

Smart Growth Conference

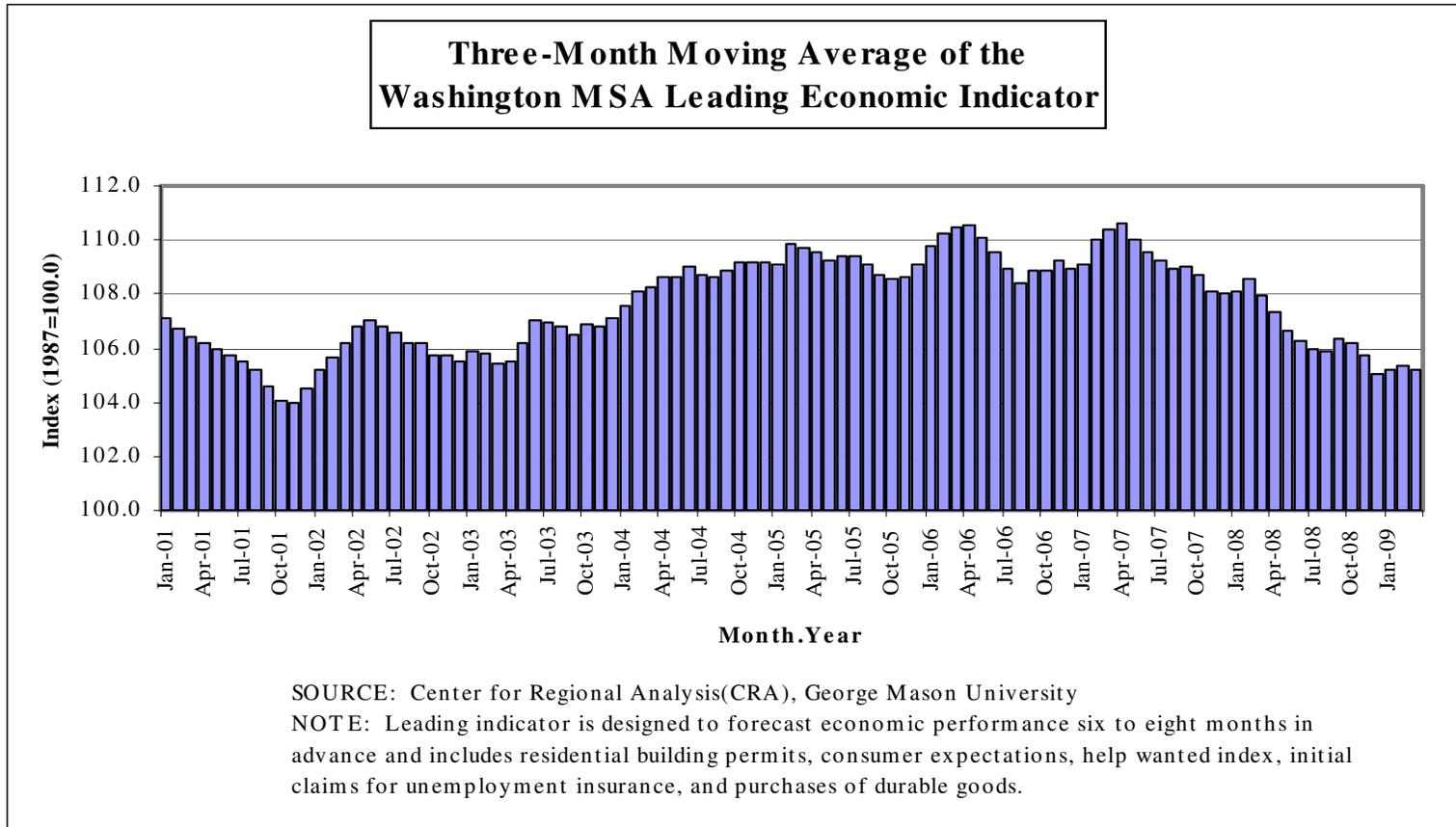
Executive Office Building

June 17, 2009

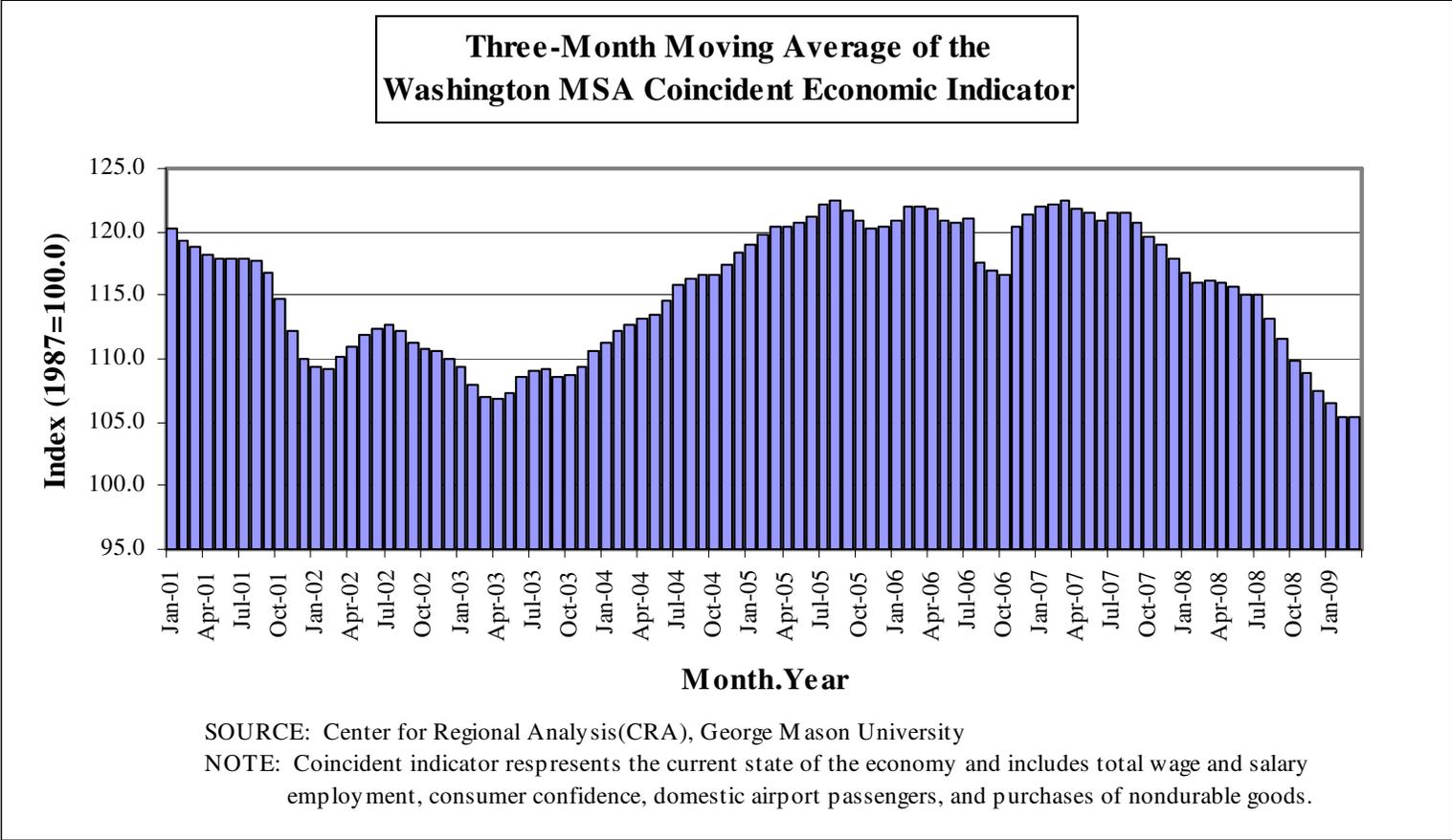
**Current Economic Condition:
Washington Region and Montgomery County**

Washington Region Economic Indicators

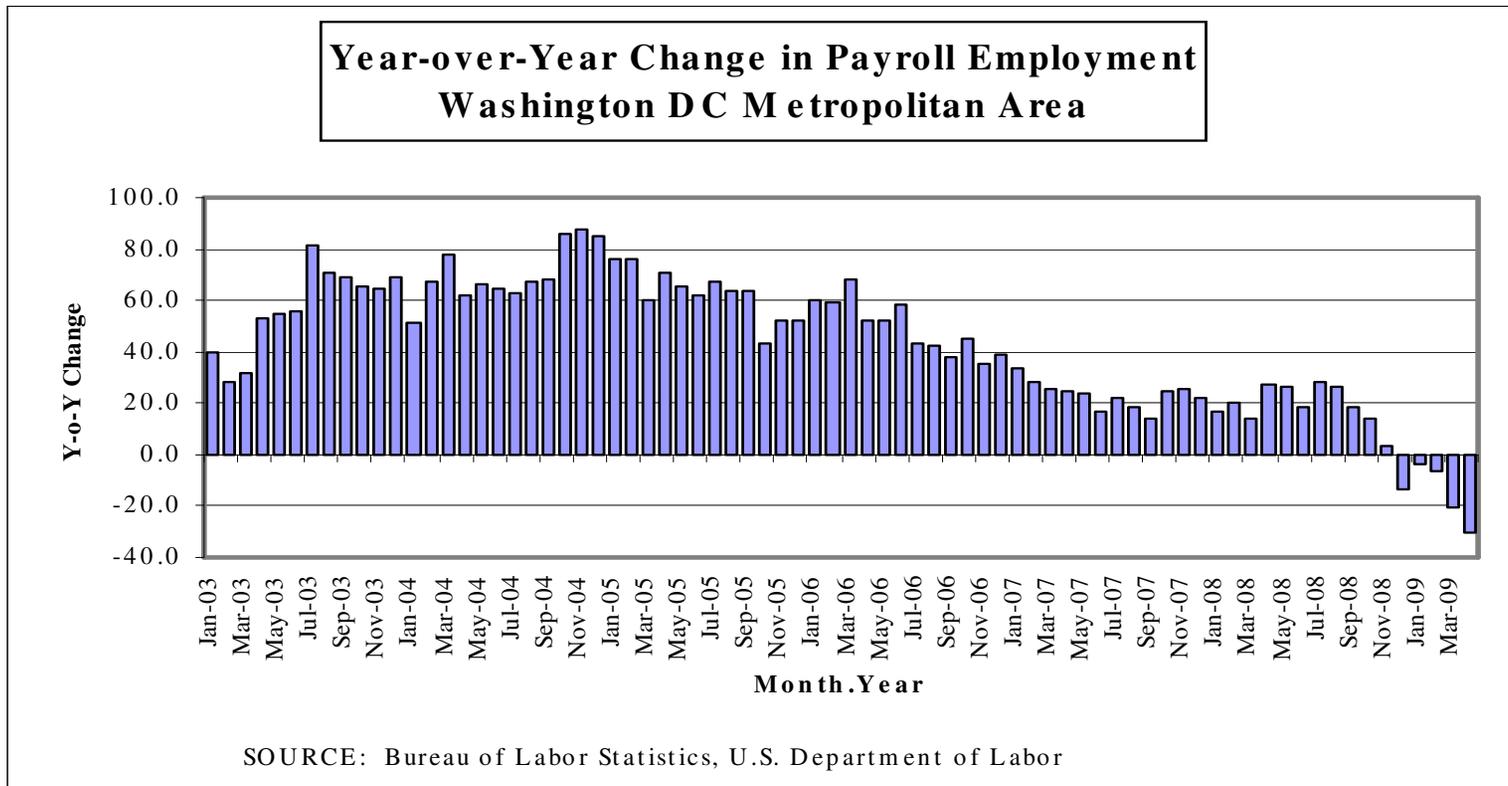
The region's leading index decreased in March and has decreased four out of the past six months. Overall the index has declined 6.4 percent since April'07. According to the Center for Regional Analysis (CRA), the economy may be slow to re-accelerate over the next six months.



