200,892,132	162,600,428
Total	$ 4,151,567,453	$ 4,112,641,104	$ 564,732,164	$ 521,923,606	$ 3,586,835,289	$ 3,590,717,498

Of the total cost of governmental activities of $4,151.6 million, $564.7 million was paid by those who directly benefited from the programs ($240.2 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions ($324.5 million). Of the $3,586.8 million net cost of services, our taxpayers paid for these activities through County taxes which totaled $3,670.4 million; also available to contribute towards such net costs were investment income and other contributions not restricted to a specific program.

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

- Education:
  $57.0 million increase in resources spent on education. The County contribution was $19 million over Maintenance of Effort and 2.8 percent higher than FY17 for Montgomery County Public Schools (MCPS) funding. The County's local contribution is $2.0 million over MOE for Montgomery College. The overall County contribution increased by 47.0 percent in total.

- General Government:
  $115.6 million decrease in expenses primarily due to the County's FY 2018 savings plan including $58.7 million operating budget reduction and additional savings $62.4 million in operating budget reductions.

- Public Safety:
  $31.6 million increase in expenses primarily due to the payment of $8.0 million of unbudgeted overtime and $2.7 million in expenditures for unplanned Apparatus repairs for Fire Rescue Services. The Police Department added 62 positions this year and incurred higher costs for salaries, benefits and group insurance of $6.6 million. Additionally, vehicle maintenance expenses were $1.7 million greater than FY17 expenses.

- Public Works and Transportation:
  $11.5 million increase in expenses primarily driven by the purchase of 23 new buses and the cleanup costs of wind and snow storms in FY18.

- Culture and Recreation:
  $10.1 million decrease in expenses due to the County's FY 2018 savings in operating budget reduction.

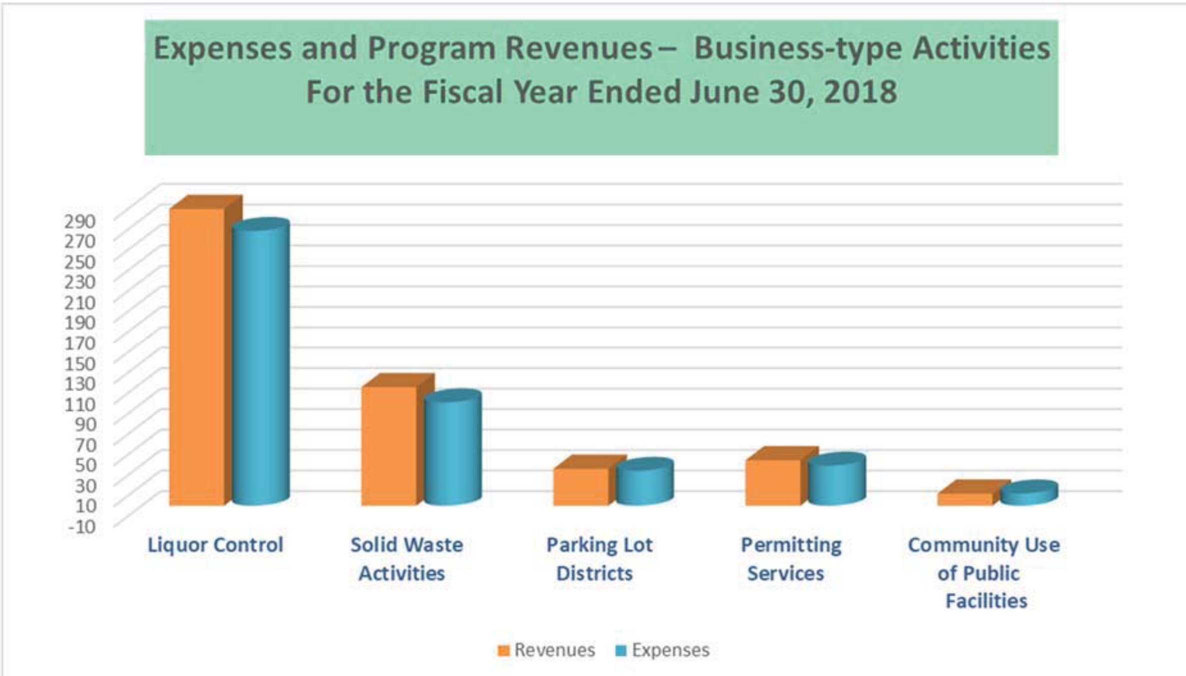
Business-type Activities

Highlights of the County's business-type activities for FY18 are as follows:

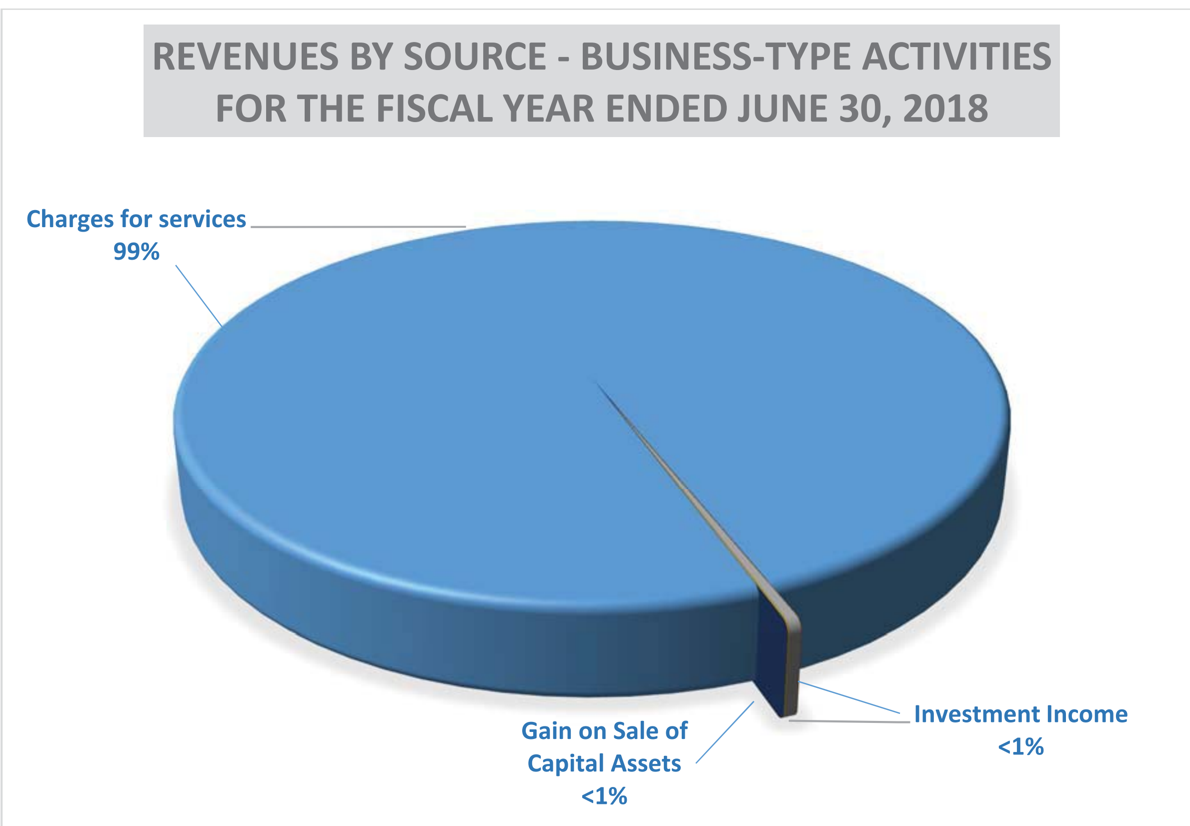
- Business-type activities experienced a decrease in net position of $11.6 million for FY18. This amount is reported after total net transfers out of $65.2 million. The most significant components of the change include:
  - $1.8 million decrease in net position related to liquor control;
  - $13.2 million increase in net position related to Solid Waste Activity;
  - $2.0 million decrease in net position related to parking lot districts; and
  - $20.2 million decrease in net position related to permitting services mainly due to the $26.2 transfer out to capital project and general fund.
- Charges for services to users comprise 99.6 percent of revenues, with $296.9 million (58.8 percent of charges for services revenue) attributable to liquor control operations and $115.7 million (22.9 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.
- Investment income of $2.1 million reflects an increase of $1.0 million or 94.0 percent from FY17, primarily because of the increase in pooled cash and investments during the year.

(Rest of page intentionally left blank.)

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



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



Financial Analysis of the Government's Funds

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

Governmental Funds

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

At the end of FY18, the County's governmental funds reported combined ending fund balances of $1,166.3 million, an increase of $217.8 million from the end of FY17. Of the total ending fund balances, $97.3 million constitutes the unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $1,069.0 million is unavailable for new spending because it has been set aside for prior period commitments and legal restrictions.

General Fund

The General Fund is the primary operating fund of the County. At the end of FY18, the General Fund had $102.7 million of unassigned fund balance and total fund balance was $521.0 million. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 17.3 percent of total General Fund expenditures.

The fund balance of the County's General Fund increased by $14.1 million during FY18, primarily due to decreases in expenditures for general government and other financing uses that were partially offset by increased expenditures for public safety and education. There were also decreases in tax, intergovernmental, charges from services, and miscellaneous revenues.

A more detailed discussion of General Fund revenues can be found in the General Fund Budgetary Highlights section of MD&A.

Housing Initiative Fund

The Housing Initiative Fund is used to account for the fiscal activity of financing, supplementing, and constructing affordable residential facilities for eligible participants. At the end of FY18, HI had a fund balance of $238.7 million, which is entirely restricted for legal reasons. The fund balance represents a decrease of $11.1 million over FY17. Mortgage receivables for this fund, which is a measure of its financing activities, decreased $9.0 million or 5.1 percent over FY17.

Grants Fund

The Grants Fund is used to account for Federal and State grant-funded activities of the tax-supported General and special revenue funds. The Grants Fund normally does not have fund balance at the end of each fiscal year as revenues equal expenditures - that is, expenditures of this fund are either billable to one or more federal or state agencies or paid via a transfer from another fund. However, the Grants Fund has a fund balance of $111,734 which represents restricted assets held by the County pursuant to a grant agreement. Grants Fund received $110.3 million in revenues for FY18. This is a $3.0 million increase from FY17.

Debt Service Fund

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain an unassigned fund balance; the restricted fund balance of $187.8 million represents an accounting debt service reserve account. Fund balance increased from FY17 by $145.5 million due to the refunding and issuance of General obligation debt.

Capital Projects Fund

The Capital Projects Fund (CIP) has a total fund balance of $126.7 million, an increase of $68.4 million from the end of FY17. The fund balance of this fund can increase or decrease significantly depending on the timing of source of funds for larger capital projects. In FY17, the fund received $13.7 million in intergovernmental revenues and $81.6 million in intergovernmental revenues in FY18, an increase of $67.9 million. The expenditures in FY18 remained at similar levels, increasing slightly from $627.8 million in FY17 to $629.7 million in FY18.

Other factors concerning the finances of the governmental funds are addressed in the discussion of the County's governmental activities.

Proprietary Funds

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

The unrestricted net position of the Liquor Fund at the end of FY18 amounted to $18.8 million, and operating income was $30.0 million. After a subsidy transfer to the General Fund of $24.8 million, the fund ended FY18 with a decrease in net position of $1.8 million.

The Solid Waste Activities Fund total net position amounted to $86.5 million. Of this amount, $42.6 million (49.3 percent) represents the net investment of capital assets and $43.9 million is restricted for environment.

The Parking Lot Districts Fund decrease in net position amounted to $2.0 million in FY18, resulting in a total ending net position of $169.3 million. Of this amount, $135.1 million (79.8 percent) represents the net investment in capital assets; $6.6 million (3.9 percent) is restricted for debt service on revenue bonds; and $27.6 million (16.3 percent) is restricted for public works and transportation.

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

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to $29.1 million, which included County Council approved supplemental and special appropriations and the year-end County Council transfer and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- $12.7 million for snow storm removal and storm clean up. During the winter of 2017-2018, the County experienced 15 snow and/or ice events with total accumulation of approximately 16 inches.
- $4.7 million to provide MCPS spending authority for payments to the School Bus Safety Camera Program contractor that provides the cameras and other systems necessary to issue citations.

- $0.8 million increase to the Department of Police and the State's Attorney's Office to address an increase in gang-related activity in the County.
- $0.3 million increase to reinstate the Impact Assistance Fund to assist certain small business adversely impacted by a County redevelopment project, a redevelopment project on County-owned property or a redevelopment project constructed by a private entity for use in whole or in part by the County as a public facility in a designated area that is not located in an Enterprise Zone or urban renewal area.

The remaining variance is due to encumbrance carry forwards from prior years, which are included in the final budget amounts.

Actual revenues were less than budget amounts by $126.1 million, while actual expenditures and net transfers out were less than final budget by $80.4 million and $44.7 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2018, include the following:

- Actual expenditures of $1,162.2 million were $80.4 million less than the final budget, which represents 7.0 percent of the final budget, and is attributable to savings achieved across numerous departments via the FY18 savings plan.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by $35.8 million and $42.0 million, respectively. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

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

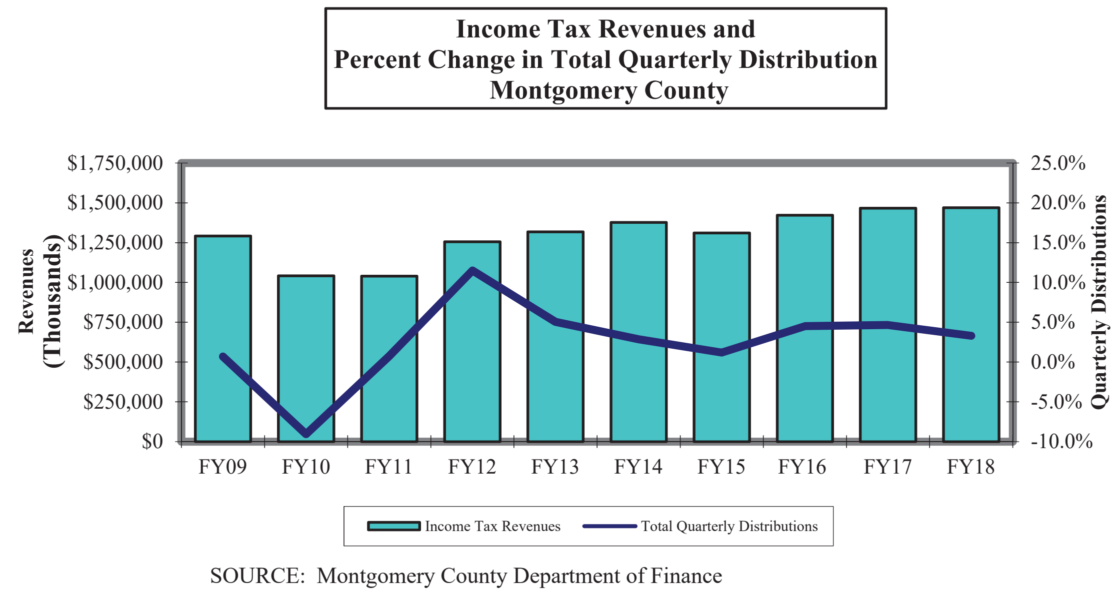
Overview

Actual revenues for the General Fund totaled $3,293.5 million and were 2.8 percent below the budget estimate for the fiscal year and 0.9 percent below actual tax revenues for FY17. The two largest contributors to the decline between the budget estimate and actual revenues were the income tax ($88.6 million) and the transfer and recordation tax (11.8 million). Revenues from the property tax amounted to $1,267.1 million ($12.4 million), or 1.0 percent, below the budget estimate but 0.02 percent above actual tax revenues for FY17. Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and other taxes, were $274.2 million in FY18. That amount was $8.3 million, or 2.9 percent below the budget estimate and that decrease was driven primarily by the fuel and energy tax ($7.1 million or 3.5%) below the budget estimate. The remaining excise taxes were $1.1 million, or 1.4 percent below the budget estimate. Investment income was $0.8 million below the budget estimate. Licenses and Permits came in below the budget estimate (8.8%), while Charges for Services came in above the budget estimate (7.2%). Intergovernmental revenues were $0.4 million (or 0.7%) below the budget estimate. This decrease was solely attributed to state reimbursements, which came in 1.7 percent below budget estimates.

Income Taxes

One of the largest revenue sources for the General Fund is the County income tax. Revenues from the income tax were $1,469.3 million and represented 46.4 percent of actual tax revenues in FY18 and 44.6 percent of total actual revenues. The increased reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: growth in the employment base as reflected in resident employment, steady increases in wage and salary income in the County, and growth in capital gains. This contrasts with the County's second largest revenue source – property taxes – which is held at the Charter Limit and thus generally represents revenue growth limited to the rate of inflation. However, while capital gains, on average, increases over time, the Standard

& Poor's 500 index, representing a proxy for capital gains, experienced significant volatility over the past ten calendar years (2008 – 2017) - ranging from a decrease of 38.5 percent in 2008 to an increase of 29.6 percent in 2013. In addition, resident employment experienced volatility during this period - an average annual rate of increase of 0.84 percent in the County's resident employment during the 2008-2017 period. The average annual growth during the 2008-2013 period increased 1.1 percent while the average annual growth rate decelerated to 0.7 percent between 2013 and 2017. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 3.3 percent in FY18, which followed the increase of 4.7 percent in FY17, an increase of 4.5 percent in FY16, an increase of 1.2 percent in FY15, an increase of 2.9 percent in FY14, an increase of 5.0 percent in FY13, an increase of 11.5 percent in FY12, an increase of 0.8 percent in FY11, and a decrease of 9.1 percent in FY10.

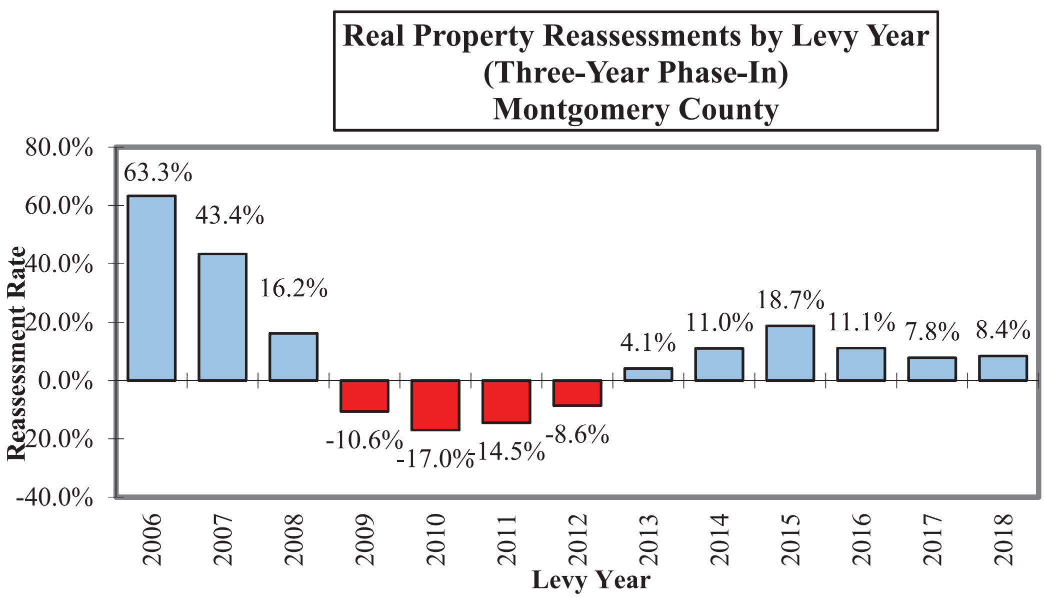


On May 18, 2015, the U.S. Supreme Court made a final ruling in the long-standing court case of *Comptroller of the Treasury of Maryland v. Wynne et ux.* The case involved a dispute over the credit a state taxpayer should get for taxes paid to other states for income earned in those states. The U.S. Supreme Court ruled in favor of the litigants. As a result, the State of Maryland owes refunds to all taxpayers who filed amended returns requesting the additional credit. Based on data provided by the Revenue Administration Division, Comptroller of Maryland (Comptroller), as of March 2018, the total amount of income tax refunds for tax years 2007 through 2014, including interest, attributable to the Wynne case is $143.3 million. The total amount of income tax refunds as of June 30, 2018 was not available when this report was issued. As the Comptroller issues refunds to eligible taxpayers, the refunds are paid from the Local Reserve Account (Account) which is maintained by the State, and the State will replenish the fund through financial transactions with counties and municipalities. In 2018, the Maryland General Assembly amended the previous legislation that will allow counties and municipalities to replenish the fund by reducing quarterly income tax distributions to the counties and municipalities starting with the third distribution (May) in FY21 with a total of twenty installments ending in FY26. Although the majority of refund claims have been processed and issued as of March 2018, refund claims are still pending and amended returns for the most recent tax years can still be filed. Also, starting with tax year 2015 taxpayers have been reducing their tax payments to reflect the new credit.

Property Taxes

Property tax collections, which represent another major contributor of actual tax revenues to the General Fund and the second largest in FY18, amounted to $1,267.1 million in FY18, which were $12.4 million (1.0%) below the budget estimate and only 0.02 percent above actual revenues in FY17. Actual property taxes, excluding penalties and interest and other items, were $1,265.6 million in FY18 – an increase of only 0.01 percent from the previous fiscal year. Collections from penalties and interest and other items were $1.5 million – a 12.2 percent increase from FY17.

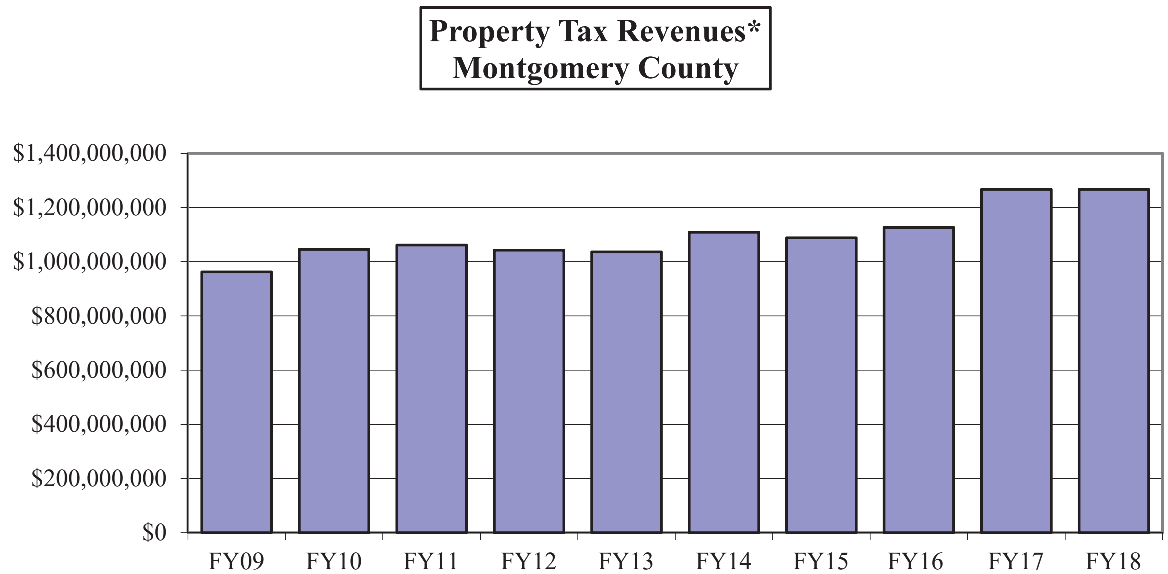
The taxable assessments for real property increased 3.7 percent from FY17 to FY18. This was the fifth consecutive increase starting in FY14. New construction, which added an estimated $1.7 billion to the base in FY18, was 3.8 percent higher than in FY17. Following the real estate market boom and bust cycle in the previous decade, the triennial reassessment rates experienced the same trend albeit with a lag. The recent residential and commercial real estate market recovery resulted also in a recovery of property assessments. After an unprecedented four-year decline in triennial reassessment rates (levy year 2009-2012), reassessments increased 4.1 percent (levy year 2013 or FY2014), 11.0 percent in levy year 2014, 18.7 percent in levy year 2015, 11.1 percent in levy year 2016, 7.8 percent in levy year 2017, and 8.4 percent in levy year 2018.



SOURCE: State Department of Assessments and Taxation

The homestead tax credit limits annual increases in homeowners' taxable assessments to 10 percent per year although other taxable assessments such as for commercial and investment residential properties are not limited by this credit. The homestead credit is the amount of annual assessment growth above the 10 percent limit. Following several years of declining reassessments, most properties that had built up a significant amount of homestead credit during the housing boom cycle, used up their homestead credit during the housing bust cycle.

However, in FY18 the amount increased from $87.2 million in FY17 to $88.1 million in FY18, therefore the increase of the aggregate homestead credit reduced the real property taxable assessment by $0.9 million.

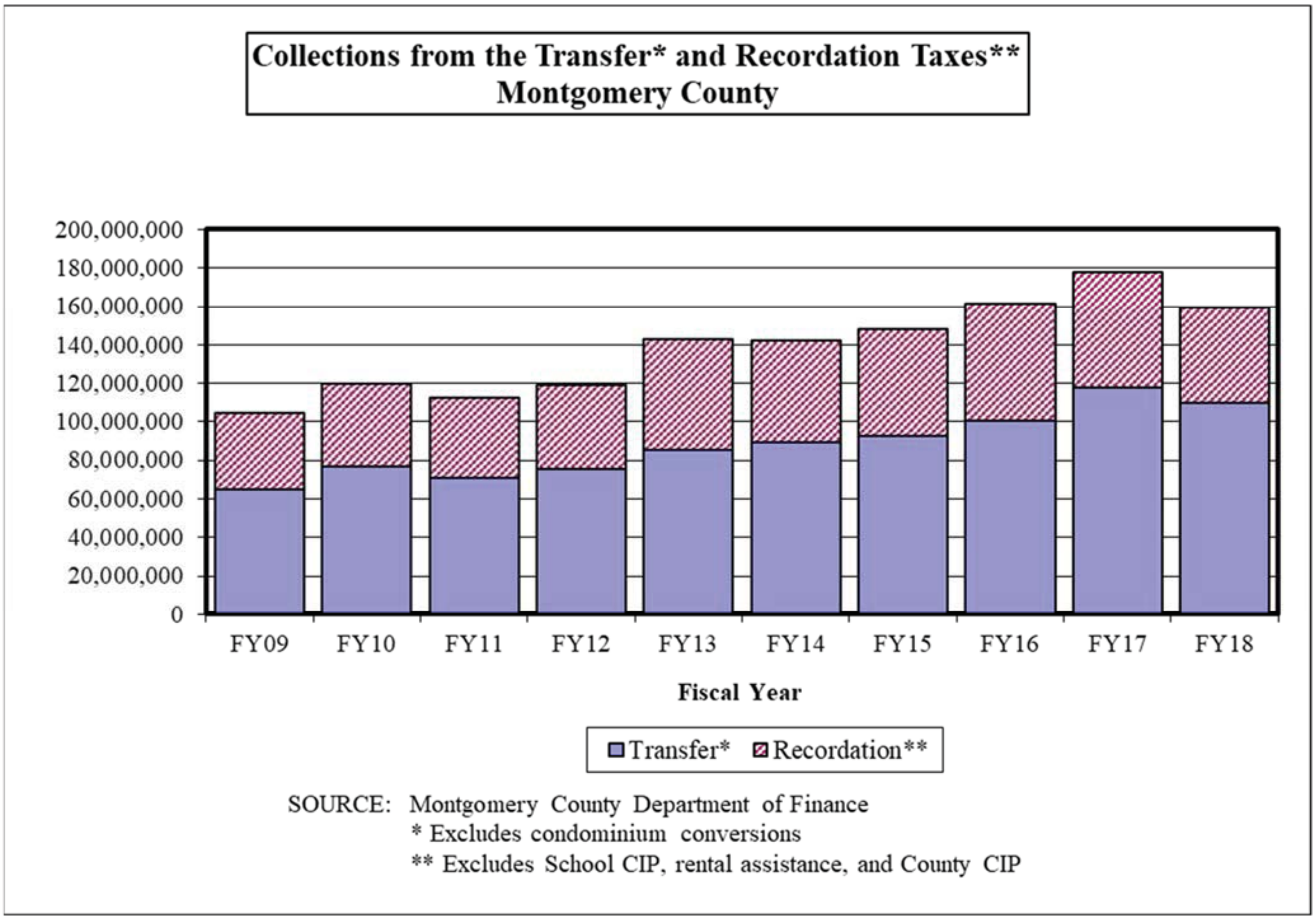


SOURCE: Montgomery County Department of Finance
* General Fund only and includes penalties and interest

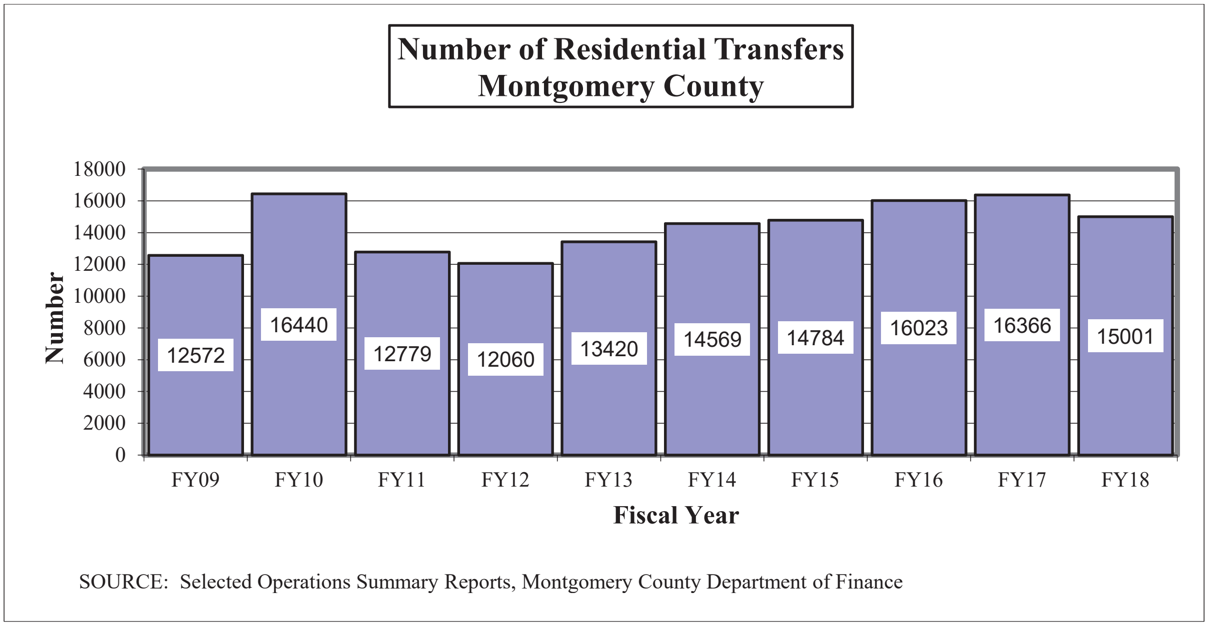
Because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09 rebounding in FY10 (5.2%) attributed to increases in corporate and public utility assessments, declined 6.5 percent in FY11 to $3.9 billion, declined again in FY12 to $3.7 billion, and declined further in FY13 to $3.6 billion attributed to declines in corporate and utility personal property, but increased 2.9 percent in FY14 to $3.7 billion, decreased 1.5 percent in FY15 to $3.7 billion, but increased 6.3 percent in FY16 to $3.9 billion. For the previous five fiscal years (FY12 – FY16), taxable assessments for personal property averaged $3.7 billion ranging from a low of $3.6 billion in FY13 to a high of $3.9 billion in FY16. Assessments of personal property increased 4.3 percent to $4.051 million in FY17 and to $4.189 million in FY18 (3.4%) due to increases in all three categories: individual, public utility, and corporate.

