

In the opinion of Bond Counsel, assuming continuous compliance with certain covenants described herein, and subject to the conditions stated herein under "Tax Exemptions," under existing law, (a) the interest on the Series 2003 Bonds is excludable from gross income for Federal income tax purposes, and (b) the interest on the Series 2003 Bonds is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations, and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States. As described herein under "Tax Exemptions," other Federal income tax consequences may arise from ownership of the Series 2003 Bonds. It is also the opinion of Bond Counsel that, under existing law of the State of Maryland, the interest on the Series 2003 Bonds and profit realized from the sale or exchange of the Series 2003 Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Series 2003 Bonds or the interest thereon.

OFFICIAL STATEMENT DATED MARCH 25, 2003

NEW ISSUE

Full Book-Entry

(See "THE SERIES 2003 BONDS - Book Entry Only System")

RATINGS: FitchAAA (AA Underlying)

Moody'sAaa (Aa3 Underlying)

(See "RATINGS")

\$31,075,000

MONTGOMERY COUNTY, MARYLAND

**Solid Waste Disposal System Refunding Revenue Bonds
(2003 Series A)**

Dated: Date of Delivery

Due: June 1, as shown inside

The \$31,075,000 Montgomery County, Maryland Solid Waste System Refunding Revenue Bonds (2003 Series A) (the "Series 2003 Bonds") of Montgomery County, Maryland (the "County") will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. Interest will be payable on the Series 2003 Bonds from the dated date thereof on December 1, 2003 and semiannually thereafter on each June 1 and December 1, until maturity. Except as otherwise governed by the procedures of The Depository Trust Company ("DTC"), New York, New York, the principal of the Series 2003 Bonds are payable only upon presentation of the Series 2003 Bonds at the corporate trust office of Wachovia Bank, National Association, acting as Paying Agent and Registrar, located in Richmond, Virginia.

The scheduled payment of principal and interest on the Series 2003 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Series 2003 Bonds by Ambac Assurance Corporation. See "Bond Insurance Policy."

Ambac

The Series 2003 Bonds are not subject to redemption prior to maturity.'

The Series 2003 Bonds are being issued by the County to currently refund all of its outstanding Solid Waste System Revenue Bonds, 1993 Series A, to fund a Debt Service Reserve Account for the Series 2003 Bonds, and to pay costs of issuance.

The Series 2003 Bonds and the interest thereon are special obligations of the County payable solely from certain pledged revenues, consisting primarily of the revenues of the County Disposal System, on a parity with certain other outstanding Long Term Obligations of the County Disposal System.

The Series 2003 Bonds are not general obligations of the County and do not constitute a pledge of the full faith and credit or the taxing power of the County.

FOR MATURITY SCHEDULE SEE INSIDE FRONT COVER

The Series 2003 Bonds are offered, when, as and if issued by the County, subject to the approval of their validity by Venable, Baetjer and Howard, LLP, Baltimore, Maryland, Bond Counsel. Certain legal matters will be passed on for the Underwriters by Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, and Baltimore, Maryland. The Series 2003 Bonds are expected to be available for delivery in New York, New York, through the facilities of the Depository Trust Company on or about April 3, 2003.

LEHMAN BROTHERS

**LEGG MASON WOOD WALKER
INCORPORATED**

**FERRIS, BAKER WATTS
Incorporated**

AMOUNTS, MATURITIES, INTEREST RATES AND YIELDS

\$31,075,000
Serial Bonds

<u>Year of</u> <u>Maturity</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u>
2004	\$2,555,000	3.00%	1.25%	613367 AU5
2005	2,835,000	3.00	1.60	613367 AV3
2006	2,920,000	3.00	2.01	613367 AW1
2007	3,005,000	5.00	2.47	613367 AX9
2008	3,160,000	3.25	2.85	613367 AY7
2009	3,255,000	5.00	3.19	613367 AZ4
2010	3,420,000	3.75	3.50	613367 BA8
2011	3,550,000	4.00	3.74	613367 BB6
2012	3,690,000	5.00	3.88	613367 BC4
2013	2,685,000	5.00	4.00	613367 BD2

OFFICIAL STATEMENT DATED MARCH 25, 2003

**\$31,075,000
MONTGOMERY COUNTY, MARYLAND**

**Solid Waste Disposal System Refunding Revenue Bonds
2003 Series A**



CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SERIES 2003.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information set forth in this Official Statement is not to be construed as a representation either by the Underwriters, or, as to information from sources other than the County, by the County.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2003 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the County, the Authority, or the Underwriters to give any information or to make any representations with respect to the Series 2003 Bonds other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

The Series 2003 Bonds have not been registered under the Securities Act of 1933 and the Indenture has not been qualified under the Trust Indenture Act of 1939, in reliance upon exemptions contained in such acts. The registration or qualification of the Series 2003 Bonds in accordance with applicable provisions of securities laws of the states in which the Series 2003 Bonds have been registered or qualified and the exemption from registration or qualification in the other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Series 2003 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or holders of any Series 2003 Bonds.

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

COUNTY EXECUTIVE

Douglas M. Duncan

COUNTY COUNCIL

Michael L. Subin	<i>President</i>
Steven Silverman	<i>Vice President</i>
Phil Andrews	
Howard A. Denis	
Nancy Floreen	
Michael Knapp	
George Leventhal	
Thomas Perez	
Marilyn J. Praisner	

The terms of the County Executive and all County Council members expire in December 2006.

APPOINTED OFFICIALS

Bruce Romer	<i>Chief Administrative Officer</i>
Timothy L. Firestine	<i>Director, Department of Finance</i>
Joseph F. Beach	<i>Acting Director, Office of Management and Budget</i>
Charles W. Thompson, Jr.	<i>County Attorney</i>
Mary A. Edgar	<i>Clerk of the County Council</i>

BOND COUNSEL

Venable, Baetjer and Howard, LLP
Baltimore, Maryland

FINANCIAL ADVISOR

Public Financial Management, Inc.
Philadelphia, Pennsylvania

INDEPENDENT ENGINEER

R. W. Beck, Inc.
Framingham, Massachusetts

DEBT MANAGEMENT AND DISCLOSURE INFORMATION

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

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OFFICIAL STATEMENT

\$31,075,000

MONTGOMERY COUNTY, MARYLAND
Solid Waste Disposal System Refunding Revenue Bonds
(2003 Series A)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, inside front cover, Table of Contents and Appendices A, B, C, D, E and F, is to provide certain information concerning the sale and delivery by Montgomery County, Maryland (the "County") of \$31,075,000 of its Solid Waste Disposal System Refunding Revenue Bonds (2003 Series A) (the "Series 2003 Bonds"). Capitalized terms not otherwise defined in the Official Statement shall have the respective meanings assigned to them in "APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION" hereto.

The proceeds of the Series 2003 Bonds will be used (i) to currently refund all outstanding maturities of the County's Solid Waste System Revenue Bonds, 1993 Series A (the "Refunded Bonds"); (ii) to fund a Debt Service Reserve Account for the Series 2003 Bonds; and (iii) to pay the costs of issuing the Series 2003 Bonds. See "PLAN OF REFUNDING" herein.

The Refunded Bonds were issued in 1993 to fund certain capital costs of the County's solid waste disposal system (the "County Disposal System"). The County Disposal System is an integrated solid waste disposal system serving the County, processing of both Recyclable Materials (defined herein) and all solid waste other than Recyclable Materials ("Refuse"). The County System includes a Transfer Station, a Transportation System, a Resource Recovery Facility, a Materials Recovery Facility and certain landfilling arrangements. Certain of the facilities of the County System are owned and operated by the Northeast Maryland Waste Disposal Authority (the "Authority"), a State agency, pursuant to the terms of the Amended and Restated Waste Disposal Agreement dated as of April 3, 2003 (the "Waste Disposal Agreement"). Certain other facilities of the County System are operated by the Maryland Environmental Service, a State agency, under contract with the County. See "THE COUNTY DISPOSAL SYSTEM" herein.

Ambac Assurance Corporation ("the Bond Insurer") has made a commitment to issue a financial guaranty insurance policy (the "Bond Insurance Policy") with respect to the Series 2003 Bonds, simultaneously with the delivery of the Series 2003 Bonds. The Bond Insurance Policy will insure payment when due of the principal of and interest on the Series 2003 Bonds. For information concerning the Bond Insurer and the Bond Insurance Policy, see "BOND INSURANCE POLICY" and Appendix F, which contains a specimen form of the Bond Insurance Policy.

The Series 2003 Bonds are special obligations of the County, the principal of and interest on which will be payable solely from (1) the County Disposal System Revenues, (2) the amounts in the County's Solid Waste Disposal Fund (other than Collection Revenues), and (3) the amounts set aside pursuant to the Master Authorization, subject to the provisions of the Master Authorization permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Master Authorization, including the prior payment of Operating Expenses. The Series 2003 Bonds are on a parity basis with the other Long Term Obligations of the County Disposal System. See "SECURITY AND SOURCES OF PAYMENT" and "THE COUNTY DISPOSAL SYSTEM" herein.

The Series 2003 Bonds are not general obligations of the County and do not constitute a pledge of the full faith and credit or the taxing powers of the County.

AUTHORITY FOR THE ISSUANCE OF THE SERIES 2003 BONDS

The Series 2003 Bonds are authorized to be issued pursuant to the Constitution and the laws of the State of Maryland, including Section 24 of Article 31 of the Annotated Code of Maryland (1997 Replacement Volume and 2002 Supplement) and Sections 20-47 through 20-54 of Chapter 20 of the Montgomery County Code (1994 Edition, as amended) (collectively, the “Authorizing Legislation”), a resolution adopted by the County Council of the County on March 11, 2003 (the “Resolution”), an executive order of the County Executive of the County (the “Order”), and the Master Authorization which became effective on November 16, 1990 (the “Master Authorization”).

THE SERIES 2003 BONDS

General

The Series 2003 Bonds will be dated the date of delivery and will mature and bear interest on the dates and at the rates set forth on the inside front cover page hereof. Interest on the Series 2003 Bonds will be payable semiannually on June 1 and December 1 of each year (each a “Payment Date”), commencing December 1, 2003.

The Series 2003 Bonds shall be delivered in the form of fully registered bonds without coupons in the denomination of \$5,000 or any integral multiple thereof. The principal payable with respect to any Series 2003 Bond shall be payable in lawful money of the United States of America by check or draft of the Registrar and Paying Agent upon surrender thereof at the principal office of the Registrar and Paying Agent.

Registration and Exchange of Series 2003 Bonds

So long as the Series 2003 Bonds are maintained under a book-entry system, Beneficial Owners (hereinafter defined) thereof will have no right to receive physical possession of the Series 2003 Bonds, and transfers of ownership interests in the Series 2003 Bonds will be made through book-entries by DTC and Direct Participants (as hereinafter defined). See “Book-Entry Only System” below.

Wachovia Bank, National Association (the “Registrar and Paying Agent”) will serve as Registrar and Paying Agent for the Series 2003 Bonds.

If the book-entry system is discontinued, Series 2003 Bonds may be exchanged at the principal corporate trust office of the Registrar and Paying Agent, for a like aggregate principal amount of Series 2003 Bonds of other authorized denominations of the same maturity. The Registrar and Paying Agent may require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The registration of any Series 2003 Bond may, in accordance with its terms to be transferred upon the registration books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Series 2003 Bond for cancellation at the principal corporate trust office of the Registrar and Paying Agent, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Registrar and Paying Agent. Whenever any Series 2003 Bond or Bonds shall be surrendered for registration of transfer, the Registrar and Paying Agent shall execute, authenticate and deliver a new Bond or Bonds for a like aggregate principal amount.

If any Series 2003 Bond shall become mutilated, the Registrar and Paying Agent, upon the request and at the expense of the Owner of said Series 2003 Bond, shall execute and deliver a new Series 2003 Bond of like tenor, maturity and number in exchange and substitution for the Series 2003 Bond so mutilated, but only upon surrender to the Registrar and Paying Agent of the Series 2003 Bond so mutilated. Every mutilated Series 2003 Bond so surrendered to the Registrar and Paying Agent shall be cancelled by it. If any Series 2003 Bond shall be

lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Registrar and Paying Agent, and, if such evidence is satisfactory to the Registrar and Paying Agent and if an indemnity satisfactory to the Registrar and Paying Agent shall be given, the Registrar and Paying Agent, at the expense of the Bond Owner, shall execute and deliver a new Series 2003 Bond of like tenor and maturity and numbered as the Registrar and Paying Agent shall determine in lieu of and in substitution for the Series 2003 Bond so lost, destroyed or stolen.

The Registrar and Paying Agent may require payment of an appropriate fee for each new Series 2003 Bond delivered and of the expenses which may be incurred by the Registrar and Paying Agent in carrying out its duties as described in this paragraph. Notwithstanding any other provision of this paragraph, in lieu of delivering a new Series 2003 Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Registrar and Paying Agent may make payment with respect to such Series 2003 Bond.

Book-Entry Only System

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

DTC will act as securities depository for the Series 2003 Bonds. The Series 2003 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each annual maturity of the Series 2003 Bonds, each in the aggregate principal amount of such annual maturity, and such certificates will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodian relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2003 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2003 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2003 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003 Bonds; DTC's records reflect only identity of the Direct Participants to whose accounts such Series 2003 Bonds are credited, which may or may not be the Beneficial

Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Neither DTC or Cede & Co. will consent or vote with respect to Series 2003 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2003 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Bond Registrar and Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the County or the Bond Registrar and Paying Agent, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2003 Bonds at any time by giving reasonable notice to the County or the Bond Registrar and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

NEITHER THE COUNTY, NOR THE REGISTRAR AND PAYING AGENT, WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO 1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; 2) THE PAYMENT BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR INTEREST ON THE SERIES 2003 BONDS; 3) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; OR 4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

Redemption of Series 2003 Bonds

The Series 2003 Bonds are not subject to redemption prior to maturity.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 BONDS

General

The Series 2003 Bonds and the interest thereon are payable solely from (1) the County Disposal System Revenues, (2) the amounts in the County's Solid Waste Disposal Fund (other than Collection Revenues), and (3) the amounts set aside pursuant to the Master Authorization, subject to the provisions of the Master Authorization permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Master Authorization, including the prior payment of Operating Expenses.

THE SERIES 2003 BONDS AND THE INTEREST THEREON ARE NOT GENERAL OBLIGATIONS OF THE COUNTY, BUT ARE LIMITED OBLIGATIONS OF THE COUNTY AND DO NOT CONSTITUTE A DEBT OF THE COUNTY, THE STATE OF MARYLAND OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR CHARTER PROVISION OR STATUTORY LIMITATION. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY, THE STATE OF MARYLAND OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED TO THE PAYMENT OF THE SERIES 2003 BONDS OR THE INTEREST THEREON.