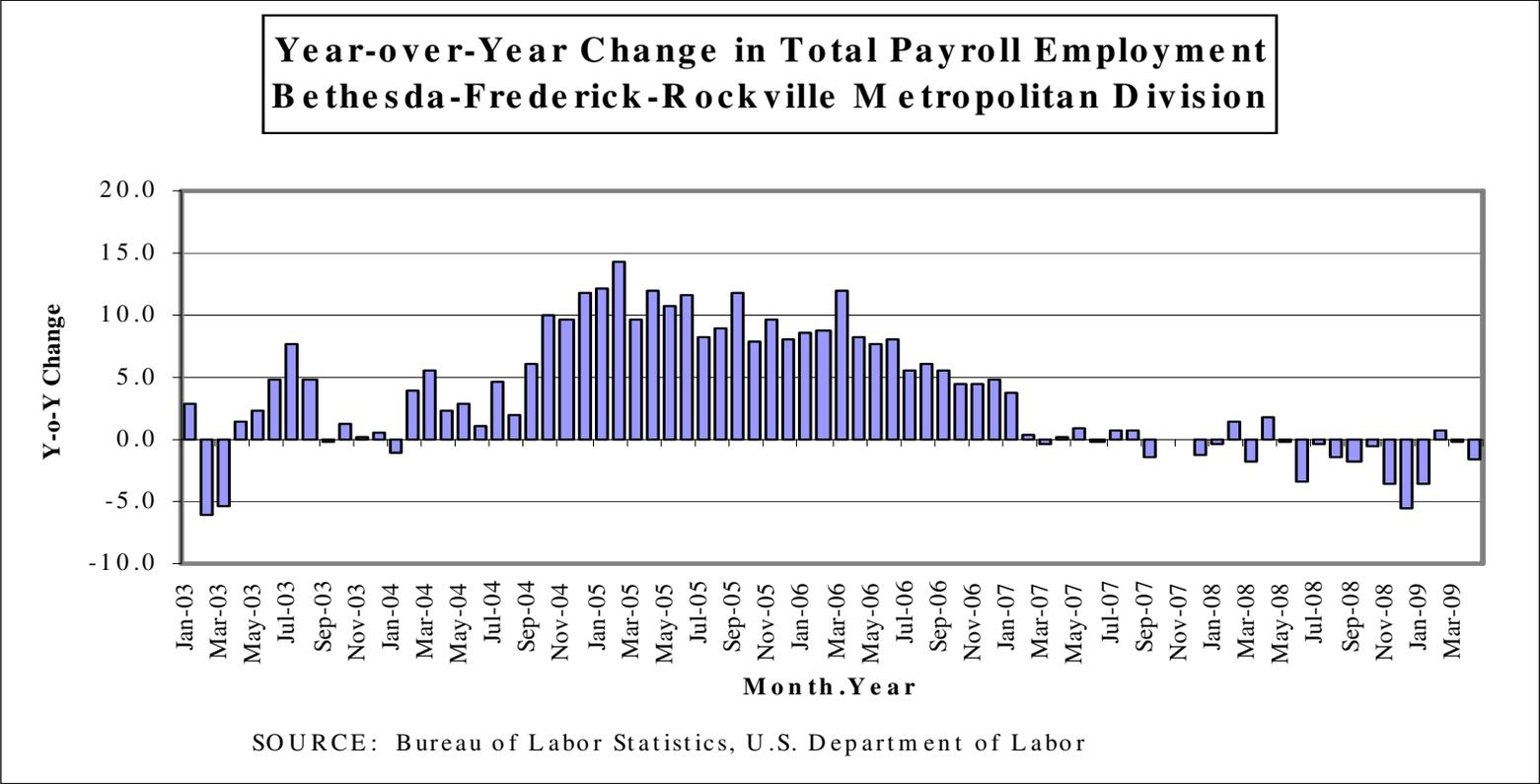
While the region’s coincident index increased in March, CRA contends that the Washington area economy experienced its worst performance since the first quarter of 1991. Employment was down and retail spending in March declined 11.4 percent from February.



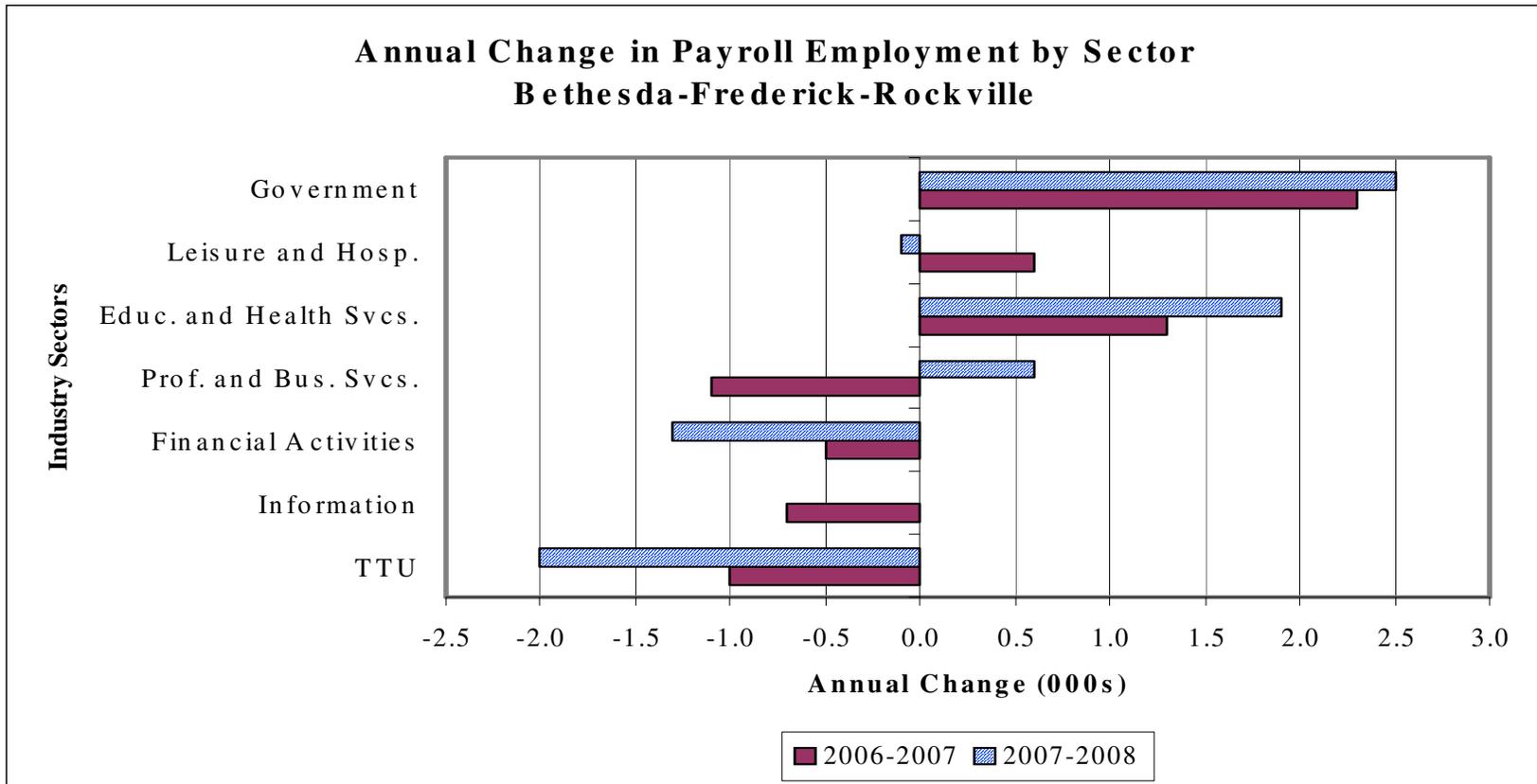
While the slowdown in the region's economy experienced its worst performance since the first quarter of 1991, the Washington area lost 15,400 jobs during the first four months of this year compared to the same period last year.



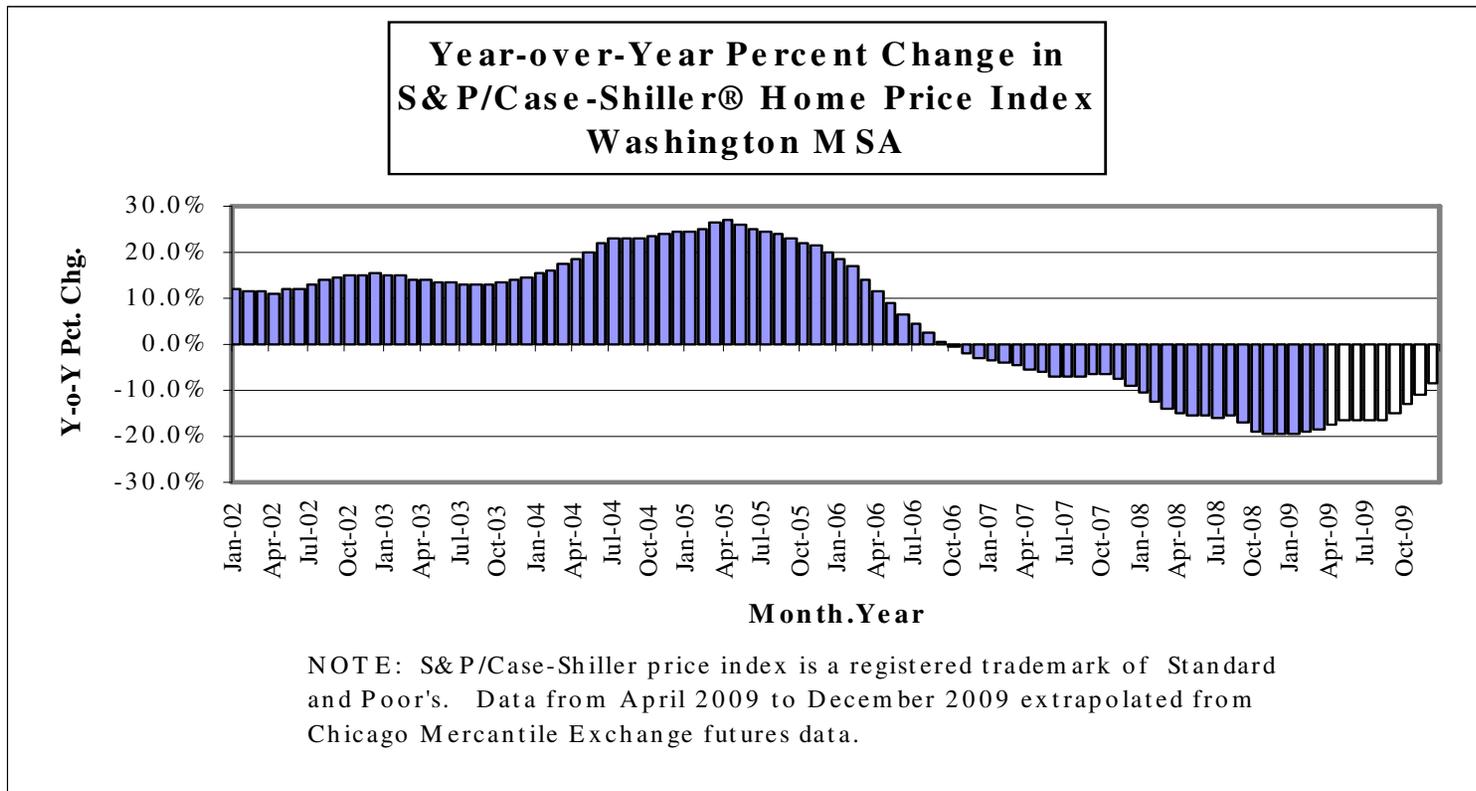
At the same time as the region lost over 15,000 jobs, Montgomery and Frederick Counties also lost 1,100 jobs during the first four months of this year compared to last year. Average payroll employment during January-April period stood at 569,800 compared to 570,900 in 2008.