Transfer and Recordation Taxes

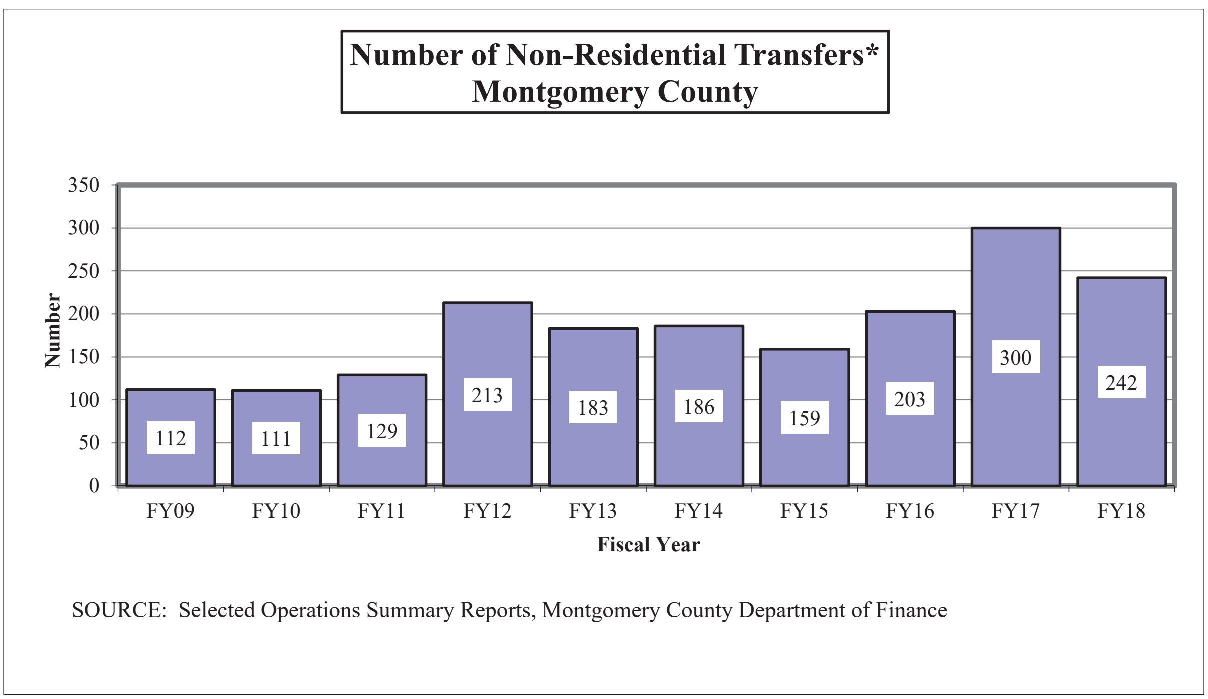
Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY18 were $158.6 million (excluding recordation tax revenues earmarked for CIP funding of school construction, rental assistance, and CIP funding for the County; and transfer tax revenues from condominium conversions). Actual revenues decreased 11.1 percent in FY18 and were 7.0 percent below the budget estimate. As the accompanying chart illustrates, the total amount collected from these taxes reached a peak of $241.7 million in FY06 before declining to $107.2 million in FY09. In FY10, taxes from the combined transfer and recordation taxes rebounded to $122.0 million, increased further to $129.5 million in FY11, declined to $127.3 million in FY12, and began a steady increase to $142.0 million in FY13, $144.5 million in FY14, $147.6 million in FY15, $161.7 million FY16, $178.4 million in FY17, but declined to $158.6 million in FY18.



General Fund revenues from the transfer tax experienced a decrease of 7.2 percent in FY18 and 18.6 percent decrease in the recordation tax from FY17 attributed to a cut in the General Fund tax rate enacted by the County Council. Because of the decrease in existing home sales in FY18 (3.3%), revenues from the residential sector for the transfer tax were $81.8 million, a decrease of 1.5 percent from FY17. The number of residential transfers decreased to 15,000 (8.3%). Because of the decline in the volume and the cut in the tax rate, collections from the residential recordation tax decreased 13.5 percent in FY18.



Based on the amount of collections from the non-residential transfer tax, the commercial market decreased 20.0 percent in FY18 from FY17 with revenues at $27.1 million. The decrease in revenues from the commercial market was attributed to a decline in the number of transactions which decreased from 300 in FY17 to 242 in FY18 (19.3%) yielding an average tax per transaction of approximately $111,860 (0.8%).



Other Revenues

The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and other taxes – totaled $274.2 million and were $8.3 million, or 2.9 percent, below the budget estimate but nearly 2.0 percent above actual revenues in FY17. Revenues from the fuel/energy tax were $197.2 million in FY18 and down from the budget estimate ($7.1 million) but an increase of 2.5 percent from actual revenues in FY17. The increase in actual revenues from FY17 was attributed to an increase in residential natural gas collections (19.1%) and non-residential natural gas collections (11.2%).

Revenues from the telephone tax of $51.6 million were 1.7 percent below the budget estimate but 1.6 percent above actual revenues in FY17. Revenues from the hotel/motel industry of $21.0 million in FY18 were 4.1 percent below the budget estimate and 2.0 percent below actual revenues in FY17. Other tax revenues in FY18 were 18.4 percent above the budget estimate and 4.6 percent above actual revenues in FY17.

In the General Fund, actual investment income increased from a negative $421,136 in FY17 to a positive $463,356 in FY18 and was $803,434 lower than the budget estimate. The expectation of many forecasters and specific members of the Federal Open Market Committee (FOMC) is that interest rates will steadily increase during FY19 with a concomitant increase in the County's investment yield rates. Because of the three rate increases during FY18, noting that the last one occurred two weeks before the end of the fiscal year, the average portfolio yield for the County increased from 0.71 percent in FY17 to 1.34 percent in FY18. The average daily portfolio balance increased from $844.7 million in FY17 to $870.7 million in FY18.

Capital Asset and Debt Administration

Capital Assets

The County's investment in capital assets at June 30, 2018, amounted to $5,115.0 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation
June 30, 2018

	Governmental Activities	Business-type Activities	Total FY18	Total FY17
Land	$ 973,916,851	$ 58,444,081	$ 1,032,360,932	$ 994,763,315
Buildings	533,093,927	134,674,613	667,768,540	591,733,651
Improvements other than buildings	54,835,337	49,962,841	104,798,178	103,536,553
Furniture, fixtures, equipment and machinery	32,646,299	16,278,017	48,924,316	55,377,515
Leasehold improvements	6,968,993	-	6,968,993	7,915,043
Automobiles and trucks	150,957,879	3,437,121	154,395,000	139,914,799
Infrastructure	1,135,381,935	7,606	1,135,389,541	1,143,251,382
Other assets	13,983,103	-	13,983,103	16,474,306
Construction in progress	1,950,114,849	282,372	1,950,397,221	1,777,996,010
Total	$ 4,851,899,173	$ 263,086,651	$ 5,114,985,824	$ 4,830,962,574

Changes in the County's capital assets for FY18 are summarized as follows:

Change in Capital Assets For the Fiscal Year Ended June 30, 2018				
	Governmental Activities	Business-type Activities	Total FY18	Total FY17
Beginning Balance	$ 4,563,021,889	$ 267,940,685	$ 4,830,962,574	$ 4,589,440,386
Additions*	387,008,710	12,273,243	399,281,953	355,782,354
Retirements, net*	414,101	1,079,967	1,494,068	3,296,383
Depreciation expense	97,717,325	16,047,310	113,764,635	110,963,783
Ending Balance	$ 4,851,899,173	$ 263,086,651	$ 5,114,985,824	$ 4,830,962,574

* Presented net of transfers from construction in progress;
retirements are also net of related accumulated depreciation.

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

- Roads, including the underlying land, valued at $10.9 million were transferred to the county by various developers.

- The Wheaton Redevelopment Program project accumulated $29.4 million in costs this fiscal year. This project provides for the planning, studies, design, and construction of an office building, public parking garage, and a town square on the site of Parking Lot 13 and the Mid-County Region Services Center (RSC) in Wheaton.

- The Wheaton Library and Community Recreation Center project accumulated $21.6 million in costs this fiscal year. This project provides for a combined facility to include the new Wheaton Library, a used book store run by a non-profit, with proceeds benefiting Montgomery County Public Libraries and the Wheaton Community Recreation Center.

- The Capital Crescent Trail project accumulated $7.8 million in costs this fiscal year, and the Bethesda Metro Station South Entrance project accumulated $21.6 million in cost this fiscal year. These two projects are part of a joint effort between the County and the Maryland Transit Administration (MTA) on the Purple Line project. The Purple Line is a new line within the Washington Metropolitan Area Transit Authority (WMATA) transit system that is planned to extend from Bethesda in Montgomery County to New Carrollton in Prince George's County, providing direct connections to various lines within WMATA and connect to other train and bus services.

- The MD-355 Crossing (BRAC) project accumulated $37.5 million in costs this fiscal year. This project provides for right-of-way negotiations, utility relocations, and the design and construction of a multi-modal grade separated connection between the Walter Reed National Military Medical Center and the Medical Center Metro Rail station.

- Montgomery County funded Montgomery County Public Schools $224.2 million, and Montgomery College for $47.7 million for construction, renovations of school facilities, and other capital expenditures.

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

(Rest of page intentionally left blank.)

Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2018:

Long-Term Debt
June 30, 2018

	Governmental Activities	Business-type Activities	Total FY18	Total FY17*
General obligation bonds	$ 2,925,230,000	$ -	$ 2,925,230,000	$ 2,789,265,000
Variable rate demand obligation	170,000,000	-	170,000,000	90,000,000
Bond anticipation notes	500,000,000	-	500,000,000	500,000,000
Revenue bonds	130,710,607	69,769,393	200,480,000	212,311,000
Lease revenue bonds	20,390,000	-	20,390,000	22,785,000
Other lease and notes payable	29,420,784	-	29,420,784	25,398,332
Equipment notes	79,862,241	6,433,707	86,295,948	62,141,492
Certificates of participation	24,505,000	-	24,505,000	28,505,000
Capital leases	6,106,510	-	6,106,510	8,454,830
Taxable Ltd. Obligation Certificates	74,665,000	-	74,665,000	78,660,000
Compensated absences	84,242,659	6,967,485	91,210,144	88,672,945
Net OPEB Liability	1,486,051,494	-	1,486,051,494	1,735,005,077
Claims payable self-insurance	178,170,181	-	178,170,181	159,081,601
Claims and judgments	-	-	-	1,073,600
Net Pension Liability - County	304,223,320	19,906,428	324,129,748	521,396,382
Net Pension Liability - County(LOSAP)	37,946,046	-	37,946,046	40,657,679
Net Pension Liability - State	27,549,791	-	27,549,791	30,107,615
Landfill closure costs	-	15,671,304	15,671,304	15,733,722
Gude landfill remediation	-	28,530,853	28,530,853	28,500,000
Total	$ 6,079,073,633	$ 147,279,170	$ 6,226,352,803	$ 6,437,749,275

* FY17 Net OPEB liability has been restated according to GASB No. 75.

At June 30, 2018, the County had outstanding general obligation (GO) bonds of $3,095.2 million, including outstanding variable rate demand obligations (VRDOs) of $170 million, and bond anticipation notes (BANs) of $500 million. Over the last ten years, the County issued its GO bonds once a year, except for FY08, when no GO "new money" bonds were issued. The County currently finances capital construction projects with BANs. BANs are subsequently paid off by the issuance of the County's GO bonds. Montgomery County also issues bonds to finance the capital construction of MCPS, MC, and M-NCPPC not otherwise financed by the State of Maryland.

The County continues to maintain its status as a top-rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its GO bonds, the County is a 'Triple AAA' rated County, and received ratings of Aaa from Moody's Investors Service, Inc., AAA from Standard and Poor's, and AAA from Fitch Ratings. County GO bonds have been consistently awarded the highest credit rating from Moody's and Standard and Poor's since 1973 and 1976, respectively, and from Fitch since 1991. Montgomery County is one of only 14 'Triple AAA' rated counties in the nation with a population greater than 900,000.

In October 2017, the County received its annual credit ratings. Fitch cited "key rating drivers" of the County's expected strong revenue growth in property and income taxes, proven ability to reduce spending during economic downturn, and low combined debt and unfunded pension liability burden. Fitch also reported on the County's financial resilience which has resulted in a sound increased reserve cushion and a strong commitment to bolstering reserves in preparation for the next downturn.

Moody's cited the County's credit strengths of a very large and diverse tax base, strong socioeconomic profile with above average personal wealth and income levels, and manageable debt and pension burdens. Moody's also stated that their ratings outlook incorporates the county's adequate financial position that continues to be supported by a structurally balanced budget, and increased reserves.

Standard and Poor's stated their rating reflects the County's very strong economy and management, adequate budgetary performance with strong budgetary flexibility, and very strong liquidity. Standard and Poor's also cited the adequacy of the County's debt and contingent liability profile, and very strong institutional framework.

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

Significant bond-related debt activities during FY18 were:

- **General Obligation Bonds –** On November 15, 2017, the County issued new money, Tax-Exempt, General Obligation Series A, in the amount of $170,000,000, and issued three series of General Obligation Refunding Bonds comprising Tax-Exempt Series, B, C and D in the amounts of $78,270,000, $294,625,000 and $143,830,000, respectively. Subsequently 2017 Series E, Tax- Exempt, Variable Rate Demand Obligation Bonds (VRDO) in the principal amount of $170,000,000 were issued on December 19, 2017. The proceeds of the Series A and Series E bonds paid off an equivalent amount of the County's BANs which funded capital expenditures for education, transportation and other County facilities. The proceeds of Series B Refunding bonds were used to refinance all the outstanding Series 2006A & B VRDOs.

- **Master Equipment/Lease Purchase Agreement** – As part of a $100 million energy efficiency improvement program, in December 2017, the County issued a fourth draw in the amount of $4.3 million under the Banc of America Public Capital Corp, Master Lease Agreement. The proceeds will fund energy performance savings projects at various County buildings for which the repayment of debt is guaranteed through energy savings.

- **Master Lease Purchase Agreements** – In April 2018, the County funded seven leases in the amount of $37.5 million under the PNC Master Lease agreement. The proceeds primarily funded Transit Buses, Fire Apparatus and Equipment, Fleet Trucks and Computer Aided Dispatch systems.

- **Bond Anticipation Notes (BANs)** – Over the course of FY18, the County retired $340.0 million in BANs with general obligation bond proceeds and issued $340.0 million in new BANs.

- **Additional information** pertaining to the County's long-term debt can be found in Notes to Financial Statements, Notes I-D8, III-E3, and III-F.

Economic Factors and Next Year's Budgets and Rates

The following economic factors are reflected in the County's fiscal year 2019 (FY19) budget with updates based on revised economic data subsequent to the approval of the County's budget:

- County experienced modest economic performance during FY18 compared to FY17 particularly in resident employment, the total value of new construction for both residential and non-residential properties, and median sales prices for existing homes. However, the County's economy experienced a decline in the sales of existing homes, a decline in the construction of residential housing largely attributed to a decrease in multi-family units, and no change in the unemployment rate.

- The County's economic projections in the FY19 budget assume a modest, yet improving, economic performance in calendar year 2018 (CY18). On the same calendar year basis, the County projects a modest increase in total resident employment (0.7%) and a stronger growth in payroll employment (1.4 percent).

- During the past ten years (CY08 – CY17), total payroll employment in Montgomery County, which is based on the survey of establishments and derived by the Department of Finance, experienced two distinct cycles: a decline from CY08 to CY11 at an average annual rate of 0.5 percent, but an increase at an average annual rate of 0.6 percent from CY11 to CY17. The Department of Finance estimates that total payroll employment is expected to increase 1.4 percent in CY18.

- Resident employment in the County, which is based on a survey of County households, provides a slightly different picture of employment growth. For example, resident employment grew at an average annual rate of 0.6 percent between CY08 and CY11 and increased at an average annual rate of 1.0 percent from CY11 to CY17. Resident employment is expected to increase 0.7 percent in CY18.

- Based in part on employment projection for CY18, personal income will increase 4.1 percent in CY18 with per capita income increasing 3.5 percent. Income data for CY18 are based on estimates derived by the Department of Finance.

- The estimated increases in employment and personal income in CY18 reflect a modest performance in the County's economy in FY18 which is expected to continue into FY19.

- FOMC of the Board of Governors of the Federal Reserve System increased the targeted federal funds rate twice from the recent range of 1.25-1.50 percent in December 2017 to 1.75-2.00 percent in June of CY18 and was expected to increase the rate again in December of CY18. Because of that expectation by the FOMC, the County's budget projections include an increase in the yield on its investments from 1.20 percent in FY18 to 1.70 percent in FY19.

- Inflation, as measured by the Consumer Price Index, is expected to increase 2.00 percent in FY19.

Other Significant Matters

The recently-launched multi-departmental Vision Zero initiative, which is funded at $118 million in the FY19 budget, has a two-year goal of reducing severe and fatal traffic collisions by 35 percent with the long-term goal of eliminating such collisions by 2030. This builds on the County Executive's Pedestrian Safety Initiative, established in FY10, through which 250 severe and 33 fatal collisions have been prevented.

Under the provisions of the Maryland Public Service Commission's Order numbers 86990 and 88128 in the Matter of the Merger of Exelon Corporation and Pepco Holdings the County has received $41.1 million of a total of $41.6 million awarded for energy efficiency improvement and workforce development programs. To date the County has plans to spend funds to support efforts by the Montgomery County Green Bank (MCGB) to leverage financing for energy efficiency improvements in the public and private sector. Additional programs are underway to support Workforce Development, improvements in the energy efficiency of public infrastructure, energy education programs to assist residents in reducing energy costs and energy efficiency improvements to multi-family buildings. In FY 19 under the provisions of Maryland Public Service Commission Order No. 88631 in the Matter of the Merger of Altagas LTD and WGL Inc. the County will also receive $12.1 million. The County is required to spend these funds on efforts to reduce natural gas consumption by WGL customers, energy education or workforce development initiatives.

For the status of, and impact to, the County in the case of Comptroller of the Treasury of Maryland v. Wynne et ux., see the Income Taxes section of this Management's Discussion and Analysis. As a result, $143.3 million has been reflected as a liability to the State of Maryland in the accompanying financial statements.

Requests for Information

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

(Rest of page intentionally left blank.)

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2018
Exhibit A-1

	Primary Government			Component Units Total
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Equity in pooled cash and investments	$ 985,998,129	$ 184,638,239	$ 1,170,636,368	$ 138,363,843
Cash with fiscal agents	229,510,515	2,459,460	231,969,975	86,484,639
Cash	396,455	113,074	509,529	18,107,823
Investments - cash equivalents	-	-	-	110,735,477
Investments	-	-	-	33,782,033
Receivables (net of allowance for uncollectibles):	645,205,734	9,513,381	654,719,115	422,766,859
Internal balances	2,646,528	(2,646,528)	-	-
Due from primary government	-	-	-	38,334,943
Due from component units	61,467,899	210,786	61,678,685	-
Due from other governments	83,949,152	24,209	83,973,361	33,152,725
Inventory of supplies	10,316,043	30,871,698	41,187,741	11,167,587
Prepaid expenses	869,437	243,065	1,112,502	2,017,193
Other assets	-	-	-	50,404,815
Restricted Assets:				
Equity in pooled cash and investments	-	9,153,878	9,153,878	2,737,368
Cash with fiscal agents	-	-	-	21,749,734
Cash	-	-	-	448,470
Investments - cash equivalents	-	-	-	189,951,472
Investments	-	3,041,472	3,041,472	100,674,739
Capital Assets:				
Nondepreciable assets	2,924,031,700	58,726,454	2,982,758,154	460,541,704
Depreciable assets, net	1,927,867,473	204,360,196	2,132,227,669	3,931,013,442
Total Assets	6,872,259,065	500,709,384	7,372,968,449	5,652,434,866
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding of debt	21,730,337	67,096	21,797,433	695,543
Pension deferrals	133,245,784	8,120,353	141,366,137	172,506,886
OPEB deferrals	61,139,641	-	61,139,641	119,125,525
Accumulated decrease in fair value of hedging derivatives	-	-	-	4,205,807
Total Deferred Outflows of Resources	216,115,762	8,187,449	224,303,211	296,533,761

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2018
Exhibit A-1 (Concluded)

	Primary Government			Component Units Total
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Accounts payable	$ 59,371,748	$ 12,212,724	$ 71,584,472	$ 143,641,414
Interest payable	33,756,447	600,846	34,357,293	22,440,762
Retainage payable	11,875,981	276,775	12,152,756	10,792,770
Accrued liabilities	134,976,288	17,531,221	152,507,509	100,870,001
Deposits	231,193	9,184,097	9,415,290	20,672,539
Due to primary government	-	-	-	61,783,679
Due to component units	37,519,100	815,543	38,334,643	-
Due to other governments	154,405,912	1,142,721	155,548,633	958,919
Unearned revenue	100,733,376	3,489,091	104,222,467	40,264,337
Other liabilities	5,607,256	7,617	5,614,873	34,776,013
Noncurrent Liabilities:				
Due within one year	867,288,657	13,137,622	880,426,279	165,319,046
Due in more than one year	5,508,359,904	136,483,343	5,644,843,247	4,126,605,323
Total Liabilities	6,914,125,862	194,881,600	7,109,007,462	4,728,124,803
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding of debt	-	-	-	2,856,000
Pension deferrals	65,803,194	3,888,326	69,691,520	65,765,326
OPEB deferrals	252,224,827	-	252,224,827	261,995,407
Accumulated increase in fair value of hedging derivatives	-	-	-	2,078,529
Total Deferred Inflows of Resources	318,028,021	3,888,326	321,916,347	332,695,262
NET POSITION				
Net investment in capital assets	2,169,845,557	185,894,133	2,355,739,690	3,419,552,210
Restricted for:				
Capital projects	126,666,183	-	126,666,183	195,928
General government	37,448,246	-	37,448,246	-
Public safety	2,012,749	-	2,012,749	-
Public works and transportation	20,825,397	27,633,735	48,459,132	-
Recreation	13,033,919	-	13,033,919	-
Community development and housing	243,504,219	-	243,504,219	-
Environment	19,412,805	43,890,747	63,303,552	-
Debt service	187,817,336	9,021,173	196,838,509	103,184,414
Other purposes	-	-	-	42,608,713
Unrestricted (deficit)	(2,964,345,467)	43,687,119	(2,920,658,348)	(2,677,392,703)
Total Net Position	$ (143,779,056)	$ 310,126,907	$ 166,347,851	$ 888,148,562

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
Exhibit A-2

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities				
General government	$ 424,387,485	$ 99,081,775	$ 1,367,478	$ 34,405,150
Public safety	673,208,779	55,776,247	34,036,104	2,738,267
Public works and transportation	270,104,981	32,977,409	41,117,169	78,162,405
Health and human services	340,401,563	4,765,964	108,745,542	-
Culture and recreation	124,775,369	38,827,721	7,150,941	1,866,137
Community development and housing	73,658,830	8,665,072	8,273,826	-
Environment	32,168,215	97,921	-	6,677,036
Education	2,094,083,289	-	-	-
Interest on long term debt	118,778,942	-	-	-
Total Governmental Activities	4,151,567,453	240,192,109	200,691,060	123,848,995
Business-type Activities				
Liquor control	268,344,647	296,898,858	-	-
Solid waste disposal and collection	100,674,500	115,663,792	-	-
Parking lot districts	33,941,506	36,166,913	-	-
Permitting services	39,017,094	44,429,923	-	-
Community use of public facilities	11,857,115	11,917,129	-	-
Total Business-type Activities	453,834,862	505,076,615	-	-
Total Primary Government	$ 4,605,402,315	$ 745,268,724	$ 200,691,060	$ 123,848,995
Component Units:				
General government (BUP)	$ 5,630,858	$ 5,426,221	$ 183,000	$ -
Culture and recreation (MCRA)	18,398,754	15,715,436	-	4,660,464
Community development and housing (HOC)	262,571,947	120,246,809	128,528,131	2,176,932
Education:				
Elementary and secondary education (MCPS)	2,851,135,552	35,377,525	129,864,548	71,750,307
Higher education (MC)	352,064,605	71,055,228	19,891,068	47,967,381
Total Component Units	$ 3,489,801,716	$ 247,821,219	$ 278,466,747	$ 126,555,084

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 contibutions not restricted to specific programs
Investment income
Gain on sale of capital assets
Transfers
Total General Revenues and Transfers
Change in Net Positon
Net Position - Beginning
Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (289,533,082)	$ -	$ (289,533,082)	$ -
(580,658,161)	-	(580,658,161)	-
(117,847,998)	-	(117,847,998)	-
(226,890,057)	-	(226,890,057)	-
(76,930,570)	-	(76,930,570)	-
(56,719,932)	-	(56,719,932)	-
(25,393,258)	-	(25,393,258)	-
(2,094,083,289)	-	(2,094,083,289)	-
(118,778,942)	-	(118,778,942)	-
(3,586,835,289)	-	(3,586,835,289)	-
-	28,554,211	28,554,211	-
-	14,989,292	14,989,292	-
-	2,225,407	2,225,407	-
-	5,412,829	5,412,829	-
-	60,014	60,014	-
-	51,241,753	51,241,753	-
$ (3,586,835,289)	$ 51,241,753	$ (3,535,593,536)	$ -
$ -	$ -	$ -	$ (21,637)
-	-	-	1,977,146
-	-	-	(11,620,075)
-	-	-	(2,614,143,172)
-	-	-	(213,150,928)
$ -	$ -	$ -	$ (2,836,958,666)
1,789,105,013	-	1,789,105,013	-
1,448,372,065	-	1,448,372,065	-
109,452,764	-	109,452,764	-
49,135,141	-	49,135,141	-
197,200,021	-	197,200,021	-
21,033,479	-	21,033,479	-
51,600,631	-	51,600,631	-
4,483,548	-	4,483,548	-
-	-	-	3,042,507,612
18,175,824	2,073,306	20,249,130	13,818,732
2,106,453	197,700	2,304,153	13,594,938
65,155,838	(65,155,838)	-	-
3,755,820,777	(62,884,832)	3,692,935,945	3,069,921,282
168,985,488	(11,643,079)	157,342,409	232,962,616
(312,764,544)	321,769,986	9,005,442	655,185,946
$ (143,779,056)	$ 310,126,907	$ 166,347,851	$ 888,148,562

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018
Exhibit A-3

	General	Housing Initiative	Grants	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Equity in pooled cash and investments	$ 346,615,901	$ 33,127,918	$ 4,068,683	$ 18,558,350	$ 277,517,112	$ 102,926,111	$ 782,814,075
Cash with fiscal agents	6,566,957	-	-	169,878,531	53,065,027	-	229,510,515
Cash	147,955	212,450	-	-	-	35,750	396,155
Receivables (net of allowances for uncollectibles)	364,317,871	166,422,694	44,759,654	44,895,000	300,000	17,586,938	638,282,157
Due from other funds	121,670,433	-	-	-	-	-	121,670,433
Due from component units	97,261	46,365,779	10,867,763	-	3,885,117	-	61,215,920
Due from other governments	30,983,225	-	28,464,859	-	23,137,139	1,075,713	83,660,936
Inventory of supplies	6,171,336	-	-	-	-	-	6,171,336
Prepaids	584,470	-	-	147,853	-	-	732,323
Total Assets	$ 877,155,409	$ 246,128,841	$ 88,160,959	$ 233,479,734	$ 357,904,395	$ 121,624,512	$ 1,924,453,850
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities:							
Accounts payable	20,564,383	867,557	6,428,978	681,797	19,317,069	2,909,969	50,769,753
Retainage payable	562,154	-	63,918	-	11,249,909	-	11,875,981
Accrued liabilities	58,350,429	1,567,438	960,875	33	39,234,129	14,559,405	114,672,309
Deposits	63,850	-	-	-	-	167,343	231,193
Due to other funds	11,350,497	36,398	19,635,092	-	97,736,971	4,887,535	133,646,493
Due to component units	280,051	494,739	-	85,568	36,503,105	155,637	37,519,100
Due to other governments	549,151	255,000	5,668,764	-	2,769,790	1,362,036	10,604,741
Unearned revenue	-	-	55,291,598	44,895,000	3,182,016	2,211	103,370,825
Total Liabilities	91,720,515	3,221,132	88,049,225	45,662,398	209,992,989	24,044,136	462,690,395
Deferred Inflows of Resources:							
Unavailable income taxes	238,259,299	-	-	-	-	-	238,259,299
Unavailable property taxes	10,585,461	-	-	-	-	3,617,871	14,203,332
Unavailable revenues	15,565,628	4,186,754	-	-	21,245,223	1,988,645	42,986,250
Total Deferred Inflows of Resources	264,410,388	4,186,754	-	-	21,245,223	5,606,516	295,448,881
Fund Balances:							
Nonspendable	6,755,806	-	-	147,853	-	-	6,903,659
Restricted	322,335,413	238,720,955	111,734	187,669,483	126,666,183	97,404,646	972,908,414
Committed	62,163,634	-	-	-	-	-	62,163,634
Assigned	27,071,892	-	-	-	-	-	27,071,892
Unassigned	102,697,761	-	-	-	-	(5,430,786)	97,266,975
Total Fund Balances	521,024,506	238,720,955	111,734	187,817,336	126,666,183	91,973,860	1,166,314,574
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 877,155,409	$ 246,128,841	$ 88,160,959	$ 233,479,734	$ 357,904,395	$ 121,624,512	$ 1,924,453,850

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 POSITIO
JUNE 30, 2018
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		$ 1,166,314,574
Amounts reported for governmental activities in the statement of net position are difference because:		
Capital assets uses in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	$ 973,894,345	
Construction in progress	1,950,114,849	
Depreciable capital assets:		
Buildings	982,652,188	
Improvements other than buildings	96,720,536	
Furniture, fixtures, equipment and machinery	217,466,410	
Automobiles and trucks	245,349,649	
Infrastructure	1,938,001,213	
Other capital assets	41,927,309	
Total capital assets	6,446,126,499	
Less accumulated depreciation	(1,636,320,724)	4,809,805,775
Long-term liabilities related to governmental fund activities are not due and payable in the current period and therefore not reported in the funds:		
General obligation bonds payable	(2,925,230,000)	
Variable rate demand obligations	(170,000,000)	
Bond anticipation notes payable	(500,000,000)	
Lease revenue bonds payable	(20,390,000)	
Accrued interest payable	(33,756,447)	
Capital leases payable	(6,106,510)	
Taxable limited obligation	(74,665,000)	
Certificates of participation	(24,505,000)	
Notes payable	(109,283,025)	
Revenue bonds	(130,710,607)	
Net pension liability	(365,309,048)	
Net OPEB liability	(1,486,051,494)	
Compensated absences	(81,680,397)	(5,927,687,528)
Due to other governments - long term debt due to state government not expected to be repaid with current financial reserves	(143,300,000)	(143,300,000)
Certain costs related to long-term liabilities are recognized as expenditures in the fund statements, but are deferred in the government-wide statements:		
Unamortized premiums	(296,574,928)	
Unrecognized loss on refunding	21,730,337	
Pension related deferrals, net	(124,716,934)	(399,561,525)
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net position:		
Assets:		
Current and non current assets	218,217,537	
Capital assets	102,099,423	
Less accumulated depreciation	(60,006,025)	
Deferred outflows of resources	1,935,766	
Liabilities	(206,768,165)	
Deferred inflows of resources	(861,428)	
Cumulative gain/loss for certain activities of internal service funds that are reported with business-type activities	(2,053,787)	52,563,321
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	238,259,301	
Property taxes	14,203,332	
Intergovernmental revenue	26,416,978	
Other revenue	19,206,716	298,086,327
Net position of governmental activities (See Exhibit A-1)		$ (143,779,056)