A limitation on the County's payment obligations under the Series 2003 Bonds is that the County has no obligation to make payments from any source except County Disposal System Revenues and other moneys in its Solid Waste Disposal Fund available pursuant to the Master Authorization. Consequently, payments in respect of the Series 2003 Bonds are dependent upon the ability of the County Disposal System to generate sufficient County Disposal System Revenues from System Benefit Charges, Tipping Fees, and other available sources to provide for the timely payment of all expenses of the County Disposal System and the funding of adequate reserves. For a discussion of factors affecting the ability of the County to generate a sufficient level of County Disposal System Revenues, see "THE COUNTY DISPOSAL SYSTEM" herein and APPENDIX B--Independent Engineer's Report.

Master Authorization

General. The Master Authorization contains various covenants related to financial and operational aspects of the County Disposal System, including, but not limited to, covenants relating to: the establishment of accounts and payment priorities for expenses of the County Disposal System; annual budgeting and reconciliation procedures; limitations on the ability of the County to enter into certain long term contracts; the maintenance of specified reserves; the prudent operation and maintenance of the County Disposal System; the engagement of an Independent Engineer to review the status of the County Disposal System on an ongoing basis; compliance with laws; and compliance with insurance requirements. The Master Authorization also contains covenants relating to the provision of disposal service by the County, the setting of rates and charges at specified levels, and the delivery of waste to the County System, as more particularly described below. The County has agreed pursuant to the Master Authorization that it will not operate, or permit in the County, any waste disposal facilities that will compete with the County System. For additional information regarding the Master Authorization, see "APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION."

Pledge. In the Master Authorization, the County has pledged, as security for its payment and performance obligations under Long Term Obligations, all of the County's right, title and interest in and to, among other things, all County Disposal System Revenues. County Disposal System Revenues are substantially all revenues generated by, and any other moneys received by the County attributable to, the County Disposal System. The County must deposit all County Disposal System Revenues into the Solid Waste Disposal Fund. See APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION, for a complete definition of County Disposal System Revenues.

The County has not granted a mortgage on, or a security interest in, the County Disposal System. However, in the Master Authorization, the County agrees that, so long as any Long Term Obligation is outstanding, it will not mortgage, pledge or encumber any part of the facilities in the County Disposal System or issue any indebtedness (unless subordinated to Long Term Obligations) or enter into any obligation (other than the Waste Disposal Agreement and other Long Term Obligations) that is secured by a pledge of, or other lien or charge on, County Disposal System Revenues. See "COUNTY DISPOSAL SYSTEM – Master Authorization – Long Term Obligations" for a more detailed description of Long Term Obligations and APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION, for the complete definition of Long Term Obligations. In addition, mechanics' liens may not be imposed on property of the County, and, as the County is not a tax-paying entity, its property similarly

is not subject to the imposition of tax liens. As a chartered county of the State, the County's property is also not subject to the imposition of judgment liens.

Sources of County Disposal System Revenues. The primary source of County Disposal System Revenues is System Benefit Charges. Chapter 48, which permits the imposition and collection of System Benefit Charges, was approved by referendum in 1994. A supplemental source of County System Disposal Revenues is Tipping Fees. Of the County Disposal System Revenues that the County received in Fiscal Year 2002:

- approximately 70 percent came from System Benefit Charges, which were included on property tax bills;
- approximately 21 percent came from Tipping Fees; and
- the balance came from various sources, including proceeds from the sale of Recyclable Materials and investment income.

See Table 1 under Appendix A, Financial Information Concerning the County Disposal System, for a more detailed breakdown of County Disposal System Revenues for the last five Fiscal Years.

Long Term Obligations. The Series 2003 Bonds are Long Term Obligations under the Master Authorization. "Long Term Obligations" also include (1) any other bonds issued by the County in connection with the County System ("County Bonds") which are secured by the County Disposal System Revenues pledged under the Master Authorization, (2) any contracts relating to solid waste management entered into by the County which provide for the issuance of indebtedness by the other party, including the Waste Disposal Agreement pursuant to which the County pays debt service on the Authority Bonds, (3) any agreement between the County and any issuer of credit support (such as a letter of credit or bond insurance policy) which secures in whole or in part bonds described in clause (1) above or indebtedness issued pursuant to a contract described in clause (2) above, and (4) any other multi-year contract relating to solid waste entered into by the County which (a) does not contain an express provision that such contract is subject to appropriations and (b) is not terminable at the option of the County without the payment of damages, penalties or other extraordinary amounts by the County upon termination. Debt service on Prior County Bonds is a Long Term Expense payable from the Long Term Obligation Account on the same basis as amounts payable pursuant to Long Term Obligations such as the Series 2003 Bonds. See APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION for a definition of Long Term Obligations.

Existing Long Term Obligations. On November 16, 1990, the County entered into the Waste Disposal Agreement with the Authority, pursuant to which the Authority owns the Resource Recovery Facility and the Transportation System. See "THE COUNTY DISPOSAL SYSTEM—Service Area and System Facilities—System Components" herein. The Waste Disposal Agreement is being amended and restated by the County and the Authority as of April 3, 2003. The Waste Disposal Agreement and the Refunded Bonds are the only Long Term Obligations currently outstanding. Concurrently with the issuance of the Series 2003 Bonds, there are expected to be issued the Authority's Solid Waste Refunding Revenue Bonds (Montgomery County Solid Waste Disposal System), Series 2003A, in the aggregate principal amount of approximately \$181 million (the "2003 Authority Bonds"), on a parity basis with \$96,415,000 aggregate principal amount of the Authority's Solid Waste Revenue Bonds (Montgomery County Resource Recovery Project), Series 1993A (the "1993 Authority Bonds" and, together with the 2003 Authority Bonds, the "Authority Bonds"). The Authority Bonds are payable solely from the Authority Project Revenues, which generally consist of (i) amounts payable by the County solely from the Solid Waste Disposal Fund to the Authority for services provided pursuant to the terms of the Waste Disposal Agreement, (ii) payments by Mirant to the Authority pursuant to an Electricity Sales Agreement, (iii) amounts (generally damage or indemnification payments) which may become payable to the Authority or the Authority Bond Trustee by Covanta Montgomery, Inc. under the Service Agreement with the Authority or by Covanta Energy Corporation under a Guaranty Agreement, and (iv) certain other revenues and receipts of the Authority attributable to the Authority Project. Under the Waste Disposal Agreement, the Waste Disposal Fee payable by the County

is intended to cover the aggregate costs of the Authority with respect to the Authority Bonds and the Authority Project. It includes a credit to the County for payments received by the Authority from any sales of electricity, Recovered Materials revenues received (if any) and investment earnings. The Waste Disposal Fee is payable from County Disposal System Revenues available in the Solid Waste Disposal Fund on a parity with the Series 2003 Bonds. See "THE COUNTY DISPOSAL SYSTEM—Management's Discussion of Operations" herein.

The following table shows scheduled debt service payments on County System Indebtedness through Fiscal Year 2013, after giving effect to the issuance of the Series 2003 Bonds and the Authority Bonds.

County System Indebtedness

<u>Fiscal Year</u>	<u>Debt Service on Series 2003 Bonds</u>	<u>Debt Service on Authority Bonds</u>	<u>Total Debt Service</u>
6/30/2004	\$4,011,033	\$29,237,956	\$33,248,989
6/30/2005	4,012,350	29,267,975	33,280,325
6/30/2006	4,012,300	29,234,413	33,246,713
6/30/2007	4,009,700	29,198,225	33,207,925
6/30/2008	4,014,450	29,167,275	33,181,725
6/30/2009	4,006,750	42,505,425	46,512,175
6/30/2010	4,009,000	27,464,400	31,473,400
6/30/2011	4,010,750	27,301,375	31,312,125
6/30/2012	4,008,750	27,797,700	31,806,450
6/30/2013	<u>2,819,250</u>	<u>26,299,600</u>	<u>29,118,850</u>
TOTAL	<u>\$38,914,333</u>	<u>\$297,474,344</u>	<u>\$336,388,677</u>

Source: Montgomery County, Maryland with respect to the Series 2003 Bonds; Montgomery County, Maryland and Northeast Maryland Waste Disposal Authority Official Statement with respect to the Authority Bonds.

Conditions Precedent to Execution of Long Term Obligations. The Master Authorization provides that certain conditions must be met prior to (i) the execution by the County of Long Term Obligations or the issuance of indebtedness pursuant to existing Long Term Obligations or (ii) providing, accepting or otherwise adding substantial capacity to the County System by a new component in respect of which Operating Expenses are to be paid from County Disposal System Revenues deposited or credited into the Operating Account. These conditions include the delivery of legal opinions and certificates of County officials as to the due adoption and execution of the Long Term Obligation. In addition, except as described in the next paragraph, an accountant's certificate is required to the effect that the County's Rate Covenant was satisfied during a twelve month period which must be either (i) the Fiscal Year most recently ended prior to the date of the execution of the Long Term Obligation, or (ii) any other twelve month period ending on a date which is not more than 180 days prior to the date of execution of the Long Term Obligation; provided, however, that such certificate is not required if the expressed purpose of the execution of the Long Term Obligation or issuance of such indebtedness is to cure a Rate Covenant default or other Waste Disposal Agreement default. Finally, except as described in the next paragraph, a certificate of the Independent Engineer is required setting forth (a) its estimate of the Long Term Expenses, Operating Expenses and County Disposal System Revenues for each of the three Fiscal Years immediately succeeding the execution of the Long Term Obligations, calculated on the assumption that County Disposal System Revenues will be charged and collected at the rates in effect on the date of such certificate or such higher rate as the County has covenanted to charge for such Fiscal Year, (b) if the Long Term Obligations are bonds to be issued by the County in connection with the County System, the County Bond Debt Service Reserve Requirement for each such Fiscal Year, and (c)

its opinion that County Disposal System Revenues for each Fiscal Year set forth in such certificate can be expected to be generated in amounts sufficient for the County to meet its Rate Covenant.

Satisfaction of Conditions Precedent Not Required for Execution of Certain Long Term Obligations Under Certain Circumstances. The Master Authorization provides that the certificates of the accountant and Independent Engineer described in the preceding paragraph are *not* required with respect to certain Long Term Obligations, including (1) the issuance of Completion Indebtedness, including with respect to clause (2) of the definition of Completion Indebtedness, upon the filing of a certificate of the Independent Engineer that the capital cost to be financed by the Completion Indebtedness is necessary to meet, maintain or restore any reduction in capacity in the County System which was due to an unforeseen or uncontrollable circumstance or a change in law, and (2) the issuance of refunding obligations which result in a decrease in the debt service component of the amount payable by the County pursuant to the Long Term Obligation which is refunded in every Fiscal Year after such refunding obligations are issued. The Series 2003 Bonds constitute “refunding obligations” within the meaning of the clause described in (2) above; consequently, such certificates of the accountant and Independent Engineer are not being obtained.

Reserves. The Master Authorization requires that if any Long Term Obligation is entered into by the County in the form of County Bonds, the County must establish and fund for such County Bonds a reserve equal to the greatest amount of debt service becoming due with respect to such County Bonds in any Fiscal Year during which such County Bonds are to be outstanding or such lesser amount allowed by the Internal Revenue Code of 1986, as amended. If any such County Bonds are secured by a pledge of the full faith and credit of the County, such pledge is deemed to satisfy this requirement. See “--Debt Service Reserve Account” herein. In addition, the Master Authorization requires that the County establish and fund a reserve to be maintained in the Rate Stabilization Account to cover unusual or extraordinary costs incurred by the County subsequent to the adoption of its annual budget for such Fiscal Year.

Service Covenant. The Master Authorization provides that, consistent with prudent solid waste management practices, the County must provide or cause the provision of capacity for the disposal or recycling of all solid waste generated in the County. As long as the County meets the Rate Covenant described below, the Master Authorization permits the County to provide free or reduced rate disposal service with respect to specific types of solid waste in order to provide incentives for the use of certain components of the County System.

Rate Covenant. The Master Authorization provides that the County must make, impose and charge rates, fees and other charges for solid waste services provided by the County System so as to comply with the requirement of the Solid Waste Act that the Solid Waste Disposal Fund be maintained so that revenues equal expenses (and must impose Collection Fees sufficient to pay Collection Expenses). In addition, the County is required under the Master Authorization to fix, charge and collect rates, fees and charges for solid waste services rendered by the County through the County Disposal System, and must revise such rates, fees and charges as may be necessary or appropriate, to produce in each Fiscal Year County Disposal System Revenues which (when combined with available balances in specified funds) will at least equal the sum of: (1) 100% of the Operating Expenses of the County Disposal System for such Fiscal Year, plus (2) 110% of the Long Term Expenses of the County Disposal System respecting debt service plus 100% of the balances payable as Long Term Expenses for such Fiscal Year, plus (3) 100% of the amount required to fund certain required reserves for such Fiscal Year. “Long Term Expenses” include (1) any amount payable by the County pursuant to Long Term Obligations and (2) debt service on Prior County Bonds. “Prior County Bonds” means those general obligation bonds issued by the County prior to November 16, 1990 to provide funds for the payment of costs of the County System. Under the Master Authorization, the available fund balances that may be taken into account in determining compliance with the County’s Rate Covenant may not exceed 25% of the rates, fees and charges which would have to be imposed to meet the Rate Covenant if such balances were not considered. See “APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION --Rates and Charges; Rate Covenant.”

Waste Delivery Covenant. Pursuant to the Master Authorization, the County must deliver or cause to be delivered to the County Disposal System all residential Refuse generated in the County and all Refuse from County facilities. In addition, the County must use its best efforts (other than by legislation) to deliver or cause to be

delivered substantially all non-residential Refuse. This obligation is subject to the provisions of the Solid Waste Management Plan that provide for the development of source reduction programs and commercial recycling programs which may be implemented through private facilities.

Remedies Available Under Master Authorization. Upon the occurrence of an event of default under the Master Authorization (which would include the failure of the County to make any required payments under Long Term Obligations), the Default Trustee may pursue any remedy which is available to it at law or in equity or by statute, including the appointment of a judicially approved receiver of the County Disposal System Revenues and assets of the County pledged and assigned under the Master Authorization to the extent allowed by law. However, the appointment of a trustee or receiver does not limit the obligation of the County to continue to perform its obligations under the terms of the Master Authorization.

In addition to any other remedies, the Default Trustee shall have upon the occurrence of an event of default the right to have delivered to it all the funds in any account established under the Master Authorization and the right to receive all County Disposal System Revenues from whatever source. The County shall thereafter cause any and all County Disposal System Revenues to be paid directly to the Default Trustee and shall remit immediately to the Default Trustee any County Disposal System Revenues it receives. Pursuant to the Master Authorization, the County has appointed Allfirst Trust Company National Association as the Default Trustee. The Paying Agent is not responsible and shall have no liability for any actions taken by the Default Trustee.

Debt Service Reserve Account

The payment of the principal and interest on the Series 2003 Bonds is further secured by the County Bond Debt Service Reserve Account. On the date of issuance of the Series 2003 Bonds, an amount equal to the County Bond Debt Service Reserve Requirement relating to the Series 2003 Bonds will be deposited to the County Bond Debt Service Reserve Account. Such amount will be funded from the proceeds of the Series 2003 Bonds and will be available to pay the principal of and interest on the Series 2003 Bonds, including Sinking Fund Installments becoming due thereon. The County Bond Debt Service Reserve Account will be held by the County as a part of the Solid Waste Disposal Fund and will *not* be held by the Paying Agent or the Default Trustee prior to a default under the Master Authorization.