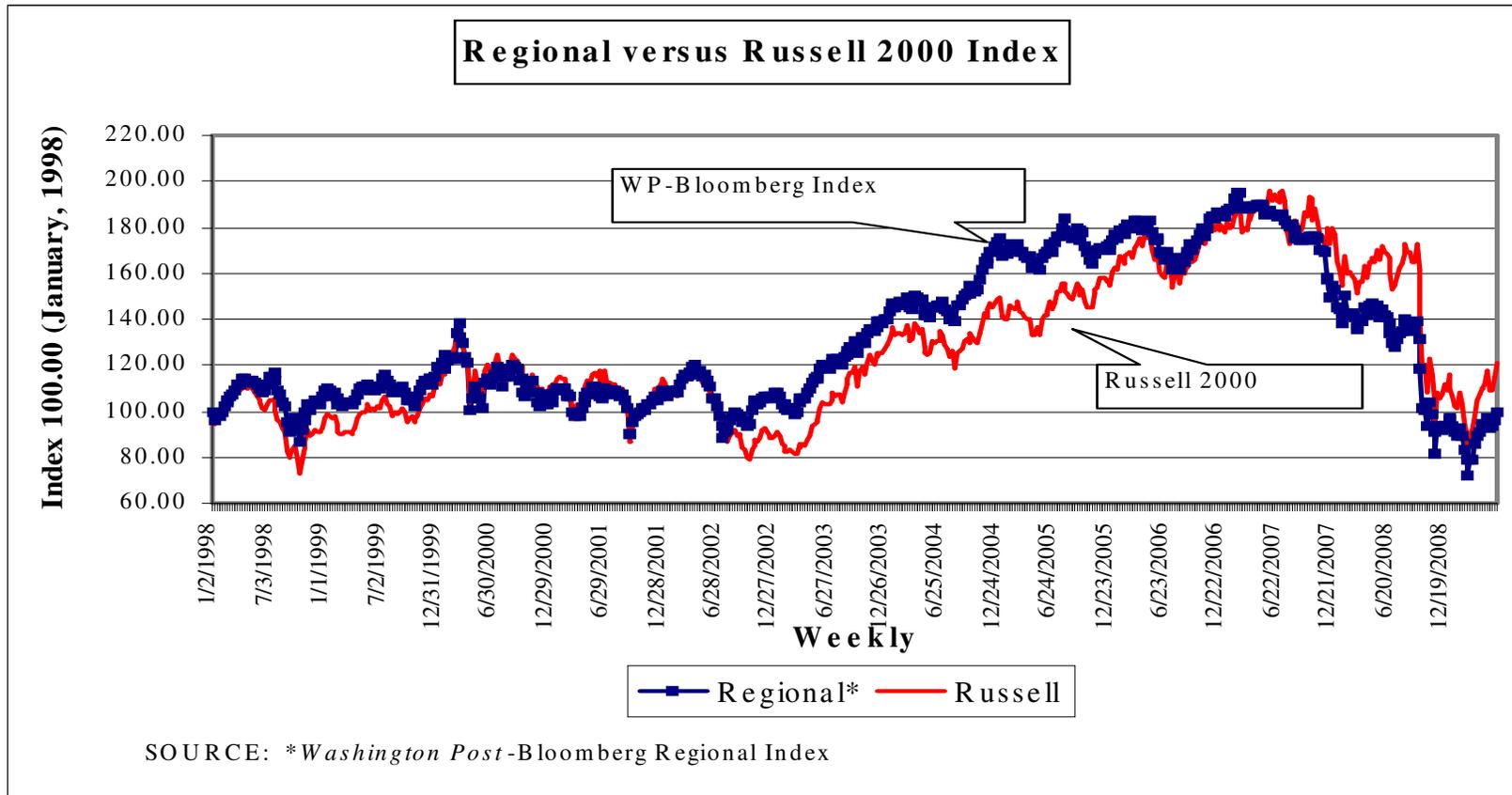
On an annual basis, only three sectors experienced growth in employment in 2008: government, education and health services, and professional and business services. Employment in financial services and trade-transportation-utilities (TTU) sectors experienced the largest declines in employment.



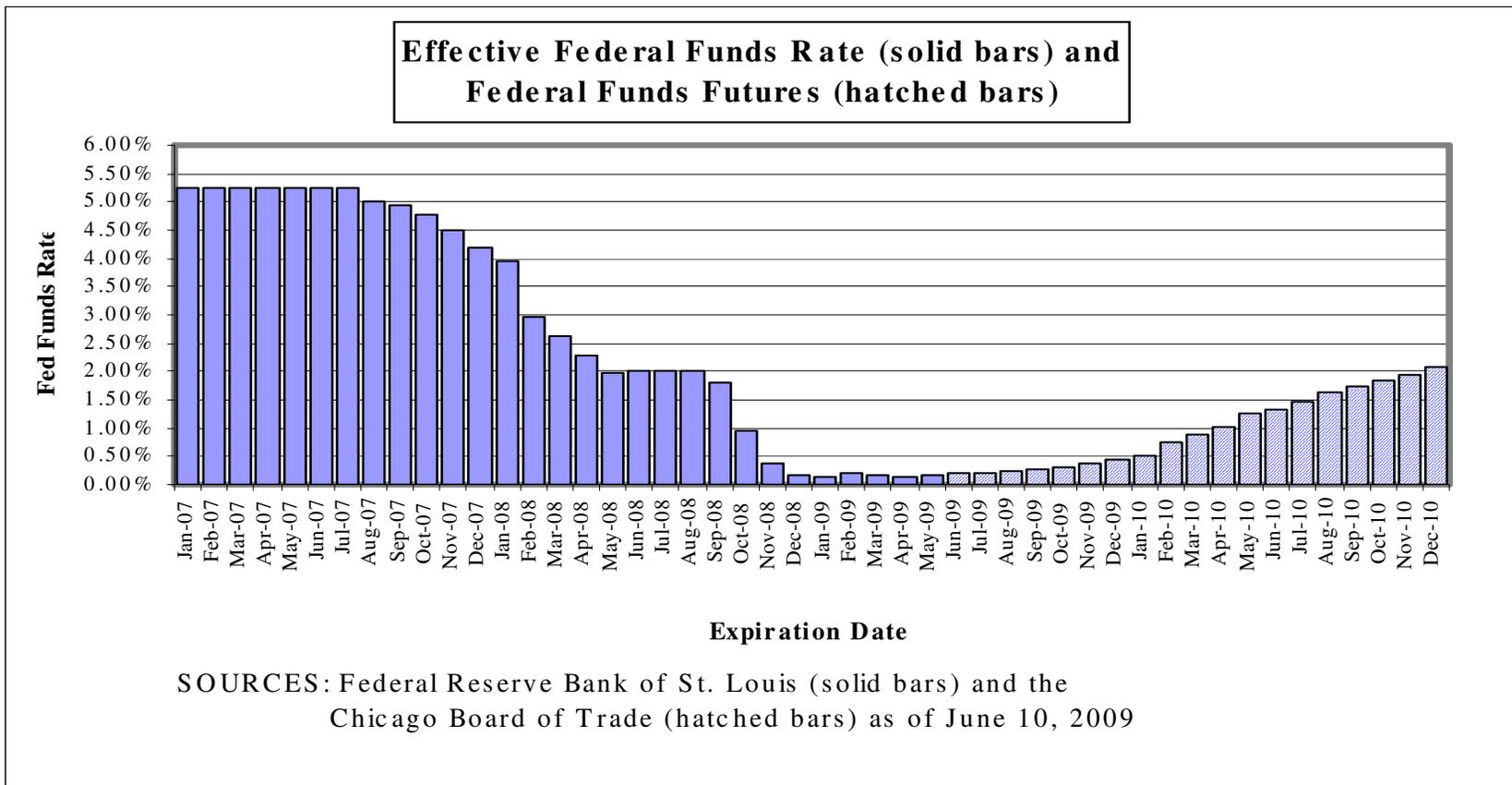
Based on the Case-Shiller® index, home prices in the Washington region decreased 18.4 percent in March compared to March of last year. The futures market suggests the region could expect further declines through the remainder of this year albeit at a slower pace.



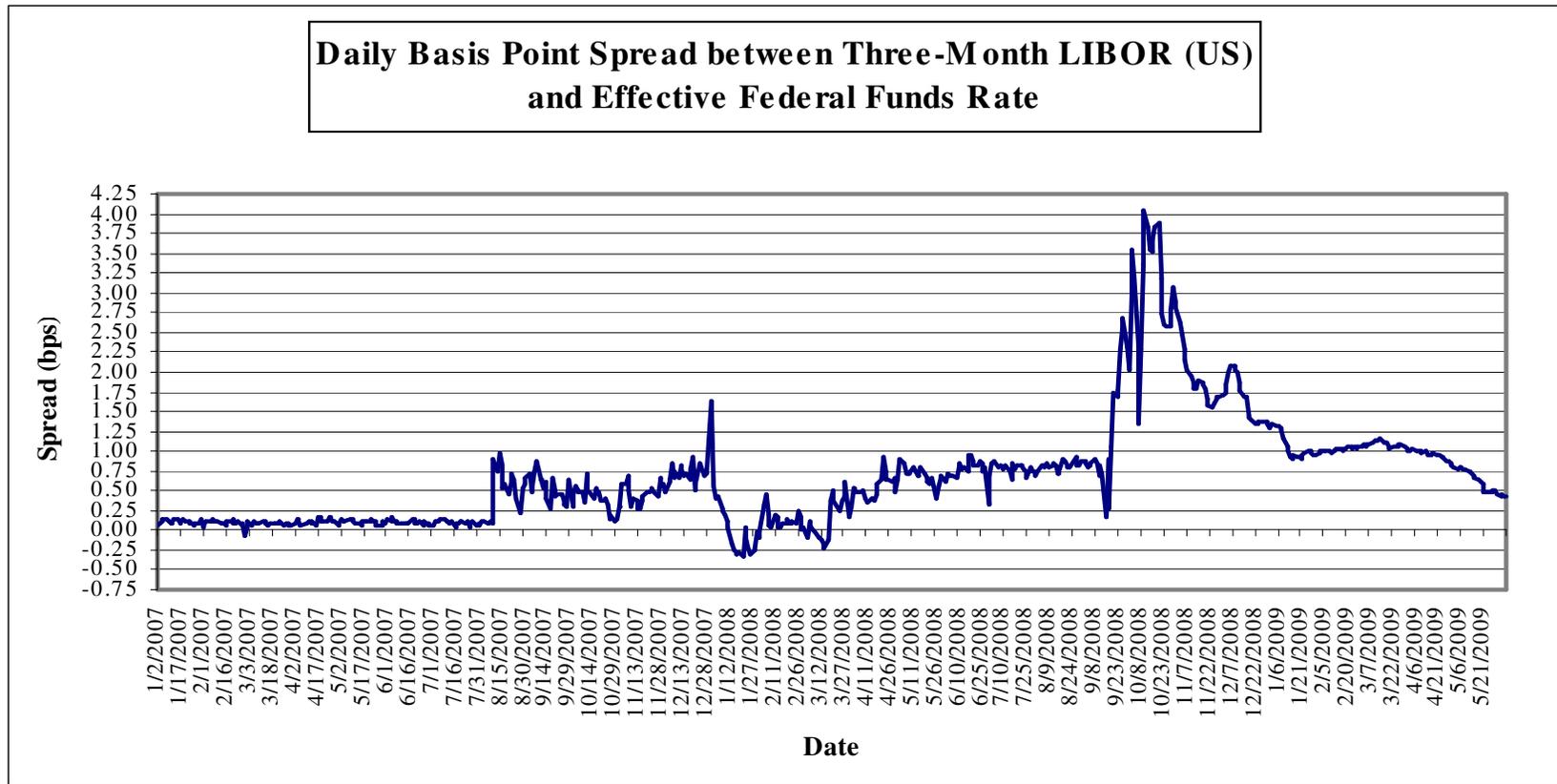
The regional stock index has increased 7.4 percent so far this year since declining nearly 53 percent from its February 2007 peak to December 2008.