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
Exhibit A-5

	General	Housing Initiative	Grants	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	$ 3,170,859,453	$ 12,936,302	$ -	$ -	$ 103,868,534	$ 402,634,963	$ 3,690,299,252
Licenses and permits	11,256,621	-	-	-	-	493,912	11,750,533
Intergovernmental	64,287,818	-	108,287,826	5,656,650	81,584,321	42,410,701	302,227,316
Charges for services	12,494,474	34,842	480	-	416,640	86,555,819	99,502,255
Fines and forfeitures	29,660,682	-	-	-	-	1,484,813	31,145,495
Investment income (loss)	3,595,298	2,841,976	395,471	1,272,378	2,605,507	686,110	11,396,740
Miscellaneous	9,241,500	2,027,100	1,588,621	4,565,406	1,068,404	38,287,255	56,778,286
Total Revenues	3,301,395,846	17,840,220	110,272,398	11,494,434	189,543,406	572,553,573	4,203,099,877
EXPENDITURES							
Current:							
General government	386,666,899	-	496,308	-	-	1,772,353	388,935,560
Public safety	392,519,611	-	13,768,945	-	-	233,301,285	639,589,841
Public works and transportation	70,864,322	-	4,813,040	-	-	126,819,711	202,497,073
Health and human services	249,913,897	-	82,573,817	-	-	421,162	332,908,876
Culture and recreation	47,205,792	-	200,390	-	-	50,465,798	97,871,980
Community development and housing	13,321,644	43,487,635	8,864,197	-	-	7,288	65,680,764
Environment	2,534,498	-	-	-	-	28,074,259	30,608,757
Education	1,850,884,306	-	-	-	-	-	1,850,884,306
Debt Service:							
Principal retirement	-	-	-	233,284,376	-	-	233,284,376
Leases and other obligations	-	-	-	24,716,905	-	-	24,716,905
Interest	-	-	-	147,666,274	-	-	147,666,274
Issuing costs	-	-	-	5,046,571	-	-	5,046,571
Capital projects	-	-	-	-	629,707,191	-	629,707,191
Total Expenditures	3,013,910,969	43,487,635	110,716,697	410,714,126	629,707,191	440,861,856	4,649,398,474
Excess (Deficiency) of Revenues over (under) Expenditures	287,484,877	(25,647,415)	(444,299)	(399,219,692)	(440,163,785)	131,691,717	(446,298,597)
OTHER FINANCING SOURCES (USES)							
Transfers in	110,420,093	27,517,991	340,000	378,560,232	135,465,919	3,683,616	655,987,851
Transfers (out)	(383,852,626)	(14,573,521)	-	(24,176,588)	(7,063,879)	(134,415,238)	(564,081,852)
Sale of property	367	1,648,724	-	-	681,000	-	2,330,091
Financing under notes and leases payable	-	-	-	-	39,446,477	-	39,446,477
Payment to refunded bond escrow agent	-	-	-	(441,368,126)	-	-	(441,368,126)
Debt Issued (Retired):							
General obligation bonds	-	-	-	340,000,000	-	-	340,000,000
Premium on original issue debt	-	-	-	28,688,520	-	-	28,688,520
Bond anticipation notes	-	-	-	(340,000,000)	340,000,000	-	-
General obligation refunding bonds	-	-	-	516,725,000	-	-	516,725,000
Premium on general obligation refunding bonds	-	-	-	86,325,587	-	-	86,325,587
Total Other Financing Sources (Uses)	(273,432,166)	14,593,194	340,000	544,754,625	508,529,517	(130,731,622)	664,053,548
Net Change in Fund Balances	14,052,711	(11,054,221)	(104,299)	145,534,933	68,365,732	960,095	217,754,951
Fund Balances - Beginning of Year	506,971,795	249,775,176	216,033	42,282,403	58,300,451	91,013,765	948,559,623
Fund Balances - End of Year	$ 521,024,506	$ 238,720,955	$ 111,734	$ 187,817,336	$ 126,666,183	$ 91,973,860	$ 1,166,314,574

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, 2018
Exhibit A-6

Net change in fund balance - total governmental funds (see Exhibit A-5)		$ 217,754,951
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays are expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated lives and reported as depreciation expense:		
Capital outlay	$ 367,473,057	
Depreciation expense	(88,729,400)	278,743,657
In the statement of activities, only the gain or loss on capital assets is reported. However, in the governmental funds, all proceeds or losses are reported as financial resources. Thus, the change in net position differs from the change in fund balance by the capital assets value.	(223,638)	(223,638)
Donations of capital assets increase net position in the statement of activities but do not appear in the governmental funds because they are not financial resources.	10,906,219	10,906,219
Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Unearned revenues increased (decreased) this year, as follows:		
Income taxes	(20,878,994)	
Property taxes	962,404	
Intergovernmental revenues	12,655,451	
Other revenues	8,945,061	1,683,922
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Debt issued or incurred:		
General obligation bonds	(971,739,107)	
Bond anticipation notes	(340,000,000)	
Notes payable	(39,446,477)	
Principal repayments:		
General obligation bonds	550,760,000	
Variable rate demand obligations	90,000,000	
Bond anticipation notes	340,000,000	
Taxable limited obligation certificates	3,995,000	
Leases payable	2,395,000	
Capital leases	2,348,320	
Certificates of participation	4,000,000	
Notes payable	12,369,873	
Revenue bonds	6,333,088	(338,984,303)
Cost incurred for past refunds owed as a result of the supreme court decision related to duplicate taxation	(2,068,675)	(2,068,675)
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	(3,934,490)	
Compensated absences	(2,316,937)	
Pension expense	32,618,338	
Other postemployment benefits	(61,955,017)	
Claims and judgements	1,073,600	
Amortization	65,036,520	30,522,014
The current year gain for certain activities of internal service funds is reported with governmental activities.		(29,348,658)
Change in net position of governmental activities (see Exhibit A-2)		$ 168,985,488

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018
Exhibit A-7

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Nonmajor Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Equity in pooled cash and investments	$ 6,306,249	$ 94,753,728	$ 33,938,245	$ 49,640,017	$ 184,638,239	$ 203,184,054
Cash with fiscal agents	2,459,460	-	-	-	2,459,460	-
Cash	50,500	3,600	58,974	-	113,074	300
Receivables (net of allowance for uncollectibles):	3,450,996	3,851,079	1,952,108	259,198	9,513,381	1,304,162
Due from other funds	-	4,000,000	-	-	4,000,000	8,907,005
Due from component units	-	494	210,292	-	210,786	251,979
Due from other governments	-	24,209	-	-	24,209	288,216
Inventory of supplies	30,871,698	-	-	-	30,871,698	4,144,707
Prepaids	243,065	-	-	-	243,065	137,114
Total Current Assets	43,381,968	102,633,110	36,159,619	49,899,215	232,073,912	218,217,537
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	5,633,636	3,520,242	-	9,153,878	-
Investments	-	-	3,041,472	-	3,041,472	-
Restricted Assets	-	5,633,636	6,561,714	-	12,195,350	-
Capital Assets:						
Land, improved and unimproved	7,033,656	17,834,755	33,575,670	-	58,444,081	22,506
Improvements other than buildings	15,054,010	81,554,468	89,914,543	-	186,523,021	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	26,404,147	34,344,862	236,042,928	-	296,791,937	-
Furniture, fixtures, equipment, and machinery	15,756,549	18,380,472	1,140,042	1,881,858	37,158,921	4,133,772
Automobiles and trucks	6,495,794	503,240	172,588	365,755	7,537,377	97,674,580
Construction in progress	-	-	282,372	-	282,372	-
Subtotal	70,744,156	152,632,148	361,128,143	2,247,613	586,752,060	102,099,423
Less: Accumulated depreciation	18,921,930	109,993,948	192,854,335	1,895,196	323,665,409	60,006,025
Total Capital Assets (net of accumulated depreciation)	51,822,226	42,638,200	168,273,808	352,417	263,086,651	42,093,398
Total Noncurrent Assets	51,822,226	48,271,836	174,835,522	352,417	275,282,001	42,093,398
Total Assets	95,204,194	150,904,946	210,995,141	50,251,632	507,355,913	260,310,935
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding of debt	-	-	67,096	-	67,096	-
Pension deferrals	2,221,547	1,348,994	588,433	3,961,379	8,120,353	1,935,766
Total Deferred Outflows of Resources	2,221,547	1,348,994	655,529	3,961,379	8,187,449	1,935,766

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018
Exhibit A-7 (Concluded)

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Nonmajor Enterprise Funds	Totals	
LIABILITIES						
Current Liabilities:						
Accounts payable	$ 4,338,795	$ 4,669,473	$ 2,895,468	$ 309,028	$ 12,212,764	$ 8,601,994
Interest payable	437,512	-	163,334	-	600,846	-
Retainage payable	32,910	-	243,865	-	276,775	-
Deposits	-	242,281	-	8,941,816	9,184,097	-
Claims payable	-	-	-	-	-	42,533,852
Accrued liabilities	8,063,465	7,697,855	1,995,482	3,553,744	21,310,546	4,670,146
Due to other funds	2,436,824	4,668,484	322,251	2,022,295	9,449,854	9,509,961
Due to component units	-	-	-	815,543	815,543	-
Due to other governments	1,137,186	5,535	-	-	1,142,721	501,171
Equipment notes payable	1,089,267	-	156,022	-	1,245,289	-
Unearned revenue	29,863	-	525,986	2,933,242	3,489,091	-
Revenue bonds payable	2,302,664	-	3,441,000	-	5,743,664	-
Landfill closure costs	-	1,323,038	-	-	1,323,038	-
Other liabilities	7,617	-	-	-	7,617	-
Total Current Liabilities	19,876,103	18,606,666	9,743,408	18,575,668	66,801,845	65,817,124
Noncurrent Liabilities:						
Claims payable	-	-	-	-	-	135,636,329
Equipment note payable	5,188,384	-	-	-	5,188,384	-
Revenue bonds payable	35,419,297	-	30,948,224	-	66,367,521	-
Landfill closure costs	-	14,348,266	-	-	14,348,266	-
Gude landfill remediation costs	-	28,530,853	-	-	28,530,853	-
Compensated absences	987,465	352,389	114,710	984,055	2,438,619	904,603
Net pension liability	5,713,111	3,251,669	1,311,753	9,629,895	19,906,428	4,410,109
Total Noncurrent Liabilities	47,308,257	46,483,177	32,374,687	10,613,950	136,780,071	140,951,041
Total Liabilities	67,184,360	65,089,843	42,118,095	29,189,618	203,581,916	206,768,165
DEFERRED INFLOWS OF RESOURCES						
Pension deferrals	1,115,943	635,150	256,224	1,881,009	3,888,326	861,428
Total Deferred Inflows of Resources	1,115,943	635,150	256,224	1,881,009	3,888,326	861,428
NET POSITION						
Net investment in capital assets	7,822,613	42,638,200	135,080,903	352,417	185,894,133	41,983,452
Restricted for:						
Public works and transportation	-	-	27,633,735	-	27,633,735	-
Environment	-	43,890,747	-	-	43,890,747	-
Debt service	2,459,460	-	6,561,713	-	9,021,173	-
Unrestricted	18,843,365	-	-	22,789,967	41,633,332	12,633,656
Total Net Position	$ 29,125,438	$ 86,528,947	$ 169,276,351	$ 23,142,384	308,073,120	$ 54,617,108
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					2,053,787	
Net position of business-type activities					$ 310,126,907	

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
Exhibit A-8

	Business-Type Activities - Enterprise Funds					Governmental
	Liquor	Solid Waste Activities	Parking Lot Districts	Nonmajor Enterprise Funds	Totals	Activities- Internal Service Funds
OPERATING REVENUES						
Sales - net	$ 294,632,270	$ -	$ -	$ -	$ 294,632,270	$ -
Charges for services	22,091	115,203,913	28,288,257	12,826,354	156,340,615	312,072,928
Licenses and permits	1,778,715	8,570	-	43,320,411	45,107,696	-
Fines and penalties	225,926	61,601	6,569,887	110,305	6,967,719	2,383,253
Total Operating Revenues	296,659,002	115,274,084	34,858,144	56,257,070	503,048,300	314,456,181
OPERATING EXPENSES						
Cost of goods sold	205,931,522	-	-	-	205,931,522	-
Personnel costs	37,113,495	14,933,391	4,884,202	34,297,493	91,228,581	30,554,850
Other post employment contributions	2,339,170	415,510	266,750	1,369,640	4,391,070	1,226,010
Postage	13,345	14,525	11,366	24,527	63,763	1,159,355
Self-insurance incurred and estimated claims	-	-	-	-	-	187,531,935
Insurance	724,274	1,301,074	25,894	523,278	2,574,520	34,102,727
Supplies and materials	743,407	1,163,672	554,091	408,731	2,869,901	25,126,334
Contractual services	4,948,717	76,200,315	7,882,554	7,328,834	96,360,420	15,079,229
Communications	348,981	100,203	140,909	207,255	797,348	338,864
Transportation	1,181,619	2,125,770	317,930	846,175	4,471,494	264,646
Public utility services	715,910	122,130	2,486,173	1,908,000	5,232,213	1,042,999
Rentals	7,261,915	98,683	1,194,467	3,192,050	11,747,115	2,762,636
Maintenance	1,231,147	341,624	4,129,824	436,108	6,138,703	16,151,457
Depreciation	2,779,000	2,202,544	10,904,342	161,424	16,047,310	8,987,924
Other	1,297,322	1,535,672	9,483	139,953	2,982,430	77,972
Total Operating Expenses	266,629,824	100,555,113	32,807,985	50,843,468	450,836,390	324,406,938
Operating Income (Loss)	30,029,178	14,718,971	2,050,159	5,413,602	52,211,910	(9,950,757)
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	(17,567)	-	(17,567)	-
Gain (loss) on disposal of capital assets	-	197,700	-	-	197,700	480,255
Investment income	50,539	866,485	434,447	721,836	2,073,307	2,609,160
Interest expense	(1,679,387)	-	(1,056,137)	(166)	(2,735,690)	-
Other revenue	239,624	216,863	1,304,349	89,982	1,850,818	-
Insurance recoveries	232	172,845	4,420	-	177,497	4,017,631
Total Nonoperating Revenues (Expenses)	(1,388,992)	1,453,893	669,512	811,652	1,546,065	7,107,046
Income (Loss) Before Capital Contributions and Transfers	28,640,186	16,172,864	2,719,671	6,225,254	53,757,975	(2,843,711)
Transfers In (Out):						
Transfers in	212,235	-	-	25,000	237,235	609,198
Transfers (out)	(30,680,946)	(2,993,810)	(4,700,265)	(27,018,053)	(65,393,074)	(27,359,360)
Total Transfers In (Out)	(30,468,711)	(2,993,810)	(4,700,265)	(26,993,053)	(65,155,839)	(26,750,162)
Change in Net Position	(1,828,525)	13,179,054	(1,980,594)	(20,767,799)	(11,397,864)	(29,593,873)
Total Net Position - Beginning of Year	30,953,963	73,349,893	171,256,945	43,910,183		84,210,981
Total Net Position - End of Year	$ 29,125,438	$ 86,528,947	$ 169,276,351	$ 23,142,384		$ 54,617,108
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(245,215)	
Change in net position of business-type activities					$ (11,643,079)	

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, 2018
Exhibit A-9

	Business Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 297,529,504	$ 111,507,033	$ 34,937,324	$ 56,370,439	$ 500,344,300	$ 313,415,155
Payments to suppliers	(219,002,925)	(84,557,066)	(15,280,320)	(15,234,084)	(334,074,395)	(60,209,249)
Payments to employees	(37,967,364)	(7,479,748)	(3,417,171)	(31,731,357)	(80,595,640)	(32,708,067)
Other operating receipts	239,624	-	1,308,769	4,564,508	6,112,901	-
Other operating payments	-	-	(9,258)	(4,509,937)	(4,519,195)	-
Other operating expenses	(1,297,321)	-	-	-	(1,297,321)	-
Claims paid	232	172,845	-	-	173,077	(213,642,204)
Other revenue	-	216,863	-	89,982	306,845	665,890
Internal activity - receipts from other funds	-	-	-	-	-	609,198
Net Cash Provided (Used) by Operating Activities	39,501,750	19,859,927	17,539,344	9,549,551	86,450,572	8,130,723
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	(17,567)	-	(17,567)	-
Insurance reimbursement claims	-	-	-	-	-	4,017,631
Operating subsidies and transfers from other funds	212,235	-	-	25,000	237,235	-
Operating subsidies and transfers to other funds	(30,680,946)	(2,993,810)	(4,700,265)	(27,018,053)	(65,393,074)	(27,359,360)
Net Cash Provided (Used) by Noncapital Financing Activities	(30,468,711)	(2,993,810)	(4,717,832)	(26,993,053)	(65,173,406)	(23,341,729)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	-	-	109,957	-	109,957	-
Proceeds from sale of capital assets	-	197,700	-	-	197,700	-
Acquisition and construction of capital assets	(2,327,971)	(2,567,875)	(6,218,574)	(78,856)	(11,193,276)	731,259
Proceeds from equipment note payable	2,307,845	-	-	-	2,307,845	-
Principal paid on equipment note payable	(1,069,499)	-	(153,332)	-	(1,222,831)	-
Interest paid on equipment note payable	-	-	(4,736)	-	(4,736)	-
Principal paid on capital debt	(2,384,646)	-	(3,291,000)	(18,987)	(5,694,633)	(8,689,972)
Interest paid on capital debt	(1,679,387)	-	(1,358,910)	(166)	(3,038,463)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,153,658)	(2,370,175)	(10,916,595)	(98,009)	(18,538,437)	(7,958,713)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	50,539	866,485	397,828	721,836	2,036,688	2,609,160
Net Cash Provided (Used) by Investing Activities	50,539	866,485	397,828	721,836	2,036,688	2,609,160
Net Increase (Decrease) in Cash and Cash Equivalents	3,929,920	15,362,427	2,302,745	(16,819,675)	4,775,418	(20,560,559)
Balances - Beginning of Year	4,886,289	85,028,537	35,214,716	66,459,692	191,589,234	223,744,913
Balances - End of Year	$ 8,816,209	$ 100,390,964	$ 37,517,461	$ 49,640,017	$ 196,364,652	$ 203,184,354
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$ 30,029,178	$ 14,718,971	$ 2,050,159	$ 5,413,602	$ 52,211,910	$ (9,950,757)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	2,779,000	2,202,544	10,904,342	161,424	16,047,310	8,987,924
Other revenue	239,624	216,863	1,304,349	89,982	1,850,818	-
Unearned revenue	2,853	-	(25,436)	-	(22,583)	-
Insurance recoveries	232	172,845	4,420	-	177,497	-
Pension expense	1,085,017	337,664	32,362	2,090,949	3,545,992	542,190
Effect of changes in operating assets and liabilities:						
Receivables, net	867,650	(4,009,333)	104,618	(12,032)	(3,049,097)	234,065
Inventories, prepaids and other assets	-	-	-	-	-	418,879
Compensated absences	74,104	-	-	-	74,104	-
Accounts payable and other liabilities	4,097,910	2,463,972	1,576,731	1,572,574	9,711,187	(7,526,886)
Claims payable	-	-	-	-	-	17,273,218
Accrued expenses	326,181	3,756,401	1,587,799	233,052	5,903,433	(1,847,910)
Net Cash Provided (Used) by Operating Activities	$ 39,501,749	$ 19,859,927	$ 17,539,344	$ 9,549,551	$ 86,450,571	$ 8,130,723
Noncash investing, capital and financing activities:						
Change in fair value of investments that are not cash and cash equivalents	$ -	$ -	$ 36,619	$ -	$ 36,619	$ -
Capital asset disposals	$ -	$ -	$ -	$ -	$ -	$ -

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018
Exhibit A-10

	Pension and Other Employee Benefit Trusts	Investment Trust	Agency Funds
ASSETS			
Current Assets:			
Equity in pooled cash and investments	$ 4,385,879	$ 11,692,941	$ 108,859,063
Cash	-	-	191,931
Investments:			
Government and agency obligations	676,076,999	-	-
Municipal/Provincial bonds	9,899,859	-	-
Asset-backed securities	825,121	-	-
Corporate bonds	810,031,679	-	-
Collateralized mortgage obligations	397,621	-	-
Commercial mortgage-backed securities	2,307,096	-	-
Common and preferred stock	2,185,543,139	-	-
Mutual and commingled funds	1,434,861,170	-	-
Short-term investments	135,951,805	-	-
Cash collateral received under securities lending agreements	158,972,606	-	-
Private real assets	229,293,906	-	-
Private equity/debt	487,709,210	-	-
Total Investments	6,131,870,211	-	-
Receivables (net of allowances for uncollectibles):			
Receivables and accrued interest	20,777,265	-	-
Property taxes	-	-	5,197,510
Accounts	44,364	-	9,794,083
Due from other funds	18,052,701	-	-
Due from component units	104,994	-	-
Due from other governments	3,267	-	141,326
Total Current Assets	6,175,238,681	11,692,941	124,183,913
Noncurrent Assets:			
Capital assets:			
Miscellaneous	900,043	-	-
Less: Accumulated depreciation	900,043	-	-
Total Capital Assets (net of accumulated depreciation)	-	-	-
Total Assets	6,175,238,681	11,692,941	$ 124,183,913
LIABILITIES			
Current Liabilities:			
Accounts payable	159,141,837	-	90,236
Accrued liabilities	6,152,197	-	-
Deposits	-	-	3,716,745
Claims payable	4,000,599	-	-
Due to other funds	23,832	-	-
Due to other governments	-	-	2,652,386
Uncollected property taxes due to governments	-	-	4,872,731
Undistributed taxes and refunds	-	-	2,091,158
Unearned revenue	-	-	75,344,480
Tax sale surplus and redemptions payable	-	-	2,514,230
Other liabilities	-	-	32,901,947
Total Current Liabilities	169,318,465	-	124,183,913
Noncurrent Liabilities:			
Compensated absences	93,667	-	-
Total Liabilities	169,412,132	-	$ 124,183,913
NET POSITION			
Restricted for pension and other postemployment benefits, external investment pool participants, and other purposes	$ 6,005,826,549	$ 11,692,941	

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
Exhibit A-11

	Pension and Other Employee Benefit Trusts	Investment Trust
ADDITIONS		
Contributions:		
Employers	$ 232,954,632	$ -
Members	60,340,138	-
Federal government - Medicare Part D	10,453,719	-
Share purchases	-	1,526,055
Total Contributions	303,748,489	1,526,055
Investment income (loss)	525,613,979	156,195
Less: Investment expenses	27,785,806	-
Net Investment Income (Loss)	497,828,173	156,195
Other income - forfeitures	336,228	-
Total Additions, net	801,912,890	1,682,250
DEDUCTIONS		
Benefits:		
Annuities:		
Retirees	178,267,822	-
Survivors	9,783,701	-
Disability	50,864,259	-
Claims	87,973,387	-
Total Benefits	326,889,169	-
Share redemptions	-	750,000
Member refunds	42,729,697	-
Administrative expenses	3,731,926	-
Total Deductions	373,350,792	750,000
Net Increase (Decrease)	428,562,098	932,250
Net Position - Beginning of Year	5,577,264,451	10,760,691
Net Position - End of Year	$ 6,005,826,549	$ 11,692,941

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

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET POSITION
COMPONENT UNITS
JUNE 30, 2018
Exhibit A-12

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	$ 108,863,371	$ -	$ 29,500,472	$ 138,363,843
Cash with fiscal agents	-	75,531,331	10,953,308	86,484,639
Cash	12,062,201	15,432	6,030,190	18,107,823
Investments - cash equivalents	77,594,797	25,625,077	7,515,603	110,735,477
Investments	-	-	33,782,033	33,782,033
Receivables (net of allowance for uncollectibles):				
Capital leases	-	-	6,477,240	6,477,240
Accounts	31,537,426	1,085,000	7,339,564	39,961,990
Notes	-	-	59,804,049	59,804,049
Mortgage	-	288,394,869	-	288,394,869
Interest	-	6,357,706	-	6,357,706
Other	106,443	19,043,832	2,620,730	21,771,005
Due from primary government	21,902,467	1,300,432	15,132,044	38,334,943
Due from other governments	23,002,511	6,271,109	3,879,105	33,152,725
Inventory of supplies	10,498,058	312,366	357,163	11,167,587
Prepaids	359,573	-	1,657,620	2,017,193
Other assets	-	45,593,203	2,901,173	48,494,376
Swap asset	-	1,910,439	-	1,910,439
Restricted Assets:				
Equity in pooled cash and investments	-	202,035	2,535,333	2,737,368
Cash with fiscal agents	-	21,749,734	-	21,749,734
Cash	-	-	448,470	448,470
Investments - cash equivalents	-	167,864,906	22,086,566	189,951,472
Investments	-	99,194,951	1,479,788	100,674,739
Capital Assets:				
Nondepreciable assets	190,793,237	129,391,679	140,356,788	460,541,704
Depreciable assets, net	2,738,259,789	678,958,779	513,794,874	3,931,013,442
Total Assets	3,214,979,873	1,568,802,880	868,652,114	5,652,434,866
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding of debt	-	-	695,543	695,543
Pension deferrals	158,625,591	6,293,851	7,587,444	172,506,886
OPEB deferrals	111,778,110	1,910,942	5,436,473	119,125,525
Accumulated decrease in fair value of hedging derivatives	-	4,205,807	-	4,205,807
Total Deferred Outflow of Resources	270,403,701	12,410,600	13,719,460	296,533,761
LIABILITIES				
Accounts payable	125,513,323	17,618,243	509,848	143,641,414
Interest payable	-	21,503,171	937,591	22,440,762
Retainage payable	8,955,887	-	1,836,883	10,792,770
Accrued liabilities	54,399,574	22,181,456	24,288,971	100,870,001
Deposits	-	20,318,501	354,038	20,672,539
Due to primary government	36,037	61,482,573	265,069	61,783,679
Due to other governments	-	-	958,919	958,919
Unearned revenue	8,386,615	24,304,655	7,573,067	40,264,337
Other liabilities	-	32,785,066	1,990,949	34,776,013
Noncurrent Liabilities:				
Due within one year	32,587,422	122,066,301	10,665,323	165,319,046
Due in more than one year	2,863,187,368	1,001,503,536	261,914,419	4,126,605,323
Total Liabilities	3,093,066,226	1,323,763,501	311,295,077	4,728,124,803
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding of debt	-	-	2,856,000	2,856,000
Pension deferrals	58,301,970	4,968,978	2,494,378	65,765,326
OPEB deferrals	249,002,567	4,774,388	8,218,452	261,995,407
Accumulated increase in fair value of hedging derivatives	-	1,910,439	168,090	2,078,529
Total Deferred Inflow of Resources	307,304,537	11,653,805	13,736,920	332,695,262
NET POSITION				
Net investment in capital assets	2,891,353,677	(24,803,352)	553,001,885	3,419,552,210
Restricted for:				
Capital projects	-	-	195,928	195,928
Debt service	-	101,704,626	1,479,788	103,184,414
Other purposes	2,088,987	6,103,325	34,416,401	42,608,713
Unrestricted (deficit)	(2,808,429,853)	162,791,576	(31,754,425)	(2,677,392,702)
Total Net Position	$ 85,012,811	$ 245,796,174	$ 557,339,577	$ 888,148,562

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, 2018
Exhibit A-13

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**MCPS**	**HOC**	**Nonmajor Component Units**	**Total**
Component Units:								
General government	$ 5,630,858	$ 5,426,221	$ 183,000	$ -	$ -	$ -	$ (21,637)	$ (21,637)
Culture and recreation	18,398,754	15,715,436	-	4,660,465	-	-	1,977,147	1,977,147
Community development and housing	262,571,947	120,246,809	128,528,131	2,176,932	-	(11,620,075)	-	(11,620,075)
Education:								
Secondary education	2,851,135,552	35,377,525	129,864,548	71,750,307	(2,614,143,172)	-	-	(2,614,143,172)
Higher education	352,064,605	71,055,228	19,891,068	47,967,381	-	-	(213,150,928)	(213,150,928)
Total component units	$ 3,489,801,716	$ 247,821,219	$ 278,466,747	$ 126,555,085	(2,614,143,172)	(11,620,075)	(211,195,418)	(2,836,958,665)
General revenues:								
Grants and contributions not restricted to specific programs					2,801,514,619	12,910,724	228,082,269	3,042,507,612
Investment income					9,358	8,285,354	5,524,020	13,818,732
Gain (loss) on sale of capital assets					82,013	13,512,924	-	13,594,937
Total general revenues					2,801,605,990	34,709,002	233,606,289	3,069,921,281
Change in net position					187,462,818	23,088,927	22,410,871	232,962,616
Net position - beginning, as restated					(102,450,007)	222,707,247	534,928,706	655,185,946
Net position - ending					$ 85,012,811	$ 245,796,174	$ 557,339,577	$ 888,148,562

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

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A) Reporting Entity

Background

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

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

Discretely Presented Component Units

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

Major Component Units

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

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

NonMajor Component Units

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

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

Montgomery County Public Schools
850 Hungerford Drive
Rockville, MD 20850

Montgomery College
9221 Corporate Boulevard
Rockville, MD 20850

Bethesda Urban Partnership, Inc.
7700 Old Georgetown Road
Bethesda, MD 20814

Housing Opportunities Commission of Montgomery County, Maryland
10400 Detrick Avenue
Kensington, MD 20895-2484

Montgomery County Revenue Authority
101 Monroe Street, 4th Floor
Rockville, MD 20850

Joint Ventures and Jointly Governed Organizations

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

Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737	Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707	Washington Suburban Transit Commission 4351 Garden City Drive, Suite 305 Hyattsville, MD 20785
Washington Metropolitan Area Transit Authority 600 Fifth Street, NW Washington, DC 20001	Northeast Maryland Waste Disposal Authority 100 S Charles St #2-402 Baltimore, MD 21201	Metropolitan Washington Council of Governments 777 N. Capitol Street, NE, #300 Washington, DC 20002

B) Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Statement of Net Position

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

Statement of Activities

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

Fund Financial Statements

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

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

Budget-to-Actual Comparison Schedules

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

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

Measurement Focus and Basis of Accounting

Full Accrual Basis Financial Statements

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

Modified Accrual Basis Financial Statements

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

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

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

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

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

Financial Statement Presentation

Major Governmental Funds

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

Major Enterprise Funds

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

Other Fund Types

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

Fiduciary Fund Types

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

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

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

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

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

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

1) Cash and Investments

Pooled Cash and Investment

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

Non-pooled Investments

Proprietary Fund Types

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

Pension and Other Employee Benefit Trust Fiduciary Fund Type

Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2018. Fair value for private investment funds, including private equity and private real assets, is determined using unit values supplied by the fund managers, which are based upon the fund managers' appraisals of the funds' underlying holdings. Such values involve subjective judgment and may differ from amounts which would be realized if such holdings were actually sold. The fair value of limited partnership investments is based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Cash and Cash Equivalents

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

2) Receivables and Payables

Due From/To Other Funds and Internal Balances

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

Trade Accounts Receivable

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

3) Inventories and Prepaids

Inventories

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

Prepaids

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

4) Restricted Assets

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

5) Capital Assets

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

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

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

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

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

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

6) Deferred Outflows of Resources

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

7) Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer's share of social security and medicare taxes. Based on a historical analysis of leave usage, accrued leave is classified as current and long-term. In the proprietary fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

8) Long-Term Obligations

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

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

9) Deferred Inflows of Resources

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

10) Fund Equity/Net Position

In the government-wide financial statements, the County has reported negative unrestricted net position. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MC, and M-NCPPC. The related capital assets are reported on the financial statements of these governments. For MCPS and MC, component units of the County, this amount is also classified as net investment in capital assets in the Component Units column of the government-wide Statement of Net Position (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net position (deficit) in the Governmental Activities column of the government-wide Statement of Net Position. At June 30, 2018, the County has reported outstanding general obligation bond, variable rate demand obligation, and bond anticipation note debt related to MCPS, MC, and M-NCPPC amounting to $1,823,365,298. Absent the effect of this relationship, the County would have reported a deficit in unrestricted net position of governmental activities in the amount of $1,097,293,050.

Classification of Fund Balance

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

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

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

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

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

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

11) Property Taxes

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied below the constant yield rate for FY18. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of nine members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate adopted for Levy Year 2017 (i.e., FY18), in conjunction with a one-time income tax offset credit, generated revenues below the Charter limit for that year.

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

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

12) Pensions

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

13) Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, information about fiduciary net position of the OPEB Plan and addition to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the Plan. For these purposes, benefit payments (including refunds of employer contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

E) New Accounting Standards

The County has adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The requirements of this Statement that address reporting by employers participating in the Other Postemployment Benefit (OPEB) plans are effective for financial statements for fiscal years beginning after June 15, 2017. This Statement must be implemented for FY18 reporting purposes. The required changes are reflected in the County's financial statements and notes to those statements. GASB Statement No. 75 required restatement of beginning net position as follows:

	Primary Government	
	Governmental Activities	
Net Position, June 30, 2017	$	865,748,112
Net OPEB Liability		(1,735,005,077)
Deferred Outflow of Resources		119,823,414
Net OPEB Obligation		436,669,007
Net Position, as restated	$	(312,764,544)

The County has adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. It was effective for FY18. This statement did not have a significant impact on the County's financial statements. the County has not entered into any agreements that qualify as irrevocable split-interest agreements which provide the County the right to a portion of the benefits from donated resources pursuant to an irrevocable split-interest agreement.

The County has adopted GASB Statement No. 85, *Omnibus 2017*. This GASB Statement is to provide clarification for the accounting and financial reporting of certain issues that were identified during implementation of several previously issued GASB Statements. This Statement was implemented for FY18 reporting purposes. The required changes are reflected in the County's financial statements and notes to those statements.

The County has adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This GASB Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement was effective for FY18. The required changes currently have no impact on the County's financial statements and notes to the statements.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A) Additional Fund Information

Revenue Stabilization Fund

This fund is used to account for the accumulation of resources at a targeted reserve level sufficient to address unexpected increases or decreases in revenues and expenditures. For financial reporting purposes this fund is included within the General Fund. Below is the change in the Revenue Stabilization Fund (RSF) balance for the fiscal year ended June 30, 2018.