The County Bond Debt Service Reserve Requirement is an amount equal to the greatest amount of Debt Service becoming due with respect to any County Bonds (other than the Prior County Bonds) in the Fiscal Year after such computation is made or in any succeeding Fiscal Year or such other amount as may be allowed within the limitation of the Code.

Amounts on deposit in the County Bond Debt Service Reserve Account are available for transfer to the Long Term Obligation Account, if the amounts in the Long Term Obligation Account are not sufficient to provide for the payment of Debt Service on County Bonds. If amounts are so transferred from the County Bond Debt Service Reserve Account, the Master Authorization includes within its monthly required deposit of County Disposal System Revenues to the Accounts maintained thereunder a series of deposits (over a period of time as long as twelve months), sufficient to restore the County Bond Debt Service Reserve Account to the County Bond Debt Service Reserve Requirement.

In the event that additional County Bonds are issued under the Master Authorization, the County will be required to assure that the amount on deposit in the County Bond Debt Service Reserve Account at least equals the County Bond Debt Service Reserve Requirement. Any such required deposit may be satisfied by delivery of a Credit Facility or other similar banking facility or guaranty facility with a minimum rating of "A" from Moody's Investors Service, Inc. and Standard & Poor's Corporation.

PLAN OF REFUNDING

The proceeds of the Series 2003 Bonds will be used (i) to currently refund all maturities of the Refunded Bonds outstanding as of April 3, 2003, (ii) to fund the Debt Service Reserve Account, and (iii) to pay the costs of issuing the Series 2003 Bonds. The Refunded Bonds are outstanding in the aggregate principal amount of

\$31,825,000, and are more fully described in Appendix E hereto. All of the Refunded Bonds will be called for redemption, and will be redeemed, on June 1, 2003.

Estimated Sources and Uses of Funds

The following tables outline refinancing requirements and sources of funds the County will utilize to effect the refunding of the Refunded Bonds.

Sources of Funds:

Principal Amount of Bonds	\$31,075,000
Original Issue Premium on Bonds.....	1,565,241
Debt Service Reserve Account for Refunded Bonds	<u>4,410,413</u>
Total Sources	<u>\$37,050,654</u>

Uses of Funds:

Defeasance of Refunded Bonds	\$33,325,675
Debt Service Reserve Account for Series 2003 Bonds.....	3,107,500
Issuance Costs*	<u>617,479</u>
Total Uses	<u>\$37,050,654</u>

* Includes underwriters' discount, bond insurance premium, legal, rating agency, and printing costs, miscellaneous expenses and contingency.

THE COUNTY

Montgomery County, Maryland is located adjacent to the nation's capital, Washington, D.C., and consists of 495 square miles of land area. The County is responsible under Maryland law for assuring that adequate facilities exist for the disposal of solid waste generated in the County. Since 1943, the County has provided a County-wide system for the disposal of solid waste and in 1976 established the Solid Waste Disposal Fund to account for the revenues and expenses of the County Disposal System. The County's estimated average household income ranked eleventh nationwide in 2002 -- and second in the Washington metropolitan area -- measured among similar major suburban counties. The County government consists of a legislative branch governed by a nine-member elected County Council and an executive branch headed by an elected County Executive.

The Series 2003 Bonds are not general obligations of the County and do not constitute a pledge of the full faith and credit or the taxing powers of the County. The Series 2003 Bonds are payable solely from amounts on deposit in the Solid Waste Disposal Fund and other amounts made available pursuant to the Master Authorization.

THE COUNTY DISPOSAL SYSTEM

General

Montgomery County has developed and implemented an integrated solid waste management system, the County System, to provide for the management and disposal of solid waste generated within the County. The County System provides for the collection, recycling, composting, transfer, mass burning, and landfilling of solid waste. The County has been providing solid waste collection and disposal services since 1943. The County directly provides recycling collection services to residential units of six or fewer families in all unincorporated parts of the County, provides Refuse collection to approximately 40% of those residences, and licenses the private haulers which serve most of the rest of the County. The County Disposal System is the portion of the County System relating to the disposal of solid waste and certain curbside recycling collection services. The County owns the Transfer Station, the Materials Recovery Facility, the Composting Facility and the Authority Project Sites. The Authority owns the Resource Recovery Facility and operates it, together with

the Transfer Station and the related Transportation System, pursuant to the Waste Disposal Agreement. Additionally, the County has contractual arrangements for the management of various other components of the County Disposal System. The County System is designed to promote reuse, recycling and composting and the County estimates that approximately 37% of the solid waste generated in the County is managed with these methods. The Resource Recovery Facility is the primary disposal site for all Refuse delivered to the County Disposal System.

The County has established a Solid Waste Disposal Fund. The Solid Waste Disposal Fund is managed as an enterprise fund of the County. The primary sources of revenue for the County Disposal System are System Benefit Charges, which are collected on the property tax bill of residences and businesses. Since 1994, when the County implemented the System Benefit Charges, system revenues collected through these charges have constituted over 70% of County Disposal System Revenues. The County Disposal System's second largest revenue source is Tipping Fees charged to haulers delivering Refuse for which disposal charges are not prepaid through System Benefit Charges. Tipping Fee revenue was approximately 21% of System Disposal Revenue in Fiscal Year 2002. Market-based Tipping Fee revenues have increased over each of the past five years because, while the Tipping Fee has remained constant at \$44 per ton, the amount of Refuse delivered that is subject to the Tipping Fee has increased each of the past five years. Other County Disposal System Revenues include interest earnings and miscellaneous revenues and fees. Additionally, the County's payment obligations to the Authority for Refuse disposal are reduced by certain revenues, principally electricity revenues, received by the Authority.

As more fully described below, pursuant to the Master Authorization, the County has entered into the Rate Covenant to support its Long Term Obligations and the County has the ability to increase the System Benefit Charges, without any legal limitation, to meet the Rate Covenant.

Legislative Authority

The operation and funding of the County System is governed by (a) Chapter 48 of the Montgomery County Code and (b) the County's covenants contained in the Master Authorization, which is a contractual obligation of the County for the benefit of counterparties to Long Term Obligations, including the Bondholders. Since 1976, the County has maintained the Solid Waste Disposal Fund to segregate the assets, revenues and expenditures related to the disposal of solid waste in the County, and the Master Authorization requires the County to maintain this fund. All County Disposal System Revenues must, by law and pursuant to the Master Authorization, be credited to the Solid Waste Disposal Fund, and may not be diverted for other purposes. Chapter 48 specifically provides that the Solid Waste Disposal Fund must be maintained so that revenues at least equal expenses. Chapter 48 and the Master Authorization further provide that, to the extent that annual expenses exceed or are less than annual revenues, the fees and charges assessed for solid waste disposal will ordinarily be adjusted at least annually to fund such deficits or to utilize such surpluses; provided that retention of surpluses is permitted when necessary to fund estimated future expenses or to provide funding for future anticipated short-term deficits. All the costs incurred by the County in providing disposal services through the County Disposal System are paid from the Solid Waste Disposal Fund.

Solid Waste Management Plan

State law requires the County to develop a Solid Waste Management Plan for the entire County, including all towns, municipal corporations and sanitary districts. The Solid Waste Management Plan must cover a ten-year planning period and be updated periodically. The plan must describe the solid waste disposal systems, solid waste acceptance facilities and the systematic collection and disposal of solid waste by public or private entities. The Solid Waste Management Plan and each periodic revision to the plan must be approved by the Maryland Department of the Environment.

The current Solid Waste Management Plan covers the period from 1998 through 2007. The County is presently updating the Solid Waste Management Plan to cover the period from 2002 through 2011. The updated Solid Waste Management Plan is expected to be completed and approved by the end of calendar year 2003.

The Solid Waste Management Plan establishes waste reduction as the most preferred management technique, followed by reuse and recycling, then incineration with energy recovery, and, least preferred, landfilling.

Master Authorization

System Revenue Pledge

In the Master Authorization, the County pledges substantially all amounts in the Solid Waste Disposal Fund to the payment of Long Term Obligations. See APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION.

Covenants

Certain covenants of the County in the Master Authorization are described below. In addition to those, the Master Authorization includes various fiscal and management-related covenants.

Service Covenant. The County must, consistent with prudent solid waste management practices, provide or cause the provision of capacity for, the disposal or recycling of all solid waste generated in the County.

Non-Competition Covenant. The County must not operate, or permit in the County, any waste disposal facilities that will compete with the County Disposal System.

Rate Covenant. The County must fix, charge, and collect rates, fees, and charges for disposal services rendered by the County through the County Disposal System and must revise such rates, fees and charges as may be necessary or appropriate, to produce, in each Fiscal Year, County Disposal System Revenue that (when combined with available balances in specified funds) will at least equal the sum of:

- 100% of the Operating Expenses of the County Disposal System for such Fiscal Year; plus
- 110% of the payments to be made in such Fiscal Year in respect of County System Indebtedness and 100% of the remaining balances payable as Long Term Expenses for such Fiscal Year; plus
- 100% of the amount required to fund reserves for debt service on County System Indebtedness, long term maintenance and rate stabilization for such Fiscal Year.

Long Term Expenses are (a) any amounts payable by the County pursuant to Long Term Obligations and (b) debt service on certain general obligation bonds that the County issued prior to adoption of the Master Authorization and of which \$282,233 in principal amount remains outstanding. Under the Master Authorization, the available fund balances that may be taken into account in determining compliance with the Rate Covenant may not exceed 25% of the rates, fees, and charges which would have to be imposed to meet the Rate Covenant if such balances were not considered. See APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION — Rates and Charges; Rate Covenant.”

As long as the County meets the Rate Covenant, the Master Authorization permits the County to provide free or reduced rate disposal service with respect to specific types of Recyclables or Refuse in order to provide incentives for the use of certain components of the County Disposal System. The County has not implemented any incentive rates to date.

Waste Delivery Covenant. The County must deliver or cause to be delivered to the County Disposal System all residential Refuse generated in the County and all Refuse from County facilities. In addition, the County must use its best efforts (other than by legislation) to deliver or cause to be delivered

substantially all non-residential Refuse. This obligation is subject to the provisions of the Solid Waste Management Plan that provide for the development of source reduction programs and commercial recycling programs which may be implemented through private facilities.

Long Term Obligations

The Master Authorization authorizes the County to have Long Term Obligations outstanding from time to time. Generally, a Long Term Obligation is:

- any bond or other obligation for money borrowed by the County in connection with the County Disposal System that is secured by County Disposal System Revenues;
- any contract to which the County is a party that (a) bears upon or affects any obligation or responsibility of the County under the Master Authorization, including the Rate Covenant or (b) is a multi-year contract that (i) does not include a provision stating that the contract is subject to appropriations and (ii) the County cannot terminate at its option and without penalty; and
- any agreement that the County enters into with an issuer of a letter of credit, bond insurance or any other credit facility that secures bonds issued by the County or any other bonds issued in accordance with one of the Long Term Obligations described above.

For the complete definition of Long Term Obligation, see APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION.

The Master Authorization requires the County to satisfy certain conditions before entering into a Long Term Obligation, including the condition that the County deliver a certificate of an independent, certified accountant stating that, among other things, the Rate Covenant was satisfied during any 12-month period that ended within the past six months. However, this certification is not required when the County enters into a Long Term Obligation to cure a default under the Rate Covenant or under the Waste Disposal Agreement. See APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION — Conditions Precedent to the Execution of Long Term Obligations.

Reserves

The Master Authorization requires the County to deposit all County Disposal System Revenues into the Revenue Account of the Solid Waste Disposal Fund and to periodically transfer moneys therein to other accounts of the Solid Waste Disposal Fund. Transfers must first be made to the Operating Account and then to the Long Term Obligation Account. Moneys remaining in the Revenue Account must then be transferred, to the extent available, to the County Bond Debt Service Reserve Account, the Renewal and Replacement Account, the Rate Stabilization Account and the General Account (collectively, the “Reserve Accounts”). The amounts to be deposited into the Reserve Accounts are as follows:

- Funds must be deposited into the County Bond Debt Service Reserve Account in the amount required to make the balance thereof equal to the greatest amount of debt service becoming due in the Fiscal Year in which such computation is made or in any succeeding Fiscal Year or such other amount as may be allowed within the limitations of the Code. This requirement will be satisfied if the County Bonds at issue are secured by (i) a general obligation of the County for which its full faith and credit are pledged, or (ii) a banking facility or guaranty facility with a minimum rating of “A” from Moody’s or Standard & Poor’s;
- Funds must be deposited into the Renewal and Replacement Account in the amount required to make the balance thereof equal to the amount that is determined by the Independent Engineer to be reasonably necessary as a reserve for expenses with respect to certain types

of repairs, renewals, replacements and maintenance of items used in the County Disposal System and for expenses relating to the closure of certain components used in the County Disposal System;

- Funds must be deposited into the Rate Stabilization Account to make the balance thereof equal to the amount determined by the County in its discretion as is appropriate for its purpose; and
- Any funds remaining after deposits are made to the other Reserve Accounts must be deposited into the General Account.

Management of the System

The Department of Public Works and Transportation, which is part of the County's Executive Branch, is responsible for planning, implementing and managing the County Disposal System, which it carries out through its Division of Solid Waste Services (the "Division"). The Division is assisted in discharging its responsibilities by the County Department of Finance, the County Attorney's Office, and other departments of the County's Executive Branch. The Department of Public Works and Transportation has seven separate divisions headed by division chiefs. As of January 2003, the Division has 74 full-time employees involved in managing solid waste activities in the County.

Key personnel with management responsibility for the County System include:

Albert J. Genetti, Jr., Director. Mr. Genetti was appointed as the Director of the Montgomery County Department of Public Works and Transportation on June 1, 1999. Mr. Genetti holds a Bachelor of Science degree from the U.S. Military Academy at West Point, and a Master's degree in Civil Engineering from the University of Illinois. Mr. Genetti has served in a wide variety of leadership posts over the course of a 36-year career in the Army and the Army Corps of Engineers where he attained the rank of Major General. He is a member of the Society of Military Engineers, the Army Engineer Association and the Association of the United States Army.

Arthur G. Balmer, Chief of the Division of Solid Waste Services. Mr. Balmer is a graduate of the Scott Sutherland School of Architecture, Robert Gordon's Institute of Technology, Aberdeen, Scotland, U.K. He received his Diploma in Architecture (6-year course) in 1962 and registered as an architect with the Architects Registration Council of the U.K. in 1963. In 1964, he was elected an Associate of the Royal Institute of British Architects and in 1966 an Associate of the Royal Incorporation of Architects in Scotland. From 1966 to 1980 he practiced as a private architect under his own name in Scotland. Projects included large industrial, commercial and housing projects. Since 1980, he has resided in the U.S. Mr. Balmer was General Manager for Field Operations with the Maryland Environmental Services from 1980-1984. There he directed the construction and operation of many projects, including management of the \$53 million Dredge Spoil Containment Site at Hart Miller Island in the Chesapeake Bay and the Hawkins's Point Hazardous Waste Landfill near Baltimore. Mr. Balmer is responsible for directing and coordinating the solid waste processing, disposal, collection and recycling, and solid waste planning activities of the County's Department of Public Works and Transportation. He has direct responsibility for managing annual operating budgets in excess of \$90 million.