On April 29th, the Federal Open Market Committee of the Federal Reserve decided to keep its target range for the federal funds rate at 0.00 to 0.25 percent. The futures market anticipates no changes to the target range until the end of this year or the beginning of next year.

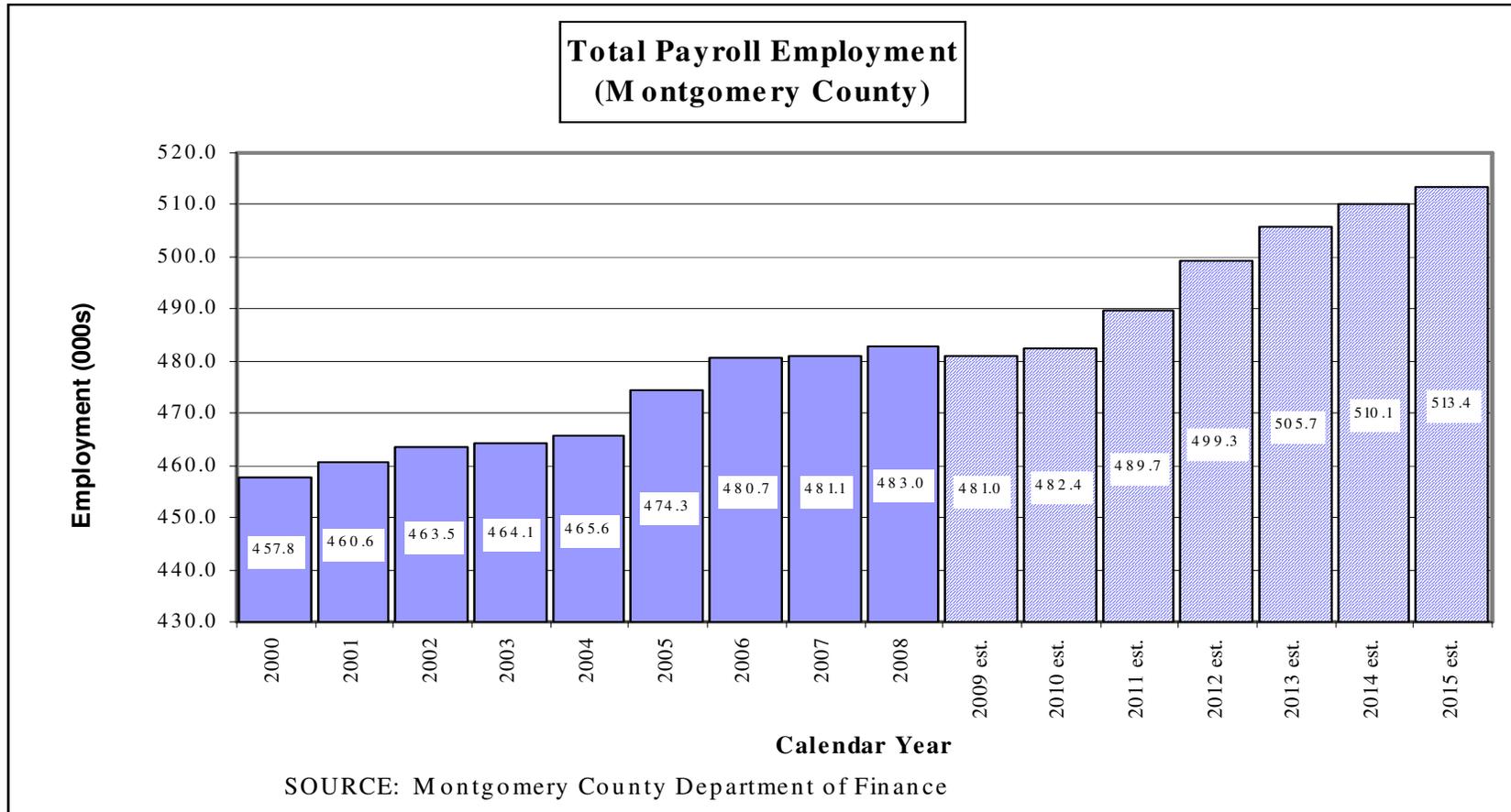


Based on the spread between the daily three-month LIBOR rate and the effective federal funds rate, the credit crisis experienced since the summer of 2007 has eased dramatically with the spread of 40 basis points, its lowest since early September 2008.