Revenue Stabilization Fund (RSF)		
Balance – Beginning of Year	$	280,660,259
Investment Income		3,086,376
FY18 Statutory Contribution		24,949,110
Balance – End of Year	$	308,695,745

White Flint Special Taxing District

The White Flint Special Taxing District (WFSTD) is used to account for property tax collections and investment income earnings related to the White Flint Sector. These revenues are used to fund transportation infrastructure improvements and other development costs in the WFSTD. This fund is included within the Capital Projects Fund. Below is the change in the WFSTD balance for the fiscal year ended June 30, 2018.

White Flint Special Taxing District (WFSTD)		
Balance – Beginning of Year	$	6,877,405
Property Taxes		1,763,297
Investment Income		97,287
Balance – End of Year	$	8,737,989

Deficit Fund Equity

The deficit of $8,330,786 in the Fire Tax District Special Revenue Fund was caused by unplanned overtime in FY18. To address this shortfall, management will recommend a property tax adjustment and other expenditure and revenues adjustments in FY20.

(Rest of page intentionally left blank.)

NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Overview

The following is a schedule of total cash and investments:

	Primary Government	Component Units *	Total Reporting Entity
Statement of Net Position Amounts:			
Equity in pooled cash and investments	$ 1,170,636,368	$ 138,363,843	$ 1,412,956,216
Cash with fiscal agents	231,969,975	86,484,639	318,646,545
Cash	509,529	18,107,823	18,617,352
Investments - cash equivalents	-	110,735,477	110,735,477
Investments	6,131,870,211	33,782,033	6,165,652,244
Restricted equity in pooled cash and investments	134,091,761	2,737,368	32,873,124
Restricted cash with fiscal agents	-	21,749,733	21,749,733
Restricted cash	191,931	448,470	448,470
Restricted investments - cash equivalents	-	189,951,472	189,951,472
Restricted investments	3,041,472	100,674,740	103,716,212
Total	$ 7,672,311,247	$ 703,035,598	$ 8,375,346,845
Deposit and Investment Summary:			
Deposits	$ 397,323,220	$ 248,001,815	$ 645,325,035
Investments	7,042,316,592	255,162,910	7,297,479,502
Cash on hand, fiscal agents, safe deposit escrow	232,671,435	199,870,873	432,542,308
Total	$ 7,672,311,247	$ 703,035,598	$ 8,375,346,845

* Includes $289,888 in County Investment Pool

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

Government-wide	$ 1,415,311,222
Fiduciary funds	6,257,000,025
Total	$ 7,672,311,247

(Rest of page intentionally left blank.)

Primary Government

2) External Investment Pool

Overview

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

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

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

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

	Primary Government	Component Units	Total Reporting Entity
Statement of Net Position Amounts:			
Equity in pooled cash and investments	$ 1,170,444,437	$ 289,888	$ 1,170,734,325
Restricted equity in pooled cash and investments	134,283,692	-	134,283,692
Total	$ 1,304,728,129	$ 289,888	$ 1,305,018,017
Deposit and Investment Summary:			
Deposits	$ 397,323,220	$ -	$ 397,323,220
Investments, including accrued interest	907,404,909	289,888	907,694,797
Total	$ 1,304,728,129	$ 289,888	$ 1,305,018,017

Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statute requires that securities underlying certificates of deposit have a market value that equals or exceeds the cost of the deposit while County investment policy requires a market value of at least 102 percent of the cost of the deposit. Appropriate sections of these cited statutes also require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County's name at a third-party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

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

Investments

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

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created the Maryland Local Government Investment Pool within the Annotated Code of Maryland and more recently defined by Title 17, subtitle 3 of the Local Government Article of the Maryland Annotated Code. The Pool's purpose is to assist the public finance officer by providing an investment medium in which the participants may invest their idle balances. A pooled fund strategy is utilized creating a money market fund for municipalities that is a very safe, highly efficient, programmed approach to investing. Participants are provided professional money management, a well-diversified portfolio and reduced cost. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The MLGIP, under the administrative control of the State Treasurer, is managed by PNC Capital Advisors, LLC and custodied by PNC Bank, N.A. A MLGIP Advisory Committee of current participants was formed to review, on a semi-annual basis, the activities of the Fund and to provide suggestions to enhance the Pool. Investments held by the MLGIP are measured at amortized cost, which approximates fair value. Unit value is computed using the amortized cost method and maintains a $1 per share value.

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

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

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

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

The following is a summary of the fair value hierarchy of the fair value of investments of the County as of June 30, 2018:

		Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
Investments by fair value level	6/30/2018	Level 1	Level 2
U. S. Treasury Securities	$ 71,812,870	$ 71,812,870	$ -
U.S. Agency Securities	340,927,660	340,927,660	-
Repurchase Agreements	150,000,000	-	150,000,000
Commercial paper	83,673,435	-	83,673,435
Total investments by fair value level	$ 646,413,965	$ 412,740,530	$ 233,673,435
Investments measured at amortized cost:			
Maryland Local Government Investment Pool	259,209,845		
Total investments measured at amortized cost	259,209,845		
Total investments	$ 905,623,810		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy limits investments to maturities of one year or less. However, a portion of the portfolio may be invested in investments with longer maturities (up to two years); any investment with a maturity of over 12 months must be approved by the Director of Finance prior to execution. At June 30, 2018, the County had no investments with a maturity over 12 months.

Credit Risk

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

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

	Ratings		
Investment Type:	Standard & Poor's	Fitch	Moody's
Repurchase Agreements [1]	N/R	N/R	N/R
U.S. Agency Securities [2]			
Short Term Debt / Discount Notes	A-1+	F1+	P-1
Farmer Mac (FAMCA) Long Term Debt	N/R	N/R	N/R
Federal Farm Credit (FFCB) Long Term Debt	AA+	AAA	Aaa
Federal Home Loan Bank (FHLB) Long Term Debt	AA+	N/R	Aaa
Federal Home Loan Mortgage Corporation "Freddie Mac" (FHLMC) Long Term Debt	AA+	AAA	Aaa
Fannie Mae (FNMA) Long Term Debt	AA+	AAA	Aaa
Commercial Paper [3]	A-1	F1	P-1
Certificates of Deposit	N/R	N/R	N/R
Local Government Investment Pool (MLGIP)	AAAm	N/R	N/R

N/R - Not Rated

1 - Collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities.

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

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

Custodial Credit Risk

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

County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third-party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2018, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

The County's policy provides the maximum limits as follows:

Diversification by Investment Type:

	Maximum percent of Portfolio*
U. S. Treasury obligations	100%
U. S. Government agencies	75
Repurchase agreements	50
Bankers' acceptances	25
Money market mutual fund	50
Maryland Local Government Investment Pool (MLGIP)	50
Collateralized Certificates of Deposit and Time Deposits** (Including Brokered Certificates of Deposit)	25
Commercial paper	10

Diversification by Institution:	Maximum percent of Portfolio*
Approved Broker/Dealers and Commercial Banks (Repurchase Agreements)	30%
Money market mutual funds by fund	25
Banker's Acceptances by Institution and Country	15
Commercial Banks (Certificates of Deposit - does not include Brokered Certificates of Deposit)**	10
U.S. Government agencies by agency	20
Commercial Paper by Issuer	5

* At time of purchase

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

The County's investments are all under 5% for any one issuer other than US Agency Debt (10.0% Federal Home Loan Banks (FHLB), 6.0% Farmer Mac (FAMCA), 13% Federal Farm Credit Bank (FFCB) , 5.0% Federal Home Loan Mortgage Corp (FHLMC), 3.0% Federal National Mortgage Association (FNMA)) and 29% MLGIP. However, US Obligations (US Treasury and Agency Debt), mutual funds, and external investment pools (MLGIP) are exempt from the 5% of any one issuer maximum.

(Rest of page intentionally left blank.)

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2018, are as follows:

Statement of Net Position
June 30, 2018

Assets:		
Investment in securities, at fair value	$	905,623,810
Cash		397,323,220
Accrued interest receivable		2,070,987
Total assets and net position	$	1,305,018,017
Net position consists of:		
Internal participants' units outstanding ($1.00 par), unrestricted	$	1,293,325,076
External participants' units outstanding ($1.00 par)		11,692,941
Net position	$	1,305,018,017
Participants net position value, offering price and redemption price per share	$	1.00

Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2018

Investment Income *			$	11,498,132
Distributions to participants:				
Distributions paid and payable				(11,498,132)
Share transactions at net position value of $1.00 per share:				
Purchase of units	$	6,055,933,067 *		
Redemption of units		(5,991,678,757)		
Net increase (decrease) in net position and shares resulting from share transactions				64,254,310*
Total increase (decrease) in net position				64,254,310*
Net position, July 1, 2017				1,240,763,707
Net position, June 30, 2018			$	1,305,018,017

* The pool has no expenses.

(Rest of page intentionally left blank.)

3) Major and Nonmajor Fund Deposit and Investment Risks

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

General Fund

Cash with fiscal agents of $6,558,817 relates to amounts held by Marriott Hotels, pursuant to a management agreement, for the operation of the Conference Center. The remaining balance of $28,549 relates to equipment purchased under the master lease program.

Debt Service Fund

Cash with fiscal agents of $169,878,531 represents lease revenue bond and revenue bond debt service reserve funds and the Montgomery College Certificates of Participation trustee account which are held in money market mutual funds and U.S. Government securities.

Capital Projects Fund

Cash with fiscal agents of $53,065,027 is held in money market mutual funds for the purpose of reimbursing construction expenditures incurred for various capital projects in the County.

Liquor Fund

Cash with fiscal agents of $2,459,460 is held in money market funds for the purpose of reimbursing design, planning and renovation costs for a warehouse and for debt service.

4) Fiduciary Funds

Employees' Retirement System:

Investment Overview

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

Fair Value Measurement

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

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

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

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

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

(Rest of page intentionally left blank.)

Investments by fair value level	June 30, 2018	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
Government and agency obligations	$ 201,371,859	$ -	$ 199,341,671	$ 2,030,188
Municipal/Provincial obligations	8,431,521	-	8,431,521	-
Asset-backed securities	700,355	-	700,355	-
Corporate bonds	603,029,552	-	602,514,949	514,603
Collateralized mortgage obligations	379,768	-	379,768	-
Commercial mortgage-backed securities	2,283,013	-	2,283,013	-
Total debt securities	816,196,068	-	813,651,277	2,544,791
Equity Securities				
Consumer goods	212,616,395	210,696,728	1,919,667	-
Energy	84,402,660	83,951,845	419,002	31,813
Financial services	143,531,893	143,200,400	-	331,493
Health care	143,722,601	143,722,601	-	-
Industrials	180,162,471	179,957,624	22,065	182,782
Information technology	175,127,773	175,108,740	-	19,033
Materials	52,469,861	52,466,306	-	3,555
Telecommunication services	6,631,892	6,631,892	-	-
Utilities	29,764,162	29,764,162	-	-
Real Estate	201,677,506	197,627,782	4,049,724	-
Total equity securities	1,230,107,214	1,223,128,080	6,410,458	568,676
Total investments by fair value level	2,046,303,282	$ 1,223,128,080	$ 820,061,735	$ 3,113,467
Investments measured at the net asset value (NAV)				
Commingled equity funds	493,454,751			
Commingled bond funds	389,121,952			
Commingled real asset funds	182,142,247			
Commingled funds (other)	4,771,098			
Hedge fund	294,539,072			
Private real assets	198,112,470			
Private equity/debt	412,741,287			
Total investments measured at the NAV	1,974,882,877			
Investments measured at amortized cost				
Securities lending collateral fund	152,967,307			
Short-term investments	106,196,816			
Total investment measured at amortized cost	259,164,123			
Synthetic guaranteed investments contracts measured at contract value	841,195			
Total investments	$ 4,281,191,477			

		Fair Value Measurements Using	
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investment derivative instruments:			
Future contracts	$ (9,115,656)	$ (9,115,656)	$ -
Foreign exchange contracts	(489,765)	-	(489,765)
Total investment derivative instruments	$ (9,605,421)	$ (9,115,656)	$ (489,765)

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

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

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

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	$ 493,454,751	$ -	Daily, Monthly	0-15 days
Commingled bond funds	389,121,952	-	Daily	1-2 days
Commingled real asset funds	182,142,247	-	Daily, Bi-Weekly, Monthly	0-5 days
Commingled funds (other)	4,771,098	-	Daily	None
Hedge funds	294,539,072	-	Monthly, Quarterly	5-125 days
Private real assets	198,112,470	116,290,041	Not eligible	N/A
Private equity/debt	412,741,287	160,557,078	Not eligible	N/A
Total investments measured at the NAV	$ 1,974,882,877	$ 276,847,119		

Commingled Bond Funds, Equity Funds and Real Asset Funds

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

Hedge Funds

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

Securities Lending Collateral

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

Private Real Assets

The portfolio consists of twenty-eight private real asset limited partnerships. Private real asset funds include U.S. real estate, oil and gas, timber, agriculture and other real asset investments. The fair value of these funds have been determined using the net asset values as of June 30, 2018. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 5 to 10 years.

Private Equity/Debt

The portfolio consists of sixty-one private equity/debt limited partnerships. Private equity funds include buyout, turnaround, fund-of-funds, and growth of equity investments. Private debt funds include distressed and structured equity investments. The fair value of these funds have been determined using the net asset values as of June 30, 2018. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 3 to 10 years.

Credit Risk/Concentration of Credit Risk

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

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2018, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	$ 192,675,927	14.71%
Foreign Government Obligations	A	3,774,673	0.28
	BBB	1,006,228	0.08
	Unrated	3,915,031	0.30
Commercial Mortgage Backed Securities	BB-	1,216,741	0.09
	B-	1,066,272	0.08
Collateralized Mortgage-Backed Securities	Unrated	379,768	0.03
Municipal/Provincial Bonds	AAA	1,652,767	0.13
	AA	4,922,839	0.38
	BBB	302,835	0.02
	B	1,398,238	0.10
	Unrated	154,842	0.01
Corporate Bonds	AAA	6,254,871	0.48
	AA	15,088,726	1.15
	A	86,241,020	6.59
	BBB	134,096,934	10.24
	BB	152,228,419	11.62
	B	129,786,200	9.91
	CCC	48,259,782	3.69
	CC	458,844	0.04
	D	287,275	0.02
	Unrated	30,327,481	2.32
Asset-Backed Securities	Unrated	700,355	0.05
Fixed Income Pooled Funds	Unrated	387,994,731	29.63
Short-term Investments and Other	Unrated	105,360,952	8.05
Total Fixed Income Securities		$ 1,309,551,751	100.00%

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

Interest Rate Risk

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

As of June 30, 2018, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	16.64	$ 192,675,927	14.71%
Foreign Government Obligations	5.90	8,695,932	0.66
Collateralized Mortgage Obligations	(0.92)	379,768	0.03
Commercial Mortgage-Backed Securities	2.88	2,283,013	0.17
Municipal/Provincial Obligations	11.71	8,431,521	0.64
Corporate Bonds	7.11	603,029,552	46.06
Asset-Backed Securities	N/A	700,355	0.05
Fixed Income Pooled Funds	N/A	387,994,731	29.63
Short-term Investments and Other *	N/A	105,360,952	8.05
Total Fixed Income Securities		$ 1,309,551,751	100.00%

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

Foreign Currency Risk

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

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
Euro	$ 175,826,933	$ -	$ 6,119,870	$ 181,946,803
Japanese Yen	120,073,179	-	(4,225,468)	115,847,711
British Pound Sterling	84,083,930	722,682	38,510,383	123,316,995
Hong Kong Dollar	42,482,643	-	-	42,482,643
Swiss Franc	15,427,661	-	-	15,427,661
Danish Krone	15,785,520	-	-	15,785,520
Singapore Dollar	14,790,028	-	(40,237,534)	(25,447,506)
Mexican Peso	2,500,086	5,930,352	42,039	8,472,477
South Korean Won	4,431,886	-	133,595	4,565,481
Swedish Krona	16,201,886	-	(63,990,509)	(47,788,623)
Other Currencies	40,361,142	1,393,135	87,592,163	129,346,440
Total International Securities	$ 531,964,894	$ 8,046,169	$ 23,944,539	$ 563,955,602

Derivatives

In accordance with the Board's Statement of Investment Policy and Objectives, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY18, the System invested directly in various derivatives including, exchange-traded future contracts, forward currency contracts, and swaps. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Statement of Investment Policy and Objectives seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The system is not a dealer, but an end-user of these instruments.

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

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

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2018, the System held 231 long US Treasury futures contracts with a fair value of $30,046,547 and 233 short US Treasury futures contracts with a fair value of ($39,162,203).

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2018, the System held $486,662,841 buy foreign exchange contracts and ($468,375,184) sell foreign exchange contracts. The unrealized loss on the System's contracts was $(489,765).

Securities Lending

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

As of June 30, 2018, the fair value of securities on loan was $456,723,618. Cash received as collateral and the related liability of $152,967,307 as of June 30, 2018, is shown on the Statement of Fiduciary Net Position. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $3,867,343 and $2,362,343, 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, 2018:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
Government Obligations	$ 11,009,518	$ -	$ 11,263,121
Corporate Bonds	76,922,872	-	78,810,072
Equities	61,252,430	-	62,894,114
Lent for Non-Cash Collateral:			
Government Obligations	105,960,964	112,857,429	-
Corporate Bonds	4,386,291	4,670,395	-
Equities	197,191,543	209,369,725	-
Total	$ 456,723,618	$ 326,897,549	$ 152,967,307

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, 2018, 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, 2018, the fair value of the mutual and commingled investment funds was $443,877,730. The fair value of the investments in international mutual funds was $107,694,963.

Fair Value Measurement

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

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

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

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

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

		Fair Value Measurements Using		
Investments by fair value level	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities - self directed	$ 6,557,005	$ 6,557,005	$ -	$ -
Total investments by fair value level	6,557,005	$ 6,557,005	$ -	$ -
Investments measured at the net asset value (NAV)				
Commingled equity funds	75,055,160			
Commingled bond funds	10,991,603			
Commingled funds (other)	342,574,751			
Total investments measured at the NAV	428,621,514			
Commingled fund - Synthetic guaranteed investments contracts measured at contract value	8,699,211			
Total investments	$ 443,877,730			

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

(Rest of page intentionally left blank.)

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

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	$ 75,055,160	$ -	Daily	None
Commingled bond funds	10,991,603	-	Daily	None
Commingled funds (other)	342,574,751	-	Daily	None
Total investments measured at the NAV	$ 428,621,514	$ -		

Commingled Bond Funds, Equity Funds and Other Funds

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

Employees' Deferred Compensation Plan:

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2018, the fair value of the mutual and commingled investment funds was $430,321,129. The fair value of the investments in international mutual funds included in the County Plan was $64,877,214.

Fair Value Measurement

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

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

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

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

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

		Fair Value Measurements Using		
Investments by fair value level	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities - self directed	$ 12,109,724	$ 12,109,724	$ -	$ -
Total investments by fair value level	12,109,724	$ 12,109,724	$ -	$ -
Investments measured at the net asset value (NAV)				
Commingled equity funds	248,900,084			
Commingled bond funds	38,175,289			
Commingled funds (other)	84,828,202			
Total investments measured at the NAV	371,903,575			
Commingled fund - Synthetic guaranteed investments contracts measured at contract value	46,307,830			
Total investments	$ 430,321,129			

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

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

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	$ 248,900,084	$ -	Daily	None
Commingled bond funds	38,175,289	-	Daily	None
Commingled funds (other)	84,828,202	-	Daily	None
Total investments measured at the NAV	$ 371,903,575	$ -		

(Rest of page intentionally left blank.)

Commingled Bond Funds, Equity Funds and Other Funds

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

Consolidated Retiree Health Benefits Trust:

Section 33-163 of the Code authorizes the Board of Trustees of the Consolidated Retiree Health Benefits Trust (Trust) to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Trust Fund is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the Trust Fund's asset allocation and the investment managers hired by the Board. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing.

The following was the Board's adopted asset allocation policy as of June 30, 2018:

Asset Class	Target Allocation
Domestic Equities	16.80 %
International Equities	13.50
Emerging Market Equities	3.40
Global Equities	3.80
Private Equity	8.00
Private Debt	2.00
High Yield Bonds	8.50
Directional Hedge Funds	2.50
Total Growth	58.50
Long Duration Fixed Income	13.50
Cash	1.00
Diversifying Hedge Funds	2.50
Total Risk Mitigation	17.00
Global ILs	12.00
Private Real Assets	5.00
Public Real Assets	7.50
Total Real Assets/Inflation Protection	24.50
Total	100.00 %

Rate of Return

The annual money-weighted rate of return on the Trust Fund's investments, net of investment expenses for FY18 was 8.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurement

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

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

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

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

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

(Rest of page intentionally left blank.)

Investments by fair value level	June 30, 2018	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
Government and agency obligations	$ 64,710,594	$ -	$ 64,237,904	$ 472,690
Asset backed Securities	124,766	-	124,766	-
Municipal/Provincial obligations	1,468,338	-	1,468,338	-
Corporate bonds	152,688,713	-	152,595,773	92,940
Collateralized Mortgage Obligations	24,083	-	24,083	-
Commercial Mortgage-Backed	17,853	-	17,853	-
Total debt securities	219,034,347	-	218,468,717	565,630
Equity Securities				
Consumer goods	38,330,051	37,897,868	432,183	-
Energy	15,816,806	15,732,248	79,654	4,904
Financials	23,461,585	23,461,585	-	-
Health care	31,469,885	31,469,885	-	-
Industrials	25,946,718	25,946,718	-	-
Information technology	37,573,107	37,573,107	-	-
Materials	9,278,829	9,278,829	-	-
Real estate	30,071,395	29,444,730	626,665	-
Telecommunication services	38,157	38,157	-	-
Utilities	5,980,555	5,980,555	-	-
Total equity securities	217,967,088	216,823,682	1,138,502	4,904
Securities lending collateral fund	6,005,299	-	6,005,299	-
Total investments by fair value level	443,006,734	216,823,682	225,612,518	570,534
Investments measured at the net asset value (NAV)				
Commingled equity funds	248,669,182			
Commingled bond funds	76,313,229			
Commingled real asset funds	39,736,073			
Hedge fund	32,850,309			
Private real assets	31,181,436			
Private equity/debt	74,967,923			
Total investments measured at the NAV	503,718,152			
Investments measured at amortized cost				
Short-term investments	29,754,989			
Total investments measured at amortized cost	29,754,989			
Total investments	$ 976,479,875			
Investment derivative instruments:				
Futures contracts	$ (2,196,180)	$ (2,196,180)	$ -	$ -
Foreign exchange contracts	10,455	-	10,455	-
Total investment derivative instruments	$ (2,185,725)	$ (2,196,180)	$ 10,455	$ -

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

Debt securities classified in Level 2 are valued using either a bid evaluation, or matrix pricing techniques. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market. Short-term investments are cash or cash equivalents and generally include investments in money market-type securities reported at cost plus accrued interest, which approximates market or fair value. The Trust's custodian is the agent in lending the Trust's securities for collateral and investments which are in a commingled money market fund.

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

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled equity funds	$ 248,669,182	$ -	Daily, Monthly	0-15 days
Commingled bond funds	76,313,229	-	Daily	0 days
Commingled real asset funds	39,736,073	-	Daily, Bi-Weekly	0-5 days
Hedge fund	32,850,309	-	Monthly	5 days
Private real assets	31,181,436	18,977,761	Not eligible	N/A
Private equity/debt	74,967,923	45,459,554	Not eligible	N/A
Total investments measured at the NAV	$ 503,718,152	$ 64,437,315		

Commingled Bond Funds, Equity Funds and Real Asset Funds

One bond fund, nine equity funds, and three real asset funds are considered to be commingled in nature. The fair value of the investments in these types of funds have been determined using the NAV per share of the investments.

Hedge Fund

The fair values of the investments in this type have been determined using the NAV per share of the investments. One fund is categorized in this category. There is no redemption restrictions for this fund.

Private Real Assets

The portfolio consists of nineteen private real asset limited partnerships. Private real asset funds include U.S. real estate, oil and gas, timber, agriculture and other real asset investments. The fair value of these funds have been determined using the net asset values as of June 30, 2018. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 5 to 10 years.

Private Equity/Debt

The portfolio consists of twenty-nine private equity/debt limited partnerships. Private equity funds include buyout, turnaround, and fund-of-funds investments. Private debt funds include distressed and structured equity investments. The fair value of these funds have been determined using the net asset values as of June 30, 2018. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 3 to 10 years.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent. As of June 30, 2018, the Trust's fixed income portfolio had the following sensitivity to changes in interest rates.

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	16.04	$ 62,783,384	19.31%
Foreign Government Obligations	5.98	1,927,209	0.59
Municipal/Provincial Obligations	9.11	1,468,338	0.45
Corporate Bonds	7.66	152,677,427	46.96
Commercial Mortgage-Backed Securities	0.12	24,083	0.01
Collateralized Mortgage Obligations	0.43	17,853	0.01
Asset-Backed Securities	0.00	124,766	0.04
Fixed Income Pooled Funds	N/A	76,324,515	23.48
Short-term Investments and Other *	N/A	29,754,989	9.15
Total Fixed Income Securities		$ 325,102,564	100.00%

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

Credit Risk/Concentration of Credit Risk

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

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2018 are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	$ 62,783,384	19.31%
Foreign Government Obligations	A	609,639	0.19
	BBB	499,245	0.15
	Unrated	818,325	0.25
Municipal/Provincial Bonds	AAA	118,407	0.04
	AA	795,355	0.24
	BBB	104,100	0.03
	B	416,756	0.13
	Unrated	33,720	0.01
Corporate Bonds	AAA	1,587,876	0.49
	AA	4,520,645	1.39
	A	24,441,712	7.52
	BBB	37,306,823	11.47
	BB	38,402,988	11.81
	B	30,350,859	9.34
	CCC	9,545,796	2.94
	CC	44,281	0.01
	C	12,840	0.00
	D	3,000	0.00
	Unrated	6,460,607	1.99
Commercial Mortgage-Backed Securities	BB	24,083	0.01
Collateralized Mortgage Obligations	Unrated	17,853	0.01
Asset-Backed Securities	CCC	124,766	0.04
Fixed Income Pooled Funds	Unrated	76,324,515	23.48
Short-term Investments and Others	Unrated	29,754,989	9.15
Total Fixed Income Securities		$ 325,102,564	100.00%

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

Foreign Currency Risk

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

International Securities		Equity		Fixed Income		Short-term and Other		Total Non-U.S. Dollar
Euro	$	33,824,412	$	-	$	7,098	$	33,831,510
Japanese yen		18,697,773		-		513		18,698,286
Hong Kong dollar		8,901,720		-		-		8,901,720
British pound sterling		6,333,548		267,660		(230,037)		6,371,171
Swiss franc		1,444,645		-		-		1,444,645
Singapore dollar		3,089,367		-		-		3,089,367
Australian dollar		3,403,301		-		(2)		3,403,299
Danish krone		1,737,418		-		-		1,737,418
Swedish krona		2,602,691		-		-		2,602,691
Mexican peso		562,500		1,434,215		9,491		2,006,206
Other Currencies		2,474,420		453,784		9,128		2,937,332
Total International Securities	$	83,071,795	$	2,155,659	$	(203,809)	$	85,023,645

Derivatives

In accordance with the Board's Statement of Investment Policy and Objectives, the Trust Fund regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY18, the Trust Fund invested directly in various derivatives including, exchange-traded future contracts, forward currency contracts, and swaps. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The Trust Fund could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Statement of Investment Policy and Objectives seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the Trust Fund has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The Trust Fund is not a dealer, but an end-user of these instruments.

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

As permitted by the Board's policies, the Trust Fund holds off-financial statement derivatives in the form of exchange-traded financial futures.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2018, the Trust Fund held 51 long US Treasury futures contracts with a fair value of $6,188,461 and 47 short US Treasury futures contracts with a fair value of ($8,384,641).

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2018, the Trust held $578,863 buy foreign exchange contracts and ($568,408) sell foreign exchange contracts. The unrealized gain on the Trust's foreign exchange contracts was $10,455.

Securities Lending

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

As of June 30, 2018, the fair value of securities on loan was $58,403,113. Cash received as collateral and the related liability of $6,005,299 as of June 30, 2018, is shown on the Statement of Fiduciary Net Position. Securities received as collateral are not reported as assets since the Trust does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $261,403 and $28,492, 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, 2018:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
Corporate Bonds	$ 4,468,760	$ -	$ 4,580,723
Equities	1,374,215	-	1,424,576
Lent for Non-Cash Collateral:			
Government Obligations	11,321,490	12,004,768	-
Corporate Bonds	2,708,785	2,879,938	-
Equities	38,529,863	40,924,369	-
Total	$ 58,403,113	$ 55,809,075	$ 6,005,299

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2018, there were no funds held by a counterparty that was acting as the Trust's agent in securities lending transactions.

Component Units

HOC

At year-end, HOC's cash and investments are significant in relation to the total component unit cash and investments. HOC's cash balances as of June 30, 2018, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

HOC's investment policy which applies to the General Fund, Public Fund and the Opportunity Housing Fund, requires that the majority of HOC's investments must be on a short-term basis (less than one year); however a portion of the portfolio may be invested in investments with longer maturities (up to two years). The investment requirements for the Multi-Family Fund and Single Family Fund are specified within each of the bond trust indentures. The bond trustee is required to invest money in obligations with the objective that sufficient money will be available to pay the interest due on the bonds and will mature or be subject to redemption with the objective that sufficient money will be available for the purposes intended in accordance with the Indenture.

Credit Risk

HOC's investment policy for the General Fund, Public Fund and the Opportunity Housing Fund permits the following investment types: U.S. government and federal agencies; repurchase agreements; banker's acceptances; money market mutual funds; Maryland local government investment pool; Montgomery County investment pool; certificates of deposit and time deposits; and commercial paper. Bankers Acceptances of domestic banks and commercial paper must maintain the highest rating from one of the Nationally Recognized Statistical Rating Organizations (NRSRO) as designated by the SEC or State Treasurer. Repurchase agreements require collateralization at 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities provided the collateral is held by a custodian, other than the seller. Certificates of deposit or time deposits must be collateralized at 102% of the fair value and held by a custodian other than the seller. HOC invests in the Maryland State Local Government Investment Pool (MLGIP). The MLGIP is not subject to regulatory oversight by the SEC, however the MGLIP is operated pursuant to the annotated code of Maryland.

The Single Family and Multi-Family Bond Funds require that the trustee invest moneys on deposit under the indenture in investment obligations as defined by the respective bond indenture agreements. Investment obligations are defined as the following: (i) Government obligations; (ii) bond debentures or other obligations issued by government agencies or corporations; (iii) time deposits or certificate of deposits insured by the Federal Deposit Insurance Corporation; (iv) repurchase agreements backed by obligations described in (i) and (ii) above; (v) investment agreements; (vi) tax exempt obligations; and (vii) money market funds.

Custodial Risk

Amounts held in trust accounts and other demand accounts are covered by federal depository insurance, or collateralized at a level of at least 100% of fair value of principal and accrued interest. Repurchase agreement collateral for the MLGIP is segregated and held in the name of PNC Bank Safe Deposit and Trust's account at the Federal Reserve Bank. The cash and cash equivalents held by PNC Bank for the General Fund, Housing Opportunity Fund and Public Fund are in bank money market accounts and interest bearing accounts. These amounts are unrated by an independent rating agency. The Moody's rating for PNC Bank short-term deposits as of June 30, 2018 was P-1.