Daniel E. Locke, P.E., Project Manager. Mr. Locke is the Montgomery County Project Manager and Section Chief of the Disposal Systems Implementation Group within the Division of Solid Waste Services. Mr. Locke received a Master's Degree in Engineering Management from George Washington University in 1993 and a Bachelor's Degree in Mechanical Engineering from The Pennsylvania State University in 1981. For 15 years, he worked for a private electric utility and was responsible for various aspects of construction, maintenance and operation of several power generation facilities. Mr. Locke is responsible for and provides daily oversight of citizen advisory group interaction, several solid waste facilities and programs, and the division's planning functions. He is a registered professional engineer in Maryland and Virginia.

Timothy L. Firestine, County Director of Finance. Mr. Firestine became the Director, Department of Finance in August, 1991. Prior to his appointment, Mr. Firestine served as Chief of the Budgets Division, Chief of Interagency Analysis and Review, Budget and Planning Program Manager, and Senior Management and Budget Specialist in the County Office of Management and Budget. Before coming to the County, Mr. Firestine was the Budget Officer for the Allegheny County, Pennsylvania, Controller's Office. Mr. Firestine received his Bachelor of Arts Degree from Albright College and his Master of Public Administration Degree from the University of Pittsburgh. Mr. Firestine is a member of the Board of Investment Trustees for the Employee's Retirement System of Montgomery County. He is a member of the Government Finance Officers Association and serves on its Committee on Debt and Fiscal Policy. Mr. Firestine is currently the Treasurer of the Maryland Government Finance Officers Association and recently served on the Board of Trustees for Suburban Health Care System, Inc., in Bethesda, Maryland.

County Disposal System Components

The County Disposal System includes the Transfer Station, the Resource Recovery Facility, the Materials Recovery Facility, and the Composting Facility. The County has a contract for out-of-State landfill disposal, and owns undeveloped property dedicated for use as a County-owned landfill if necessary.

Authority Facilities

Transfer Station. The Transfer Station is owned by the County and leased to the Authority pursuant to the Authority Project Site Lease. Refuse is delivered by truck to the Transfer Station, which is located on an approximately 40-acre site in Derwood, Maryland in the central portion of the County, approximately 18 miles from the Resource Recovery Facility. The Transfer Station has been in operation since 1982 and is permitted to receive up to 821,500 tons of solid waste per year. The County expects to expand the capacity of the Transfer Station by adding a fourth compactor. Refuse is compacted at the Transfer Station for transport by rail to the Resource Recovery Facility. Yard Waste that can be composted is transported to the Composting Facility and brush and branches are chipped for distribution as mulch. All Nonprocessible Waste and some Recyclables are loaded at the Transfer Station and transported by truck to the County Designated Landfill.

Transportation System. The Transportation System includes railcars and intermodal sealed containers. Waste delivered to the Transfer Station is compacted and put into the containers, which are then loaded onto the railcars at a railroad yard adjacent to the Transfer Station Site. The railcars are pulled by CSX-owned locomotives over CSX-owned and operated tracks to a rail yard adjacent to the Resource Recovery Facility. Residue generated by the processing of Refuse is transported by rail to the County Designated Landfill.

Under the Rail Transportation Agreement, the Authority must maintain its containers and railcars and CSX must maintain all other machinery, equipment and other material necessary for CSX to transport Residue from the Transfer Station to the Resource Recovery Facility, including a locomotive. The term of the Railroad Transportation Agreement expires on August 7, 2015. The Authority will be in default if it fails to pay amounts due within a specified period of time and either party will be in default if it fails to fulfill any material obligation following notice and a cure period of a reasonable period of time. A party may terminate the Rail Transportation Agreement only for the default of the other party if, among other things, (a) there exists no reasonable expectation that the terminating party can recover damages sufficient to compensate it for any loss incurred as a result of the default and (b) there has been a final nonappealable determination that the default relates to a material obligation.

The County expects that, prior to the end of the term of the Rail Transportation Agreement, it will be able to negotiate an extension of the agreement on acceptable terms. In the event of a disruption to the Transportation System, the County owns and could lease truck transportation equipment to transport solid waste that, according to the Independent Engineer, could provide a credible alternative to the Transportation System moving the same daily volumes if the Rail Transportation System were unavailable for short periods of time.

Resource Recovery Facility. The Resource Recovery Facility is a mass-burn waste-to-energy facility owned by the Authority. The Resource Recovery Facility, which opened in August 1995, is located on a County-owned, 34-acre site near Dickerson, Maryland, which is leased to the Authority under the Authority Project Site Lease. The Resource Recovery Facility consists of three, 600 tons-per-day, mass-burning, refuse-fired boiler units that produce high-pressure, high-temperature steam to generate electricity. The Resource Recovery Facility incorporates the mass-burning technology of Martin GmbH fur Umwelt-Energietechnik (“Martin GmbH”). According to the Independent Engineer, this technology is a sound and proven method of solid waste disposal and energy recovery. See Appendix B, Independent Engineer’s Report. Electricity from the Resource Recovery Facility is sold by the Authority to Mirant pursuant to the Mirant Agreement. See “Operation of Authority Facilities – Sale of Electricity.” After incineration, ferrous metal is recovered from the Residue and sold to scrap metal dealers. The remaining Residue is transported by rail to the County Designated Landfill for disposal.

Operation. The Authority operates the Authority Facilities for the County pursuant to the Waste Disposal Agreement. The Company operates the Resource Recovery Facility for the Authority pursuant to the Service Agreement. See “Operation of Authority Facilities – The Service Agreement.”

Authority Project Sites. The Authority purchased the 34-acre Facility Site, together with easements necessary for rail, water, electricity and wastewater service, from the Potomac Electric Power Company (“PEPCO”) pursuant to the Facility Site Agreement and deeded them to the County. The Authority and the County then entered into the Authority Project Site Lease under which the County leased the Facility Site, the approximately 40-acre Transfer Station Site, the Transfer Station and related easements to the Authority. One of these easements gives the Authority access to a water discharge canal, which is the source of cooling water for the Resource Recovery Facility, until at least 2019. The term of the Authority Project Site Lease ends in 2030 and County does not have a right to terminate it as long as the Waste Disposal Agreement is in effect. After entering into the Facility Site Agreement, PEPCO sold its generating plant to Mirant, together with a portion of the site on which the plant is located, which is adjacent to the Facility Site. However, PEPCO did not assign the Facility Site Agreement to Mirant and remains obligated under the Facility Site Agreement.

Landfill Arrangements

The Landfill Agreement. The Waste Disposal Agreement provides that the County must make a landfill available for the Authority Project. Under the Landfill Agreement, the County must accept at a landfill designated by it from time to time (the “County Designated Landfill”) all solid waste that is delivered by or on behalf of the Authority, subject to sufficient capacity being available and to certain rejection rights. During a shutdown of the County Designated Landfill, the County must accept what waste it can and use reasonable efforts to make an alternate facility available to the Authority for the waste that the County is unable to accept. Events of default under the Landfill Agreement are the failure to pay amounts due and persistent or repeated failure to perform a material obligation that is not cured within a reasonable amount of time. If the Authority defaults, the County will have the right to recover damages but will not have the right to terminate the Landfill Agreement. If the County defaults, the Authority will be entitled to injunctive or mandamus relief to enforce the County’s obligations. The term of Landfill Agreement will continue until, at the earliest, the final maturity date of the Series 2003 Bonds. The County believes that sufficient out-of-County landfill services would be available at rates consistent with its current arrangements if, for any reason, capacity is not available pursuant to Brunswick Agreement (described below).

The Brunswick Agreement. The County Designated Landfill is currently a landfill that is owned and operated by Brunswick. The County entered into the Brunswick Agreement with Brunswick, a wholly owned subsidiary of Allied Waste Industries of North America, Inc., under which, subject to certain rejection rights, Brunswick is obligated to accept, at the Transfer Station, the Resource Recovery Facility or other County-designated facility, all Nonprocessable Waste and Bypassed Waste that is delivered by or on behalf of the County. Brunswick must supervise the loading of such waste into containers and onto its trucks and must transport it to the Brunswick Landfill in Brunswick County, Virginia. Brunswick must also load

Residue at the Resource Recovery Facility into railcars and cause CSX to move the railcars to the Brunswick Landfill. Brunswick must maintain an independently monitored, dedicated cell reserved for the County's waste at the Brunswick Landfill, which is a Subtitle D facility that opened in 1997. Brunswick is required to cause a landfill that is located in Georgia and owned by an affiliate of Brunswick to be available for the disposal of County solid waste in the event that an uncontrollable circumstance causes the Brunswick Landfill to be unavailable. Brunswick's obligations under the Brunswick Agreement are guaranteed by Allied Waste Industries of North America, Inc. The term of the Brunswick Agreement expires on June 30, 2012 and the County has the right to extend it for a five-year period. Brunswick may terminate the agreement earlier for a payment default by the County and the County may terminate it for its convenience or if the Brunswick Landfill and the landfill in Georgia are closed for 10 or more days as a result of an uncontrollable circumstance. The Brunswick Agreement provides for a remedy of specific performance in the event of a default by Brunswick..

County-Owned Landfills. At present, the County does not operate any landfills. However, the County owns approximately 650 acres located two miles from the Resource Recovery Facility. The County currently has a State permit to construct a landfill on 125 of those acres, with the balance of 525 acres to be used as a buffer. The construction permit is scheduled to expire on April 15, 2003, but the County has applied for a five-year renewal, and plans to continue to renew the permit prior to the end of each five-year permit period. The County plans to develop this landfill as and when out-of-County disposal becomes unfeasible. This site is currently used for agricultural purposes. The County owns two closed landfills, the Gude Landfill near Rockville and the Oaks Landfill near Laytonsville.

Materials Recovery Facility

The County provides curbside recycling collection services to all single family residences in the unincorporated portions of the County. All Recyclables collected at curbside, and certain Recyclables collected by independent collection contractors, are transported by truck to the Materials Recovery Facility, located on a 10-acre site in Derwood, Maryland, adjacent to the Transfer Station. The Materials Recovery Facility, which opened in 1991, is operated by the Maryland Environmental Service, a State agency, under contract with the County. The Materials Recovery Facility sorts and sells or disposes of paper and containers (such as glass bottles, aluminum cans and plastic bottles). The Materials Recovery Facility has a capacity of 346 tons of mixed paper per 8-hour shift and 100 tons of mixed containers per 8-hour shift. At present, the Materials Recovery Facility is operated for a single 8-hour shift per working day.

Composting Facility

The County composts Yard Waste (principally leaves and grass) at a 118-acre facility near Dickerson, Maryland. The resulting compost is dried and screened for marketing. The Composting Facility, which opened in 1992, is operated by the Maryland Environmental Service. Agreements between the County and local citizens groups limit the Composting Facility to no more than 77,000 tons of Yard Waste per year.

Permits

All components of the County Disposal System are in material compliance with all required permits. See "Government Regulation" and Appendix B, Independent Engineer's Report, "Environmental Regulatory Considerations."

Waste Disposal Services

Pursuant to the Master Authorization, the County must, consistent with prudent solid waste management practices, provide or cause the provision of capacity for the disposal or recycling of all Refuse generated in the County.

Service Area

Chapter 48 provides that the County System's service area is the entire County. Located adjacent to Washington, DC, the County includes 487 square miles of land area. As of January 1, 2003, the County had 338,700 households. Aggregate personal income of County residents approached \$42 billion in 2000, and is projected to total over \$45 billion in 2002. The County, which accounts for just over 16 percent of the State's population, accounts for over 23 percent of the State's total personal income.

Waste Generation

Pursuant to State law and as part of its ongoing management and planning process, the County annually collects statistics regarding the solid waste generated in the County ("County Generated Waste") and projects the County Generated Waste expected to be delivered to the County for disposal. All waste haulers operating in the County are required to be licensed by the County and, as a condition of the license, each waste hauler must provide the County with statistics regarding all County Generated Waste that they transport, whether disposed of through the County Disposal System or elsewhere. Accordingly, the County maintains accurate records of the amount of solid waste collected in the County by each licensed hauler and where that waste is disposed.

Table 1 presents historic waste generation statistics for the County System for Fiscal Years 1998 through 2002, and Table 2 presents the County's projections for Fiscal Years 2003 through 2009:

Table 1

Historical Waste Generation

	1998	1999	2000	2001	2002
County Population ²	837,000	846,000	873,341	881,000 ¹	892,000 ¹
Total Employment ²	505,738	523,374	545,000	555,000 ¹	565,000 ¹
Processible Waste (tons)	907,233	926,699	1,034,739	1,097,825	1,145,623
Nonprocessible Waste (tons)	32,364	38,922	50,854	52,463	66,119
Total County Generated Waste (tons)	939,597 ³	965,621 ³	1,085,593	1,150,288	1,211,741

1. Projected; final figures are not yet available.

2. Source: Maryland National Capital Park and Planning Commission

3. Estimated; does not reflect updated population and employment data shown.

Source (except as otherwise noted): Montgomery County, Maryland

Table 2

Projected Waste Generation

	2003	2004	2005	2006	2007	2008
County Population	903,000	914,000	925,000	935,000	945,000	955,000
Total Employment	575,000	585,000	595,000	603,000	611,000	618,000
Processible Waste (tons)	1,162,656	1,179,689	1,196,722	1,211,161	1,225,601	1,239,082
Nonprocessible Waste (tons)	67,132	60,639	61,661	62,698	63,751	64,820
Total County Generated Waste (tons)	1,229,788	1,240,328	1,258,383	1,273,860	1,289,352	1,303,902

Source: Montgomery County, Maryland

Table 3 presents historic disposition of County Generated Waste for Fiscal Years 1998 through 2002, and Table 4 presents the County's projections for Fiscal Years 2003 through 2008:

Table 3

Historical Waste Disposal Methods for County Generated Waste (in tons)

Waste Disposal by Type of Facility

	1998	1999	2000	2001	2002
County System					
Refuse Sent to Resource Recovery Facility	435,883	469,748	495,003	522,686	575,312
Yard Waste at County System Facilities	59,589	67,176	67,755	72,573	70,730
Other Recyclables at County System Facilities ¹	65,676	63,966	80,832	87,580	91,470
Nonprocessible Waste at County Facilities	32,364	39,179	50,854	52,463	66,119
Total Solid Waste Processed by County System	593,512	640,069	693,994	735,302	803,631
Non-County System					
Back-yard composting	84,294	78,124	108,378	106,736	110,100
Recyclables at Non-County System Facilities	95,497	112,741	104,964	127,172	140,359
Exported Refuse	166,294	134,686	178,257	181,077	157,652
Total Solid Waste Disposed by Non-County System Facilities	346,085	325,551	391,599	414,985	408,111
Total County Generated Waste	939,597	965,621	1,085,593	1,150,288	1,211,741