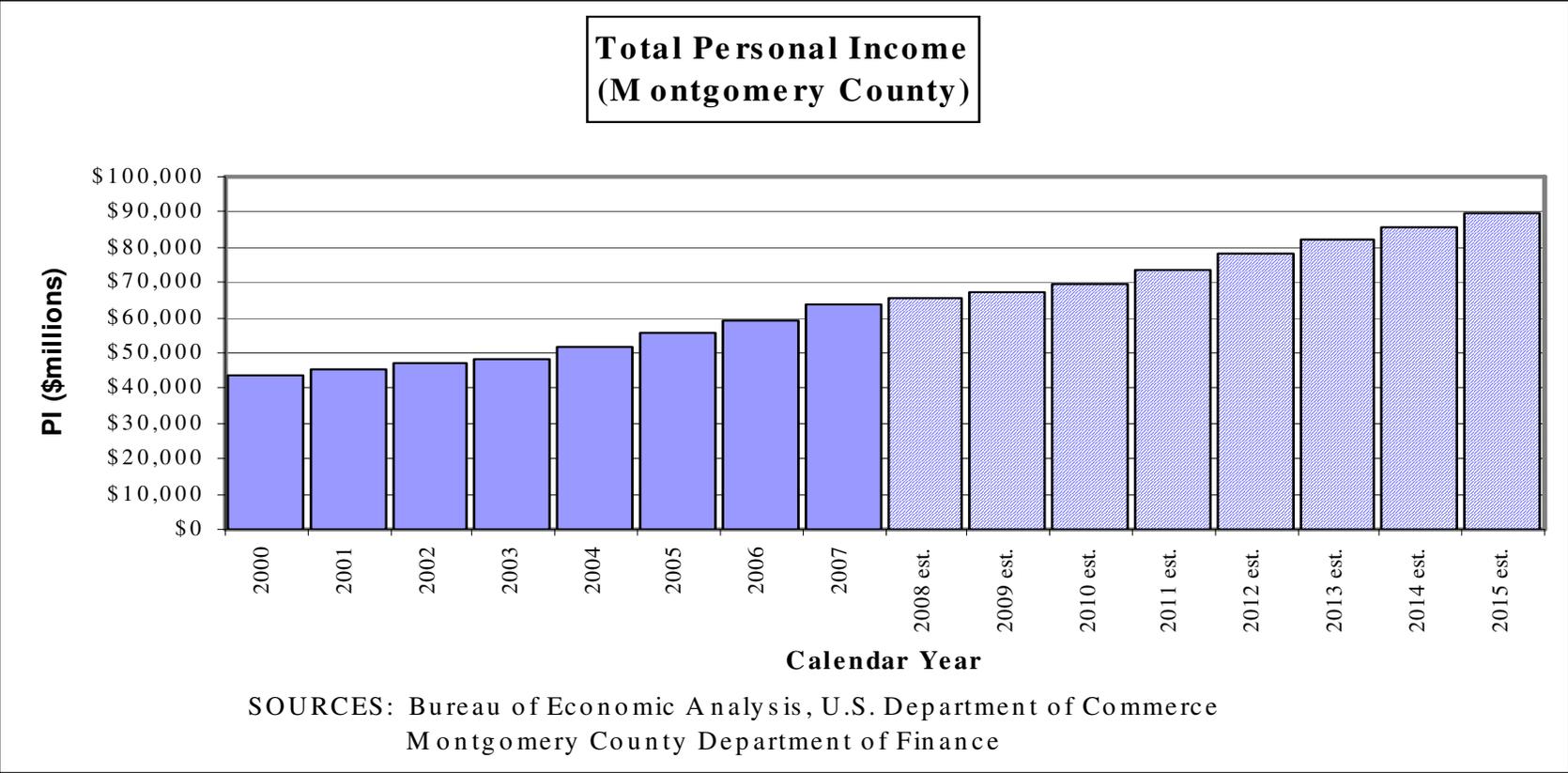


Montgomery County Economic Indicators

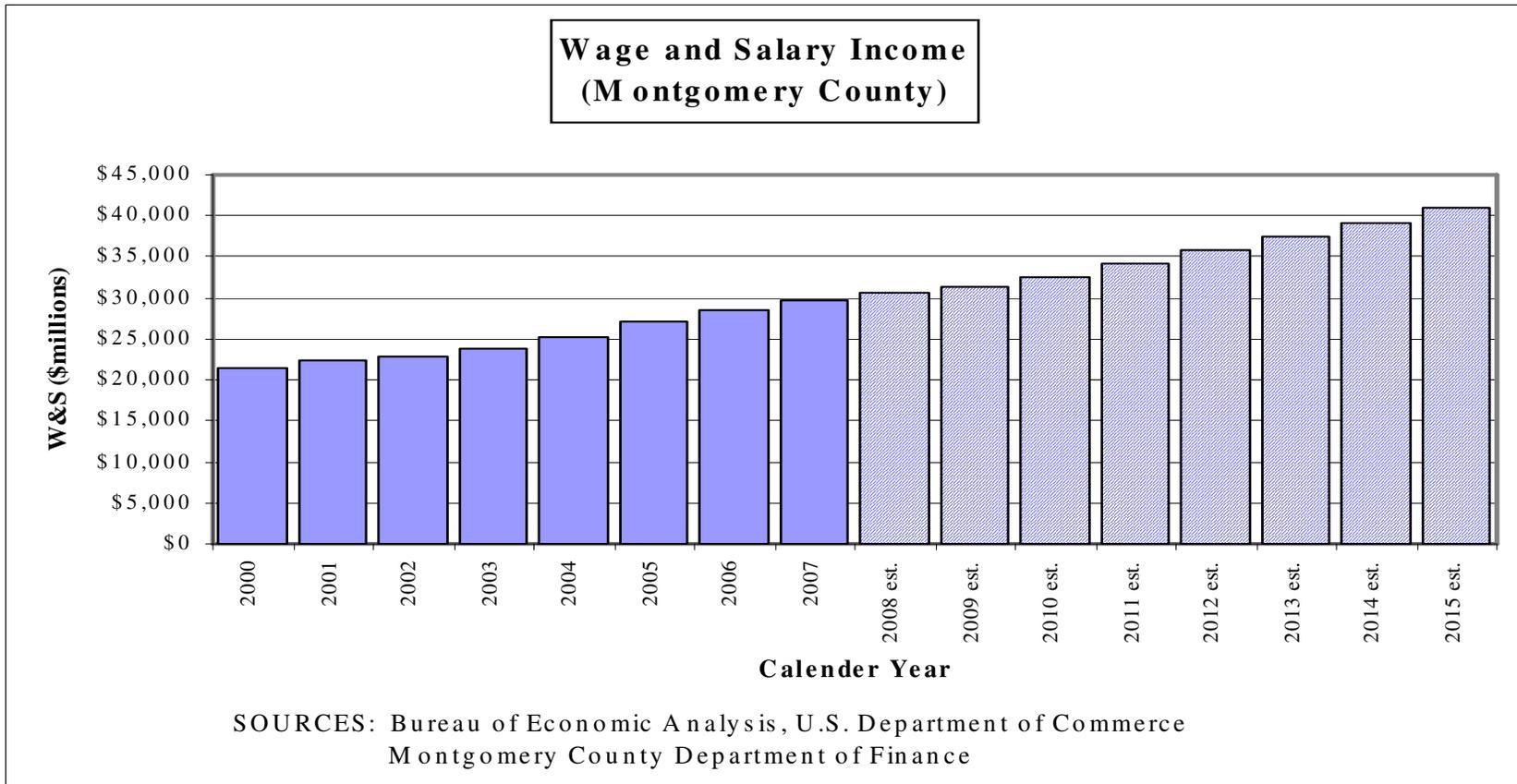
Finance estimates that Montgomery County's total payroll employment is expected to decline in 2009 ($\downarrow 0.4\%$) and increase at an average annual rate of 1.1 percent from 2009 to 2015.



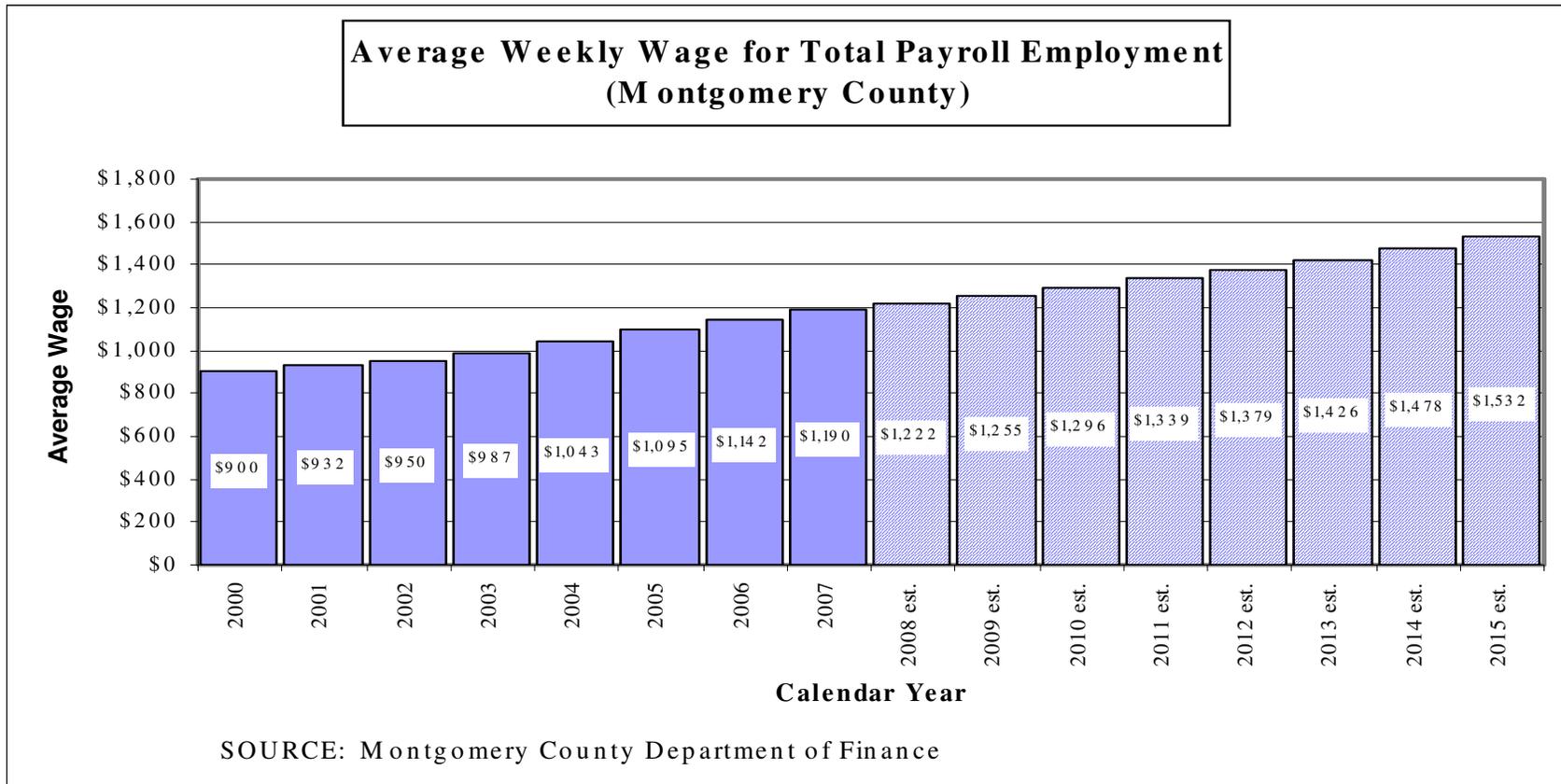
With the expected decline in employment, the County's total personal income is estimated to increase only 2.8 percent in 2009 – its lowest annual increase in over 40 years.



Finance estimates that wages and salaries for Montgomery County are expected to increase 2.3 percent in 2009 – its lowest rate since 1991 (2.0%)

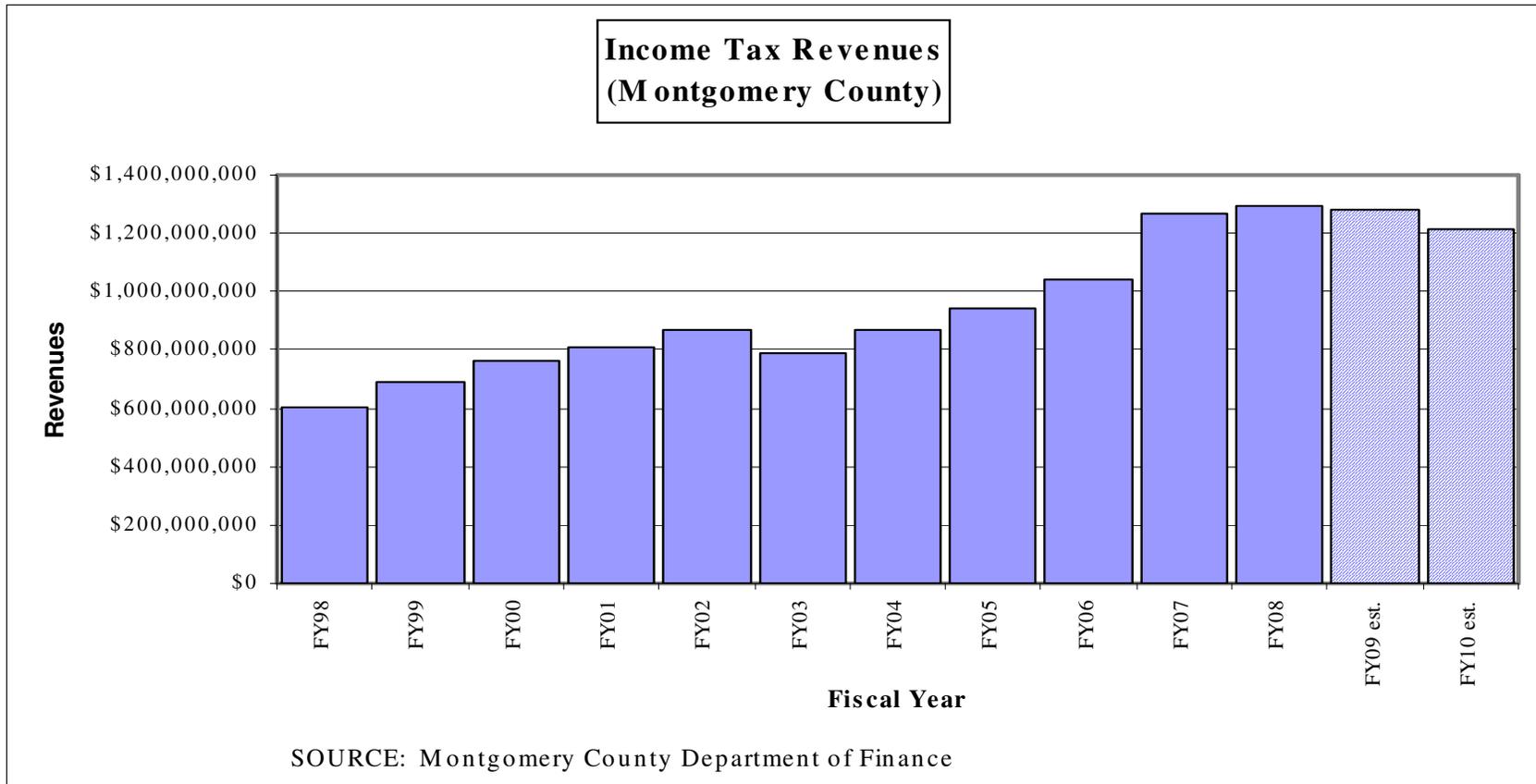


With total employment declining and total wage and salary income increasing a modest 2.3 percent in 2009, the average weekly wage is expected to increase 2.7 percent – the lowest increase since 2002 (1.9%)