At June 30, 2018, HOC had the following cash, cash equivalents, investments and maturities:

		Fair Value	Rating
Cash Equivalents:			
General Sub-Fund:			
Money Market Accounts	$	14,197,985	N/A
Opportunity Housing Sub-Fund:			
Investment in MLGIP		1,666,150	AAAm
Money Market Accounts		26,908,412	N/A
Public Sub-Fund:			
Investment in MLGIP		2,943,571	AAAm
Multi-Family Sub-Fund:			
Money Market Accounts		56,552,490	N/A
Single Family Fund:			
Money Market Accounts		77,113,505	N/A
Real Estate Limited Partnership:			
Investment in MLGIP		202,035	AAAm
Money Market Accounts		14,107,873	N/A
Total cash, cash equivalents and investments	$	193,692,021	
Short-term Investments:			
Single Family Sub-Fund:			
GNMA Pass through Certificates	$	1,046,752	Aaa
FNMA Pass through Certificates		514,968	Aaa
Total short-term investments	$	1,561,720	

Continued

	Fair Value	1-5 years	6-10 years	Greater than 10 years	Rating
Long-term Investments:					
Multi-Family Sub Fund:					
U.S. Treasuries	$ 2,430,699	$ 1,708,120	$ 722,579	$ -	Aaa
Fannie Mae	3,017,785	-	1,774,447	1,243,338	Aa1
Federal Farm Credit Banks	2,462,610	-	632,494	1,830,116	Aaa
Federal Home Loan Banks	906,463	-	-	906,463	Aaa
Federal Home Loan Mortgage	875,294	-	-	875,294	Aaa
Bank One Investment Agreement	591,525	-	591,525	-	AA/Aa2
Single Family Sub-Fund:					
Federal Farm Credit Banks	6,445,850	-	-	6,445,850	Aaa
Federal Home Loan Banks	9,271,315	-	-	9,271,315	Aaa
Federal Home Loan Mtg Corp	1,600,155	-	-	1,600,155	Aaa
Fannie Mae	1,023,413	-	1,023,413	-	Aa1
GNMA Pass-through Certificates	39,937,477	-	-	39,937,477	Aaa
FNMA Pass-through Certificates	19,647,935	-	-	19,647,935	Aaa
U.S. Treasuries	5,232,251	3,987,684	-	1,244,567	Aaa
Tennessee Valley Authority	4,190,459	-	-	4,190,459	AA+
Total long-term investments	$ 97,633,231	$ 5,695,804	$ 4,744,458	$ 87,192,969	
Cash balances	97,296,495				
Total cash, cash equivalents and investments	$ 390,183,467				

Fair Value Measurement

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

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

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

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

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

Investments by fair value level	June 30, 2018	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
Fannie Mae	$ 4,041,199	$ -	$ 4,041,199	$ -
Federal Farm Credit Banks	8,908,459	-	8,908,459	-
Federal Home Loan Banks	10,430,362	-	10,430,362	-
U.S. Treasuries	7,662,950	7,662,950	-	-
FNMA Mortgage-Backed Securities	20,162,903	-	20,162,903	-
GNMA Mortgage-Backed Securities	40,984,229	-	40,984,229	-
Federal Home Loan Mortgage Corp	2,222,865	-	2,222,865	-
Federal National Mortgage Association	-	-	-	-
Investment Agreements	591,525	-	591,525	-
Tennessee Valley Authority	4,190,459	-	4,190,459	-
Total investments by fair value level	$ 99,194,951	$ 7,662,950	$ 91,532,001	$ -

	June 30, 2018	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment Derivative Instruments				
Swaps	$ 1,910,439	$ -	$ 1,910,439	$ -
Interest Rate Swaps	4,205,807	-	4,205,807	-
Total investment derivative instruments	$ 6,116,246	$ -	$ 6,116,246	$ -

(Rest of page intentionally left blank.)

B) Receivables

1) Accounts Receivable

Receivables at June 30, 2018 for the County's major funds and internal service funds in the aggregate, including the allowances for uncollectible accounts, were as follows:

	General Fund	Housing Initiative	Grants	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Receivables							
Income taxes	$ 341,500,457	$ -	$ -	$ -	$ -	$ -	$ 341,500,457
Property taxes	11,192,439	-	-	-	1,094	2,938,708	14,132,241
Capital leases	-	-	-	20,390,000	-	-	20,390,000
Accounts	11,894,484	-	335,820	-	-	12,045,230	24,275,534
Notes	359,479	-	2,014,906	24,505,000	-	-	26,879,385
Parking violations	977,904	-	-	-	-	311,866	1,289,770
Mortgages	547,875	190,809,457	44,807,413	-	300,000	2,291,134	238,755,879
Total receivables	366,472,638	190,809,457	47,158,139	44,895,000	301,094	17,586,938	667,223,266
Allowance for uncollectible accounts	(2,154,767)	(24,386,763)	(2,398,485)	-	(1,094)	-	(28,941,109)
Total receivable (net)	$ 364,317,871	$166,422,694	$ 44,759,654	$ 44,895,000	$ 300,000	$ 17,586,938	$ 638,282,157
Amounts not scheduled for collection during the subsequent year	$ 547,875	$190,809,457	$ 46,822,319	$ 20,390,000	$ 300,000	$ 2,291,134	$ 261,160,785

	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
Receivables						
Property taxes	$ -	$ -	$ 331,971	$ -	$ 331,971	$ -
Accounts	5,066,222	3,871,811	35,055	276,239	9,249,327	1,312,999
Parking violations	-	-	3,399,862	-	3,399,862	-
Total receivables	5,066,222	3,871,811	3,766,888	276,239	12,981,160	1,312,999
Allowance for uncollectible accounts	(1,615,226)	(20,732)	(1,814,780)	(17,041)	(3,467,779)	(8,837)
Total receivable (net)	$ 3,450,996	$ 3,851,079	$ 1,952,108	$ 259,198	$ 9,513,381	$ 1,304,162
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -	$ -	$ -

2) Due from/to Component Units

The balances at June 30, 2018, were:

Due from Component Units / Due to Primary Government:

Due from Component Units:	MCPS	MC	MCRA	HOC	BUP	Total
Due to Primary Government:						
General	$ 7,368	$ 3,159	$ 45,630	$ 41,104	$ -	$ 97,261
Housing Initiative	-	-	-	46,365,779	-	46,365,779
Grants	-	-	-	10,867,763	-	10,867,763
Capital Projects	-	-	-	3,885,117	-	3,885,117
Solid Waste Activities Enterprise	-	442	-	52	-	494
Major Enterprise	-	-	-	210,292	-	210,292
Internal Service	28,669	4,468	180,457	19,287	19,098	251,979
Fiduciary	-	-	11,815	93,179	-	104,994
Total Due to Primary Government	$ 36,037	$ 8,069	$ 237,902	$ 61,482,573	$ 19,098	$ 61,783,679

Due to Component Units / Due from Primary Government:

Due to Component Units:	MCPS	MC	MCRA	HOC	BUP	Total
Due from Primary Government:						
General	$ -	$ -	$ -	$ 34,642	$ 245,409	$ 280,051
Housing Initiative	-	-	-	494,739	-	494,739
Debt Service	-	85,568	-	-	-	85,568
Capital Projects	21,061,659	14,670,395	-	771,051	-	36,503,105
Nonmajor Governmental	25,180	-	-	-	130,372	155,637
Nonmajor Enterprise	815,543	-	-	-	-	815,543
Total Due from Primary Government	$ 21,902,382	$14,755,963	$ -	$ 1,300,432	$ 375,781	$ 38,334,643

Primary due from/to component unit balances are due to the following:

- $10.9 million due from HOC to the Grants Special Revenue Fund and $3.9 million due from HOC to the Capital Projects Fund represent loan receivables in the Opportunity Housing Development Fund and Moderately Priced Dwelling Unit (MPDU)/Property Acquisition Fund, respectively, which are revolving loan funds that are set up between the County and HOC. The County issues loans to HOC to purchase MPDUs or other similar properties which HOC repays to the County based on future cash flows.
- $46.4 million due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties.
- $21.1 million due to MCPS and $14.7 million due to MC from the Capital Projects Fund represent the amount of capital cash requests that have not yet been paid by the County.

Remaining balances resulted from normal business activities between the County and its component units.

3) Due from Other Governments

The total amount due from other governments at June 30, 2018, was comprised of the following:

	General	Grants	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	$ 332,832	$ 20,329,506	$ 13,157,549	$ 41	$ 30,750	$ -	$ -	$ 33,850,678
State of Maryland	30,588,914	8,123,180	8,142,458	21,772	1,045,161	150,708	3,016	48,075,011
Other	61,479	12,173	1,837,132	2,396	-	137,508	141,577	2,192,265
Total	$30,983,225	$ 28,464,859	$ 23,137,139	$ 24,209	$ 1,075,713	$ 288,216	$ 144,593	$ 84,117,954

4) Due to Other Governments

The total amount due to other governments at June 30, 2018 is $155,548,633. This amount is comprised mainly of $143.3 million due to the State of Maryland for claims processed as a result of the final ruling by the United States Supreme Court in the case of Comptroller of the Treasury of Maryland v Wynne et ux. This government-wide amount will be replenished to the State's local reserve account through reduced quarterly income tax distributions starting with the third distribution (May) in FY19 with a total of twenty equal installments ending in FY24.

(Rest of page intentionally left blank.)

C) Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Governmental Activities				
Nondepreciable Capital Assets:				
Land	$ 936,319,233	$ 37,658,158	$ 60,540	$ 973,916,851
Construction in progress	1,777,713,638	300,338,094	127,936,883	1,950,114,849
Total Nondepreciable Capital Assets	2,714,032,871	337,996,252	127,997,423	2,924,031,700
Depreciable Capital Assets:				
Buildings	877,745,860	104,906,328	-	982,652,188
Improvements other than buildings	78,330,299	968,876	-	79,299,175
Furniture, fixtures, equipment and machinery	221,256,593	679,634	430,205	221,506,022
Leasehold improvements	17,689,928	94,159	-	17,784,087
Automobiles and trucks	312,777,043	38,914,554	8,667,368	343,024,229
Infrastructure	1,908,094,853	29,906,360	-	1,938,001,213
Other assets	40,387,339	1,539,970	-	41,927,309
Total Capital Assets being Depreciated	3,456,281,915	177,009,881	9,097,573	3,624,194,223
Less Accumulated Depreciation for:				
Buildings	428,893,020	20,665,241	-	449,558,261
Improvements other than buildings	22,673,803	1,790,035	-	24,463,838
Furniture, fixtures, equipment and machinery	183,050,054	6,239,874	430,205	188,859,723
Leasehold improvements	9,774,885	1,040,209	-	10,815,094
Automobiles and trucks	174,136,451	26,183,166	8,253,267	192,066,350
Infrastructure	764,851,651	37,767,627	-	802,619,278
Other assets	23,913,033	4,031,173	-	27,944,206
Total Accumulated Depreciation	1,607,292,897	97,717,325	8,683,472	1,696,326,750
Total Depreciable Assets, net	1,848,989,018	79,292,556	414,101	1,927,867,473
Governmental Activities Capital Assets, net	$4,563,021,889	$ 417,288,808	$ 128,411,524	$4,851,899,173
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	$ 58,444,081	$ -	$ -	$ 58,444,081
Construction in progress	282,372	-	-	282,372
Total Nondepreciable Capital Assets	58,726,453	-	-	58,726,453
Depreciable Capital Assets:				
Buildings	296,414,089	377,848	-	296,791,937
Improvements other than buildings	180,364,690	6,327,820	169,489	186,523,021
Furniture, fixtures, equipment and machinery	36,059,202	3,054,908	1,955,189	37,158,921
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	5,056,894	2,512,667	32,184	7,537,377
Total Capital Assets being Depreciated	517,909,226	12,273,243	2,156,862	528,025,607
Less Accumulated Depreciation for:				
Buildings	153,533,278	8,584,046	-	162,117,324
Improvements other than buildings	132,484,633	4,075,547	-	136,560,180
Furniture, fixtures, equipment and machinery	18,888,226	3,037,390	1,044,712	20,880,904
Infrastructure	6,171	574	-	6,745
Automobiles and trucks	3,782,687	349,753	32,184	4,100,256
Total Accumulated Depreciation	308,694,995	16,047,310	1,076,896	323,665,409
Total Depreciable Assets, net	209,214,231	(3,774,067)	1,079,966	204,360,198
Business-Type Activities Capital Assets, net	$ 267,940,684	$ (3,774,067)	$ 1,079,966	$ 263,086,651

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

Governmental activities:		
General government	$	8,437,540
Public safety		10,744,779
Public works and transportation		67,131,718
Health and human services		2,005,515
Culture and recreation		8,058,110
Community development and housing		1,013,076
Environment		326,587
Total depreciation expense-governmental activities	$	97,717,325
Business-type activities:		
Liquor	$	2,779,000 *
Solid waste activities		2,202,544
Parking lot districts		10,904,342
Permitting services		161,424
Total depreciation expense-business-type activities	$	16,047,310

*Difference from Exhibit A-8 is due to rounding.

Construction commitments as of June 30, 2018 are as follows:

	Construction Commitments
General Government	$ 131,707,844
Public Safety	15,802,865
Public Works and Transportation	230,278,536
Culture & Recreation	24,686
Environment	34,275,472
Total	$ 412,089,403

Component Units

Capital assets of MCPS, amounting to $2,929,053,026 at June 30, 2018, are significant in relation to the total component unit capital assets.

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Governmental Activities				
Nondepreciable capital assets:				
Land	$ 87,693,060	$ 13,384,700	$ -	$ 101,077,760
Construction in progress	88,847,692	199,368,715	198,500,930	89,715,477
Total nondepreciable capital assets	176,540,752	212,753,415	198,500,930	190,793,237
Depreciable capital assets:				
Buildings and improvements	3,411,548,259	159,557,617	11,687,426	3,559,418,450
Site improvements	372,172,793	54,461,839	-	426,634,632
Vehicles and equipment	191,119,778	16,365,696	14,746,467	192,739,007
Total depreciable capital assets	3,974,840,830	230,385,152	26,433,893	4,178,792,089
Less accumulated depreciation for:				
Buildings and improvements	1,170,676,243	87,057,374	10,437,873	1,247,295,744
Site improvements	79,701,797	7,161,025	-	86,862,822
Vehicles and equipment	114,311,896	12,822,194	14,134,734	112,999,356
Total accumulated depreciation	1,364,689,936	107,040,593	24,572,607	1,447,157,922
Total depreciable capital assets, net	2,610,150,894	123,344,559	1,861,286	2,731,634,167
Government activities capital assets, net	$ 2,786,691,646	$ 336,097,974	$ 200,362,216	$ 2,922,427,404
Business-Type Activities				
Depreciable capital assets:				
Vehicles and equipment	$ 22,043,516	$ 2,229,732	$ 801,609	$ 23,471,639
Total depreciable capital assets	22,043,516	2,229,732	801,609	23,471,639
Less accumulated depreciation for:				
Vehicles and equipment	16,566,869	1,070,619	791,471	16,846,017
Total accumulated depreciation	16,566,869	1,070,619	791,471	16,846,017
Business-type activities capital assets, net	$ 5,476,647	$ 1,159,113	$ 10,138	$ 6,625,622
Educational Foundation capital assets net of accumulated depreciation	$ -	$ -	$ -	$ -
Total MCPS government-wide capital assets				$ 2,929,053,026

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

Governmental activities:		
Regular instruction	$	85,577,964
Special education		147,085
School administration		15,043
Student transportation		10,876,861
Operation of plant		212,984
Maintenance of plant		9,837,758
Administration		372,898
Total depreciation expense-governmental activities	$	107,040,593
Business-type activities:		
Food services	$	1,032,945
Entrepreneurial		37,674
Total depreciation expense-business type activities	$	1,070,619

Commitments for ongoing construction in progress at June 30, 2018 were $231,820,745.

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2018, is as follows:

	Due From Fund				
Due To Fund	General	Solid Waste Activities	Internal Service	Fiduciary	Total
General	$ -	$ -	$ 5,402,943	$ 5,947,554	$ 11,350,497
Housing Initiative	-	-	13,019	23,379	36,398
Grants	19,253,152	-	196,298	185,642	19,635,092
Capital Projects	97,310,850	-	183,839	242,282	97,736,971
Liquor	1,838,263	-	384,574	213,987	2,436,824
Solid Waste Activities	477,229	4,000,000	83,165	108,090	4,668,484
Parking Lot Districts	229,800	-	38,500	53,951	322,251
Nonmajor Governmental	-	-	2,132,565	2,754,970	4,887,535
Nonmajor Enterprise	1,419,926	-	228,858	373,511	2,022,295
Internal Service	1,141,213	-	231,085	8,137,662	9,509,960
0Fiduciary	-	-	12,159	11,673	23,832
Total	$ 121,670,433	$ 4,000,000	$ 8,907,005	$ 18,052,701	$ 152,630,139

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

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

- $97.3 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and the lag time between programming and collection of certain impact taxes.

Remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, and (4) payroll accrual charges to fiduciary funds.

Interfund transfers for the year ended June 30, 2018, consisted of the following:

	Transfers In Fund					
Transfers Out Fund	General	Housing Initiative	Grants	Debt Service	Capital Projects	Subtotal Major Governmental
General	$ -	$22,703,644	$ -	$ 312,020,121	$ 46,703,653	$ 381,427,418
Housing Initiative	329,848	-	-	7,325,134	6,918,539	14,573,521
Capital Projects	-	4,814,347	-	144,691	-	4,959,038
Debt Service	-	-	-	-	24,176,588	24,176,588
Liquor	24,828,303	-	-	5,850,772	1,871	30,680,946
Solid Waste Activities	2,993,810	-	-	-	-	2,993,810
Parking Lot Districts	4,700,265	-	-	-	-	4,700,265
Nonmajor Governmental	44,181,454	-	340,000	53,219,514	36,674,270	134,415,238
Nonmajor Enterprise	6,027,053	-	-	-	20,991,000	27,018,053
Internal Service Funds	27,359,360	-	-	-	-	27,359,360
Total	$ 110,420,093	$27,517,991	$ 340,000	$ 378,560,232	$ 135,465,921	$ 652,304,237

	Transfers In Fund					
Transfers Out Fund	Liquor	Subtotal Major Enterprise	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General	$ -	$ -	$ 1,791,010	$ 25,000	$ 609,198	$ 383,852,626
Housing Initiative	-	-	-	-	-	14,573,521
Capital Projects	212,235	212,235	1,892,606	-	-	7,063,879
Debt service	-	-	-	-	-	24,176,588
Liquor	-	-	-	-	-	30,680,946
Solid Waste Activities	-	-	-	-	-	2,993,810
Parking Lot Districts	-	-	-	-	-	4,700,265
Nonmajor Governmental	-	-	-	-	-	134,415,238
Nonmajor Enterprise	-	-	-	-	-	27,018,053
Internal Service Funds	-	-	-	-	-	27,359,360
Total	$ 212,235	$ 212,235	$ 3,683,616	$ 25,000	$ 609,198	$ 656,834,286

Primary activities include:

- Transfers from major and nonmajor governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipts and pay-go from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfers from Capital Projects to Housing Initiative to build multi-family housing.

E) Leases

1) Operating Leases

The County leases buildings and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $23,876,642 for FY18. Future minimum lease payments under significant non-cancelable operating leases are as follows.

Fiscal Year Ending June 30		
2019	$	23,426,349
2020		22,703,080
2021		21,994,019
2022		18,953,556
2023		10,765,396
2024 - 2028		37,527,583
2029 - 2033		8,666,402
Total	$	144,036,385

2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F8), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. Separate lease agreements were executed in conjunction with each bond issue. The leases associated with the 2002 and 2004 bond issues have original terms of 22 years and 20 years, respectively, both ending on June 1, 2024.

On October 13, 2011, the County issued Series 2011 Bonds to finance a portion of the costs, and construction of the parking structure and related facilities at the Glenmont Metrorail Station within the County; and refunded the County's outstanding Lease Revenue Bonds Series 2002 and Lease Revenue Bonds Series 2004.

The composition of the capital lease receivable is as follows:

	Minimum Lease Receivable		Unearned Income		Net Investment	
Shady Grove	$	9,908,865	$	(1,752,865)	$	8,156,000
Grosvenor		9,661,143		(1,709,043)		7,952,100
Glenmont		5,202,154		(920,254)		4,281,900
Total	$	24,772,162	$	(4,382,162)	$	20,390,000

At June 30, 2018, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30		
2019	$	3,496,862
2020		3,510,862
2021		3,507,862
2022		3,513,363
2023		3,516,613
2024-2028		5,525,263
2029-2031		1,701,337
Total minimum lease payments	$	24,772,162

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	$	2,018,344
Land improvements		5,000,513
Buildings		72,443,570
Furniture, fixtures, equipment and machinery		159,291
Subtotal		79,621,718
Less accumulated depreciation		(38,942,719)
Total asset value under capital leases	$	40,678,999

(Rest of page intentionally left blank.)

The leases have maturity dates ranging from April 15, 2017 to April 15, 2023. The County makes annual principal payments and semi-annual interest payments. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, are as follows:

Fiscal Year Ending June 30		
2019	$	2,515,077
2020		991,834
2021		987,709
2022		990,978
2023		991,536
Total minimum lease payments		6,477,134
Less: amount representing interest		(370,624)
Present value of minimum lease payments	$	6,106,510

Included in the preceding schedules are amounts relating to the Montgomery County Conference Center, which was opened during FY05. The Maryland Stadium Authority (MSA) also participated in financing the construction through the issuance of long-term debt. The County recognized the MSA contribution of $19,719,328 as revenue when the Conference Center opened. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term.

(Rest of page intentionally left blank.)

F) Long-Term Debt

Primary Government

1) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2018, was as follows:

Governmental Activities	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within one year
Bonds payable:					
General obligation bonds	$ 2,789,265,000	$ 686,725,000	$ (550,760,000)	$ 2,925,230,000	$ 235,805,000
Variable rate demand obligations	90,000,000	170,000,000	(90,000,000)	170,000,000	-
Bond anticipation notes	500,000,000	340,000,000	(340,000,000)	500,000,000	500,000,000
Revenue bonds					
Liquor control	60,853,695	-	(3,088,088)	57,765,607	3,217,336
Water quality protection	76,190,000	-	(3,245,000)	72,945,000	3,360,000
Lease revenue bonds payable	22,785,000	-	(2,395,000)	20,390,000	2,520,000
Add remaining original issue premium	250,655,489	115,014,107	(70,474,314)	295,195,282	-
Total bonds payable	3,789,749,184	1,311,739,107	(1,059,962,402)	4,041,525,889	744,902,336
Leases and notes payable:					
Capital leases	8,454,830	-	(2,348,320)	6,106,510	2,386,510
Certificates of participation	28,505,000	-	(4,000,000)	24,505,000	360,000
Taxable limited obligation certificates	78,660,000	-	(3,995,000)	74,665,000	4,110,000
Other leases and notes payable	25,398,332	4,295,008	(272,556)	29,420,784	1,606,898
Equipment notes	56,773,847	35,185,711	(12,097,317)	79,862,241	16,631,334
Add remaining original issue premium	1,530,844	-	(151,198)	1,379,646	-
Total leases and notes payable	199,322,853	39,480,719	(22,864,391)	215,939,181	25,094,742
Other non-debt related liabilities:					
Compensated absences	81,897,437	61,275,761	(58,930,539)	84,242,659	54,757,728
Net OPEB liability	1,735,005,077	-	(248,953,583)	1,486,051,494	-
Claims payable - self-insurance	159,081,601	187,531,934	(168,443,354)	178,170,181	42,533,851
Net pension liability - county	497,356,879	211,538	(193,345,097)	304,223,320	-
Net pension liability - county (LOSAP)	40,657,679	-	(2,711,633)	37,946,046	-
Net pension liability - state	30,107,615	-	(2,557,824)	27,549,791	-
Claims and judgments	1,073,600	-	(1,073,600)	-	-
Total other non-debt related	2,545,179,888	249,019,233	(676,015,630)	2,118,183,491	97,291,579
Total Governmental Activities Liabilities	$ 6,534,251,925	$ 1,600,239,059	$(1,758,842,423)	$ 6,375,648,561	$ 867,288,657
Business-Type Activities					
Revenue bonds:					
Liquor control	$ 38,716,305	$ -	$ (2,206,912)	$ 36,509,393	$ 2,302,664
Parking revenue bonds	36,551,000	-	(3,291,000)	33,260,000	3,441,000
Add remaining original issue premium	2,838,115	-	(496,323)	2,341,792	-
Total revenue bonds	78,105,420	-	(5,994,235)	72,111,185	5,743,664
Leases and notes payable:					
Equipment notes	5,367,645	2,307,846	(1,241,818)	6,433,673	1,542,055
Other non-debt related liabilities:					
Compensated absences	6,775,508	284,408	(92,431)	6,967,485	4,528,864
Net pension liability - county	24,039,503	1,695,010	(5,828,085)	19,906,428	-
Landfill closure costs	15,733,722	1,172,289	(1,234,707)	15,671,304	1,323,038
Gude landfill remediation	28,700,000	-	(169,147)	28,530,853	-
Total other non-debt related	75,248,733	3,151,707	(7,324,370)	71,076,070	5,851,902
Total Business-Type Activities Liabilities	$ 158,721,798	$ 5,459,553	$ (14,560,423)	$ 149,620,928	$ 13,137,622

Funding Source for Other Non-debt Related Liabilities

Long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year-end, $2,562,260 ($1,665,469 due within one year and $896,791 due in more than one year) of internal service fund compensated absences were included in the above amounts. Compensated absences liabilities of governmental activities are generally liquidated by the governmental funds that incurred the associated personnel cost. The primary liability for compensated absences is from the General Fund and the Fire Tax District Fund.

Net other post-employment benefit (OPEB) liabilities are liquidated with General Fund resources.

Claims and judgments are liquidated with resources from the General Fund or the fund to which the claim relates.

Net pension liabilities are liquidated with General Fund resources.

Landfill related obligations are liquidated from the Solid Waste activities funds.

2) General Obligation Bonds Payable

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

Proceeds from general obligation bonds for public schools and the community college are appropriated by the County Council to MCPS and MC (component units), respectively, and remitted to such component units by the County. For GAAP purposes, proceeds from debt issuance for these purposes and any related expenditures incurred and reimbursed to the component units are reflected as other financing sources and expenditures, respectively, in the accompanying fund financial statements. These amounts are not budgeted by the County since this activity is appropriated for budget purposes to the component units. Any general obligation bond proceeds, not yet expended by the component units at year end, are reflected as Restricted Fund Balance of the Capital Projects Fund.

The County issued Series A $170,000,000 in new money general obligation bonds dated November 15, 2017; the County received a premium on the issue of $28,688,520. These bonds were issued with a true interest cost of 1.73%. The County also issued Series B $78,270,000 refunding bonds, Series C $294,625,000 advance refunding bonds, and Series D $143,830,000 cross-over refunding bonds dated November 15, 2017. The County received premiums on the refunding bonds of $86,325,587 in total. These bonds were issued with a true interest cost of 1.63%, 2.07% and 2.10% respectively. The total net proceeds including premium of Series B were used to refund $90,000,000 of variable rate demand obligation bonds, and total net proceeds of Series C were used to advance refund $324,200,000 of general obligation (GO) bonds that were previously issued, and total net proceeds of Series D will be used to refund $154,675,000 of 2009 Series B (BABs).

A detail listing of these refunded bonds is as follows:

Series B	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
VRDO	06/07/06	2017-26	variable	$ 50,000,000	2018-26	$ 45,000,000
VRDO	06/07/06	2017-26	variable	50,000,000	2018-26	45,000,000
				$ 100,000,000		$ 90,000,000

Series C	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
GO Bonds	07/15/08	2009-29	4.1809	$ 250,000,000	2018-19	$ 12,950,000
GO Bonds	07/26/10	2011-22	2.2595	195,000,000	2021-22	32,500,000
GO Bonds	08/11/11	2012-31	3.2268	320,000,000	2020,2027-31	96,000,000
GO Bonds	10/24/12	2013-32	2.2977	295,000,000	2021-27	103,250,000
GO Bonds	11/26/13	2014-34	3.1269	295,000,000	2024.2026	29,500,000
GO Bonds	11/19/14	2015-35	2.7444	500,000,000	2025-26	50,000,000
				$ 1,855,000,000		$ 324,200,000

Series D	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years to be Refunded	Amount to be Refunded
GO Bonds	11/03/09	2015-29	3.1774	$ 232,000,000	2020-29	$ 154,675,000
				$ 232,000,000		$ 154,675,000

Net proceeds from the Series 2017B Bonds were provided to U.S. Bank in their capacity as Registrar and Paying Agent to redeem all of the Series 2006A and Series 2006B VRDOs, as well as to pay a portion of the accrued interest. Net proceeds of the Series 2017C Bonds will be applied to the purchase of State and Local Government Securities (SLGs), the principal and interest on which are guaranteed by the United States Government (Escrowed Securities). The Escrowed Securities will be deposited in a trust fund for the Refunded Bonds with U.S. Bank National Association (the Escrow Agent). The Escrowed Securities will pay the interest due on the Refunded Bonds and the redemption price on the redemption date. On or prior to the Crossover date (November 1, 2019), payment of the interest on the Series 2017D Bonds will be from funds held in the Crossover Escrow Account containing Escrowed Securities held by U.S. Bank (the BABs Escrow Agent). Monies remaining in the Crossover Escrow Account on the Crossover Date shall be used to redeem all of the Refunded BABs in advance of their scheduled maturities. Prior to the Crossover Date the Refunded BABS remain outstanding general obligations of the County.

The reacquisition price of the Series C refunding is less than the net carrying amount of the old debt by $360,683. The amount is reported as deferred outflows of resources and amortized over the remaining life of the new debt.

The debt service savings from Series B is $1,122,684 as shown below. The present value of the debt service savings (or economic gain) on the refunding is $1,009,999.

Series B

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2018	$ 10,843,350	$ 10,760,683	$ 82,667
2019	11,334,638	11,207,000	127,638
2020	11,242,135	11,110,750	131,385
2021	11,138,263	11,010,000	128,263
2022	11,004,575	10,874,250	130,325
2023-2026	42,200,656	41,678,250	522,406
Total	$ 97,763,617	$ 96,640,933	$ 1,122,684

Debt service on refunded bonds assumes variable rates based on the Securities Industry Financial Market Association (SIFMA) forward rates at the time of pricing and includes estimated remarketing fees, liquidity fees, and annual rating surveillance fees.

The debt service savings from Series C is $23,153,916 as shown below. The present value of the debt service savings (or economic gain) on the refunding is $20,584,005.

Series C

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2018	$ 6,594,125	$ 5,401,259	$ 1,192,866
2019	14,309,500	14,297,450	12,050
2020	24,694,750	23,004,200	1,690,550
2021	28,258,750	26,569,825	1,688,925
2022	42,165,000	40,474,325	1,690,675
2023-2027	209,013,125	200,575,125	8,438,000
2028-2032	103,171,250	94,730,400	8,440,850
Total	$ 428,206,500	$ 405,052,584	$ 23,153,916

The debt service savings from Series D is $9,559,333 as shown below. The present value of the debt service savings (or economic gain) on the refunding is $8,327,382.

Series D

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Refunding Receipts	Debt Service Savings
2019	$ -	$ 4,977,691	$ 4,977,691	$ -
2020	-	5,179,100	5,179,100	-
2021	20,567,386	19,589,100	-	978,286
2022	20,102,470	19,126,800	-	975,670
2023	19,637,553	18,655,400	-	982,153
2024-2028	90,738,466	86,011,000	-	4,727,466
2029-2030	32,599,158	30,703,400	-	1,895,758
Total	$ 183,645,033	$ 184,242,491	$ 10,156,791	$ 9,559,333

General obligation bond issues outstanding as of June 30, 2018, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2018	Unamortized Premium	Carrying Value June 30, 2018
06/01/05*	2005-21	5.00	$ 120,355,000	$ -	$ -	$ -
07/15/08	2009-29	3.00 - 5.00	250,000,000	10,650,000	191,020	10,841,020
11/03/09*	2011-20	2.00 - 5.00	161,755,000	59,360,000	1,676,225	61,036,225
11/03/09	2015-29	3.75 - 5.50	232,000,000	185,605,000	657,553	186,262,553
07/26/10	2011-22	2.00 - 5.00	195,000,000	48,750,000	3,414,059	52,164,059
07/26/10	2023-30	4.75 - 5.40	106,320,000	106,320,000	109,658	106,429,658
07/26/10	2023-30	4.75 - 5.40	23,680,000	23,680,000	24,425	23,704,425
08/11/11	2012-31	2.00 - 5.00	320,000,000	32,000,000	1,602,690	33,602,690
08/11/11*	2012-22	2.00 - 5.00	237,655,000	134,245,000	7,716,726	141,961,726
10/24/12	2013-32	2.50 - 5.00	295,000,000	118,000,000	8,739,396	126,739,396
11/26/13	2014-34	3.00 - 5.00	295,000,000	206,500,000	16,766,011	223,266,011
11/26/13*	2023-24	5.00	24,915,000	24,915,000	2,837,708	27,752,708
11/19/14	2015-35	4.00 - 5.00	500,000,000	375,000,000	50,667,161	425,667,161
11/19/14*	2016-28	5.00	297,990,000	270,590,000	39,739,447	310,329,447
03/26/15*	2018-21	5.00	58,520,000	58,520,000	2,474,142	60,994,142
12/01/15	2016-35	3.00 - 5.00	300,000,000	270,000,000	20,411,962	290,411,962
12/13/16	2017-36	3.00 - 5.00	340,000,000	323,000,000	25,561,846	348,561,846
11/15/17	2018-27	5.00	170,000,000	170,000,000	25,646,102	195,646,102
11/15/17*	2018-26	5.00	78,270,000	69,640,000	10,620,660	80,260,660
11/15/17*	2019-31	3.00-5.00	294,625,000	294,625,000	53,217,188	347,842,188
11/15/17*	2020-29	3.00-4.00	143,830,000	143,830,000	14,918,465	158,748,465
Total			$ 4,444,915,000	$ 2,925,230,000	$ 286,992,444	$ 3,212,222,444

* Issue represents refunding bonds.