1. Does not include metals recovered from residue.

Disposition of Waste Delivered to Resource Recovery Facility

	1998	1999	2000	2001	2002
Waste reduction through combustion	301,162	329,643	340,393	363,338	388,075
Metals recovered from Residue	13,399	11,943	16,696	14,623	16,447
Ash Recycled	--	--	36,846	29,775	--
Ash Landfilled	121,322	128,162	101,068	114,950	170,790
Total Refuse combusted at Resource Recovery Facility	435,883	469,748	495,003	522,686	575,312

Source: Montgomery County, Maryland

Table 4

Projected Disposal Methods for County Generated Waste (in tons)**Waste Disposal by Type of Facility**

	2003	2004	2005	2006	2007	2008
County System						
Refuse Sent to Resource Recovery Facility	600,117	560,121	578,845	598,130	617,994	638,454
Yard Waste at County System Facilities	77,027	77,708	78,384	78,789	79,189	79,558
Other Recyclables at County System Facilities ¹	92,807	83,909	88,471	91,949	96,156	100,703
Nonprocessible Waste at County System Facilities	67,132	60,639	61,661	62,698	63,751	64,820
Total Solid Waste Disposed by County System	837,083	782,337	807,361	831,566	857,090	883,535
Non-County System						
Back-yard composting	111,043	112,354	113,674	114,968	116,272	117,567
Recyclables at Non-County System Facilities	137,645	158,270	162,338	166,600	171,606	173,773
Exported Refuse	144,018	187,327	175,010	160,725	144,383	129,027
Total Solid Waste Processed by Non-County System	392,706	457,951	451,022	442,293	432,251	420,367
Total County Generated Waste	1,229,788	1,240,328	1,258,383	1,273,860	1,289,352	1,303,902

1. Does not include metals recovered from residue.

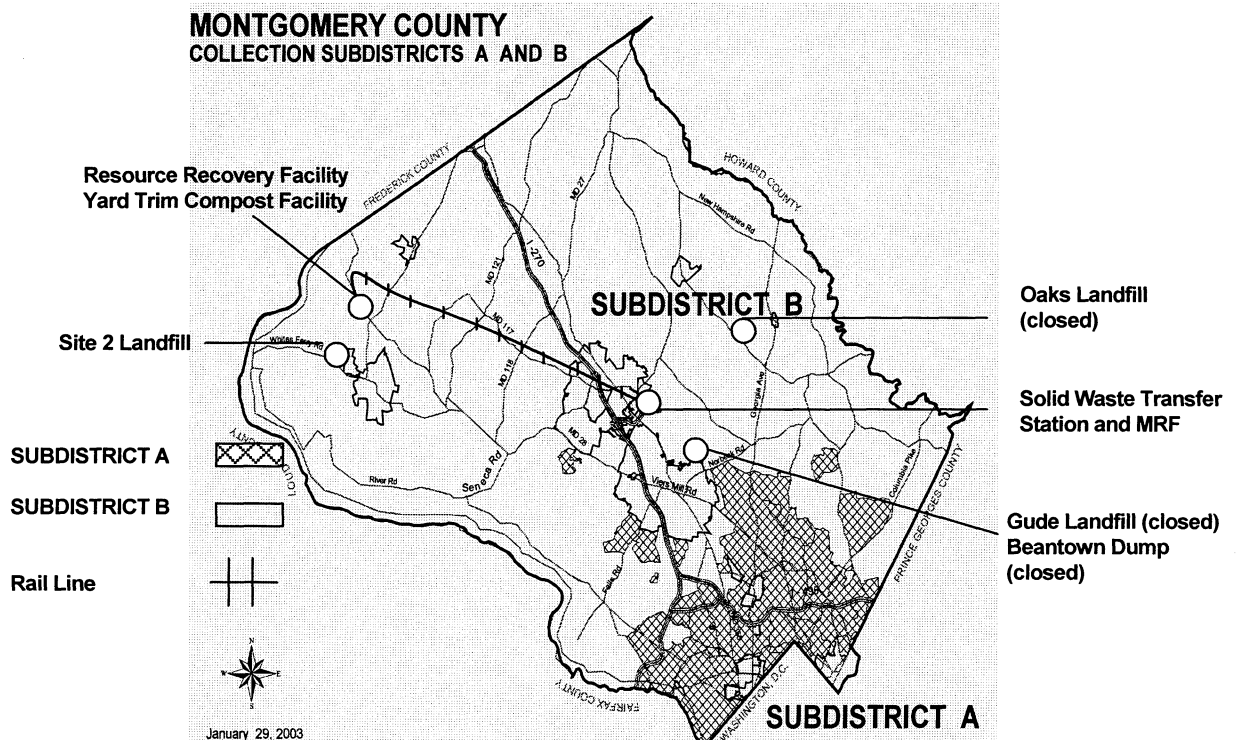
Disposition of Waste Delivered to Resource Recovery Facility

	2003	2004	2005	2006	2007	2008
Waste reduction through combustion	406,280	379,202	391,878	404,934	418,382	432,233
Metals Recovered from Residue	16,803	15,683	16,208	16,748	17,304	17,877
Ash Recycled	--	--	--	--	--	--
Ash Landfilled	177,034	165,236	170,759	176,448	182,308	188,344
Total Refuse combusted at Resource Recovery Facility	600,117	560,121	578,845	598,130	617,994	638,454

Source: Montgomery County, Maryland

Collection of Refuse

The service area of the County System is divided into subdistricts which relate to the provision of collection services to single family households (units of six or fewer). Sub-District A is made up of unincorporated areas in the more densely developed southern portion of the County proximate to Washington, D.C. Sub-District B is made up of the balance of the unincorporated areas of the County and the 19 incorporated cities, towns and villages in the County. Sub-District A includes approximately 84,829 single family households and households in multi-family residences comprised of six or fewer units, and Sub-District B includes approximately 117,155 such households. These subdistricts, together with County Disposal System Components, are shown on the following map.



Refuse collection practices vary in different portions of the County and for different categories of waste generators. In Sub-District A, Refuse from single-family residences and multi-family residences with six or fewer units is collected by licensed collectors under contract to the County. Certain incorporated municipalities, including Rockville, Maryland, and Gaithersburg, Maryland, provide collection services using their own vehicles and personnel, or by direct municipal contract with licensed haulers. All other Refuse in the County is collected by licensed independent contractors in accordance with private subscriptions.

Table 5 reviews the historical refuse collected and disposed in Fiscal Years 1995 through 2002.

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Table 5

Historical Refuse Collection (in tons)								
	1995	1996	1997	1998	1999	2000	2001	2002
Solid waste subject to Tipping Fee	N/A	N/A	N/A	230,914	267,567	329,417	349,771	406,563
Refuse not subject to Tipping Fee ¹	N/A	N/A	N/A	237,333	239,006	216,440	225,378	234,868
Total solid waste delivered ²	507,925	425,966	494,079	468,247	506,573	545,857	575,149	641,431
Tipping Fee	\$59.00	\$59.00	\$44.00	\$44.00	\$44.00	\$44.00	\$44.00	\$44.00

1. Includes residential Refuse collected by the County in Sub-District A, residential Refuse collected in Sub-District B and delivered to the Transfer Station with no Tipping Fee, and Refuse delivered by County agencies.
2. Corresponds to Refuse delivered to Resource Recovery Facility plus Nonprocessable Waste at County facilities in Table 3.

Source: Montgomery County, Maryland

Waste Flow Management

Haulers that deliver Refuse to the Transfer Station that is not covered by System Benefit Charges are generally charged a Tipping Fee. The County uses the Tipping Fee as one of the means by which it manages waste flow. The County manages waste flow by:

- Requiring haulers under contract with the County to deliver residential Refuse from Sub-District A to the Transfer Station;
- Causing County facilities to deliver their Refuse to the Transfer Station;
- Not charging a Tipping Fee to haulers of residential Refuse from Sub-District B; and
- Setting and resetting the Tipping Fee at levels that are based on the rates of competitive facilities outside the County.

The County monitors tipping fees at competitive disposal facilities outside the County, as well as the amount of Refuse generated in the County that is delivered to those facilities. Haulers' licenses require haulers to periodically report to the County the quantity of such Refuse it collected and where the hauler disposed of it. The County uses this information and other information to determine how much Refuse is generated in the County and how much is being delivered to competing facilities. The County then sets the Tipping Fees either to encourage haulers to deliver such Refuse to the Transfer Station or to discourage haulers from delivering Refuse to the Transfer Station.

Prior to Fiscal Year 2002, the quantity of Refuse delivered to the Transfer Station was less than the guaranteed throughput capacity of the Resource Recovery Facility and, to encourage delivery, the County kept the Tipping Fee at a competitive rate of \$44. The amount of Refuse being delivered to the Transfer Station continues to increase and the County intends to increase the Tipping Fee in Fiscal Year 2004. The County

believes that, even with an increase, enough Refuse will be delivered to run the Resource Recovery Facility at or near the throughput capacity that is guaranteed under the Service Agreement.

County Disposal System Revenues

Fees and Charges

Chapter 48 authorizes the County to recover the entire revenues needs of the County Disposal System through System Benefit Charges and also allows the County to charge various fees, including the Tipping Fee, for solid waste at the time the solid waste enters the County Disposal System. The principal disposal fees and charges imposed and collected by the County are residential and non-residential Systems Benefit Charges, and Tipping Fees. The County also collects fees for accepting various categories of Recyclables delivered to facilities in the County Disposal System. The Master Authorization requires that the County deposit all such fees and charges into the Solid Waste Disposal Fund. Systems Benefit Charges are included on property tax bills and, if not paid when due, can be enforced through foreclosure in the same manner as if the owner had failed to pay property taxes. The County may also bring suit against the property owner for any unpaid residential Systems Benefit Charges.

Annual Rate Setting Process

The owner of each single-family residence (including each unit in a multi-family residence comprised of six or fewer units) in the unincorporated portions of the County is charged a solid waste disposal fee. The haulers of Refuse generated by these households are not charged a Tipping Fee and the solid waste disposal fee for such Refuse is charged on the tax bill and serves as a pre-paid tipping fee. Solid waste disposal fees for a given Fiscal Year are calculated based on the average tons per residence of Refuse projected to be disposed by such residences in such Fiscal Year, multiplied by the Tipping Fee. The solid waste disposal fee is a System Benefit Charge applicable only to single-family residences in unincorporated areas of the County.

In order to calculate System Benefit Charges and other rates sufficient to comply with the Rate Covenant and Chapter 48, the County has developed a rate-setting methodology to ensure that the System Benefit Charges are calculated to reflect as closely as possible the actual costs, or allocated portion of the costs, to the County of providing base and incremental solid waste management services. The methodology allocates the costs of the entire County Disposal System as fairly as practicable over different categories of system beneficiaries in accordance with the availability the components of the County Disposal System and various special services to which they are entitled. Base solid waste management services are those that benefit all generators of solid waste and all persons who collect, store, transport, or otherwise handle solid waste. This base system cost is comprised principally of budgetary operating costs (but excluding the net costs of incremental services described below) plus capital expenditures, contingencies and landfill post-closure care liability not covered by landfill reserves (e.g., inflation), less revenues from sale of recovered materials, investment earnings and miscellaneous revenues. The base system costs are then allocated to single-family residences, multi-family residences and non-residential properties in proportion to each sector's waste generation. Base System Benefit Charges are calculated such that, together with revenue from Tipping Fees and disposal fees, base system costs are satisfied.

In addition to base solid waste management services, the County provides various incremental solid waste management services only to certain classes of rate-payers. The net costs of incremental services are allocated to those sectors via the incremental component of the System Benefit Charge. Incremental System Benefit Charges for non-municipal single-family residences cover the costs of Recyclables collection and processing at the Materials Recovery Facility and Yard Waste composting facility, education, and other sector-specific services. To date, incremental services provided by the County to multi-family and non-residential properties have included specialized recycling education, hazardous waste acceptance, and an allocated share of the net operating costs of County recycling facilities, but no recycling collection services have yet been provided by the County to those sectors. Finally, the calculation of the incremental System Benefit Charge for each rate-paying sector may also include a sector-specific rate stabilization component to smooth the temporal effects of sudden changes in sector-specific County Disposal System costs. Municipal single-family residences

have not received County incremental services and thus have paid only the base single-family System Benefit Charge.

System Benefit Charges, Tipping Fees and acceptance fees at other facilities are set annually by the County Council. Chapter 48 authorizes the County Council to adjust rates more frequently. Due to the nature of the property tax bill collection method, mid-year adjustments to fees and charges collected via property tax bills would be cumbersome to implement until the following year's tax bills were prepared. However, the Tipping Fee may be adjusted within 90 days of the County Council's decision to do so.

Historically, the System Benefit Charges rates have been lower than were originally projected when the County implemented its current rate structure in 1994.

Residential Fees and Charges. Set forth in Table 6 below is an allocation of the System Benefit Charges for single-family residences and multi-family residences (buildings with more than six residential units) in the unincorporated area of the County, and single family residences in incorporated municipalities for the Fiscal Years 1998 through 2003.

Non-Residential System Benefit Charges. Chapter 48 authorizes the County to assess non-residential System Benefit Charges in a variety of ways. Currently, the County establishes non-residential System Benefit Charges which vary from property to property according to the average waste generation rate for different non-residential land use categories, and the property's improved gross floor area (measured by 2,000 square foot units). Currently, there are five categories of non-residential generators based on average waste generation per 2000 square foot unit. Non-residential solid waste generators in specific land uses are categorized into a generator category based on waste generation studies. The non-residential System Benefit Charge for a generator is then multiplied by the number of 2,000 square foot units attributable to that generator.

In order to assure an equitable charge structure, the County periodically conducts local studies of waste generation from up to 39 different building use types and adjusts its rate categories accordingly.

Non-residential System Benefit Charges are collected by the County in the manner in which real property taxes are collected. If a non-residential System Benefit Charge or any portion of it is not paid when due, the property for which the charge has been made may be sold at tax sale in the same manner as real property is sold for nonpayment of real property taxes. Table 6 also shows the average non-residential System Benefit Charge (discussed below) per 2,000 square feet for Fiscal Years 1998 through 2003. The average non-residential System Benefit Charge is calculated as the total non-residential System Benefit Charges divided by the total gross floor area units charged as a System Benefit Charge.