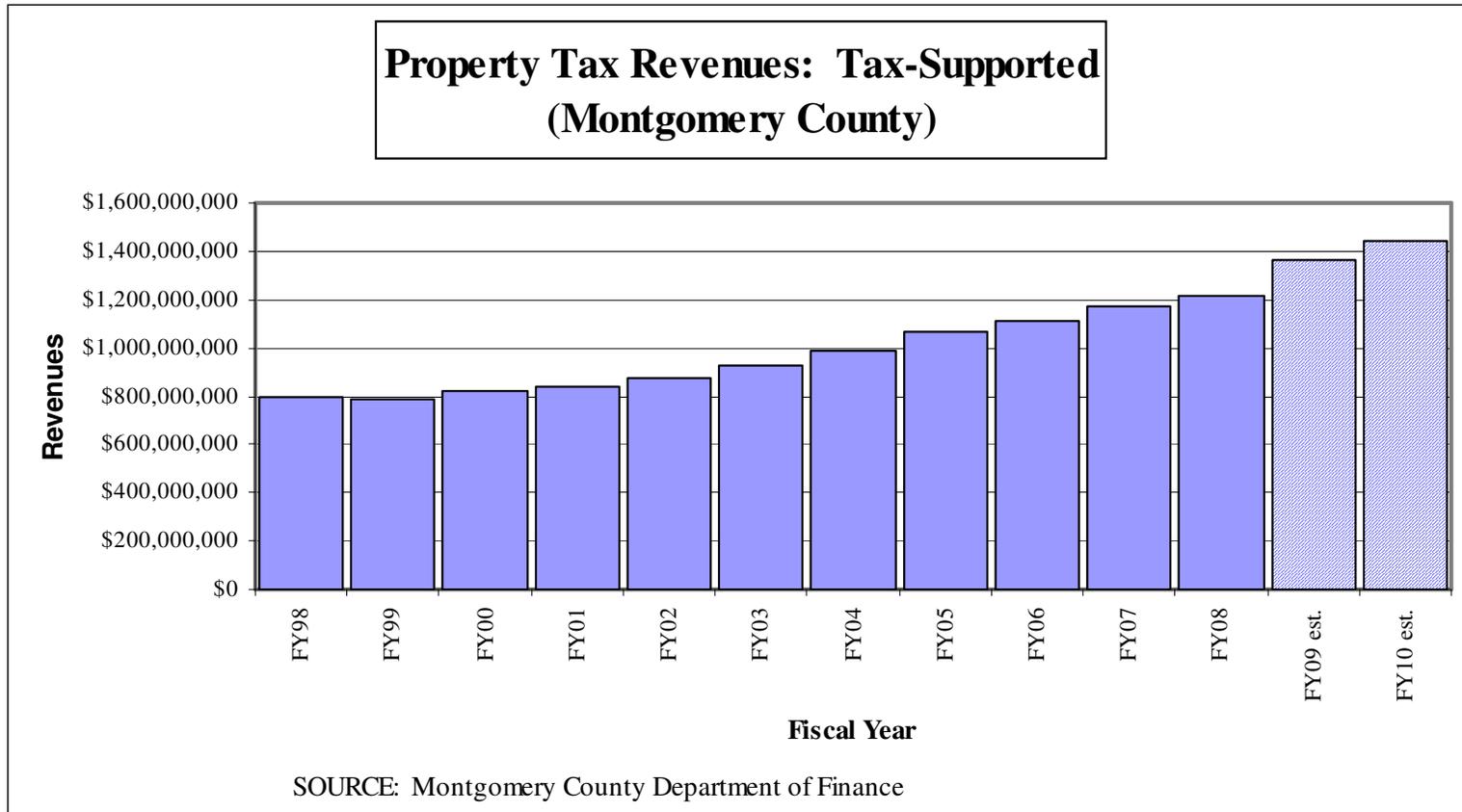


Montgomery County Revenue Outlook

With the decline in employment, meager growth in personal income, and the dramatic decline in the stock market between January and March, Finance estimates that the County's income tax receipts will decline 0.7 percent in 2009 and another 5.2 percent in 2010.



Finance estimates that property tax receipts for tax-supported funds are expected to increase 12.6 percent in 2009 and 5.5 percent in 2010.



Economic Growth and Industrial Development

Info- and Bio-Tech Industries

Goals of Economic Growth and Industrial Development

- Stable and sustainable industrial development:
 - Focus on County’s competitive advantages:
 - Highly educated workforce
 - Proximity to federal research centers and regulatory agencies
 - Target science- and knowledge-based industries.
 - Target industries that provide stable income and employment that are not prone to dramatic changes in business and economic cycles in the short run.
 - Target industries that provide sustainable growth opportunities in the long run.
 - Stable income and employment provide consistent and reliable tax revenues to Montgomery County governments.

Industry Life Cycle: Business Model

- **Start-up Stage (Stage I):** At this stage, it is difficult to predict which firms will emerge as industry leaders. At the *industry* level, sales and earnings will grow at a very slow rate. In some cases, companies may experience negative net income (profit) and high costs.
- **Consolidation Stage (Stage II):** After a product becomes established, industry leaders begin to emerge. These firms are more stable and the market is easier to predict. The industry will grow faster than the overall economy as the product penetrates the marketplace and is commonly used. Companies begin to experience rising sales and profits and lower average costs.

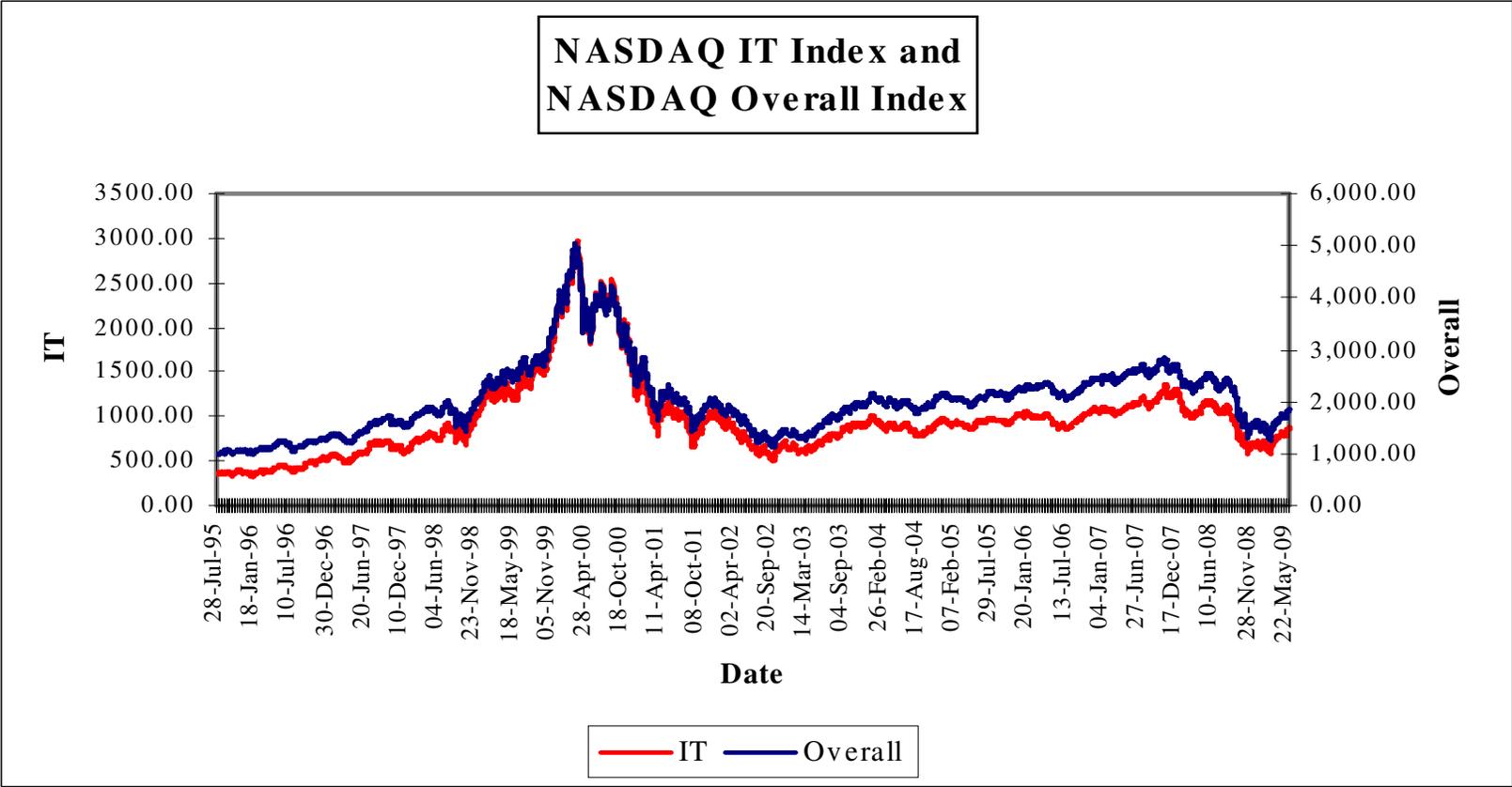
Industry Life Cycle: Business Model (cont'd.)

- **Maturity Stage (Stage III):** The industry has reached its full potential and further growth will track the overall economy. The products become standardized and producers compete on the basis of price and sales have reached their peak. This competition leads to high total profits but narrower profit margins and further pressure on future profits. Firms in this stage are referred to as “cash cows” in that cash is not reinvested.
- **Relative Decline (Stage IV):** The industry may grow less than the overall economy attributed to obsolescence of products, declining sales, competition from low-cost producers, or competition from new products.

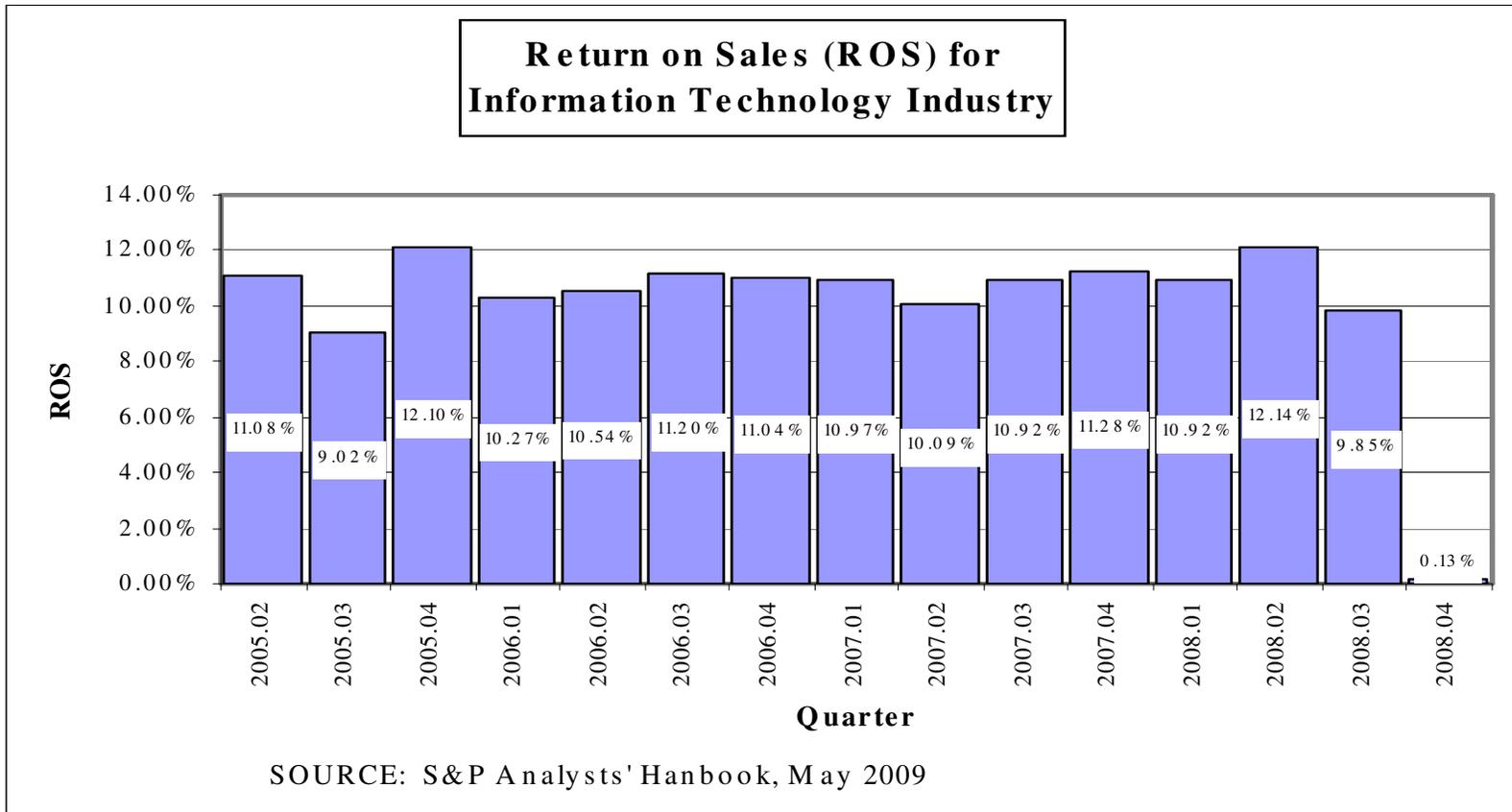
Information Technology Industry: Background

- According to Hoover's (a Dun and Bradstreet company), the IT industry includes 95,000 companies generating about \$174 billion in annual revenue.
- IT companies manufacture hardware and software, provide telecommunication devices and services, and provide Internet services.
- Hoover's also states that the profitability of IT companies depends on the health of the U.S. economy and on offering technical expertise, innovative services, and effective marketing.
- Companies provide consulting, systems integration, data processing, and technology outsourcing services.