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

Fiscal Year Ending June 30	General Obligation Bond Requirements Principal	Interest	Total
2019	$ 235,805,000	$ 129,416,184	$ 365,221,184
2020	383,115,000	113,960,950	497,075,950
2021	220,945,000	99,107,475	320,052,475
2022	214,075,000	88,642,675	302,717,675
2023	207,005,000	78,409,500	285,414,500
2024 - 2028	905,775,000	253,488,888	1,159,263,888
2029 - 2033	580,760,000	85,225,300	665,985,300
2034 - 2038	177,750,000	10,097,500	187,847,500
Total	$ 2,925,230,000	$ 858,348,472	$ 3,783,578,472

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of six percent of the assessable base of real property and 15 percent of the assessable base of personal property and operating real property. The legal debt margin as of June 30, 2018 is $7,758,169,142.

Prior-Year Defeasance of Debt

In prior years, the County defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. At June 30, 2018, $414,200,000 of bonds outstanding are considered defeased.

General obligation bonds authorized and unissued as of June 30, 2018 are $1,365,160,000 and $1,069,496,000, respectively. These amounts include amounts related to variable rate demand obligations (see Note III-F3). In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

3) Variable Rate Demand Obligations

The County issued variable rate demand obligations (VRDOs) on June 7, 2006, in the amount of $100 million. These obligations will not mature in total until 2026; however, the County is required by the Note Order to make annual sinking fund payments to retire one-tenth of the notes each year beginning in 2017. On November 15, 2017, the County issued $78,270,000 of general obligation refunding bonds to defease VRDOs 2006 Series A and B outstanding in the amount of $90,000,000.

On December 19, 2017, the County issued new VRDOs in the amount of $170 million. The bonds are subject to optional redemption at par in whole on any date or in part on any interest payment date upon 15 days' notice. Additionally, the bonds are subject to mandatary sinking fund redemption on November 1 in each of the years 2028 through 2037.

The interest rate on the obligations, which re-sets daily, is established by the remarketing agents and is payable on the first business day of each month. Other potential modes for the obligations include a Weekly Mode, a Commercial Paper Mode, a Term Rate Mode or a Fixed Rate Mode. Subject to certain terms and conditions in the Note Order, the County may affect a change in mode with respect to the obligations. The obligations are subject to optional tender and purchase on the demand of the owners thereof, upon certain terms. All such obligations are general obligations of the County to the payment of which the full faith and credit and unlimited taxing power of the County is irrevocably pledged.

In connection with the 2006 VRDOs, on June 1, 2017, the County entered into a First Extension and Amendment of Standby Note Purchase Agreement with Wells Fargo Bank, National Association. The Agreement extended the existing Wells Fargo Standby Note Purchase Agreement from July 14, 2017 to July 13, 2018. On December 1, 2017, the County entered into a new agreement with U.S. Bank and terminated the Wells Fargo agreement on December 19, 2017. The U.S. Bank Purchase Agreement requires U.S. Bank to provide funds for the purchase of VRDOs that have been tendered and not remarketed pursuant to such agreement. Because the County entered into a financing agreement that ensures the VRDOs can be refinanced on a long-term basis, these obligations are classified as noncurrent liabilities at year-end.

VRDOs outstanding as of June 30, 2018, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2017	Bonds Issued	Bonds Retired	Balance June 30, 2018
06/07/06	2017-26	Variable	$ 50,000,000	$ 45,000,000	$ -	$ (45,000,000)	$ -
06/07/06	2017-26	Variable	50,000,000	45,000,000	-	(45,000,000)	-
12/19/17	2028-37	Variable	-	-	170,000,000	-	170,000,000
Total			$ 100,000,000	$ 90,000,000	$ 170,000,000	$ (90,000,000)	$ 170,000,000

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

VRDO requirements to maturity are as follows:

Fiscal Year	Variable Rate Demand Obligation Requirements		
Ending June 30	Principal	Interest*	Total
2019	$ -	$ 2,465,000	$ 2,465,000
2020	-	2,465,000	2,465,000
2021	-	2,465,000	2,465,000
2022	-	2,465,000	2,465,000
2013	-	2,465,000	2,465,000
2024-2028	-	12,325,000	12,325,000
2029-2033	85,000,000	13,244,819	98,244,819
2034-2037	85,000,000	7,342,690	92,342,690
	$ 170,000,000	$ 45,237,509	$ 215,237,509

* Interest is calculated based on the interest rate as of the financial statement date. The interest rate for the VRDOs as of June 30, 2018 was 1.45% for Series E.

4) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to finance specific projects such as parking garages for the Bethesda Parking Lot District, Department of Liquor Control facilities, and Water Quality stormwater management facilities. Net revenues of Bethesda Parking Lot District including parking fees, fines, dedicated property taxes, and Department of Liquor Control revenues are pledged against the timely repayment of principal and interest of the outstanding revenue bonds of the respective funds. Net revenues of the Water Quality Protection fund are pledged against the timely repayment of principal and interest of the outstanding revenue bonds of the respective funds. Revenue bonds authorized and unissued as of June 30, 2018 are $432,998,000 and $47,639,000, respectively.

In April 2016, the County issued $46.5 million Water Quality Protection Charge Revenue Bonds Series 2016. The proceeds of the Series 2016 Bonds are being used to finance and refinance the planning, design, acquisition and construction of stormwater management facilities and other related projects as such facilities are included in and approved in the County's Capital Improvements Program.

In October 2015, the County issued $9.2 million Parking System Refunding Revenue Bonds (Bethesda Parking Lot District) Series 2015A. These bonds were issued with a true interest cost of 2.55%. The proceeds of the 2015A Bonds together with funds held in reserve were used to refund $10,230,000 Bethesda Parking Lot District Series 2005A bonds maturing on and after August 1, 2016.

	Dated Date	Original Maturity	Rate of Interest	Originally Issued	Years Refunded	Amount Refunded
Revenue Bonds	08/31/05	2007-2025	3.62 - 5.00%	$ 16,495,000	2016 - 2025	$ 10,230,000

Debt service savings from this refunding was $2.1 million. At the time of refunding, the present value of the debt service savings (or economic gain) on the refunding was $2.0 million.

In March 2017, the County converted the Bethesda Parking Lot District Series 2015 Bond from a tax-exempt to a taxable obligation in the amount of $8.5 million, which will allow the County more flexibility in the future operation of Garage 11 which was funded with the proceeds of the Bond. The amortization schedule for the Series 2015 Bond which matures in 2026, remains the same, except for conversion of the existing tax-exempt interest rate of 2.55% to a taxable rate of 3.57%. The increased debt service is approximately $390,000 on a net present value basis over the remaining life of the loan.

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

	Terms of Commitment (Years)	Approximate Amount of Pledge
Bethesda Parking Lot District	14	$ 40,142,436
Water Quality Protection	18	98,611,488
Liquor Control	15	127,496,352
Total		$ 266,250,276

The pledged net revenues recognized during FY18 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	Net Available Revenue for Debt Service	Debt Service		
		Principal	Interest	Total
Bethesda Parking Lot District	$ 10,908,972	$ 3,291,000	$ 1,358,910	$ 4,649,910
Liquor Control Fund	33,098,574	5,295,000	4,539,639	9,834,639
Water Quality Protection	15,945,171	3,245,000	2,900,838	6,145,838

Revenue bond issues outstanding as of June 30, 2018, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2018	Premium/ (Discount)	Carrying Value June 30, 2018
Parking Revenue Bonds:							
Bethesda Parking Lot District 2012	05/16/12	2015-32	3.000 - 3.250	$ 24,190,000	$ 20,155,000	$ 805,485	$ 20,960,485
Bethesda Parking Lot District 2012 Ref.	05/16/12	2013-21	1.250 - 1.930	13,750,000	5,210,000	323,739	5,533,739
Bethesda Parking Lot District 2015 Ref.	10/19/15	2017-25	2.55	9,174,000	7,895,000	-	7,895,000
Water Quality Protection 2012A	07/18/12	2013-32	0.250 - 5.000	37,835,000	29,950,000	3,003,855	32,953,855
Water Quality Protection 2016A	04/06/16	2017-36	2.25 - 5.00	46,500,000	42,995,000	1,572,141	44,567,141
Liquor Control Revenue Bonds:*							
Liquor Control & Transportation 2009	05/12/09	2010-29	3.000 - 5.000	46,765,000	30,605,000	1,007,901	31,612,901
Liquor Control & Transportation 2011	04/28/11	2012-31	2.000 - 5.000	34,360,000	25,570,000	780,901	26,350,901
Liquor Control & Transportation 2013	07/30/13	2014-33	3.125 - 5.000	46,645,000	38,100,000	1,317,286	39,417,286
Total				$ 259,219,000	$ 200,480,000	$ 8,811,308	$ 209,291,308

* Liquor Control Revenue bonds are allocated to Governmental and Business-Type Activities on the Statement of Activities. See Note III-F1 for allocation.

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District Principal	Bethesda Parking Lot District Interest	Liquor Control Principal	Liquor Control Interest
2019	$ 3,441,000	$ 1,212,195	$ 5,520,000	$ 4,317,839
2020	3,591,000	1,049,401	5,750,000	4,082,439
2021	3,755,000	879,250	6,020,000	3,817,839
2022	2,410,000	694,191	6,315,000	3,516,839
2023	2,476,000	615,011	6,630,000	3,201,089
2024-2028	10,907,000	1,900,082	37,865,000	11,308,069
2029-2033	6,680,000	532,306	26,175,000	2,977,240
Total	$ 33,260,000	$ 6,882,436	$ 94,275,000	$ 33,221,354

Fiscal Year Ending June 30	Water Quality Protection Principal	Water Quality Protection Interest	Total Revenue Bond Requirements Principal	Total Revenue Bond Requirements Interest	Total Revenue Bond Requirements Total
2019	$ 3,360,000	$ 2,788,588	$ 12,321,000	$ 8,318,622	$ 20,639,622
2020	3,495,000	2,654,188	12,836,000	7,786,028	20,622,028
2021	3,635,000	2,517,038	13,410,000	7,214,127	20,624,127
2022	3,775,000	2,374,088	12,500,000	6,585,118	19,085,118
2023	3,910,000	2,240,838	13,016,000	6,056,937	19,072,937
2024-2028	22,095,000	8,652,600	70,867,000	21,860,751	92,727,751
2029-2033	23,820,000	3,902,600	56,675,000	7,412,146	64,087,146
2034-2036	8,855,000	536,550	8,855,000	536,550	9,391,550
Total	$ 72,945,000	$ 25,666,490	$ 200,480,000	$ 65,770,279	$ 266,250,279

Restricted assets classified as "Investments" or "Equity in Pooled Cash and Investments" for statement of net asset purposes, include the following:

Purpose	Bethesda Parking Lot District	Solid* Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	$ 1,710,472	$ -
Debt Service Account - Used to pay debt service on bonds	309,769	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	3,041,473	-
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	4,309,353
Rate Stabilization Account - In case of short-term extraordinary expenses	-	1,324,283
Total	$ 6,561,714	$ 5,633,636

*Solid Waste Disposal also has a management reserve of $20,981,878 set aside to meet both current and future contingencies. This reserve is equal to at least 75 days (2.5 months) of the subsequent year's operating budget net of scheduled debt payments, but not less than $20 million.

5) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY18 are as follows:

	Balance July 1, 2017	BANs Issued	BANs Retired	Balance June 30, 2018
BAN Series 2009-A	$ 100,000,000	$ 30,000,000	$ 30,000,000	$ 100,000,000
BAN Series 2009-B	100,000,000	30,000,000	30,000,000	100,000,000
BAN Series 2010-A	150,000,000	140,000,000	140,000,000	150,000,000
BAN Series 2010-B	150,000,000	140,000,000	140,000,000	150,000,000
Total	$ 500,000,000	$ 340,000,000	$ 340,000,000	$ 500,000,000

BANs totaling $340 million were issued during FY18, $280 million Series 2010 and $60 million Series 2009 respectively. BANs are issued at varying maturities to a maximum of 270 days, under a program whose authority was adopted on September 15, 2009, as amended, to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and continues to do so, until they are replaced with long-term bonds.

In connection with the BANs, the County entered into two-year credit agreements with State Street Bank and PNC Bank to provide liquidity with respect to the 2010 Series BANs for $150,000,000 each. The agreements expired on July 31, 2018 and were renewed to July 31, 2020. With respect to the 2009 Series BANs, the County has a credit agreement with JP Morgan Chase which expired on August 24, 2018 and was renewed to August 24, 2020. All credit agreements provide liquidity for the principal amount of the notes and approximately one month of interest. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this line of credit. Because the County entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as noncurrent liabilities at year-end.

During FY16, the County Council passed Resolution No. 18-305 dated October 27, 2015 to increase the County's authority to issue BANs by $563.1 million. Cumulative BANs authorized and unissued as of June 30, 2018, including amounts authorized and unissued from prior years, is $485,113,000.

6) Certificates of Participation

In October 2007, the County issued certificates for its Equipment Acquisition in the fire and rescue program dated October 24, 2007, in the amount of $33.6 million. The certificates represent proportionate interest in a Conditional Purchase Agreement (CPA) between the County, as purchaser and U.S. Bank National Association, as the seller. The CPA requires the County, as purchaser, to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing powers of the County.

In FY18, Certificates of Participation for fire and rescue dated October 30, 2007, in the amount of $33.6 million, was fully paid off.

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

In FY18, the pledged lease payments from the Montgomery College Foundation equals the scheduled debt service on the Certificates of Participation schedule. The Certificates for Participation were issued at interest rates ranging from 2.4 to 5.0 percent and have maturity schedules as follows:

Fiscal Year	Certificates of Participation		
Ending June 30	Principal	Interest	Total
2019	$ 360,000	$ 708,739	1,068,739
2020	715,000	695,904	1,410,904
2021	745,000	672,631	1,417,631
2022	760,000	647,499	1,407,499
2023	1,255,000	603,229	1,858,229
2024 - 2028	7,170,000	2,128,344	9,298,344
2029 - 2033	8,130,000	1,160,491	9,290,491
2034 - 2036	5,370,000	209,359	5,579,359
Total	$ 24,505,000	$ 6,826,196	$ 31,331,196

Certificates of Participation (College) outstanding as of June 30, 2018, is as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2018	Unamortized Premium (Discount)	Carrying Value June 30, 2018
07/26/16	2017-36	2.00-5.00%	$ 24,860,000	$ 24,505,000	$ 1,115,410	$ 25,620,410

7) Master Lease/Equipment Notes

The County has entered into purchase agreements to provide financing for the acquisition of capital asset equipment. The agreements have terms of two to seven years with interest rates identified in the agreements. Some arrangements provide that proceeds are to be held by a trustee and disbursed to vendors. If assets are acquired prior to the note agreement, the trustee reimburses the County.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2018:

Fiscal Year	Equipment Notes Requirements		
Ending June 30	Principal	Interest	Total
2019	$ 18,173,389	$ 1,795,034	$ 19,968,423
2020	17,348,048	1,418,231	18,766,279
2021	16,177,899	1,055,322	17,233,221
2022	12,730,305	721,770	13,452,075
2023	11,502,639	450,523	11,953,162
2024 - 2028	10,363,668	287,507	10,651,176
Total	$ 86,295,948	$ 5,728,387	$ 92,024,335

8) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of $37.9 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA).

The County issued $4,745,000 in lease revenue bonds (Metrorail Garage Projects) on September 1, 2004. The bonds were issued due to certain cost increases incurred since the issuance of the Series 2002 Bonds. The County needed an additional $2,100,000 to complete construction of the Shady Grove Metro Garage and an additional $2,110,000 to complete construction of the Grosvenor Metro Garage. The Series 2004 bonds were delivered on September 28, 2004. The lease has a term of 20 years ending on June 1, 2024.

On October 13, 2011, the County issued Series 2011 Bonds to finance a portion of the costs, and construction of the parking structure and related facilities at the Glenmont Metrorail Station within the County; and refunded the County's outstanding Lease Revenue Bonds Series 2002 and Series 2004 Lease Revenue Bonds.

The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. The approximate amount of the pledge is $35,233,000. WMATA's obligation to make payments under the leases is payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities.

In the event that the County's Reserve Subfund of $2,543,204, included in Debt Service Fund cash with fiscal agents in the accompanying financial statements, is less than the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

In FY18, pledged revenue of $3,491,613 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2018, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2018	Unamortized Premium (Discount)	Carrying Value June 30, 2018
Lease Revenue Bonds	10/13/11	2011-31	2.6687%	$ 35,465,000	$ 20,390,000	$ 1,733,326	$ 22,123,326

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

Fiscal Year Ending June 30	Lease Revenue Bond Requirements Principal	Interest	Total
2019	$ 2,520,000	$ 976,863	$ 3,496,863
2020	2,660,000	850,863	3,510,863
2021	2,790,000	717,863	3,507,863
2022	2,935,000	578,362	3,513,362
2023	3,085,000	431,612	3,516,612
2024-2028	4,825,000	700,262	5,525,262
2029-2031	1,575,000	126,337	1,701,337
Total	$ 20,390,000	$ 4,382,162	$ 24,772,162

9) Taxable Limited Obligation Certificates

In April 2010, the County issued Taxable Limited Obligation Certificates, dated April 6, 2010, in the amount of $30.4 million to finance the Montgomery Housing Initiative Program to promote a broad range of housing opportunities in the County. The certificates represent proportionate interests in a Funding Agreement between the County and U.S. Bank National Association; the Certificates, and the interest on them, are limited obligations of the County. The principal or redemption price of and interest on the Certificates shall be payable solely from the Contract Payments and other funds pledged for the payment thereof under the Trust Agreement. The Funding Agreement is not a general obligation of the County and shall never constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing power of the County. The Certificates were issued at interest rates ranging from 4.0 to 5.9 percent and will mature on May 1, 2030.

In August 2011, the County issued Taxable Limited Obligation Certificates in the amount of $28.8 million; the County issued the certificates to finance and promote a broad range of housing opportunities and a community and recreational facility. The Certificates were issued at interest rates ranging from 3.0 to 4.8 percent and will mature on May 1, 2031.

In November 2013, the County issued Taxable Limited Obligation Certificates in the amount of $38.0 million; the County issued the certificates to finance the Montgomery Housing Initiative program established by the County to promote a broad range of housing opportunities in the County. The Certificates were issued at interest rates ranging from 0.3 to 4.8 percent and will mature on November 1, 2033.

Taxable Limited Obligation Certificates outstanding as of June 30, 2018, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2018	Unamortized Premium (Discount)	Carrying Value June 30, 2018
MHI Affordable Housing Series 2010	04/06/10	05/01/30	4.00-5.90 %	$ 30,400,000	$ 21,525,000	$ 115,717	$ 21,640,717
MHI Affordable Housing Series 2011	08/10/11	05/01/31	3.00-5.00	28,840,000	21,020,000	152,331	21,172,331
MHI Affordable Housing Series 2013	11/19/13	11/01/33	0.26-4.75	38,015,000	32,120,000	(3,811)	32,116,189
				$ 97,255,000	$ 74,665,000	$ 264,237	$ 74,929,237

The following is a schedule by fiscal year for the debt service requirement at June 30, 2018:

Fiscal Year	Taxable Limited Obligation Requirements		
Ending June 30	Principal	Interest	Total
2019	$ 4,110,000	$ 3,382,454	$ 7,492,454
2020	4,255,000	3,241,114	7,496,114
2021	4,415,000	3,079,405	7,494,405
2022	4,585,000	2,903,397	7,488,397
2023	4,780,000	2,711,995	7,491,995
2024-2028	27,355,000	10,117,117	37,472,117
2029-2033	22,435,000	3,122,133	25,557,133
2034	2,730,000	64,838	2,794,838
Total	$ 74,665,000	$ 28,622,452	$ 103,287,452

10) Other Leases and Notes Payable

In April 2007, the County entered into a Purchase and Sale Contract with Washington Suburban Sanitary Commission (WSSC) to acquire property for $10,000,000. On January 15, 2009, the County signed a promissory note evidencing its obligation to fulfill the terms of the Contract. The note had a term of 15 years; interest accrued at a rate of 4.43%, commencing six months after the execution of the promissory note. Under the provisions of the promissory note, the minimum annual payment by the County was $400,000 and was due on July 15 each year.

During 2017, the County entered into an agreement to transfer the property to a developer that would have required the original Promissory Note to be paid in full pursuant to the original Purchase and Sale Contract. However, the County amended and restated the Promissory Note with WSSC, which revised the repayment terms commencing in FY19, and ending in FY28 at an interest rate of 4.43%.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2018:

Fiscal Year Ending June 30	Promissory Note Requirements Principal	Interest	Total
2019	$ 803,096	$ 435,759	$ 1,238,855
2020	838,674	400,181	1,238,855
2021	875,827	363,028	1,238,855
2022	914,626	324,229	1,238,855
2023	955,144	283,711	1,238,855
2024-2028	5,449,168	745,105	6,194,273
Total	$ 9,836,535	$ 2,552,013	$ 12,388,548

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, 2018, for this loan is $268,000 and will mature on August 1, 2023.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2018:

Fiscal Year Ending June 30	HUD Loan Requirements Principal	Interest	Total
2019	$ 43,000	$ 13,727	$ 56,727
2020	43,000	11,396	54,396
2021	43,000	9,034	52,034
2022	43,000	6,643	49,643
2023	43,000	4,228	47,228
2024	53,000	1,508	54,508
Total	$ 268,000	$ 46,536	$ 314,536

(Rest of page intentionally left blank.)

From October 2013 through December 2017, the County has entered into a series of lease agreements to finance energy efficency projects. These leases were part of a six year, $100 million program that improves energy efficiency of County facilities. Leases range from $1.9 to $4.3 million and interest rates range from 2.103% to 5.17%. Lease maturities range from 13 to 20 years.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2018:

Fiscal Year	Energy Performance Lease		
Ending June 30	Principal	Interest	Total
2019	$ 760,802	$ 630,237	$ 1,391,039
2020	674,510	606,476	1,280,985
2021	715,687	584,775	1,300,462
2022	758,542	561,809	1,320,351
2023	818,390	537,470	1,355,860
2024-2028	5,150,124	2,241,880	7,392,004
2029-2033	6,616,614	1,300,204	7,916,818
2034-2036	3,821,580	191,368	4,012,949
Total	$ 19,316,249	$ 6,654,219	$ 25,970,468

11) Conduit Debt Obligations

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring and/or renovating facilities for third party facility users. Facility users may be individuals, public or private corporations, or other entities. The bonds are sometimes secured by the facilities financed or by a financial institution and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2018, there were 26 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, six were issued prior to July 1, 1996. Two issues prior to July 1, 1996 matured in FY18. The aggregate principal amount payable at June 30, 2018, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $129,495,000. The principal amount payable at June 30, 2018, for bonds issued after July 1, 1996, totaled $716,036,943.

(Rest of page intentionally left blank.)

12) Special Taxing and Development Districts

The County has three special taxing districts: Kingsview Village Center, West Germantown, and White Flint. Kingsview Village Center and West Germantown were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The White Flint Taxing District was created in accordance with Chapter 68C of the Montgomery County Code, which was enacted in 2010. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County with high priority for new development or redevelopment.

Pursuant to Chapter 14 and 68C, special taxes or special assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective districts. Any bond issued under Chapter 14 and 68C is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements. However, unlike the Kingsview Village Center and West Germantown development districts, the County may issue financing or provide funding for certain infrastructure projects within the White Flint Taxing District that are not derived under the authority of Chapter 68C.

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

On August 13, 2014, the County issued $12,025,000 of Special Obligation Refunding Bonds (Senior Series 2014) to refund West Germantown Development District Series 2002A, 2004A and 2004B bonds. The outstanding principal balance as of June 30, 2018 is $10,020,000.

On August 26, 2014, the County issued $1,393,310 of Special Obligation Refunding Bonds (Series 2014A) via direct bank placement to refund the 1999 Series Kingsview Village Center Development District bonds. The outstanding principal balance as of June 30, 2018 is $728,233.

Component Units

At June 30, 2018, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	$ 43,988,191	$ 482,659,565	$ 526,647,756
Derivative instrument – hedging	-	4,205,807	4,205,807
Notes and other payable	78,078,110	477,195,179	555,273,289
Net pension liability	-	10,595,603	10,595,603
Net OPEB liability	-	26,847,382	26,847,382
Total	$ 122,066,301	$ 1,001,503,536	$ 1,123,569,837

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

Purpose		
Multi-Family Mortgage Purchase Program Fund	$	303,869,686
Single Family Mortgage Purchase Program Fund		222,778,069
Total	$	526,647,755

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 0.90 to 11.25 percent and 1.125 to 5.00 percent, respectively, as of June 30, 2018.

Pursuant to Section 16-202 of Title 16 of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding $50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee.

The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year	Guaranteed Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2019	$ 490,000	$ 339,215	$ 829,215
2020	515,000	314,090	829,090
2021	540,000	287,715	827,715
2022	570,000	259,823	829,823
2023	595,000	230,406	825,406
2023-2027	3,465,000	656,879	4,121,879
2028-2032	800,000	20,200	820,200
Total	$ 6,975,000	$ 2,108,328	$ 9,083,328

(Rest of page intentionally left blank.)

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
2019	$ 43,988,191	$ 14,924,468	$ 58,912,659
2020	18,275,000	14,356,019	32,631,019
2021	19,345,000	13,856,940	33,201,940
2022	20,270,000	13,306,063	33,576,063
2023	19,900,000	12,723,075	32,623,075
2023-2027	95,865,526	54,570,539	150,436,065
2028-2032	97,175,000	38,234,970	135,409,970
2033-2037	90,555,000	22,683,347	113,238,347
2038-2042	69,405,000	11,903,956	81,308,956
2043-2047	37,630,000	4,387,059	42,017,059
2048-2052	10,625,000	924,427	11,549,427
2053-2057	880,000	35,056	915,056
Unamortized Bond Discount	2,734,038	-	2,734,038
Total	$ 526,647,755	$ 201,905,919	$ 728,553,674

Changes in the HOC revenue bonds during FY18 are as follows:

Purpose	Balance July 1, 2017	Bonds Issued*	Bonds Retired	Balance June 30, 2018
Multi-Family Mortgage Purchase Program Fund	$ 301,726,194	$ 12,025,266	$ 9,881,774	$ 303,869,686
Single Family Mortgage Purchase Program Fund	210,927,147	38,468,564	26,617,642	222,778,069
Total	$ 512,653,341	$ 50,493,830	$ 36,499,416	$ 526,647,755

* Includes accretions and bond discounts.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt). Accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 2017	$ 186,669,569
Issuances during the year	26,270,000.00
Redemptions during the year	(2,402,606)
Bonds outstanding, June 30, 2018	$ 210,536,963

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MC, or MCRA. BUP has no long-term debt.

G) Segment Information

The County has issued revenue bonds to finance activities relating to the Bethesda Parking Lot districts (PLDs). The Bethesda PLD is accounted for within the Parking Lot Districts Fund. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for the activity as of and for the year ended June 30, 2018, is presented below:

Condensed Statement of Net Position

	Bethesda PLD
ASSETS	
Current assets	$ 15,892,069
Restricted assets	6,561,714
Capital assets	97,849,867
Total Assets	120,303,650
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources	340,702
Total Deferred Outflows	340,702
LIABILITIES	
Current liabilities	6,174,539
Due to other funds	160,282
Long-term liabilities	31,594,302
Total Liabilities	37,929,123
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources	115,735
Total Deferred Inflows	115,735
NET POSITION	
Net investment in capital assets	64,656,963
Restricted for debt service	6,561,713
Restricted for public works and transportation	11,380,818
Total Net Position	$ 82,599,494

(Rest of page intentionally left blank.)

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

	Bethesda PLD
OPERATING REVENUES (EXPENSES):	
Operating Revenues:	
Charges for services	$ 15,361,100
Fines and penalties	4,052,617
Total Operating Revenues (pledged against bonds)	19,413,717
Depreciation	6,127,352
Other operating expenses	9,894,949
Operating Income (Loss)	3,391,416
NONOPERATING REVENUES (EXPENSES):	
Property taxes	(9,483)
Investment income	203,887
Interest expense	(1,056,137)
Other revenue	1,195,800
Transfers out	(2,078,355)
Non Operating Income (Loss)	(1,744,288)
NET POSITION	
Change in Net Position	1,647,128
Beginning Net Position, as restated	80,952,366
Ending Net Position	$ 82,599,494

Condensed Statement of Cash Flows

	Bethesda PLD
Net Cash Provided (Used) By:	
Operating activities	$ 11,898,118
Noncapital financing activities	(2,087,838)
Capital and related financing activities	(7,359,560)
Investing activities	167,268
Net Increase (Decrease)	2,617,988
Beginning Cash and Cash Equivalents	15,777,238
Ending Cash and Cash Equivalents	$ 18,395,226

H) Fund Equity

1) Governmental Fund Balances

The governmental fund balances at June 30, 2018 are composed of the following:

Fund Balances:	General	Housing Initiative	Grants	Debt Service	Capital Projects	Other Nonmajor Governmental Funds
Inventory	$ 6,171,336	$ -	$ -	$ -	$ -	$ -
Prepaids	584,470	-	-	147,853	-	-
Total nonspendable	6,755,806	-	-	-	-	-
General government						156,384
Police	-	-	-	-	-	3,185,025
Health and human services						1,116,282
Mass transit	-	-	-	-	-	20,825,397
Cable TV	-	-	-	-	-	11,726,677
Community development and housing:						
Rehabilitation loan	-	-	-	-	-	4,783,264
Urban districts	583,590	-	-	-	-	-
Economic development	4,465,560	-	-	-	-	-
Housing initiative	-	238,720,955	-	-	-	-
Restricted donations	-	-	-	-	-	1,367,460
Culture and recreation	-	-	-	-	-	1,787,248
Environment:						
Agricultural transfer tax	-	-	-	-	-	967,716
Water quality protection	-	-	-	-	-	19,412,805
Restricted donations	-	-	-	-	-	32,076,388
Other	8,590,518	-	111,734	-	-	-
Revenue stabilization	308,695,745	-	-	-	-	-
Debt service	-	-	-	187,669,483	-	-
Capital projects:						-
White Flint Special Taxing District	-	-	-	-	8,737,989	-
Other capital projects	-	-	-	-	117,928,194	-
Total restricted	322,335,413	238,720,955	111,734	187,669,483	126,666,183	97,404,646
Culture and recreation	2,538,000	-	-	-	-	-
Community development and housing	2,550,000	-	-	-	-	-
Education:						
Montgomery County Public Schools	127,000	-	-	-	-	-
Montgomery College	2,374,714	-	-	-	-	-
Capital projects	54,573,920	-	-	-	-	-
Total committed	62,163,634	-	-	-	-	-
General government	14,775,604	-	-	-	-	-
Public safety	6,036,841	-	-	-	-	-
Public works and transportation	1,217,203	-	-	-	-	-
Health and human services	2,943,634	-	-	-	-	-
Culture and recreation	1,742,798	-	-	-	-	-
Community development and housing	67,524	-	-	-	-	-
Environment	288,288	-	-	-	-	-
Total assigned	27,071,892	-	-	-	-	-
Public safety						
Fire and rescue	-	-	-	-	-	(8,330,786)
Mass transit	-	-	-	-	-	2,900,000
General government	102,697,741	-	-	-	-	-
Total unassigned	102,697,741	-	-	-	-	(5,430,786)
Total fund balances	$ 521,024,506	$ 238,720,955	$ 111,734	$ 187,817,336	$ 126,666,183	$ 91,973,860

2) Encumbrances

Encumbrance accounting is employed as part of the budgetary integration for all governmental funds. As of June 30, 2018, certain amounts which were available for specific purposes have been encumbered in the governmental funds. Encumbrances are included in the County's governmental fund balances as follows:

Governmental Fund		Amount	Fund Balance Classification
General Fund	$	27,071,892	Restricted/Assigned
Housing Initiative		310,517	Restricted
Debt Service		225,900	Restricted
Nonmajor Governmental Funds		14,808,358	Restricted
Total Governmental Funds	$	42,416,667	

3) Net Position Restricted by Enabling Legislation

Net position restricted by enabling legislation represent legislative restrictions that a party external to the government can compel the government to honor. For the County, such amounts represent primarily accumulated net position attributed to revenue streams, such as taxes or fees, which are restricted for specified purposes in the County Code. This generally includes Capital Project Fund recordation and impact tax collections on hand for a component unit and municipal governments, ending fund balances of substantially all special revenue funds, and ending unrestricted net position of the Solid Waste Activities and Parking Lot Districts enterprise funds. Such amounts, which are included with restricted net position in the government-wide Statement of Net Position, are as follows at year-end:

Governmental activities	$	613,724,279
Business-type activities		78,086,195
Total	$	691,810,474

(Rest of page intentionally left blank.)