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Table 6

**Annual Per-Household Rates of Residential
System Benefit Charges**

	1998	1999	2000	2001	2002	2003
Single Family ¹ (\$ per Dwelling Unit)						
Solid Waste Disposal Fee	50.71	49.44	44.83	39.77	32.69	40.34
Base System Benefit Charge	93.66	98.04	86.23	75.86	61.31	65.21
Incremental System Benefit Charge	<u>61.83</u>	<u>57.71</u>	<u>76.90</u>	<u>76.25</u>	<u>76.47</u>	<u>64.92</u>
Total Single- Family	206.20	205.19	207.96	191.88	170.47	170.47
Multi-Family ² (\$ per Dwelling Unit)						
Base System Benefit Charge	\$57.04	\$49.47	\$50.55	\$38.59	\$39.58	\$25.19
Incremental System Benefit Charge	<u>1.88</u>	<u>2.11</u>	<u>7.05</u>	<u>5.26</u>	<u>4.16</u>	<u>16.10</u>
Total Multi- Family	\$58.92	\$51.58	\$57.60	\$43.85	\$43.74	\$41.29
Incorporated Municipality Base System Benefit Charge (\$ per Dwelling Unit)	\$93.66	\$98.04	\$86.23	\$75.86	\$61.31	\$65.21
Non-Residential Charges (average \$ per 2000 square feet)	\$250.68	\$287.63	\$316.86	\$284.28	\$283.39	\$275.95

1. Residences in multi-family buildings with six or fewer units

2. Buildings with seven or more units

Source: Montgomery County, Maryland

Set forth below in Table 7 are the County's projected System Benefit Charges for single-family and multi-family dwelling units for Fiscal Years 2004 through 2009. Table 7 also sets forth the average non-residential System Benefit Charge per 2,000 square feet for Fiscal Years 2004 through 2009.

Table 7

Projected System Benefit Charges					
	2004	2005	2006	2007	2008
Single-Family Charges (\$ per Dwelling Unit)	181.71	196.48	207.73	215.23	221.21
Multi-Family Charges (\$ per Dwelling Unit)	40.19	39.12	39.24	39.66	39.64
Non-Residential Charges (average \$ per 2000 square feet)	244.17	274.27	252.97	257.96	262.52

Source: Montgomery County, Maryland

Tipping Fees

The County generally charges the Tipping Fee for Refuse delivered to the Transfer Station for disposal. Tipping Fees are charged based on actual weight of Refuse deliveries to the Transfer Station. Since Fiscal Year 1997, the County has maintained the Tipping Fee at \$44 per ton based on its review of market rates. See Table 5 above "Historical Refuse Collection." The County does not charge a Tipping Fee for loads weighing less than 500 pounds.

The County also receives per-ton tipping fees for accepting containers of commingled recyclables received from municipalities and for Yard Waste received from other than its contract collectors. Currently, the tipping fee for Yard Waste is \$29 per ton, the tipping fee for residential mixed paper is zero and the tipping fee for accepting recyclable commingled containers is \$15 per ton for municipalities and zero for all other sources.

The County does not charge Tipping Fees for Refuse disposed by single-family residences that are charged solid waste disposal fees, as discussed above. The County has an inspection program to verify that haulers serving these residences do not commingle waste subject to Tipping Fees with waste for which a System Benefit Charge has been paid. The program is enforceable with an escalating series of sanctions (including monetary penalties and loss of license) enforced through contract provisions and collection licensure requirements. The County believes that little or no multi-family, non-residential or unincorporated municipality waste is being accepted without paying Tipping Fees, other than loads weighing less than 500 pounds.

Other Revenue Sources and Credits

The County Disposal System receives revenue from the sale of methane extracted from closed landfills and recyclable material sold from its Materials Recovery Facility. In addition, the County's obligations to make payments to contractors under various operating agreements are reduced by a portion of the contractors' revenue from the sale of electricity and ferrous metals from the Resource Recovery Facility and compost produced at the Composting Facility.

Management Discussion of Financial Operations

The Solid Waste Disposal Fund is managed as an enterprise fund of the County. The County's fiscal year is July 1 through June 30. The Solid Waste Disposal Fund's financial management is governed by the terms of the various laws and agreements the County has adopted and executed, including Chapter 48, the Master Authorization and the Waste Disposal Agreement. In addition, as an enterprise fund of the County, the

Solid Waste Disposal Fund's annual budgeting and rate-making process is included in the County's annual budget process.

Set forth in Table 8 below is selected revenue and expense information for the Solid Waste Disposal Fund for the last five Fiscal Years, and set forth in Table 9 below are projections for the same revenue and expense information for Fiscal Years 2003 through 2008.

Table 8

**Solid Waste Disposal Fund
Historical Revenues and Expenses – Budgetary Basis**

	1998	1999	2000	2001	2002
Revenues					
Tipping Fees	\$10,552,878	\$12,199,576	\$13,431,222	\$15,039,834	\$17,168,088
System Benefit Charges	63,061,770	64,138,448	68,181,281	64,690,899	61,744,879
Miscellaneous	2,283,014	2,808,788	2,270,134	2,940,838	2,373,088
Investment Income	5,397,250	5,207,687	4,800,322	6,087,073	2,693,124
Subtotal Revenues	81,294,912	84,354,500	88,682,959	88,758,644	83,979,180
Interfund Transfers					
Charge to General Fund for County Agency Waste	1,164,829	1,261,984	1,400,949	1,157,550	1,377,550
Distribution of Excess Series 1993 Bond Proceeds	1,076,157	3,198,869	901,482	-	-
Indirect Costs Paid to General Fund	(818,710)	(711,560)	(750,920)	(1,092,000)	(1,431,490)
Subtotal Interfund Transfers	1,422,276	3,749,293	1,551,511	65,550	(53,940)
Expenditures					
Personnel Costs	(3,946,022)	(3,722,677)	(4,066,082)	(4,439,603)	(4,717,761)
Operating Expenses	(76,588,828)	(69,193,779)	(75,743,975)	(72,843,914)	(74,232,591)
Capital Outlay	(379,997)	(1,225,282)	(1,608,509)	(3,231,934)	(2,065,924)
Subtotal Expenditures	(80,914,847)	(74,141,738)	(81,418,566)	(80,515,451)	(81,016,276)
Other Fixed Assets Acquisition	(440,837)	(914,564)	(1,987,518)	(940,490)	(373,644)
Landfill Costs¹	642,298	82,000	(298,000)	904,000	(189,541)
Net Change	\$2,003,802	\$13,129,491	\$6,530,386	\$8,272,254	\$2,345,779

1. Represents the payout of closure costs, less current year accrued closure costs.

Source: Montgomery County, Maryland

Table 9

Solid Waste Disposal Fund
Proposed and Projected Revenues and Expenses – Budgetary Basis

	2003 ¹	2004	2005	2006	2007	2008
Revenues						
Tipping Fees	\$18,631,329	\$18,288,792	\$19,304,569	\$20,320,979	\$21,669,386	\$22,797,517
System Benefit Charges	58,239,883	59,950,046	64,015,029	67,406,797	70,119,929	72,232,588
Miscellaneous	2,215,164	2,472,807	2,497,165	2,428,726	2,417,375	2,439,964
Investment Income	1,849,000	2,549,000	3,869,000	4,449,000	5,059,000	5,389,000
Subtotal Revenues	80,935,376	83,260,644	89,685,762	94,605,502	99,265,690	102,859,069
Interfund Transfers						
Charge to General Fund for County Agency Waste	1,155,580	1,316,554	1,316,554	1,316,554	1,316,554	1,316,554
Transfers In From Leaf Vacuuming Fund (new in FY 2004)	-	602,529	818,236	723,930	675,747	568,192
Indirect Costs Paid to General Fund	(1,381,407)	(922,726)	(957,882)	(998,409)	(1,047,201)	(1,087,539)
Subtotal Interfund Transfers	(225,827)	996,356	1,176,907	1,042,075	945,099	797,206
Expenditures						
Personnel Costs	(5,384,110)	(5,607,514)	(5,845,304)	(6,123,222)	(6,463,273)	(6,739,606)
Operating Expenses	(77,123,167)	(81,655,255)	(88,373,769)	(91,871,566)	(94,422,627)	(97,299,349)
Capital Outlay	(851,761)	(2,498,875)	(2,276,865)	(1,740,549)	(1,518,697)	(240,432)
Subtotal Expenditures	(83,359,035)	(89,761,644)	(96,495,938)	(99,735,337)	(102,404,597)	(104,279,387)
Other Fixed Assets Acquisition	(500,000)	-	(3,345,000)	(435,000)	(1,942,000)	-
Landfill Costs²	1,001,831	1,086,100	1,108,706	1,133,426	1,158,799	1,183,900
Net Change	\$(2,147,654)	\$(4,418,543)	\$(7,869,562)	\$(3,389,335)	\$(2,977,009)	\$ 560,788

1. Proposed budget based on Tipping Fees and System Benefit Charges in effect for 2003.

2. Represents the payout of closure costs, less current year accrued closure costs.

Source: Montgomery County, Maryland

Set forth in Table 10 is information on the Solid Waste Disposal Fund's cash position for the last five Fiscal Years, and set forth in Table 11 below are projections for the same cash position information for Fiscal Years 2003 through 2008. As shown in Table 10, the County Disposal System has added significant reserves during the past five Fiscal Years. Reserves as of June 30, 2002 include \$44,170,038 of restricted cash and investments and \$34,051,884 of unrestricted cash and investments. The County has created certain management reserves for various future needs of the County Disposal System and, in addition to the Debt Service Reserve Fund for the County System Bonds, has allocated the restricted cash to these purposes. Unrestricted cash and

investments includes the full amount necessary to pay for projected future post-closure care related to costs at the County's closed landfills, in addition to other undesignated amounts.

Table 10

**Solid Waste Disposal Fund
Ending Cash and Investments**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Unrestricted equity in pooled cash and investments	\$45,152,806	\$45,392,900	\$51,445,319	\$40,533,275	\$41,760,959
Restricted equity in pooled cash and investments	22,523,193	24,154,686	26,285,136	38,132,716	38,669,556
Restricted investments	<u>4,325,060</u>	<u>4,325,060</u>	<u>4,325,060</u>	<u>4,325,060</u>	<u>4,325,060</u>
Total ending cash and investments	<u>\$72,001,059</u>	<u>\$73,872,646</u>	<u>\$82,055,515</u>	<u>\$82,991,051</u>	<u>\$84,755,575</u>

Source: Montgomery County, Maryland

GOVERNMENTAL REGULATION

Environmental Regulation

Resource recovery facilities, including the Resource Recovery Facility, are regulated pursuant to federal, state and local environmental laws. Federal laws such as the Clean Air Act and Clean Water Act and their state counterparts govern discharges of pollutants from waste-to-energy facilities to air and water, and other federal, state and local laws comprehensively govern the generation, transportation, storage, treatment and disposal of solid waste. In most cases, Maryland has been authorized in relevant part to implement these federal laws and, thus, Maryland law largely operates in lieu of the federal law in these areas. These environmental regulatory laws and the regulations and permits issued thereunder also establish operational standards, including specific limitations upon emissions of certain air and water pollutants. Failure to meet these standards may subject the Authority and the Company to regulatory civil and criminal enforcement actions, and unless excused by particular circumstances, liabilities, fines or damages. Continuous or repeated unexcused failure to comply with the environmental regulatory standards of operation may result in action by the regulatory agencies and default by the Company under the Service Agreement. Various environmental laws also may make the County, the Authority and the Company potentially liable for environmental contamination associated with the operation of the Authority Facilities or other components of the County Disposal System.

Construction of the Resource Recovery Facility was initially authorized by Prevention of Significant Deterioration air quality approval, and the Resource Recovery Facility's operation is presently governed by an air quality operating permit ("Facility Air Permit") in the form of a "Title V Permit" issued by the MDE. According to the Independent Engineer, the Resource Recovery Facility currently is operating in material compliance with the Facility Air Permit. The operation of the County Disposal System also requires that permits be issued with respect to (i) water discharge (by the Industrial Point Source Division of the MDE), (ii) water appropriation (by the State Department of Natural Resources), (iii) non-tidal wetlands (by the United States Army Corps of Engineers and including a waste quality certification by the Standards and Certifications Division of the MDE), (iv) waste-handling activities (by the MDE), and (v) miscellaneous approvals related to stormwater management, hazardous materials management, and the like by MDE or local authorities. All permits necessary for operation of the Resource Recovery Facility and other components of the County Disposal System have been issued and are final and in full force and effect.

The ash residue produced at the Resource Recovery Facility is tested to determine whether its characteristics require it to be treated as hazardous waste under Applicable Law. In testing to date, ash residue from the Resource Recovery Facility has produced results which qualify the ash for handling as nonhazardous waste. See "Summary of Conclusions of Independent Engineer."

This summary of legislative and regulatory actions which might affect the County Disposal System and the obligations of the parties to the Authority Project Agreements does not purport to be a complete, comprehensive or definitive summary of all such actions. Waste-to-energy facilities and related activities are subject to continuing review by legislative and administrative bodies having proper jurisdiction, and similar or different proposals could be made or actions taken by such bodies which could affect the County Disposal System and the obligations of such parties. The enactment or promulgation of new legislation or regulations governing air emissions, ash residue, water discharges, or County Disposal System operations generally could affect the conditions, the effectiveness or the renewal of permits or approvals or other regulatory requirements applicable to the County Disposal System.

Utility Regulation

On November 1, 1990, the Federal Energy Regulatory Commission ("FERC") issued an order granting the Authority's application for certification of the Resource Recovery Facility as a "qualifying small power production facility" ("QF") under the Public Utility Regulatory Policies Act of 1978 and the regulations thereunder ("PURPA"). Accordingly, the Company and the Authority are exempt from regulation under the Public Utility Holding Company Act of 1935 ("PUHCA") and from certain state laws and regulations governing electric utility rates and financial and organizational regulation. If, in the future, the Resource Recovery Facility no longer qualifies as a QF but continues to sell electricity exclusively at wholesale, protection of the Company and the Authority from PUHCA regulation can be preserved by obtaining an "Exempt Wholesale Generator" determination from FERC. Since the Authority is a public authority, it is exempt from most provisions of the Federal Power Act, including the requirement that rates for its wholesale electric sales from the Resource Recovery Facility be filed with, and accepted by, the FERC. The Authority's and the County's rates for the acceptance of solid waste for processing at the Facility are not subject to regulation under existing state or federal law.

SUMMARY OF CONCLUSIONS OF INDEPENDENT ENGINEER

R. W. Beck, Inc. (the "Independent Engineer") prepared a report that addressed the technical, environmental and financial aspects of the Authority Project in connection with the issuance of the 1993 Authority Bonds and, since that time, has prepared the reports on the County Disposal System that are required under the Master Authorization. In connection with the issuance of the Series 2003 Bonds, the Independent Engineer conducted a limited review of certain aspects of the Authority Project and issued a report on the results of that review (the "Independent Engineer's Report"). Set forth below are the principal conclusions included in the Independent Engineer's Report. For an understanding of the scope of the Independent Engineer's review, as well as the estimates, assumptions and calculations upon which its conclusions are based, the Independent Engineer's Report should be read in its entirety. The Independent Engineer's Report is included as Appendix B of this Official Statement.

- The Company has operated and maintained the Resource Recovery Facility in accordance with generally accepted industry practices.
- The Transportation System has demonstrated the ability to transport Processible waste between the Transfer Station and the Resource Recovery Facility and meet the guarantee set forth in the Service Agreement.
- The mass-burn Martin technology used in the Resource Recovery Facility is a sound and proven method of solid waste disposal and energy recovery. In addition, the Resource Recovery Facility has demonstrated the ability to meet the performance guarantees set forth in the Service Agreement.