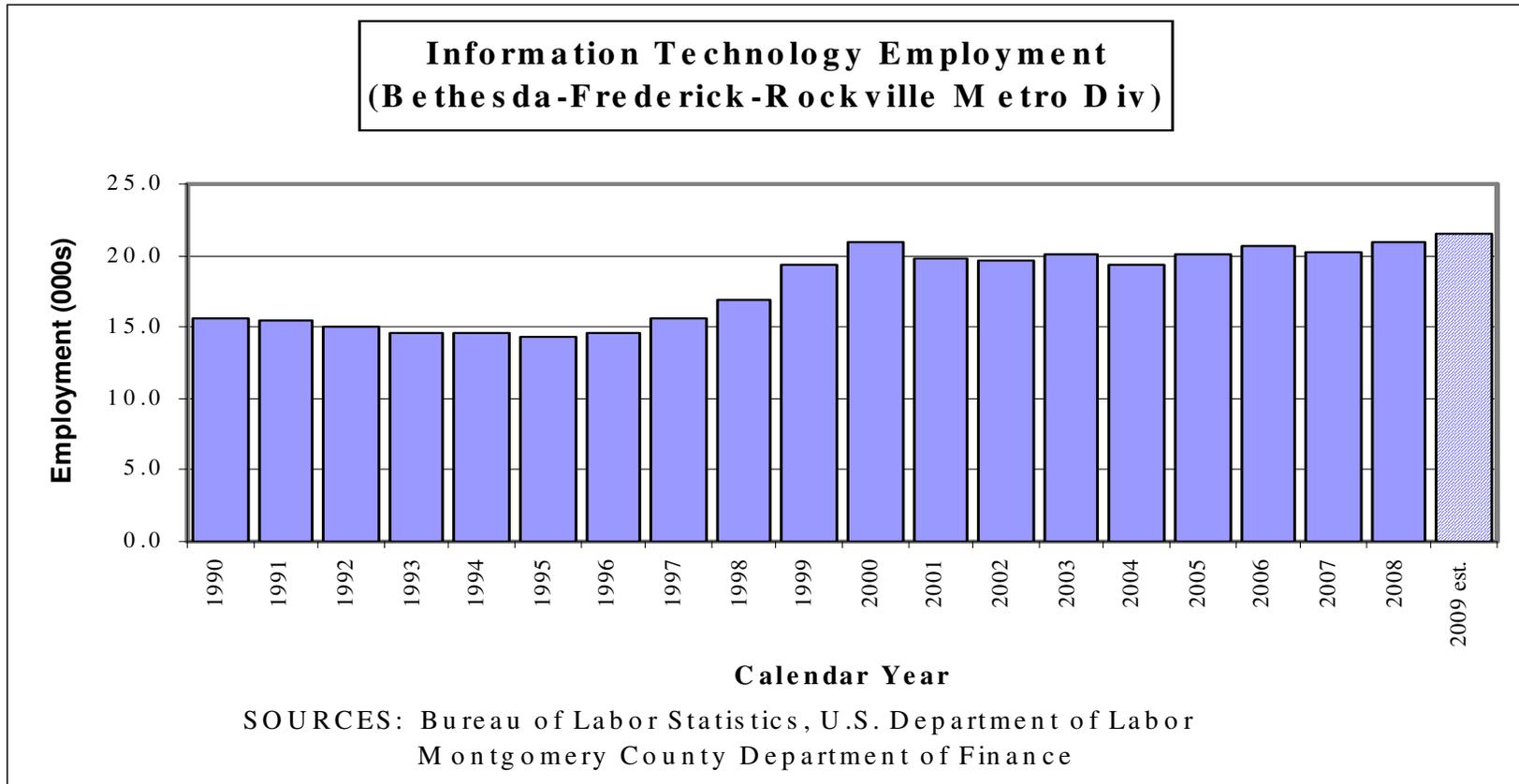
Because the overall NASDAQ index is heavily weighted to IT companies, the Information Technology Industry Index is highly correlated with the overall index (daily return = 0.965)



Even though the IT index declined 46.7 percent in 2008, return on sales (a measure of profitability) averaged nearly 11 percent during the first three quarters of 2008 before decelerating to an increase of less than 0.2 percent in the fourth quarter.



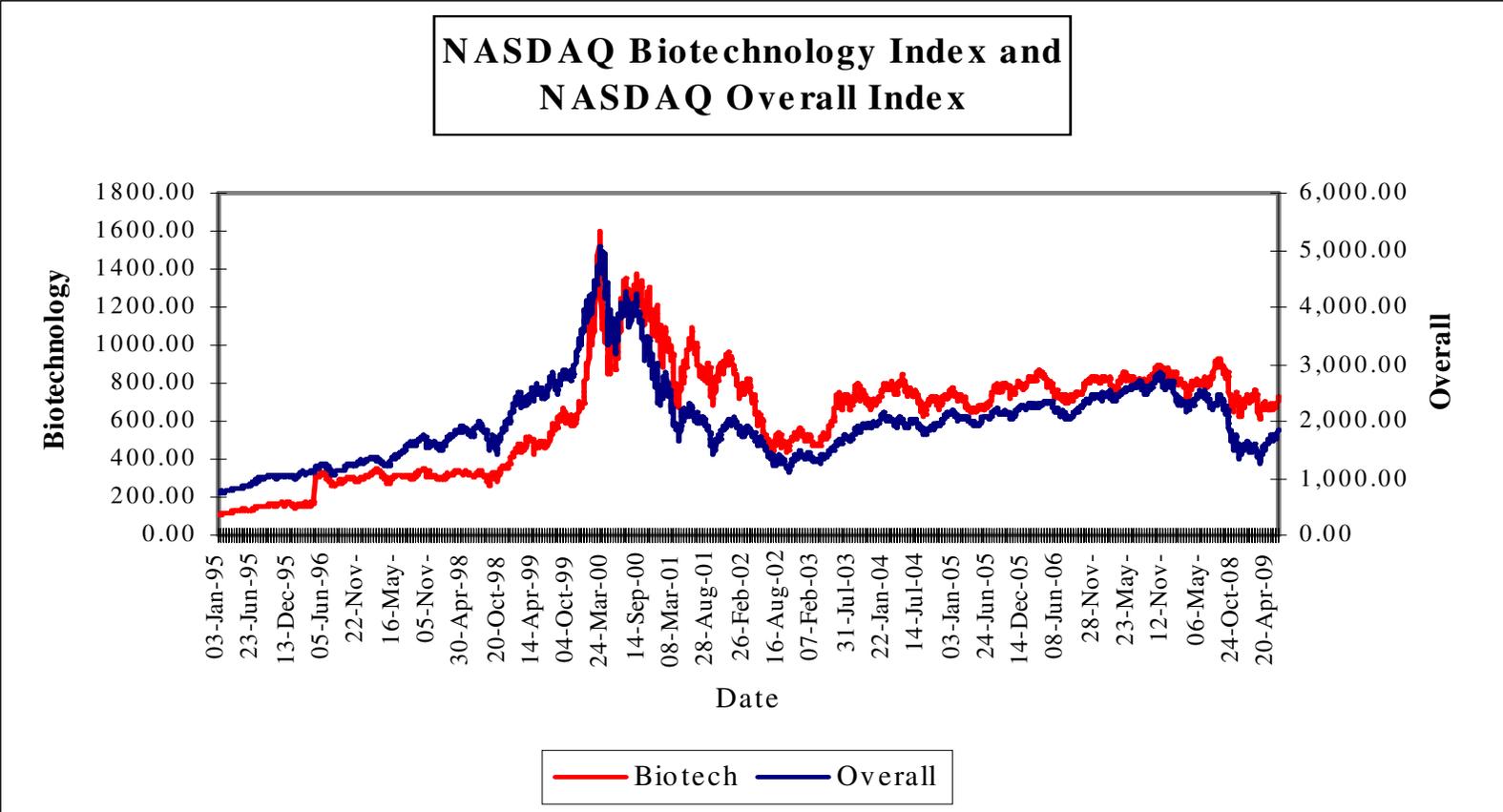
Employment in the information technology industry is expected to increase 3.3 percent in 2009 compared to 3.5 percent the prior year. Between 2000 and 2009, employment is expected to grow at an average annual rate of 0.3 percent compared to an annual rate of 0.5 percent for total private employment.