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, 2018:

	General Fund			Capital	Debt	
	Operating	Capital *	Total	Projects	Service	Total
MCPS	$ 1,671,507,568	$ 25,000,000	$ 1,696,507,568	$ 204,402,142	$ -	$ 1,900,909,710
MC	141,667,452	12,709,286	154,376,738	38,796,841	-	193,173,579
HOC	6,406,061	-	6,406,061	6,727,212	-	13,133,273
Total	$ 1,819,581,081	$ 37,709,286	$ 1,857,290,367	$ 249,926,195	$ -	$ 2,107,216,562

* Represents current receipt and pay-go funding transferred from the General Fund for component units' use towards their capital projects.

For GAAP financial statement reporting purposes, General Fund expenditures incurred for funding of MCPS and MC are classified as education expenditures; HOC funding is classified under community development and housing.

2) Other Transactions

BUP charges for services revenue include $5,212,523 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.

(Rest of page intentionally left blank.)

NOTE IV. OTHER INFORMATION

A) Risk Management

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation, comprehensive general, automobile and professional liability (errors and omissions), property coverage including fire and theft, and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include MCPS, HOC, MC, MCRA, BUP, M-NCPPC, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the City of Gaithersburg, the Village of Drummond, Chevy Chase Village, and the Village of Friendship Heights. The liability for claims with respect to all participants transfers to the self-insurance fund, except for M-NCPPC which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, prescription, dental, vision, and life insurance. While the majority of coverage is self-insured, certain fully insured plan options, including health maintenance organizations (HMOs), are offered to participants. WSTC, BUP, Montgomery Community Television, the Strathmore Hall Foundation, Inc., Arts and Humanities Council of Montgomery County, Montgomery County Volunteer Fire & Rescue Association, Town of Garrett Park, Chevy Chase Village and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include non-incremental claims adjustment expenses such as internal salary costs. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in the Liability and Property Coverage Self-Insurance Fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

(Rest of page intentionally left blank.)

Changes in the balances of Claims Payable for the self-insurance funds for FY18 and FY17 are as follows:

	Liability and Property Coverage	Employee Health Benefits	Total
Balance July 1, 2016	$ 136,867,500	$ 13,388,794	$ 150,256,294
Claims and changes in estimates	55,159,603	106,454,852	161,614,455
Claim payments [1]	(45,216,915)	(107,572,233)	(152,789,148)
Balance June 30, 2017	146,810,188	12,271,413	159,081,601
Claims and changes in estimates	62,121,946	125,409,988	187,531,934
Claim payments [1]	(44,848,729)	(123,594,625)	(168,443,354)
Balance June 30, 2018 [2]	$ 164,083,405	$ 14,086,776	$ 178,170,181

[1] Includes non-monetary settlements.

[2] Includes incurred but not reported (IBNR) claims of $73,826,909 and $14,086,776 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 post closure 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 FY1991 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY1998. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and post closure costs are estimated at $68,120,319, which have been fully accrued through June 30, 2018. Of the total amount accrued, $51,214,308 in actual costs have been paid out in prior years, and $1,234,707 was paid in FY18, resulting in a net liability of $15,671,304 at June 30, 2018. The current and non-current portions of the adjusted liability at year-end are estimated at $1,323,038 and $14,348,266 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 post closure costs as they are incurred in the future.

2) Pollution Remediation

In FY09, the County identified the closed Gude Landfill as requiring pollution remediation or post-closure due to ground water and surface contamination. The landfill was used for the disposal of County municipal solid waste and received approximately 4.8 million tons of municipal waste from 1965 until the site was closed in 1982. A Consent Order was issued in May 2013 by the Maryland Department of the Environment (MDE) to address groundwater contamination, landfill gas migration, and non-stormwater discharges from the closed Gude Landfill. The total remediation cost estimated as of FY17 was $28,700,000. In FY18 actual costs of $169,147 were paid resulting in a net liability of $28,530,853 as of June 30, 2018. The Department of Environmental Protection (DEP) completed an Assessment of Corrective Measures (ACM) report, which evaluates the effectiveness of a range of remediation alternatives and includes a recommended approach for remediation of environmental contamination at the Gude Landfill. MDE approved a resubmittal of the ACM report in July 2016 which specifically outlines the approved remediation method to include: toupee capping (regrading and capping the top of the landfill and selected slope areas with a synthetic liner and two feet of soil); and additional gas collection through the installation of additional gas extraction wells. These measures will reduce infiltration of rainwater into the landfill resulting in the generation of less leachate and fewer leachate seeps. They will also result in better control of landfill gas migration.

3) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County may be a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed $1,195,676. In accordance with generally accepted accounting principles, none of this amount has been reflected as a liability in the accompanying financial statements as the County's liability on these claims is determined to be not probable.

4) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2018, have not yet been completed. In accordance with the provisions of the Uniform Grant Guidance, 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.

(Rest of page intentionally left blank.)

5) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amounts of outstanding commitments at June 30, 2018, are as follows:

Enterprise Funds:	Operating	Capital	Total
Major Funds:			
Liquor	$ 697,873	$ -	$ 697,873
Solid Waste Activities:			
Disposal operations	8,739,214	-	8,739,214
Collection operations	4,558	-	4,558
Parking Lot Districts:			
Silver Spring	92,573	5,836,368	5,928,940
Bethesda	14,642	1,799,880	1,814,523
Wheaton	5,549	243,058	248,607
Subtotal	9,554,409	7,879,306	17,433,715
Nonmajor Funds:			
Permitting Services	1,076,132	-	1,076,132
Community Use of Public Facilities	18,746	-	18,746
Subtotal	1,094,878	-	1,094,878
Total Enterprise Funds	10,649,287	7,879,306	18,528,593
Internal Service Funds:			
Motor Pool	4,008,621	-	4,008,621
Central Duplicating	176,349	-	176,349
Liability & Property Coverage Self-Insurance	796,361	-	796,361
Employee Health Benefits Self-Insurance	162,825	-	162,825
Total Internal Service Funds	5,144,156	-	5,144,156
Total Proprietary Funds	$ 15,793,443	$ 7,879,306	$ 23,672,749

As of June 30, 2018, the County has $34,879,404 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development programs. To help fund such offers, the fund balance of the Economic Development programs at the end of the year is typically re-appropriated in the following year.

C) Subsequent Events

On July 26, 2018, the County issued a fifth draw under the Banc of America Master Equipment Lease/Purchase Agreement of approximately $3.2 million dollars. The proceeds will fund energy performance savings projects at various County buildings for which the repayment of debt is guaranteed through energy savings.

On August 13, 2018, the County issued $30.2 million in Economic Development Revenue Bonds (Conduit Bonds) on behalf of the Friends House Retirement Community. On November 16, 2018, the County issued Conduit Bonds in the amount of $87.5 million on behalf of The Village at Rockville Project. The Conduit Bonds do not constitute indebtedness to which the full faith and credit of Montgomery County or any other public body is pledged.

On August 22, 2018, the County entered into a loan agreement with PNC Bank in the amount of $6.9 million dollars. This loan is to finance the County's Rockville Innovation Center and National Cybersecurity Center of Excellence incubator projects.

A sixth draw under the Banc of America Master Equipment Lease/Purchase Agreement in the amount of $5.3 million dollars was issued on September 26, 2018. The proceeds will fund the first phase of an LED streetlighting conversion project for which the repayment of debt is guaranteed through energy savings.

The County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of $330,000,000 on November 8, 2018. The proceeds will pay off an equivalent amount of the County's BANs which funded capital expenditures for education, transportation and other County facilities.

On November 19, 2018 the County issued $33.7 million in Series 2018A Taxable Limited Obligation Certificates (Facility and Residential Development Projects) to finance certain projects of the Montgomery Housing Initiative Fund which promotes a broad range of housing opportunities in the County. On the same day, the County issued $22.4 million in Series 2018B Taxable Limited Obligation Refunding Certificates which refunded the 2010A Series for debt service savings.

D) Joint Ventures and Jointly Governed Organizations

Joint Ventures

The Primary Government participates in five joint ventures and one jointly governed organization which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no "Investment in Joint Ventures" is included in the accompanying financial statements. Audited financial statements are available from each of the six organizations. A general description of each entity follows:

Maryland-National Capital Park and Planning Commission (M-NCPPC)

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George's Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties' oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of M-NCPPC issued for its jurisdiction.

At June 30, 2018, M-NCPPC had outstanding notes payable and bonds payable in the amount of $145,971,035, of which zero dollars were self-supporting. Of the total amount payable, $10,140,000 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, 2018 is $53,808,994, 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, 2018, WSSC had outstanding notes payable and bonds payable in the amount of $3,223,272,000 which were fully self-supporting. Of the total amount payable, $338,363,000 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, 2018, all WSSC debt relating to the County is self-supporting.

Washington Suburban Transit Commission (WSTC)

The Washington Suburban Transit District (WSTD) encompasses Prince George's and Montgomery Counties, Maryland, and was chartered by the State of Maryland in 1965 to coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the Maryland Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling $109,941 to WSTC during FY18.

Washington Metropolitan Area Transit Authority (WMATA)

WMATA was created in 1967 by interstate compact among the State of Maryland, the Commonwealth of Virginia, and the District of Columbia. WMATA's primary function is to plan, construct, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a sixteen-member Board of Directors. Maryland, Virginia, the District of Columbia, and the federal government each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.

Montgomery County is committed to participation in WMATA and its regional Metrorail, Metrobus, and Metro Access programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail, bus, and paratransit expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rail System. The County's share of the cost of construction of the Metro Rail System has been totally assumed by the State. In addition, State legislation mandates that the State provide 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover its related 100 percent of the combined operating deficit of WMATA and County Ride On operations (that began on or after June 30, 1989), assuming that 35 percent (effective in FY09) of gross operating costs are recovered by revenues.

(Rest of page intentionally left blank.)

A summary reflecting WMATA’s expenditures incurred for the County's share of WMATA's activities for FY18, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	$	71,200,554
Rail operating subsidy		67,921,502
Americans with Disabilities Act service		22,233,130
MetroMatters program		4,945,050
Capital Improvement Program		37,118,753
Project Development Program		506,820
Local bus program		38,415,487
Total	$	242,341,296

At June 30, 2018, WMATA had outstanding bonds payable of $937,600,000 of which $75,600,000 represented bonds payable due within one year. This debt is payable from the resources of WMATA.

Northeast Maryland Waste Disposal Authority (NEMWDA)

NEMWDA is a body politic and corporate, and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region, the private sector in waste management, and the development of waste disposal facilities adequate to accommodate the region’s requirements for disposal of solid waste. NEMWDA has the following eight member jurisdictions from the State of Maryland: Montgomery County, Anne Arundel County, Baltimore City, Baltimore County, Carroll County, Frederick County, Harford County, and Howard County. The Maryland Environmental Service is an ex-officio member.

NEMWDA operates the County’s Resource Recovery Project. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. Waste disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY18 amounted to $21,840,194.

Jointly Governed Organization

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental regional planning organization, in partnership with State and Federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 9 percent of the total funding for COG, with State and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY18 membership dues and fees for services amounting to $873,470.

(Rest of page intentionally left blank.)

E) Employee Benefits

1) Deferred Compensation

During FY05, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. All county non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who elected and all represented employees hired after March 1, 2005 participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

During FY99, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries. Trust responsibilities were assigned to the Board of Investment Trustees (Board). The County Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. The assets of the Union Plan are not included in the accompanying financial statements since the County has no fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

Under Section 33-11 of the Code, all employees hired after July 1, 2008 are automatically enrolled in the Appropriate Plan with a 1% contribution unless they elect out within 60 days from the date of hire. All eligible participants are automatically enrolled in the Plan as of the date of hire. If they do not opt out of the Plan within 60 days from the date of hire, they begin making a contribution equivalent to 1% of their salary.

Under both Plans, contributions are sent to contracted third party administrator investment vendors for different types of investments as selected by participants. A separate account, which reflects the monies deferred, investment of the monies, and related investment earnings, is maintained for each participant. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies. Administrative expenses relating to the County Plan, which are not significant to the County Plan, have been paid by the General Fund.

2) Annual, Sick Leave, and Other Compensated Absences

Employees of the County earn annual, compensatory, and sick leave in varying amounts. Employees who are part of the County Management Leadership Service and participate in the Retirement Savings Plan earn only Paid Time Off (PTO) leave. In the event of termination, employees are reimbursed for accumulated annual, PTO (where applicable), and compensatory leave (up to a limit if applicable). Under the Employees’ Retirement System of Montgomery County, covered employees are given credited service toward retirement benefits for accumulated sick leave at retirement. Earned but unused annual, PTO, and compensatory leave is accounted for in the proprietary funds as a liability. The liability for unused annual, PTO, and compensatory leave payable from governmental fund types is reflected only at the government-wide level because it will be paid from future periods' resources. Liabilities for compensated absences have not been recorded in governmental funds since the portion expected to be liquidated with expendable available financial resources has been determined to be immaterial. Earned but unused sick leave is not recorded as a liability because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

3) Group Insurance Benefits

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY18, the County and its employees contributed $104,563,168 and $42,969,091, respectively. Employees of MCRA, HOC, and BUP participate in the comprehensive insurance program of the County. Employer contributions totaled $812,842, $4,796,101, and $79,637 for these component units, respectively, for FY18.

F) Pension Plan Obligations

1) Defined Benefit Pension Plan

Plan Description

The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. Montgomery County Employee Retirement Plans has the exclusive authority to manage the assets of the System. The Board of Investment Trustees consists of thirteen trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be accessed on the County's website at http://www.montgomerycountymd.gov/mcerp, or can be obtained by writing the Montgomery County Employee Retirement Plans, 101 Monroe Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and Guaranteed Retirement Income Plan (GRIP) participants. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, Montgomery County Employees Federal Credit Union, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Section 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Benefit provisions are established under the Montgomery County Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups and retirement membership classes within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement class assigned depends upon the job classification of the member (i.e., non-public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated group members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group.

Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. Disability benefits are contingent upon service-connected or nonservice-connected occurrences and total or partial permanent disablement. Death benefits are contingent upon service-connected or nonservice-connected occurrences. Effective July 1, 1989, when members terminate employment before their retirement date and after completion of five years of credited service, they may elect to leave their member contributions in the System and receive a pension upon reaching their normal retirement date, based on the amount of their normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under Section 33-45 of the Montgomery County Code of 2001, as amended. A member who terminates employment prior to five years of credited service is refunded their accumulated contributions with interest.

Deferred Retirement Option Plans (DROP), established in 2000, allow any employee who is a member of a specified membership class or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and earnings.

Funding Policy

Required employee contribution rates varying from 6 to 11.25 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. Employee contributions for the Elected Officials' Plan are 4 percent of regular earnings. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year's employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a twenty-year period.

The GRIP, as defined in Section 33-35 of the Code, requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-40 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively.

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

At June 30, 2018, the County reported a liability of $324,129,748 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's proportion of Unfunded Accrued Actuarial Liability (UAAL) relative to the UAAL of all agencies, actuarially determined. At June 30, 2017, the County's proportion was 94.78%.

For the fiscal year ended June 30, 2018, the County recognized pension expense of $56,560,061. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 190,251	$ 50,508,407
Assumption changes	-	4,012,875
Net difference between projected and actual earnings on pension plan investments	33,166,821	-
Changes in proportion and differences between County contributions and proportionate share of contributions	6,073,584	8,791,051
County contributions subsequent to the measurement date	90,721,940	-
Total	$ 130,152,596	$ 63,312,333

The $90,721,940 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ (24,820,940)
2020	32,947,747
2021	(656,870)
2022	(31,351,614)

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017
Actuarial cost method	Individual Entry Age Normal
Amortization method for funding	Level percentage of payroll, separate closed period bases for public safety and GRIP, single closed period amortization base for non-public safety
Amortization period for funding	For Public Safety and GRIP: Initial amortization period of 20 years for the base established July 1, 2015. Initial amortization period of 20 years for subsequent bases. For non-Public Safety: Single closed amortization period of 9 years established July 1, 2015. Average amortization period of 8.3 years for total ERS.

Asset valuation method	Market value
Projected salary increases depending on service	3.25% - 9.50% per year
Cost-of-living (inflation rate) adjustments	2.75% on the benefit attributable to credited service earned prior to June 30, 2011. 2.3% on the benefit attributable to credited service earned on or after July 1, 2011, reflecting the 2.5% cap.
Post-retirement increases	Consumer Price Index – by Group
Investment rate of return	7.5% per year
Mortality rates after retirement	RP-2014 Healthy Annuitant Mortality Table, gender-distinct for healthy mortality. Rates are set forward six years for male disabled mortality and eight years for the female disabled mortality assumption. To provide a margin for future mortality improvements, generational mortality improvements from 2014 using projection scale MP-2014 was used.

An experience study was conducted for the period from July 1, 2009 to July 1, 2014 in September 2015. An actuarial experience study is conducted every five years.

The long term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected rate of inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see Note III.A4 for discussion of the System's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	4.75 %
International Equity	4.75
Emerging Market Equity	4.75
Global Equity	4.95
Private Equity	6.60
Credit Opportunities	5.05
Long Duration Fixed Income	2.05
High Yield Bonds	3.15
Global Ils	0.94
Private Real Assets	6.36
Public Real Assets	4.25
Hedge Funds	4.38
Cash	(0.30)

Discount Rate

The discount rate used to measure the total liability was 7.5%. The projection of cash flows to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and contributions from the County and other participating agencies will be made at a contractually required rate, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	$ 777,121,964	$ 324,129,748	$ (58,972,213)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report by the Montgomery County Employee Retirement Plans.

Allocated Insurance Contract

On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. The transactions related to this agreement have not been recognized in the System's financial statements.

2) Defined Contribution Plan

Plan Description

The Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under Section 33-114 of the County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994, are covered under this Plan, unless they elect to participate in the GRIP. In addition to the County, other participant agencies include MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, and Montgomery County Employees Federal Credit Union. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan, provided they are unrepresented employees, or represented by a collective bargaining agreement that allows for participation in this Plan.

Under Section 33-116 of the Code, the Plan requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and

6 percent above the Social Security wage base. Section 33-117 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. Employee contributions and earnings thereon are always vested under this Plan and employer contributions and earnings thereon are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY18 were $20,348,143 and $10,800,958, respectively. In accordance with IRS regulations and the County Code, $300,000 in accumulated revenue was used to reduce employer contributions in FY18.

The Montgomery County Council passed legislation in FY09 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Employees' Retirement System, for employees. During FY10, eligible County employees who were members of the Plan were granted the option to elect to participate in the GRIP and to transfer their Plan member account balance to the GRIP and cease being a member of the Plan.

3) State Retirement Plan

Plan Description

Certain employees of the County participate in the cost sharing multi-employer defined benefit retirement plans sponsored by the Maryland State Retirement Agency and administered by the Maryland State Retirement and Pension System (MSRP System). The MSRP System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to the employees of the State and participating governmental units. The MSRP System is administered by a 15-member Board of Trustees. The MSRP System issues a publicly available financial report that can be obtained at http://www.sra.state.md.us.

Benefits Provided

The MSRP System provides retirement allowances and other benefits to the covered employees. For employees who became members of the Employees Retirement and Pension System on or before June 30, 2011, retirement/pension allowances are computed using both the highest three years Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For employees, who become members on or after July 1, 2011, pension allowances are computed using both the highest five years AFC and the actual number of years of accumulated creditable service.

A member is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service. An individual who is a member on or before June 30, 2011 is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member on or after July 1, 2011 is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least 65 and has accrued at least 10 years of eligibility service.

Contributions

The County and its covered employees are required by the State statute to contribute to the MSRP System. The required FY18 employee contributions vary from 5-7% of salary. The required employer contribution rate for FY18 vary from 8.53 – 9.64% of annual payroll, actuarially determined. The contribution requirements of the

County and its covered employees are established and may be amended by the Board of Trustees of the MSRP System.

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

At June 30, 2018, the County reported a liability of $27,549,791 for its proportionate share of the net pension liability of the MSRP System. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

As of June 30, 2018, the County's total proportionate share was as follows:

Montgomery County	0.0675932%
Montgomery County Public Libraries	0.0001844
Montgomery County (Supplemental)	0.0593010
Bethesda Fire Department	0.0001073
Chevy Chase Fire Department	0.0002196
Total	0.1274055%

Montgomery County has four withdrawn Participating Governmental Units (PGU) - Montgomery County, Montgomery County Public Library, Bethesda Fire Department and Chevy Chase Fire Department. The County is paying amortized amounts each fiscal year for these four withdrawn units over a forty-year period ending June 30, 2020.

For the year ended June 30, 2018, the County recognized pension expense of $4,336,110. At June 30, 2018, the County reported the total amount of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 999,999	$ -
Investment return difference	3,402,349	1,719,393
Difference between actual and expected experience	-	1,916,067
Changes in proportion and differences between County contributions and proportionate share of contributions	3,193,668	-
County contributions subsequent to the measurement date	2,568,505	-
Total	$ 10,164,521	$ 3,635,460

The $2,568,505 reported as deferred outflows of resources related to pensions resulting from the County subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Amount	
2019	$	1,431,673
2020		1,848,389
2021		1,165,796
2022		(284,778)
2023		(200,524)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the entry age normal actuarial cost method. Inflation is assumed to be 2.65% for general and 3.15% for wage.

Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rate and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's Total Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The following presents the County's total proportionate share of the net pension liability calculated using 7.50%, as well as what the County's total proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point (6.50%) lower or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)		Discount Rate (7.50%)		1% Increase (8.50%)	
County's proportionate share of the net pension liability	$	39,043,501	$	27,549,791	$	18,013,250

4) Length of Service Award Program (LOSAP)

Plan Description

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's Department of Fire and Rescue Service volunteers who meet certain age and service criteria. This program is a single-employer defined pension plan because the benefits are based on the age and years of service. According to the general accounting standards, volunteers who provide services to state and local governments are included as the employees of those governments. Any local fire and rescue volunteer is eligible for this program if the volunteer is at least 16 years old and satisfies the following conditions: (a) was an active volunteer on or after August 15, 1965 or (b) on August 15, 1965, had completed 25 years as an active volunteer and (c) if less than 18 years old, meets any additional requirements established by Executive regulation.

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

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

The number of members covered under this program as of December 31, 2017 are as follows:

Inactive members currently receiving benefit payment	606
Inactive members entitled to but not yet receiving benefits	292
Active members	1,522
Total	2,420

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

The County must pay benefits under this program from the fire tax funds as required under Section 21-21 (h) of the County Code. Benefit expenditures amounting to $1,385,863 in FY18 are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis.

Total Pension Liability

The County's total pension liability of $37,946,046 was measured as of December 31, 2017, and was determined by an actuarial valuation date as of December 31, 2017.

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation date	December 31, 2017
Actuarial method	Entry Age Normal

Retirement Age	100 percent of members are assumed to commence benefits at earliest eligibility of: 1. Age 65 with 10 years of LOSAP service 2. Age 60 with 15 years of LOSAP service 3. Any age with 25 years of LOSAP service
Mortality	The RP-2014 Employee Mortality Table, sex distinct, with projected generational mortality improvements based on the MP-2014 table for pre-retirement mortality. The RP-2014 Healthy Annuitant Mortality Table, sex distinct, set forward six years for males and eight years for females, with projected generational mortality improvements based on the MP-2014 table for post-retirement disabled mortality. The mortality assumptions contain a provision for future mortality improvements.

Discount Rate

The discount rate used is a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. For this valuation, a discount rate of 2.85% was used to measure the total pension liability as of June 30, 2016. A discount rate of 3.31% was used to measure the total pension liability as of December 31, 2017.

The source of the municipal bond rate as of June 30, 2016 is published by the Bond Buyer and represents a portfolio of 20 general obligation bonds of mixed quality that mature in 20 years. In describing this index, the Bond Buyer notes that the bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA. The rate shown is as of the most recent date available on or before the measurement date.

The discount rate as of December 31, 2017 is the fixed-income municipal bonds rate with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31,2017. In describing this index, Fidelity notes that the municipal curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax exempt securities.

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

The following presents the total pension liability calculated using the discount rate of 3.31%, as well as what the County's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current discount rate:

	1% Decrease (2.31%)	Discount Rate (3.31%)	1% Increase (4.31%)
Total Pension liability	$45,412,854	$37,946,046	$32,304,883

Changes in the Total Pension Liability

	Total Pension Liability (a)
Balance at July 1, 2017	$ 40,657,679
Changes for the year:	
Service cost	1,578,468
Interest on the Total Pension Liability	1,750,442
Benefit Changes	478,969
Difference between Expected and Actual Experience	(1,343,359)
Assumptions changes	(3,166,298)
Benefit Payments	(2,009,855)
Net Changes	(2,711,633)
Balance at December 31, 2017	$ 37,946,046

The change in the Total Pension Liability, due to the change in the Single Discount Rate from 2.85% as of the beginning of the year to 3.31% as of the end of the year, is included as an assumption change.

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

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

For the year ended June 30, 2018, the County recognized LOSAP Pension expense of $5,481,311. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to LOSAP as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 817,315
Changes in assumptions	356,088	1,926,412
County benefit payment subsequent to the measurement date	692,932	-
Total	$ 1,049,020	$ 2,743,727

The $692,932 reported as deferred outflows of resources related to pensions resulting from the County subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources will be recognized in future pension expense as follows:

Fiscal Year	Amount
2019	$ (1,409,842)
2020	(977,797)

G) Other Postemployment Benefits (OPEB)

Plan Description

Plan administration. During FY08, the Montgomery County Council enacted legislation (Bill No. 28-07) to establish a new trust effective July 1, 2007 to fund certain County retiree benefit plans. Effective July 1, 2011, the Montgomery County Council enacted legislation (Bill No. 17-11) to change the name to Consolidated Retiree Health Benefits Trust (CRHBT) due to the addition of County-funded agency retiree benefits plans. The County-funded agencies are MCPS and MC, both component units of the reporting entity. During FY18, the County contributed $55,165,381 and $552,000 to the CRHBT on behalf of MCPS and MC for the health benefits of their retirees, respectively. The Claims paid reflected on the accompanying financial statements include claims amounting to $27,200,000 reimbursed to MCPS during FY18, as required per the County Council Resolution No. 18-823. The allocated portions of investments relating to MCPS and MC as of June 30, 2018 were $432,861,330 and $54,012,243, respectively, and these investments are included in the investments of the CRHBT as reflected on the accompanying financial statements.

The CRHBT is a cost-sharing multiple-employer defined benefit healthcare plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Trustees (Board) has the exclusive authority to manage the assets of the CRHBT. The Board consists of nineteen trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the CRHBT can be accessed on the County's website at http://www.montgomerycountymd.gov/mcerp, or can be obtained by writing the Montgomery County Employee Retirement Plans, 101 Monroe Street, Rockville, Maryland 20850.

Benefits provided. Substantially all retirees of the County, MCRA, HOC, WSTC, the Strathmore Hall Foundation, Inc., the Village of Friendship Heights, Montgomery County Employees Federal Credit Union and certain retirees of the State Department of Assessments and Taxation, are provided postemployment benefits such as medical, life, dental, vision, and prescription coverage under the Montgomery County Group Insurance Plan (Plan). Retirees may also elect coverage for their eligible dependents. A member of the Employees' Retirement System of Montgomery County, who retires under a normal, early, disability or discontinued service retirement, is eligible for group insurance benefits under the Plan. However, the member is not eligible for group insurance benefits if the member leaves County service prior to retirement eligibility with a deferred vested benefit payable upon member's retirement date. A member of the Employees' Retirement Savings Plan or the GRIP is eligible for group insurance upon separation from service based upon the member's age and credited service at the time of separation. Postemployment benefit provisions and eligibility requirements for retirees are described under the Montgomery County Group Insurance Summary Plan Description.

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 FY18, the County contributed $55,165,381 and $552,000 to the CRHBT on behalf of MCPS and MC for the health benefits of their retirees, respectively. The County and other contributing entities contributed $63,725,810 including $13,313,810 for current premiums, claims and administrative expenses, and $50,412,000 toward prefunding future benefits. Contributions also include Medicare Part D contributions in the amount of $10,453,719.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the County reported a liability of $1,486,051,494 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The County's proportion of the net OPEB liability was based on a projection of the County's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating agencies actuarially determined. At June 30, 2017, the County's proportion was 97.62%.

For the fiscal year ended June 30, 2018, the County recognized OPEB expense of $123,094,658. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 18,758,953
Assumption changes	-	221,712,718
Net difference between projected and actual earnings on OPEB plan investments	-	11,985,183
Changes in proportion and differences between County contributions and proportionate share of contributions	-	(232,027)
County contributions subsequent to the measurement date	61,139,641	-
Total	$ 61,139,641	$ 252,224,827

The $61,139,641 reported as deferred outflows of resources related to OPEB resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ (39,231,536)
2020	(39,231,536)
2021	(39,231,536)
2022	(39,231,535)
2023	(36,235,240)
Thereafter	(59,063,444)

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

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

Health care cost trend rates:		(initial, ultimate)
	Medical (excluding Indemnity plan) pre-65	8.22%, 4.50%
	Medical (excluding Indemnity plan) post-65	8.10%, 4.50%
	Medical (Indemnity plan) pre-65	8.80%, 4.50%
	Medical (Indemnity plan) post-65	7.81%, 4.50%
	Dental	4.50%, 4.50%

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2017 (see Note III.A4 discussion of the OPEB plan's investment policy) are summarized in the following table:

(Rest of page intentionally left blank)

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

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

Sensitivity of the County's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

	1% Decrease (4.88%)	**Discount Rate** (5.88%)	**1% Increase** (6.88%)
Net OPEB Liability	$ 1,828,143,854	$ 1,486,051,500	$ 1,217,199,614

Sensitivity of the County's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

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

	1% Decrease	Trend Rate	1% Increase
Net OPEB Liability	$ 1,204,759,336	$ 1,486,051,500	$ 1,847,844,213

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report by the Montgomery County Employee Retirement Plans.

(Rest of page intentionally left blank.)