- The Company has processed all of the Processible Waste delivered to the Transfer Station by the County and has demonstrated the ability to operate the Transfer Station at levels which have met or exceeded the guarantees set forth in the Service Agreement.
- The Authority constructed the Authority Project to account for future growth in the County's waste generation. Prior to Fiscal Year 2002, the quantities of Processible Waste which were delivered to the Transfer Station were not sufficient for the electrical guarantee to be effective. Due to an administrative oversight in 2002 regarding the failure to provide notice for excluded days in the calculation of this guarantee, the Company failed to meet the net electrical generation guarantee by less than one percent, and the Authority deducted approximately \$184,000 from the Fiscal Year 2002 Service Fee for this occurrence. However, specific historical data and the data for the first six months of the current Fiscal Year (Fiscal Year 2003) demonstrate the ability of the Company to meet the electrical production guarantee. The Independent Engineer believes that the administrative oversight experienced in 2002 has been corrected by the Company.
- Past and most recent stack test results and residue ash tests indicate that the Company is meeting the environmental guarantees set forth in the Service Agreement. In addition, the County's routine testing of the residue ash from the Resource Recovery Facility on a periodic basis has demonstrated that the ash has not exhibited characteristics that would cause the ash to be classified as hazardous waste.
- The Company has maintained and is maintaining the key permits and approvals, including the renewal of such permits and approvals, required for the continued operation of the Authority Project, and the Authority Project is being operated in material compliance with the requirements of its permits, including the Maximum Achievable Control Technology emission standards promulgated under the Clean Air Act.
- The Company currently has employees with the technical capabilities necessary for the proper operation of the Authority Project in accordance with the Authority Project's operating permits and the technical operating provisions of the Service Agreement.
- Covanta Energy Corporation currently has employees at its corporate headquarters who have the technical backgrounds and capabilities necessary to allow it to continue to provide adequate home office support to the Authority Project.
- In addition to the Company, other replacement operators of waste-to-energy facilities have demonstrated the technical capabilities necessary for the operation of waste-to-energy facilities, and it is reasonable to assume that such operators should be capable of operating the Resource Recovery Facility in accordance with the technical requirements of the Service Agreement and the operating requirements of the Authority Project permits.
- We are not aware of any technical reason to believe the Company, or another replacement operator, cannot continue to operate the Authority Project at similar technical performance levels set forth in the Service Agreement for the Service Fee specified in the Service Agreement for the term of the Bonds.
- Assuming the operator of the Authority Project properly operates the Authority Project pursuant to the terms of the Service Agreement, performs routine maintenance in accordance with industry standards and the needs of the Authority Project and undertakes all required renewals and replacements on a timely basis, it is reasonable to expect that the useful life of the Resource Recovery Facility should extend beyond the term of the Series 2003 Bonds.

BOND INSURANCE POLICY

Ambac Assurance Corporation

Ambac Assurance Corporation Corporation (the “Bond Insurer”) is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$6,115,000,000 (unaudited) and statutory capital of approximately \$3,703,000,000 (unaudited) as of December 31, 2002. Statutory capital consists of the Bond Insurer’s policyholders’ surplus and statutory contingency reserve. Standard & Poor’s Credit Markets Services, a Division of The McGraw-Hill Companies, Moody’s and Fitch have each assigned a triple-A financial strength rating to the Bond Insurer.

The Bond Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Bond Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Bond Insurer under policy provisions substantially identical to those contained in its Bond Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Series 2003 Bonds.

The Bond Insurer makes no representation regarding the Series 2003 Bonds or the advisability of investing in the Series 2003 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by the Bond Insurer and presented under the heading “Bond Insurance Policy.”

Payment Pursuant to Bond Insurance Policy

The Bond Insurer has made a commitment to issue a financial guaranty insurance policy (the “Bond Insurance Policy”) relating to the Series 2003 Bonds effective as of the date of issuance of the Series 2003 Bonds. Under the terms of the Bond Insurance Policy, the Bond Insurer will pay to The Bank of New York, in New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Series 2003 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Bond Insurance Policy). The Bond Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Bond Insurer shall have received notice of Nonpayment from the Paying Agent. The insurance will extend for the term of the Series 2003 Bonds and, once issued, cannot be canceled by the Bond Insurer.

The Bond Insurance Policy will insure payment only on stated maturity dates, in the case of principal, and on stated dates for payment, in the case of interest. In the event of any acceleration of the principal of the Series 2003 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder (as defined in the Bond Insurance Policy) by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Bond Insurance Policy does not insure any risk other than Nonpayment, as defined in the Bond Insurance Policy. Specifically, the Bond Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption or as a result of any other

advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Bond Insurance Policy, payment of principal requires surrender of Series 2003 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2003 Bonds to be registered in the name of the Bond Insurer to the extent of the payment under the Bond Insurance Policy. Payment of interest pursuant to the Bond Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to the Bond Insurer.

Upon payment of the insurance benefits, the Bond Insurer will become the owner of the Obligation, appurtenant coupon, if any, or right to payment of principal or interest on such Obligation (as defined in the Bond Insurance Policy) and will be fully subrogated to the surrendering Holder's rights to payment.

Available Information

The parent company of the Bond Insurer, Ambac Financial Group, Inc. ("AFG"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the SEC. These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including AFG. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of the Bond Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Bond Insurer. The address of the Bond Insurer's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by AFG with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. AFG's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;
2. AFG's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;
3. AFG's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002;
4. AFG's Current Report on Form 8-K dated July 17, 2002 and filed on July 19, 2002;
5. AFG's Current Report on Form 8-K dated August 14, 2002 and filed on August 14, 2002;
6. AFG's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2002 and filed on August 14, 2002;
7. AFG's Current Report on Form 8-K dated October 16, 2002 and filed on October 17, 2002;

8. AFG's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2002 and filed on November 14, 2002;
9. AFG's Current Report on Form 8-K dated November 18, 2002 and filed on November 20, 2002;
10. AFG's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
11. AFG's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003; and
12. AFG's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003.

All documents subsequently filed by AFG pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

See also "APPENDIX C – DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE MASTER AUTHORIZATION - Concerning the Bond Insurer."

TAX MATTERS

In the opinion of Bond Counsel, under existing law, the interest on the Series 2003 Bonds (a) is excludable from gross income for Federal income tax purposes, and (b) is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations, and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

Under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), there are certain requirements that must be met subsequent to the issuance of the Series 2003 Bonds in order for the interest on the Series 2003 Bonds to remain excludable from gross income for Federal income tax purposes, including restrictions that must be complied with throughout the term of the issue of bonds which the Series 2003 Bonds are a part (such issue consisting of the Series 2003 Bonds together with the 2003 Authority Bonds; collectively, the "Bonds"). Such restrictions include, among other things, limitations on the yield of investments acquired with gross proceeds of the Bonds and the periodic payment to the United States of specified portions of arbitrage profit derived from such investments.

In order to comply with the requirements of the Code, the County, the Authority and, in the case of the 2003 Authority Bonds, the Company have made covenants and agreements that are designed to satisfy the requirements of Section 103 and Sections 141 through 150, inclusive, of the Code, and the income tax regulations issued thereunder. In the opinion of Bond Counsel, these covenants and agreements are sufficient to meet the requirements (to the extent applicable to the Bonds) of Section 103 and Sections 141 through 150 of the Code. However, Bond Counsel assumes no responsibility for, and will not monitor, compliance with these covenants and agreements. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for Federal income tax purposes.

Under the Code, in calculating corporate alternative minimum tax, a corporation is required to increase its alternative minimum taxable income by 75 percent of the amount by which its "adjusted current earnings" exceed its alternative minimum taxable income (computed without regard to this current earnings adjustment and the alternative tax net operating loss deduction). For this purpose, "adjusted current earnings" would include, among other items, interest on the Series 2003 Bonds. In addition, the Code imposes a branch-level tax on certain

earnings and profits of foreign corporations operating branches in the United States, and such earnings and profits would include interest on the Series 2003 Bonds.

Other Federal income tax consequences may arise from ownership of the Series 2003 Bonds, and in connection therewith, attention is directed to the following provisions of the Code: (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2003 Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Series 2003 Bonds, (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2003 Bonds, (c) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on obligations such as the Series 2003 Bonds, and (d) for S corporations having subchapter C earnings and profits, the receipt of certain amounts of passive investment income, which includes interest on the Series 2003 Bonds, may result in the imposition of income tax on such passive investment income and, in some cases, loss of S corporation status. The foregoing is only a general summary of certain provisions of the Code and does not purport to be complete; prospective purchasers and holders of the Series 2003 Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

The initial public offering price of some of the Series 2003 Bonds may be less than the amount payable on those Series 2003 Bonds at maturity. The excess, if any, of the amount payable at maturity of a Series 2003 Bond over the initial public offering price at which a substantial amount of the same maturity of the Series 2003 Bonds was sold constitutes original issue discount for Federal income tax purposes ("OID"). The full amount of OID will accrue over the term of a Series 2003 Bond in accordance with a constant yield method (using semi-annual compounding) which allocates smaller portions of OID to earlier semi-annual compounding periods and larger portions of OID to later semi-annual compounding periods. In the case of an original or a subsequent holder of a Series 2003 Bond, the amount of OID which is treated as having accrued with respect to such Series 2003 Bond during the period that the holder has held it (a) is not included in the gross income of the holder for Federal income tax purposes, and (b) is included in the cost basis of the holder in determining, for Federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). Holders of Series 2003 Bonds should consult their tax advisors with respect to the determination, for Federal income tax purposes, of OID accrued upon the sale, redemption or payment at maturity of such Series 2003 Bonds.

A Series 2003 Bond will be considered to have been issued at a premium if, and to the extent that, the holder's tax basis in the Series 2003 Bond exceeds the amount payable at maturity (or, in the case of a Series 2003 Bond callable prior to maturity, the amount payable on the earlier call date). The holder will be required to reduce his tax basis in the Series 2003 Bond for purposes of determining gain or loss upon disposition of the Series 2003 Bond by the amount of amortizable bond premium that accrues (determined on a constant yield method) during the period of ownership. No deduction (or other tax benefit) is allowable in respect of any amount of amortizable bond premium on the Series 2003 Bonds.

Prospective purchasers of the Series 2003 Bonds should consider possible state and local, excise, or franchise tax consequences arising from OID on the Series 2003 Bonds. In addition, prospective corporate purchasers of the Series 2003 Bonds should consider possible Federal income tax consequences arising from OID on the Series 2003 Bonds under the alternative minimum tax and the branch profits tax described above.

Legislative proposals presently before Congress or that are introduced after issuance and delivery of the Series 2003 Bonds, if enacted, could alter or amend one or more of the Federal tax matters referred to above and/or adversely affect the market value of the Series 2003 Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that any such proposal would not apply to obligations issued prior to the enactment of such proposal. Accordingly, prospective purchasers of the Series 2003 Bonds should consult with their tax advisors as to the status and potential effect of such proposals.

In the opinion of Bond Counsel, under existing law of the State of Maryland, the interest on the Series 2003 Bonds and the profit realized from the sale or exchange of the Series 2003 Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland

does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Series 2003 Bonds or the interest thereon.

CERTAIN LEGAL MATTERS

The Series 2003 Bonds are offered subject to the approval of legality by Venable, Baetjer and Howard, LLP, Baltimore, Maryland, Bond Counsel. See Appendix D for the form of that opinion. Certain legal matters will be passed upon for the Underwriters by Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, and Baltimore, Maryland.

R.W. BECK, INC.

The references herein to the Independent Engineer's Report prepared by R. W. Beck, Inc. have been approved by said firm but do not purport to be complete in all respects, and the Independent Engineer's Report should be read in its entirety for complete information in respect to the subjects discussed therein. As stated in the Independent Engineer's Report, R. W. Beck, Inc. has made a number of assumptions in reaching its conclusions, all of which are set forth in the Independent Engineer's Report and used the sources of information described therein. While R. W. Beck, Inc. believes that such sources of information are reliable, it has not independently verified the accuracy of all such information and offers no assurance with respect thereto. The Independent Engineer's Report has been included in this Official Statement in reliance upon the conclusions therein of R. W. Beck, Inc. and upon such firm's experience in preparing independent engineer's reports for similar projects.

ENFORCEABILITY OF REMEDIES

The remedies available to the Owners of the Series 2003 Bonds upon an event of default under the Order are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for under the Order may not be readily available or may be limited. The enforceability of certain legal rights related to the Series 2003 Bonds is subject to limitations imposed by bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditors' rights and to general principles of equity.

ABSENCE OF MATERIAL LITIGATION

There is no pending or threatened litigation to which the County is a party which in any way questions or affects the validity of the Series 2003 Bonds, or any proceedings or transactions relating to their issuance, sale and delivery.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Fitch, Inc. ("Fitch") (collectively, the "Rating Agencies") are expected to assign the Series 2003 Bonds the ratings of "Aaa" and "AAA", respectively, with the understanding that upon delivery of the Series 2003 Bonds, the Bond Insurance Policy will be issued by the Bond Insurer. In addition, Moody's and Fitch have assigned the Series 2003 Bonds the underlying ratings of "Aa3" and "AA", respectively. Such ratings reflect only the views of the Rating Agencies. Explanations of the significance of each rating may be obtained from Moody's at 99 Church Street, New York, New York 10007 and from Fitch at One State Street Plaza, New York, New York 10004. There is no assurance that the ratings will continue for any period of time or that they will not be revised or withdrawn entirely by such Rating Agencies if in their judgment circumstances so warrant. Any revision or withdrawal of the ratings may have an adverse effect on the market price of the Series 2003 Bonds.

UNDERWRITING

The Series 2003 Bonds are being purchased by the Underwriters listed on the cover page of this Official Statement, for whom Lehman Brothers is acting as Representative. The Underwriters have agreed to purchase the Series 2003 Bonds at an aggregate purchase price of \$32,366,883.00 (which represents the par amount of the Series 2003 Bonds, plus original issue premium of \$1,565,240.75, less an underwriting discount of \$273,357.75). It is a condition to the Underwriters' obligation to purchase the Series 2003 Bonds that, at the same time, all conditions to their obligation under a separate agreement to purchase the Series 2003 Bonds are met (or waived by the Underwriters) and that the County issues and sells the Series 2003 Bonds to the Underwriters. The Bond Purchase Agreement provides that the Underwriters will purchase all the Series 2003 Bonds, if any are purchased, and requires that the County indemnify the Underwriters against losses, claims, damages and liabilities to third parties arising out of any materially incorrect or incomplete statements of information contained in this Official Statement. The Underwriters may change the initial public offering prices set forth on the front cover of this Official Statement from time to time, and may offer and sell the Series 2003 Bonds to certain dealers (including dealers depositing Series 2003 Bonds into investment trusts) and others at prices lower than the offering prices set forth on the cover page.

FINANCIAL ADVISOR

Public Financial Management, Inc., has rendered financial advice to the County in the preparation of this Official Statement. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken, an independent verification of, nor assumed responsibility for, the accuracy of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CONTINUING DISCLOSURE

This offering is subject to the continuing disclosure requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, as amended. The County has undertaken to provide certain annual financial information and material events notices as required by the Rule (the "Undertaking"). A failure by the County to comply with the Undertaking will not constitute an event of default under the Master Authorization or the Order, and the Bondholders are limited to the remedies described in the Undertaking. A failure to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2003 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2003 Bonds and their market price.