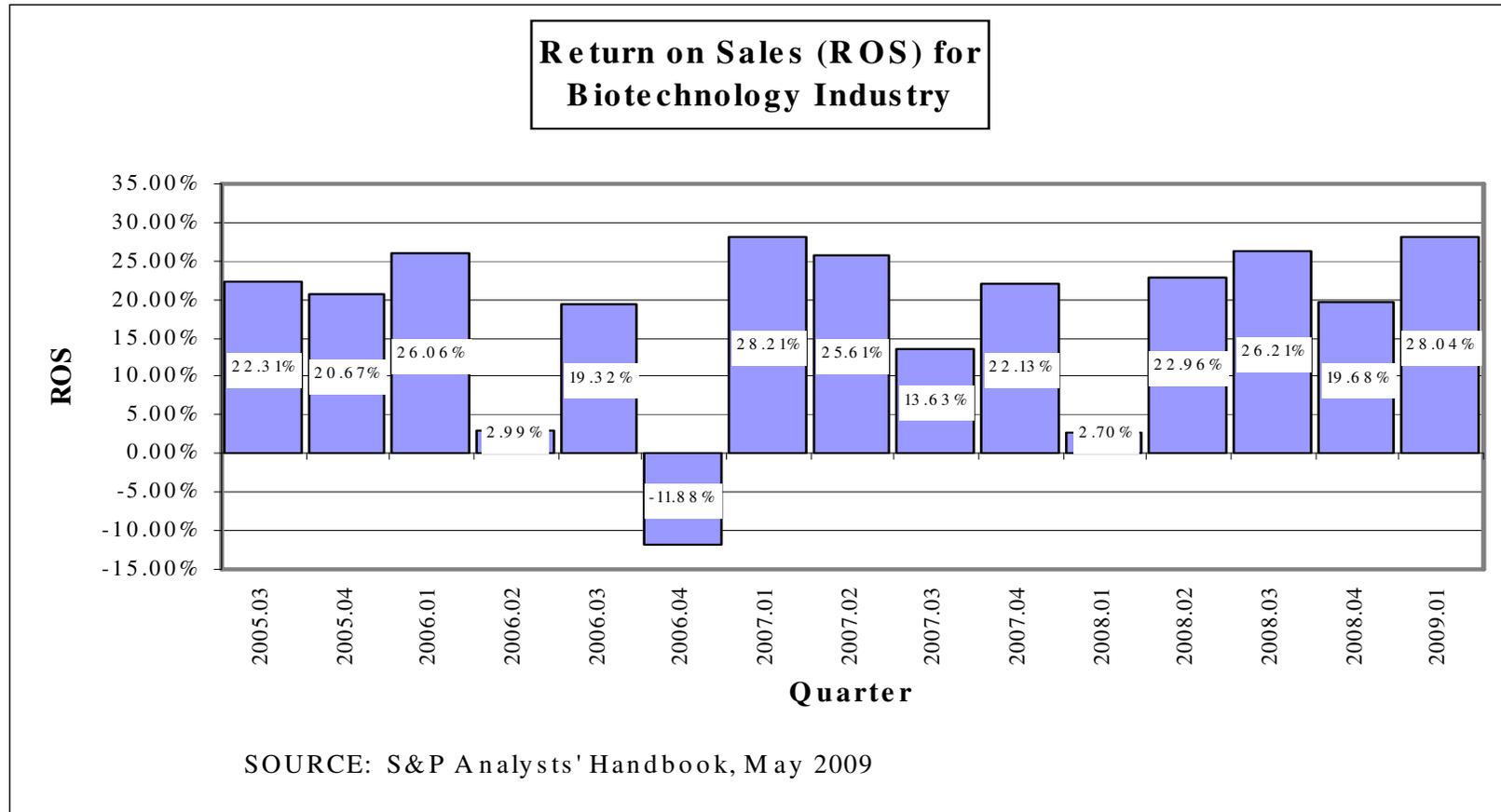
Biotechnology Sector: Background

- According to Hoover's, the U.S. biotechnology industry includes nearly 1,000 companies with combined annual revenues of close to \$50 billion. Because many drugs are now developed using biotechnology, the biotechnology and pharmaceutical industries overlap considerably.
- Hoover's also states that the profitability of individual companies depends on the discovery and effective marketing of new products. Because the market for potential products is large, small companies can co-exist successfully with large ones provided they have the expertise.
- The most successful uses of biotechnology has been the production of therapeutic drugs, genetically modified plants, and medical diagnostic tools.

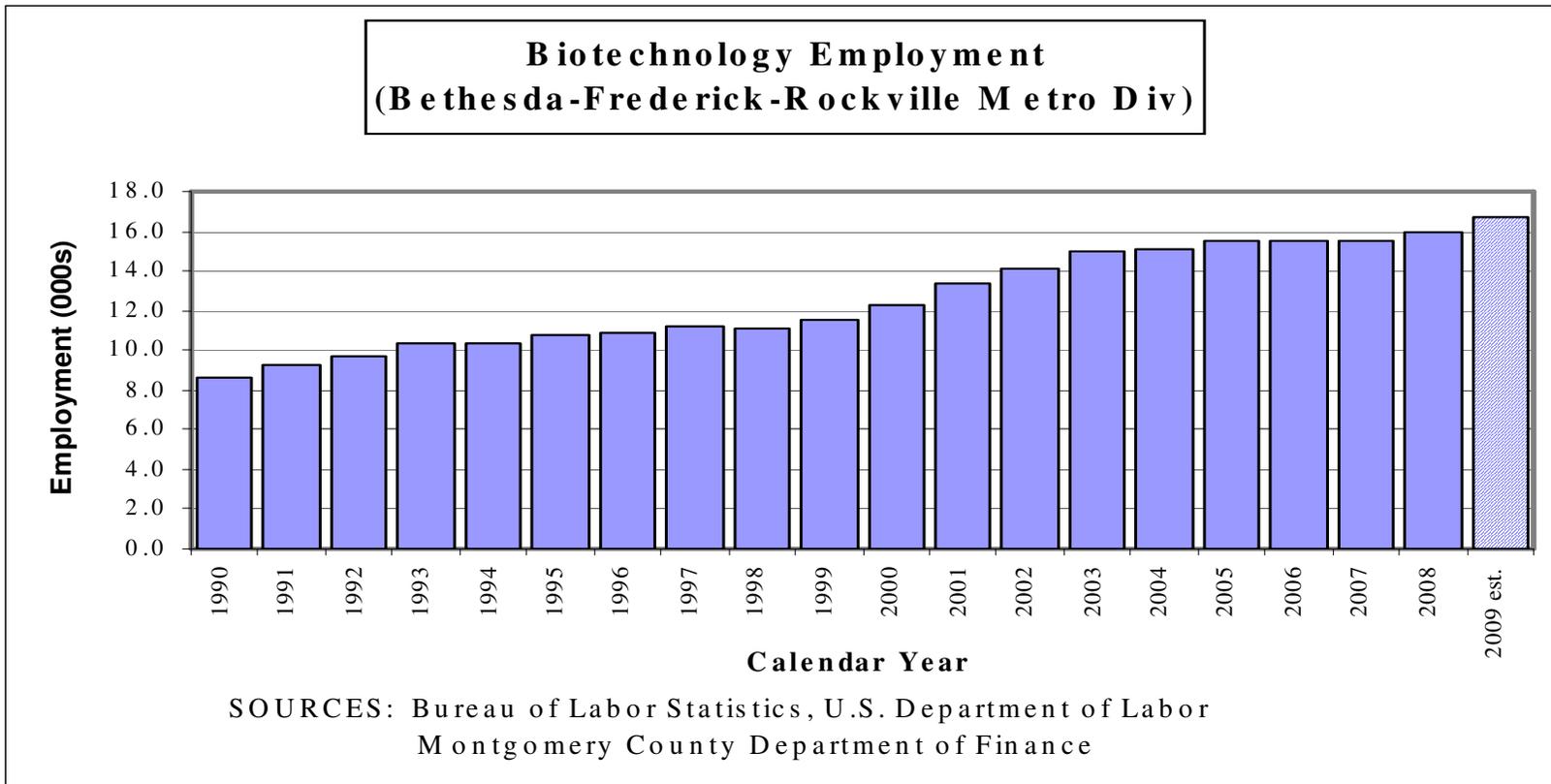
Unlike the overall NASDAQ index which is heavily weighted to IT companies, the Biotechnology Index is slightly less correlated with the overall index (daily return = 0.647)



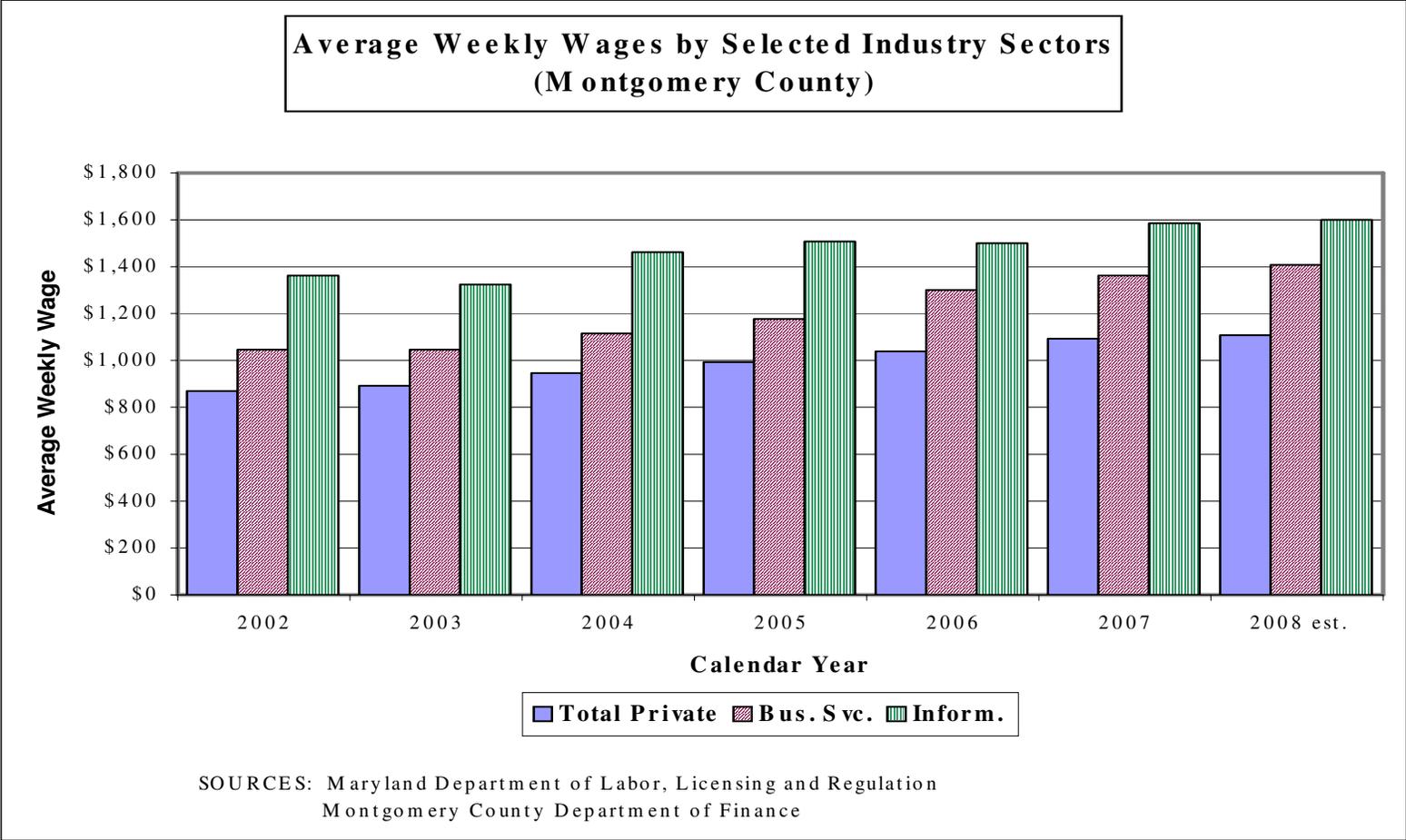
The Biotech index declined 12.6 percent in 2008, a much less of a decline than in the IT index (↓46.7%) and overall index (↓40.5%). Return on sales averaged nearly 24 percent during the last three quarters of 2008 and nearly 18 percent for the entire year.



Employment in the biotechnology industry is expected to increase 4.6 percent in 2009 compared to 3.2 percent the prior year. Between 2000 and 2009, employment is expected to grow at an average annual rate of 3.4 percent reaching nearly 17,000.



The average weekly wages for business service sector increased at an average annual rate of 5.0 percent since 2000 compared to 2.7 percent for the information sector.



SUMMARY

- **Employment:**
 - Average total payroll employment in Montgomery and Frederick counties was slightly less than 570,000 through the first four months of this year
 - Finance estimates that the average payroll employment in Montgomery County was 483,000 in 2008 and expected to decline 0.4 percent in 2009.
- **Income:**
 - Finance estimates that the County's total personal income is expected to increase 2.8 percent this year – the lowest increase in over 40 years.
 - Finance estimates that the County's total wage and salary income is expected to increase 2.3 percent this year – the lowest increase since 1991 (2.0%).
- **Revenues:**
 - With the estimated decline in employment, meager growth in personal income, and the volatility of the stock market, Finance estimates that the County's income tax receipts will decline 0.7 percent in 2009 and 5.2 percent in 2010.