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
RSI-1

	Budget			**Variance**
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Revenues:				
Taxes:				
Property	$ 1,279,589,952	$ 1,279,589,952	$ 1,265,611,259	$ (13,978,693)
Property - penalty and interest	-	-	1,532,546	1,532,546
Total Property Tax	1,279,589,952	1,279,589,952	1,267,143,805	(12,446,147)
County Income Tax	1,557,887,240	1,557,887,240	1,469,251,059	(88,636,181)
Other Local Taxes:				
Real property transfer	114,280,000	114,280,000	109,452,764	(4,827,236)
Recordation	56,156,616	56,156,616	49,135,141	(7,021,475)
Fuel energy	204,333,000	204,333,000	197,200,021	(7,132,979)
Hotel-motel	21,938,020	21,938,020	21,033,479	(904,541)
Telephone	52,503,689	52,503,689	51,600,631	(903,058)
Other	3,701,900	3,701,900	4,381,285	679,385
Total Other Local Taxes	452,913,225	452,913,225	432,803,321	(20,109,904)
Total Taxes	3,290,390,417	3,290,390,417	3,169,198,185	(121,192,232)
Licenses and Permits:				
Business	4,774,650	4,774,650	4,793,063	18,413
Non business	7,562,795	7,562,795	6,463,556	(1,099,239)
Total Licenses and Permits	12,337,445	12,337,445	11,256,619	(1,080,826)
Intergovernmental Revenue:				
State Aid and Reimbursements:				
DHR State reimbursement	41,500	41,500	37,333	(4,167)
Highway user revenue	3,702,146	3,702,146	3,674,021	(28,125)
Police protection	14,743,832	14,743,832	14,167,756	(576,076)
Health and human services programs	5,355,737	5,355,737	5,593,803	238,066
Public libraries	6,252,000	6,252,000	6,954,757	702,757
911 Emergency	6,745,000	6,745,000	7,742,320	997,320
Other	1,964,799	1,964,799	(20,443)	(1,985,242)
Total State Aid and Reimbursements	38,805,014	38,805,014	38,149,547	(655,467)
Federal Reimbursements:				
Federal financial participation	15,351,685	15,351,685	15,848,593	496,908
Other	6,904,540	6,904,540	6,445,774	(458,766)
Total Federal Reimbursements	22,256,225	22,256,225	22,294,367	38,142
Other Intergovernmental	1,352,310	1,352,310	1,526,085	173,775
Total Intergovernmental Revenue	62,413,549	62,413,549	61,969,999	(443,550)
Charges for Services:				
General government	1,415,604	1,415,604	1,409,153	(5,951)
Public safety	5,224,225	5,224,225	5,022,790	(201,435)
Health and human services	1,059,600	1,059,600	1,169,318	109,718
Culture and recreation	20,000	20,000	14,510	(5,490)
Environment	410,000	410,000	957,832	547,832
Public works and transportation	1,315,341	1,315,341	1,551,497	236,156
Total Charges for Services	9,444,770	9,444,770	10,125,100	680,830
Fines and forfeitures	28,272,150	32,972,150	29,660,686	(3,311,464)
Investment Income:				
Pooled investment income	1,208,090	1,208,090	461,608	(746,482)
Other interest income	58,700	58,700	1,748	(56,952)
Total Investment Income	1,266,790	1,266,790	463,356	(803,434)

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
RSI-1 (Continued)

	Budget			Variance
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Miscellaneous Revenue:				
Property rentals	4,422,630	4,422,630	4,295,651	(126,979)
Sundry	6,053,828	6,429,206	6,560,297	131,091
Total Miscellaneous Revenue	10,476,458	10,851,836	10,855,948	4,112
Total Revenues	3,414,601,579	3,419,676,957	3,293,529,893	(126,146,564)
Expenditures:				
Departments or Offices:				
County Council:				
Personnel	10,964,269	11,227,235	11,227,235	-
Operating	687,453	907,328	747,883	159,445
Totals	11,651,722	12,134,563	11,975,118	159,445
Board of Appeals:				
Personnel	493,820	499,667	499,663	4
Operating	47,932	47,212	31,470	15,742
Totals	541,752	546,879	531,133	15,746
Legislative Oversight:				
Personnel	1,608,939	1,643,873	1,643,866	7
Operating	52,756	47,486	29,088	18,398
Totals	1,661,695	1,691,359	1,672,954	18,405
Merit System Protection Board:				
Personnel	224,680	230,423	230,349	74
Operating	143,008	211,715	75,481	136,234
Totals	367,688	442,138	305,830	136,308
Zoning and Administrative Hearings:				
Personnel	590,592	590,592	589,776	816
Operating	98,999	113,929	91,233	22,696
Totals	689,591	704,521	681,009	23,512
Inspector General:				
Personnel	1,027,577	1,033,498	977,048	56,450
Operating	44,295	44,295	13,718	30,577
Totals	1,071,872	1,077,793	990,766	87,027
Circuit Court:				
Personnel	9,407,435	9,407,435	9,396,434	11,001
Operating	2,659,119	2,872,588	2,622,263	250,325
Totals	12,066,554	12,280,023	12,018,697	261,326
State's Attorney:				
Personnel	16,327,799	16,383,988	16,259,996	123,992
Operating	860,656	1,063,668	1,039,764	23,904
Totals	17,188,455	17,447,656	17,299,760	147,896
County Executive:				
Personnel	5,169,269	5,187,309	4,826,031	361,278
Operating	778,036	1,024,840	991,871	32,969
Totals	5,947,305	6,212,149	5,817,902	394,247
Community Engagement Cluster:				
Personnel	2,936,939	2,949,237	2,858,057	91,180
Operating	835,111	903,633	879,373	24,260
Totals	3,772,050	3,852,870	3,737,430	115,440

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
RSI-1 (Continued)

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Ethics Commission:				
Personnel	386,445	398,043	398,036	7
Operating	43,162	181,087	175,414	5,673
Totals	429,607	579,130	573,450	5,680
Intergovernmental Relations:				
Personnel	866,910	909,992	909,987	5
Operating	258,763	288,693	237,424	51,269
Totals	1,125,673	1,198,685	1,147,411	51,274
Public Information:				
Personnel	4,238,293	4,584,398	4,584,396	2
Operating	841,058	772,714	621,453	151,261
Totals	5,079,351	5,357,112	5,205,849	151,263
Board of Elections:				
Personnel	3,991,897	4,063,701	4,063,696	5
Operating	4,221,803	4,736,142	4,608,639	127,503
Totals	8,213,700	8,799,843	8,672,335	127,508
County Attorney:				
Personnel	5,754,090	5,974,926	5,974,924	2
Operating	565,392	833,266	833,266	-
Totals	6,319,482	6,808,192	6,808,190	2
Management and Budget:				
Personnel	4,631,157	4,776,540	4,707,295	69,245
Operating	99,774	249,253	234,004	15,249
Totals	4,730,931	5,025,793	4,941,299	84,494
Finance:				
Personnel	12,131,486	11,004,918	10,061,949	942,969
Operating	2,314,610	5,413,490	5,413,479	11
Totals	14,446,096	16,418,408	15,475,428	942,980
Office of Procurement				
Personnel	4,078,180	4,115,486	4,071,825	43,661
Operating	434,782	496,957	488,218	8,739
Totals	4,512,962	4,612,443	4,560,043	52,400
Human Resources:				
Personnel	5,512,130	5,539,115	5,402,280	136,835
Operating	2,842,961	3,032,229	2,976,101	56,128
Totals	8,355,091	8,571,344	8,378,381	192,963
Technology Services:				
Personnel	24,352,689	21,897,592	20,102,507	1,795,085
Operating	18,669,369	25,262,506	25,223,429	39,077
Totals	43,022,058	47,160,098	45,325,936	1,834,162
General Services:				
Personnel	13,528,180	14,902,673	14,902,663	10
Operating	17,437,397	23,272,009	23,119,591	152,418
Totals	30,965,577	38,174,682	38,022,254	152,428
Consumer Protection:				
Personnel	2,160,205	2,163,885	1,985,836	178,049
Operating	204,392	204,392	171,834	32,558
Totals	2,364,597	2,368,277	2,157,670	210,607
Corrections and Rehabilitation:				
Personnel	60,185,370	60,356,574	60,356,566	8
Operating	6,530,891	7,829,440	7,829,436	4
Totals	66,716,261	68,186,014	68,186,002	12

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Human Rights:				
Personnel	1,077,469	1,082,469	1,065,761	16,708
Operating	165,344	165,344	121,274	44,070
Totals	1,242,813	1,247,813	1,187,035	60,778
Police:				
Personnel	229,447,034	225,731,146	225,731,139	7
Operating	46,027,336	47,711,641	47,711,632	9
Totals	275,474,370	273,442,787	273,442,771	16
Sheriff:				
Personnel	20,507,032	20,828,143	20,828,137	6
Operating	2,859,414	2,973,745	2,973,744	1
Totals	23,366,446	23,801,888	23,801,881	7
Homeland Security:				
Personnel	1,083,650	1,104,287	1,041,797	62,490
Operating	233,921	272,567	200,208	72,359
Totals	1,317,571	1,376,854	1,242,005	134,849
Transportation:				
Personnel	22,437,286	24,464,210	23,810,458	653,752
Operating	27,372,634	39,320,364	39,320,360	4
Totals	49,809,920	63,784,574	63,130,818	653,756
Health and Human Services:				
Personnel	123,522,408	121,079,274	121,079,265	9
Operating	110,562,432	113,452,772	110,357,403	3,095,369
Totals	234,084,840	234,532,046	231,436,668	3,095,378
Libraries:				
Personnel	34,113,070	34,149,751	32,158,479	1,991,272
Operating	8,324,506	10,282,475	10,282,467	8
Totals	42,437,576	44,432,226	42,440,946	1,991,280
Housing and Community Affairs:				
Personnel	6,332,020	6,355,148	6,074,090	281,058
Operating	1,206,598	1,269,705	909,017	360,688
Totals	7,538,618	7,624,853	6,983,107	641,746
Economic Development:				
Personnel	643,433	648,513	606,105	42,408
Operating	345,762	396,505	370,955	25,550
Totals	989,195	1,045,018	977,060	67,958
Environmental Protection:				
Personnel	1,986,147	1,997,699	1,824,960	172,739
Operating	921,196	1,643,226	997,825	645,401
Totals	2,907,343	3,640,925	2,822,785	818,140
Total Departments	890,408,762	924,578,956	911,949,923	12,629,033
Nondepartmental:				
Arts Council - operating	5,506,943	5,506,943	5,506,943	-
Boards, Committees and Commisions	22,950	22,950	18,304	4,646
Charter Review Commission	1,150	1,150	-	1,150
Children's Opportunity Fund	375,000	375,000	375,000	-
Community grants	11,075,881	11,893,531	11,667,921	225,610
Compensation adjustment - personnel	1,554,230	538,133	181,215	356,918
Compensation adjustment - operating	587,360	649,626	649,624	2
Conference Center - personnel	129,574	139,344	139,339	5
Conference Center - operating	503,195	493,425	18,779	474,646

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
RSI-1 (Continued)

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Conferences & Visitors Bureau	1,535,661	1,535,661	1,535,661	-
Consolidated Retiree Health Benefits Trust (MC)	2,552,000	2,552,000	552,000	2,000,000
Consolidated Retiree Health Benefits Trust (MCPS)	74,192,000	74,192,000	55,165,381	19,026,619
Contrib. To Self Ins Fund - Risk Mg	16,816,427	16,816,427	16,231,702	584,725
County Associations	74,728	74,728	74,728	-
County Leases - personnel	100,000	128,800	128,794	6
County Leases - operating	20,234,394	20,420,336	20,219,458	200,878
Desktop computer modernization - operating	7,886,200	8,247,847	7,255,375	992,472
Grants To Muni Lieu Of Shared Tax	28,020	28,020	28,012	8
Group Insurance Retirees	43,300,000	43,300,000	1,888,000	41,412,000
Historical Activities	110,000	110,000	110,000	-
Homeowners' Association Roads	61,051	61,051	61,051	-
Independent Audit	420,820	481,320	377,577	103,743
Interagency tech, policy and coord comm - operating	5,850	5,850	5,717	133
Legislative Branch Communications Outreach	540,000	1,464,087	594,696	869,391
MEDCO Grant Incubator Network	3,399,971	3,399,971	3,043,076	356,895
Metro Washington Council Of Govts	876,710	876,710	873,470	3,240
Mont Coalition Adult English Literacy	1,657,058	1,657,058	1,657,058	-
Mont. County Economic Development Corp.	5,007,750	5,007,750	4,907,750	100,000
Municipal Tax Duplication	8,405,243	8,405,243	8,322,006	83,237
Prisoner Medical Services	20,000	20,000	-	20,000
Public Election Fund	5,095,000	5,095,000	5,019,763	75,237
Public Technologies Inc	20,000	20,000	20,000	-
Rebate Takoma Park For Police	1,012,888	1,013,688	1,013,685	3
Retiree Health Benefits Trust	43,398,320	43,398,320	43,398,320	-
Rockville Parking District	412,200	412,200	409,016	3,184
Snow Removal	2,884,990	-	-	-
State Positions Supplement	60,756	60,756	-	60,756
State Property Tax Services	3,565,615	3,616,295	3,616,293	2
State Retirement Contribution	1,448,295	1,448,295	1,448,295	-
Takoma Park - Lib Transition	154,043	168,713	168,704	9
Telecommunications	5,356,382	5,781,154	5,740,231	40,923
Utilities	26,235,645	24,512,075	24,512,068	7
Vision Zero	100,000	100,000	100,000	-
Working Families Income Supplement	24,638,264	22,174,444	21,420,862	753,582
WorkSource Montgomery	1,657,344	1,747,344	1,747,344	-
Total - Nondepartmental	323,019,908	317,953,245	250,203,218	67,750,027
Total Expenditures	1,213,428,670	1,242,532,201	1,162,153,141	80,379,060
Excess of Revenues over (under) Expenditures	2,201,172,909	2,177,144,756	2,131,376,752	(45,768,004)
Other Financing Sources (Uses):				
Transfers In:				
Special Revenue Funds:				
Fire Tax District	551,232	551,232	551,232	-
Recreation	6,269,831	7,394,831	7,394,831	-
Mass Transit	12,943,952	23,155,152	23,155,152	-
Water Quality Protection	1,611,261	1,611,261	1,611,261	-
Urban Districts	703,662	703,662	703,662	-
Housing Activities	329,848	329,848	329,848	-
Cable TV	10,251,189	13,232,189	13,232,189	-
Total Special Revenue Funds	32,660,975	46,978,175	46,978,175	-

(Continued)

	Budget			Variance
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Enterprise Funds:				
Liquor	22,676,698	24,828,303	24,828,303	-
Parking Lot Districts	1,015,167	1,015,167	1,015,167	-
Solid Waste Activities	2,993,810	2,993,810	2,993,810	-
Community Use of Public Facilities	791,032	791,032	791,032	-
Permitting Services	5,236,021	5,236,021	5,236,021	-
Total Enterprise Funds	32,712,728	34,864,333	34,864,333	-
Internal Service Funds:				
Self insurance liability and property	15,954,769	21,404,769	21,404,769	-
Motor Pool	1,181,250	5,954,591	5,954,591	-
Total Internal Service Funds	17,136,019	27,359,360	27,359,360	-
Total Transfers In	82,509,722	109,201,868	109,201,868	-
Transfers In - Component Units:				
Montgomery County Public Schools	-	-	-	-
Montgomery College	-	-	-	-
Total Transfers In - Component Units	-	-	-	-
Total Transfers In - MCG	82,509,722	109,201,868	109,201,868	-
Transfers (Out):				
Special Revenue Funds:				
Recreation	(1,309,700)	(1,009,700)	(1,009,700)	-
Fire Tax District	(250,000)	(250,000)	(250,000)	-
Urban Districts	(2,654,218)	(2,654,218)	(2,654,218)	-
Mass Transit	(531,310)	(531,310)	(531,310)	-
Revenue Stabilization	(25,634,541)	(25,121,288)	(24,949,110)	172,178
Housing Activities	(22,703,644)	(22,703,644)	(22,703,644)	-
Economic Development	(3,937,383)	(4,237,383)	(4,233,040)	4,343
Total Special Revenue Funds	(57,020,796)	(56,507,543)	(56,331,022)	176,521
Internal Service Funds:				
Motor Pool	(973,258)	(973,258)	(609,198)	364,060
Total Internal Service Funds	(973,258)	(973,258)	(609,198)	364,060
Enterprise Funds:				
Community Use of Public Facilities	(160,000)	(160,000)	(160,000)	-
Solid Waste Activities	(2,006,800)	(2,006,800)	(2,006,800)	-
Total Enterprise Funds	(2,166,800)	(2,166,800)	(2,166,800)	-
Debt Service Fund	(320,009,040)	(320,420,156)	(312,020,119)	8,400,037
Capital Projects Fund	-	(82,506,326)	(46,703,653)	35,802,673
Total Transfers (Out)	(380,169,894)	(462,574,083)	(417,830,792)	44,743,291

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
RSI-1 (Concluded)

	Budget			Variance
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Transfers (Out) - Component Units:				
Montgomery County Public Schools - operating	(1,666,978,187)	(1,671,678,187)	(1,671,507,568)	170,619
Montgomery County Public Schools - capital	-	(36,492,063)	(25,000,000)	11,492,063
Total Montgomery County Public Schools	(1,666,978,187)	(1,708,170,250)	(1,696,507,568)	11,662,682
Montgomery College - operating	(141,667,452)	(141,667,452)	(141,667,452)	-
Montgomery College - capital	-	(33,073,987)	(12,709,286)	20,364,701
Total Montgomery College	(141,667,452)	(174,741,439)	(154,376,738)	20,364,701
Housing Opportunity Commission - operating	(6,536,889)	(6,536,889)	(6,406,061)	130,828
Housing Opportunity Commission - capital	-	(10,192,659)	-	10,192,659
Total Housing Opportunity Commission	(6,536,889)	(16,729,548)	(6,406,061)	10,323,487
M-NCPPC - operating	(990,700)	(990,700)	(890,700)	100,000
Total Transfers (Out) - Component Units and JV	(1,816,173,228)	(1,900,631,937)	(1,858,181,067)	42,450,870
Total Transfers (Out) - MCG	(2,196,343,122)	(2,363,206,020)	(2,276,011,859)	87,194,161
Total Other Financing Sources (Uses)	(2,113,833,400)	(2,254,004,152)	(2,166,809,991)	87,194,161
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$ 87,339,509	$ (76,859,396)	(35,433,239)	$ 41,426,157
Adjustments required under generally accepted accounting principles:				
Non budgeted Item - Bad debt expense			(171,923)	
Elimination of encumbrances outstanding			27,072,391	
Revenue Stabilization investment income			3,086,376	
Conference center activity			102,586	
Other non budgeted items			(1,566,538)	
Transfer to Revenue Stabilization			24,949,110	
Public Election Fund Transfers			(4,277,959)	
Economic Development			1,077,809	
Urban Districts			(785,902)	
GAAP - Net Change in Fund Balance			14,052,711	
Fund Balance - Beginning of Year			506,971,795	
Fund Balance - End of Year			$ 521,024,506	

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
HOUSING INITIATIVE SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
RSI-2

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Revenues:				
Taxes - recordation premium	$ 15,086,338	$ 15,086,338	$ 12,936,302	$ (2,150,036)
Charges for services	70,200	70,200	34,842	(35,358)
Investment Income:				
Pooled investment income	951,460	951,460	417,962	(533,498)
Other interest income	900,000	900,000	2,424,014	1,524,014
Total Investment Income	1,851,460	1,851,460	2,841,976	990,516
Miscellaneous:				
Property rentals, MPDU and other contributions	584,026	584,026	2,027,100	1,443,074
Total Miscellaneous	584,026	584,026	2,027,100	1,443,074
Total Revenues	17,592,024	17,592,024	17,840,220	248,196
Expenditures: Community development and housing				
Personnel	1,896,770	1,907,510	1,907,503	7
Operating	34,874,045	59,471,625	29,211,687	30,259,938
Total Expenditures	36,770,815	61,379,135	31,119,190	30,259,945
Excess of Revenues over (under) Expenditures	(19,178,791)	(43,787,111)	(13,278,970)	30,508,141
Other Financing Sources (Uses):				
Transfers In (Out):				
From General Fund	22,703,644	22,703,644	22,703,644	-
From Capital Projects Fund	4,814,347	4,814,347	4,814,347	-
To General Fund	(329,848)	(329,848)	(329,848)	-
To Debt Service Fund	(7,808,010)	(7,808,010)	(7,325,134)	482,876
To Capital Projects Fund	-	-	(6,918,539)	(6,918,539)
Mortgage repayment	2,175,000	2,175,000	8,248,165	6,073,165
Sale of property	1,000,000	1,000,000	1,648,724	648,724
Total Other Financing Sources (Uses)	22,555,133	22,555,133	22,841,359	286,226
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$ 3,376,342	$ (21,231,978)	9,562,389	$ 30,794,367
Adjustments required under generally accepted accounting principles:				
Elimination of encumbrances outstanding			310,517	
Repayment of loan principal not considered revenue under GAAP			(8,248,165)	
Non budgeted Item - Bad debt expense			(12,678,962)	
GAAP - Net Change in Fund Balance			(11,054,221)	
Fund Balance - Beginning of Year			249,775,176	
Fund Balance - End of Year			$ 238,720,955	

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GRANTS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
RSI-3

	Budget			Variance
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Revenues:				
Intergovernmental:				
Federal grants	$ 27,544,332	$ 37,351,073	$ 49,686,374	$ 12,335,301
State grants	88,566,266	75,445,016	64,316,680	(11,128,336)
Other non-state and non-federal reimbursements	309,200	355,952	291,302	(64,650)
Total Intergovernmental	116,419,798	113,152,041	114,294,356	1,142,315
Investment income:				
Other principal and interest income	1,000,000	1,000,000	1,188,962	188,962
Total Investment Income	1,000,000	1,000,000	1,188,962	188,962
Miscellaneous	-	16,826	684,485	667,659
Total Revenues	117,419,798	114,168,867	116,167,803	1,998,936
Expenditures:				
General Government:				
Circuit Court:				
Personnel costs	2,493,952	2,333,851	2,204,771	129,080
Operating	235,176	220,665	215,555	5,110
Totals	2,729,128	2,554,516	2,420,326	134,190
Office of State's Attorney:				
Personnel costs	134,867	147,643	288,951	(141,308)
Operating	-	86,722	30,079	56,643
Totals	134,867	234,365	319,030	(84,665)
Office of the County Executive:				
Personnel costs	133,178	133,178	117,082	16,096
Operating	4,484	(982)	50,741	(51,723)
Totals	137,662	132,196	167,823	(35,627)
Intergovernmental Relations:				
Operating	30,670	30,670	30,666	4
Totals	30,670	30,670	30,666	4
Community Engagement Cluster:				
Personnel costs	67,320	67,320	53,363	13,957
Operating	-	(3,239)	14,579	(17,818)
Totals	67,320	64,081	67,942	(3,861)
Department of Human Resources:				
Operating	-	-	7,676	(7,676)
Totals	-	-	7,676	(7,676)
General Services:				
Operating	-	150,000	150,000	-
Totals	-	150,000	150,000	-
Total General Government	3,099,647	3,165,828	3,163,463	2,365

(Continued)

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Department of Fire and Rescue Services:				
Personnel costs	-	2,838,418	1,538,702	1,299,716
Operating	-	1,151,616	992,428	159,188
Totals	-	3,990,034	2,531,130	1,458,904
Department of Police:				
Personnel costs	148,000	618,206	499,232	118,974
Operating	17,000	350,866	434,603	(83,737)
Totals	165,000	969,072	933,835	35,237
Office of the County Sheriff:				
Personnel costs	558,819	1,131,427	795,781	335,646
Operating	273,262	548,646	112,429	436,217
Totals	832,081	1,680,073	908,210	771,863
Office of Emergency Management & Homeland Security:				
Personnel costs	768,405	1,703,965	878,590	825,375
Operating	-	6,274,305	8,163,161	(1,888,856)
Totals	768,405	7,978,270	9,041,751	(1,063,481)
Total Public Safety	1,765,486	14,617,449	13,414,926	1,202,523
Transportation:				
Department of Transportation:				
Personnel costs	1,859,934	1,224,526	1,527,793	(303,267)
Operating	3,205,705	2,664,911	3,411,502	(746,591)
Total Transportation	5,065,639	3,889,437	4,939,295	(1,049,858)
Health and Human Services:				
Department of Health and Human Services:				
Personnel costs	46,469,327	44,829,708	46,762,050	(1,932,342)
Operating	32,407,229	31,394,405	38,693,208	(7,298,803)
Total Health and Human Services	78,876,556	76,224,113	85,455,258	(9,231,145)
Culture and Recreation:				
Department of Libraries:				
Personnel costs	211,064	211,064	65,911	145,153
Operating	76,513	109,375	69,218	40,157
Totals	287,577	320,439	135,129	185,310
Department of Recreation:				
Personnel costs	82,563	81,350	66,438	14,912
Operating	-	-	(1,177)	1,177
Totals	82,563	81,350	65,261	16,089
Total Culture and Recreation	370,140	401,789	200,390	201,399

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GRANTS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
RSI-3 (Concluded)

	Budget			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Housing:				
Department of Permitting Service:				
Personnel costs	-	-	3,705	(3,705)
Operating	-	-	27,146	(27,146)
Totals	-	-	30,851	(30,851)
Department of Housing and Community Affairs:				
Personnel costs	2,182,457	2,182,457	2,069,070	113,387
Operating	6,059,871	6,805,229	7,255,396	(450,167)
Totals	8,242,328	8,987,686	9,324,466	(336,780)
Total Housing	8,242,328	8,987,686	9,355,317	(367,631)
Department of Liquor Control:				
Personnel costs	-	(47,320)	6,417	(53,737)
Operating	-	(6,300)	77,036	(83,336)
Total Liquor Control	-	(53,620)	83,453	(137,073)
Nondepartmental:				
NDA Future Grants - Operating	20,000,000	11,007,224	-	11,007,224
Total Nondepartmental	20,000,000	11,007,224	-	11,007,224
Total Expenditures	117,419,796	118,239,906	116,612,102	1,627,804
Excess of Revenues over (under) Expenditures	2	(4,071,039)	(444,299)	3,626,740
Other Financing Sources (Uses):				
Transfers In:				
Mass Transit Special Revenue Fund	-	340,000	340,000	-
Total Transfers In	-	340,000	340,000	-
Total Other Financing Sources (Uses)	-	340,000	340,000	-
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	2	(3,731,039)	(104,299)	3,626,740
Adjustments required under generally accepted accounting principles:				
GAAP - Net Change in Fund Balance			(104,299)	
Fund Balance - Beginning of Year			216,033	
Fund Balance - End of Year			$ 111,734	

Reconciliation of Budgetary Schedule to GAAP Basis
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances:

	Revenues	Expenditures & Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
As reported - budgetary basis	$ 116,167,803	$ 116,612,102	$ 340,000	$ -
Reconciling items:				
Encumbrances	(5,895,405)	(5,895,405)	-	-
As reported - GAAP basis	**$ 110,272,398**	**$ 110,716,697**	**$ 340,000**	$ -

REQUIRED SUPPLEMENTARY INFORMATION

CONSOLIDATED RETIREE HEALTH BENEFITS TRUST

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

	County's Proportion			County's	Plan Fiduciary
Measurement date June 30	% of Net OPEB Liability	Share of the Net OPEB Liability	Share of the Net OPEB Liability as a % of its Covered-Employee Payroll	County's Covered-Employee Payroll	Plan Fiduciary Net Position as a % of Total OPEB Liability
2017	97.62%	$ 1,486,051,494	202.70%	$ 733,142,945	22.38%

SCHEDULE OF COUNTY CONTRIBUTIONS
LAST 10 FISCAL YEARS

Fiscal Year Ended June 30	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (excess)	Covered Payroll	Actual Contributions as a % of Covered Payroll
2018	$ 110,024,000	$ 119,823,414	$ (9,799,414)	$ 733,142,945	16.34%

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

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM

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

	County's Proportion			County's	Plan Fiduciary
Fiscal Year Ending June 30	% of Net Pension Liability	Share of the Net Pension Liability	Share of the Net Pension Liability as a % of its Covered-Employee Payroll	Covered-Employee Payroll	Net Position as a % of Total Pension Liability
2014	97.79%	$ 298,751,284	75.83%	$ 393,995,026	92.28%
2015	96.94	407,854,987	100.48	405,915,489	89.69
2016	96.36	521,396,382	126.54	412,057,017	87.06
2017	94.78	324,129,748	76.97	421,097,825	92.00

SCHEDULE OF COUNTY CONTRIBUTIONS LAST 10 FISCAL YEARS

Fiscal Year Ending June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (excess)	County's Covered-Employee Payroll	Contribution as a % of Covered-Employee Payroll
2014	$ 141,511,591	$ 141,511,591	$ -	$ 393,995,026	35.92%
2015	146,672,030	146,672,030	-	405,915,489	36.13
2016	129,899,308	129,899,308	-	412,057,017	31.52
2017	90,422,232	90,422,232	-	421,097,825	21.47

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

REQUIRED SUPPLEMENTARY INFORMATION

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

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

Measurement Date Fiscal Year Ending June 30	County's Proportion % of Net Pension Liability	Share of the Net Pension Liability	Share of the Net Pension Liability as a % of its Covered Payroll	County's Covered Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2014	0.1007417%	$ 17,878,357	276.62%	$ 6,463,239	71.87%
2015	0.1175148	24,421,562	305.33	7,998,461	68.78
2016	0.1276071	30,107,615	408.16	7,376,386	65.79
2017	0.1274055	27,549,791	401.31	6,865,033	69.38

SCHEDULE OF COUNTY CONTRIBUTIONS LAST 10 FISCAL YEARS

Measurement Date Fiscal Year Ending June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (excess)	County's Covered Payroll	Contribution as a % of Covered Payroll
2014	$ 2,347,645	$ 2,347,645	$ -	$ 6,463,239	36.32%
2015	2,476,892	2,476,892	-	7,998,461	30.97
2016	2,485,889	2,485,889	-	7,376,386	33.70
2017	2,593,137	2,593,137	-	6,865,033	33.77

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

RSI-7

REQUIRED SUPPLEMENTARY INFORMATION

LENGTH OF SERVICE AWARD PROGRAM (LOSAP)

SCHEDULE OF CHANGES IN THE TOTAL PENSION LIABILITY

Actuarial Valuation Date	December 31, 2017	January 1, 2015
Measurement Date	December 31, 2017	June 30, 2016
County's Fiscal Year Ending Date for GASB 73	June 30, 2018	June 30, 2017
Total Pension Liability		
Service cost	$ 1,578,468	$ 886,540
Interest on the Total Pension Liability	1,750,442	1,273,361
Benefit Changes	478,969	-
Difference between Expected and Actual Experience	(1,343,359)	-
Assumptions changes [1]	(3,166,298)	6,088,358
Benefit Payments	(2,009,855)	(1,309,686)
Refunds	-	-
Net Change in Total Pension Liability	(2,711,633)	6,938,573
Total Pension Liability – Beginning	40,657,679	33,719,106
Total Pension Liability – Ending (a)	**$ 37,946,046**	**$ 40,657,679**
Covered Employee Payroll	$ -	$ -
Total Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A

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

[1] For fiscal year ending June 30,2018, the change in the Total Pension Liability due to the change in the Single Discount Rate from 2.85% as of the beginning of the year to 3.31% as of the end of the year is included as an assumption change.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Information

Overview

Annual appropriated operating budgets are adopted for the General Fund, Debt Service Fund, substantially all Special Revenue Funds (except for the Agricultural Transfer Tax Fund), Enterprise Funds, the Liability and Property Coverage Self-Insurance Internal Service Fund, and the Employee Health Benefits Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations lapse at year-end except for those related to Federal and State grants and the Capital Projects Fund.

Encumbrance accounting is employed for budgetary purposes in the governmental and proprietary funds. Encumbrances (purchase orders and contracts awarded for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to preserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as restricted, committed, or assigned category of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

Approval

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP) is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year, and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in two major categories (personnel costs and operating expenses) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. Encumbrances are reported as a restricted or committed component of the current fiscal year's fund balance. The annual budget must be consistent with the six-year program for public services and fiscal policy. Multi-year planning provides a framework to make informed decisions about the levels of public services and project the impact of what may happen as a result of current decisions and policies. For the capital projects budget, the annual resolution provides spending authority at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY18, the County Council increased the operating budget for all funds through supplemental and special appropriations by $17.6 million. In addition, supplemental appropriations increased the CIP budget by $14.3 million.

Presentation

The basis used to prepare the legally adopted budget is different from GAAP in a number of ways, including the following:

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Fund budgets do not include depreciation and bad debts, however they do include debt service payments and capital outlay.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Proceeds under certain capital lease financing are not budgeted.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MC.

Pension Trend Information

The Schedule of County Contributions provides historical context for the amount of contributions in the current period. The actuarially determined contribution rates are calculated as of June 30, one year prior to the beginning of the fiscal year in which contributions are reported. Significant methods and assumptions used to determine the contributions for the Employees' Retirement System (ERS) include:

Valuation date	June 30, 2017
Actuarial cost method	Individual Entry Age Normal
Amortization method for funding	Level percentage of payroll, separate closed period bases for public safety and GRIP, single closed period amortization base for non-public safety
Amortization period for funding	For Public Safety and GRIP: Initial amortization period of 20 years for the base established July 1, 2015. Initial amortization period of 20 years for subsequent bases. For non-Public Safety: Single closed amortization period of 9 years established July 1, 2015. Average amortization period of 8.3 years for total ERS.
Asset valuation method	Market value
Projected salary increases depending on service	3.25% - 9.50% per year
Cost-of-living (inflation rate) adjustments	2.75% on the benefit attributable to credited service earned prior to June 30, 2011. 2.3% on the benefit attributable to credited service earned on or after July 1, 2011, reflecting the 2.5% cap.
Post-retirement increases	Consumer Price Index – by Group
Investment rate of return	7.5% per year
Mortality rates after retirement	RP-2014 Healthy Annuitant Mortality Table, gender-distinct for healthy mortality. Rates are set forward six years for male disabled mortality and eight years for the female disabled mortality assumption. To provide a margin for future mortality improvements, generational mortality improvements from 2014 using projection scale MP-2014 was used.

OPEB Trend Information

The Schedule of County Contributions provides historical context for the amount of contributions in the current period. The actuarially determined contribution rates are calculated as of June 30, one year prior to the beginning of the fiscal year in which contributions are reported. Significant methods and assumptions used to determine the contributions for OPEB plan include:

Valuation date	July 1, 2017
Methods and assumptions used to determine contributions rates:	
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open period)
Asset valuation method	Market value
Inflation	3.00%
Healthcare cost trend rates	
Medical (excluding Indemnity plan) pre-65	8.23%, 4.50%
Medical (excluding Indemnity plan) post-65	8.48%, 4.50%
Medical (Indemnity plan) pre-65	8.80%, 4.50%
Medical (Indemnity plan) post-65	7.81%, 4.50%
Dental	4.50%, 4.50%
Salary increases	3.25% - 9.50% per year
Investment rate of return	7.50%
Mortality	Aggregate 2006 base rates from the RP-2014 mortality study projected generationally from 2006 with scale MP-2016 for the year 2017.