Undertaking

The County has executed a Continuing Disclosure Agreement pursuant to which it undertakes, until the earlier to occur of the legal defeasance or payment in full of the Series 2003 Bonds, to disseminate to each nationally recognized municipal securities information repository ("NRMSIR") then recognized by the Commission for purposes of the Rule and to any state-based information depository ("SID") existing at the time in the State then recognized by the SEC for purposes of the Rule, if any, (i) Annual Audited Financial Information with respect to the Solid Waste Disposal Fund on a basis permitting comparison with the materials included in Appendix A, Financial Information Concerning the County Disposal System, (ii) annually, current information updating the information contained in this Official Statement under the headings "County Disposal System – Legislative Authority," "– Solid Waste Management Plan," "– Master Authorization," and "– Disposal System Revenues" (as it relates to setting of System Benefit Charges and Tipping Fees) and Tables 3 and 6, and notice of material amendments to the Order, the Master Authorization, Chapter 48 or the Waste Disposal Agreement, and (iii) notice in a timely manner, of the following events: (A) principal and interest payment delinquencies; (B) non-payment related defaults; (C) unscheduled draws on debt service reserves reflecting financial difficulties; (D) unscheduled draws on credit enhancements reflecting financial difficulties; (E) substitution of credit or liquidity providers, or their failure to perform; (F) adverse tax opinions or events

affecting the tax-exempt status of interest on the Series 2003 Bonds; (G) modifications to rights of Bondholders; (H) bond calls; (I) defeasances; (J) release, substitution, or sale of property securing repayment of the Series 2003 Bonds; and (K) rating changes.

If the County fails to disseminate the information specified above as required, it must give notice of such failure to each NRMSIR and SID, if any.

Termination

The obligations to provide the Undertaking by the County will terminate upon the maturity and payment, or earlier defeasance, of the Series 2003 Bonds.

Dissemination

The County may appoint or engage a Dissemination Agent to assist it in carrying out its Undertaking.

Amendment

The Undertaking of the County may only be amended if (i) the amendment is made in connection with a change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature or status of the obligated person or type of business conducted; (ii) the Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Series 2003 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (iii) the amendment does not materially impair the interest of the Bondholders, as determined either by parties unaffiliated with either County or by approving vote of the Bondholders.

MISCELLANEOUS

All references to the Series 2003 Bonds and other documents mentioned herein, including any summaries thereof, are qualified in their entirety by reference to such documents. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Series 2003 Bonds.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or owners of any of the Series 2003 Bonds.

The execution and delivery of this Official Statement has been duly authorized by the County.

MONTGOMERY COUNTY, MARYLAND

By: /s/ Bruce Romer
Chief Administrative Officer

APPENDIX A

FINANCIAL INFORMATION CONCERNING THE COUNTY DISPOSAL SYSTEM

Set forth in Tables 1 and 2 below are the audited financial results for the Solid Waste Disposal Fund for the last five Fiscal Years. The audited financial results include the provision for leaf vacuuming collection charges and the related expenses, which were included as part of the Solid Waste Disposal Fund for this period. Beginning in Fiscal Year 2004, the County will account for leaf vacuuming revenues and expenses in a separate fund.

Table 1
Solid Waste Disposal Fund
Statement Of Revenues, Expenses, And Changes In Fund Equity
For The Year Ended June 30, 2002
With Comparative Totals For June 30, 2001, 2000, 1999 And 1998

	June 30				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Operating Revenues:					
Charges for services	\$79,043,055	\$82,768,469	\$87,437,818	\$86,578,578	\$77,924,839
Licenses & Permits	-	-	-	-	7,660
Total Operating Revenues	<u>79,043,055</u>	<u>82,768,469</u>	<u>87,437,818</u>	<u>86,578,578</u>	<u>77,932,499</u>
Operating Expenses:					
Personnel costs	5,917,665	5,875,457	6,306,163	6,554,481	7,474,625
Supplies and materials	301,260	293,569	422,935	292,243	175,365
Contractual services	65,358,826	66,898,365	65,153,519	67,834,438	68,753,183
Communications	61,746	85,323	101,573	101,908	262,481
Transportation	1,021,373 ¹	1,102,810	720,702	239,970	171,969
Public utility service	55,475	69,980	80,572	101,458	87,895
Rentals	4,340	21,243	17,181	15,289	16,845
Maintenance	58,381	19,320	10,277	56,115	353,942
Depreciation & amortization	2,580,179	2,335,095	2,372,395	2,630,301	2,856,032
Landfill closure costs	1,376,702	-	1,232,000	-	1,029,541
Bad debt expense	17,833	26,129	-	2,231	-
Other	258,060	526,518	1,315,076	1,399,175	422,384
Total Operating Expenses	<u>77,011,840</u>	<u>77,253,809</u>	<u>77,732,393</u>	<u>79,227,609</u>	<u>81,604,262</u>
Operating Income (Loss)	<u>2,031,215</u>	<u>5,514,660</u>	<u>9,705,425</u>	<u>7,350,969</u>	<u>(3,671,763)</u>
Nonoperating Revenues (Expenses):					
Intergovernmental	1,076,157	3,198,869	901,482	-	-
Gain (loss) on sale of fixed assets	63,179	8,870	34,975	4,294	46,080
Investment income	5,397,250	5,207,687	4,800,322	6,087,073	2,693,124
Interest expense	(2,672,179)	(2,540,616)	(2,411,818)	(2,299,849)	(2,150,065)
Other revenue	42,885	4,990,000	24,256	-	305,334
Total Nonoperating Revenues (Expenses)	<u>3,907,292</u>	<u>10,864,810</u>	<u>3,349,217</u>	<u>3,791,518</u>	<u>894,473</u>
Income (Loss) before Operating Transfers	<u>5,938,507</u>	<u>16,379,470</u>	<u>13,054,642</u>	<u>11,142,487</u>	<u>(2,777,290)</u>
	(continued)				

	June 30				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Operating Transfers:					
Operating transfers in	1,164,829	1,261,984	1,400,949	1,157,550	
Operating transfers (out)	<u>(888,710)</u>	<u>(868,364)</u>	<u>(1,076,353)</u>	<u>(1,101,803)</u>	<u>(1,436,490)</u>
Total Operating Transfers In (Out)	<u>276,119</u>	<u>393,620</u>	<u>324,596</u>	<u>55,747</u>	<u>(1,436,490)</u>
Net Income (Loss) / Change in Retained Earnings	<u>6,214,626</u>	<u>16,773,090</u>	<u>13,379,238</u>	<u>11,198,234</u>	<u>(4,213,780)</u>
Retained Earnings (Deficit) – Beginning of Year	<u>15,665,641</u>	<u>21,880,267</u>	<u>38,653,357</u>	<u>52,032,595</u>	<u>63,230,829</u>
Retained Earnings (Deficit) - End of Year	<u>\$21,880,267</u>	<u>\$38,653,357</u>	<u>\$52,032,595</u>	<u>\$63,230,829</u>	<u>\$59,017,049</u>

Table 2
Solid Waste Disposal Fund
Balance Sheet
FOR THE YEAR ENDED JUNE 30, 2002
With Comparative Totals For June 30, 2001, 2000, 1999 and 1998

	June 30				
ASSETS	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Current Assets:					
Equity in pooled cash & investments	\$45,152,606	\$45,392,900	\$51,424,319	\$40,533,275	\$41,760,959
Cash	1,200	1,200	1,200	1,200	1,000
Accounts receivable	4,026,583	6,838,519	7,737,540	8,959,049	2,947,257
Due from component units	73,285	69,637	73,977	67,391	62,679
Due from other governments	523,518	2,714,810	804,183	2,336,184	109,905
Due from other funds	-	-	-	-	-
Prepays	<u>987</u>	<u>988</u>	<u>5,576</u>	<u>4,302</u>	<u>5,302</u>
Total Current Assets	<u>49,778,179</u>	<u>55,018,054</u>	<u>60,046,795</u>	<u>51,901,401</u>	<u>44,887,102</u>
Unamortized Bond Costs	<u>1,290,785</u>	<u>1,204,252</u>	<u>1,117,719</u>	<u>1,031,186</u>	<u>944,653</u>
Restricted Assets:					
Equity in pooled cash & investments	22,523,193	24,154,686	26,285,136	38,132,716	38,669,556
Investments	<u>4,325,060</u>	<u>4,325,060</u>	<u>4,325,060</u>	<u>4,325,060</u>	<u>4,325,060</u>
Total Restricted Assets	<u>26,848,253</u>	<u>28,479,746</u>	<u>30,610,196</u>	<u>42,457,776</u>	<u>42,994,616</u>
Fixed Assets at Cost:					
Land, improved and unimproved	17,834,755	17,834,755	17,834,755	17,834,755	17,834,755
Buildings	22,675,320	22,675,320	23,407,304	23,407,304	23,407,304
Furniture, fixtures, equipment and machinery	5,240,374	6,341,297	6,661,587	7,755,334	7,328,115
Other fixed assets	<u>68,066,169</u>	<u>68,932,079</u>	<u>69,870,967</u>	<u>71,450,981</u>	<u>72,481,204</u>
Subtotal	<u>113,816,618</u>	<u>115,783,451</u>	<u>117,774,613</u>	<u>120,448,374</u>	<u>121,051,378</u>
Less: Accumulated depreciation & amortization	<u>77,240,029</u>	<u>79,148,696</u>	<u>81,315,328</u>	<u>83,757,264</u>	<u>84,723,767</u>
Net Fixed Assets	<u>36,576,589</u>	<u>36,634,755</u>	<u>36,459,285</u>	<u>36,691,110</u>	<u>36,327,611</u>
TOTAL ASSETS	<u>114,493,806</u>	<u>121,336,807</u>	<u>128,233,995</u>	<u>132,081,473</u>	<u>125,153,982</u>

(continued)

Solid Waste Disposal Fund
Balance Sheet
FOR THE YEAR ENDED JUNE 30, 2002
With Comparative Totals For June 30, 2001, 2000, 1999 and 1998

<u>LIABILITIES</u>	<u>June 30</u>				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Current Liabilities:					
Accounts / vouchers payable	3,890,490	5,167,239	4,163,760	4,995,835	4,380,685
Interest payable	239,206	228,964	217,488	212,221	180,156
Retainage payable	446,994	426,301	595,185	482,146	56,334
Accrued liabilities	1,435,207	1,434,068	1,383,277	1,448,989	580,704
Current portion of long-term obligations payable:					
General obligation bonds payable	482,064	369,235	89,849	89,849	89,851
Revenue bonds payable	1,877,917	1,972,917	2,072,916	2,182,917	2,297,917
Equipment notes payable	-	3,981	-	-	-
Landfill closure costs	5,694,000	8,000,000	3,825,800	1,285,000	1,452,000
Due to other funds	57,073	54,074	30,838	30,100	33,419
Due to component units	-	2,450	2,150	56,740	-
Due to other governments	645,845	1,119,811	3,075,112	633,328	1,141,953
Total Current Liabilities	<u>14,768,796</u>	<u>18,779,040</u>	<u>15,456,375</u>	<u>11,417,125</u>	<u>10,213,019</u>
Long-Term Obligations:					
General obligation bonds payable	831,166	461,931	372,082	282,233	192,382
Revenue bonds payable	40,132,677	38,159,761	36,086,843	33,903,927	31,606,010
Equipment notes payable	-	16,818	-	-	-
Landfill closure costs	36,880,900	25,265,900	24,286,100	23,247,359	23,235,900
Compensated Absences	-	-	-	-	89,622
Notes Payable - Webb Liability	-	-	-	-	800,000
Total Long-Term Liabilities	<u>77,844,743</u>	<u>63,904,410</u>	<u>60,745,025</u>	<u>57,433,519</u>	<u>55,923,914</u>
TOTAL LIABILITIES	<u>92,613,539</u>	<u>82,683,450</u>	<u>76,201,400</u>	<u>68,850,644</u>	<u>66,136,933</u>
<u>EQUITIES</u>					
Retained earnings:¹					
Reserved for purchase/construction commitments	18,808,040	25,525,048	2,699,599	-	n.a.
Investment in capital, net of related debt	n.a.	n.a.	n.a.	n.a.	2,141,451
Restricted Assets	n.a.	n.a.	n.a.	n.a.	42,994,616
Non-restricted Assets	n.a.	n.a.	n.a.	n.a.	13,880,982
Unreserved (deficit)	3,072,227	13,128,309	49,332,996	63,230,829	n.a.
TOTAL EQUITIES	<u>21,880,267</u>	<u>38,653,357</u>	<u>52,032,595</u>	<u>63,230,829</u>	<u>59,017,049</u>
TOTAL LIABILITIES AND EQUITIES	<u>\$114,493,806</u>	<u>\$121,336,807</u>	<u>\$128,233,995</u>	<u>\$132,081,473</u>	<u>\$125,153,982</u>

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INDEPENDENT ENGINEER'S REPORT

**MONTGOMERY COUNTY RESOURCE
RECOVERY FACILITY AND TRANSFER STATION**



APPENDIX B

INDEPENDENT ENGINEER'S REPORT

MONTGOMERY COUNTY RESOURCE RECOVERY FACILITY AND TRANSFER STATION

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ANNEX B

INDEPENDENT ENGINEER'S REPORT

MONTGOMERY COUNTY RESOURCE RECOVERY FACILITY AND TRANSFER STATION

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March 14, 2003

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101 Monroe Street
Rockville, Maryland 20850

Northeast Maryland Waste
Disposal Authority
Suite 2105
25 South Charles Street
Baltimore, Maryland 21201-3330

Lehman Brothers
399 Park Avenue
New York, New York 10222

Ladies and Gentlemen:

**Subject: Independent Engineer's Report of the
Resource Recovery Facility and Transfer Station**

INTRODUCTION

Presented herein is the Independent Engineer's Report (the "Report") regarding our technical review of the resource recovery facility ("RRF"), the transfer station ("Transfer Station"), and a refuse transportation system (the "Transportation System", and collectively with the RRF and the Transfer Station, the "Project"). The Project comprises a key component of the solid waste management system (the "System") of Montgomery County, Maryland (the "County"). The Report includes consideration of: (1) the current status of the Project; (2) its compliance with operating permits; and (3) the estimated useful remaining life. The RRF is owned by the Northeast Maryland Waste Disposal Authority (the "Authority"). The RRF Site is owned by the County and the County has the right to purchase the RRF at the end of the term of the Authority 2003 Bonds (defined below) or under certain other conditions at a price of one dollar. The Project is operated by Covanta Montgomery, Inc. (the "Company") pursuant to a Service Agreement between the Authority and the Company dated November 16, 1990, as amended (the "Service Agreement").

OVERVIEW OF THE PROJECT

The Transfer Station was designed to accept up to 2,400 tons per day ("TPD") of solid waste, but has accepted up to 3,000 TPD during peak periods. It has been in operation since 1982 and was upgraded in 1993 as part of the development of the Project.

The Transportation System is used to transport: (1) Processible Waste (as such term is defined in the Official Statement for the Authority 2003 Bonds (defined below) (the "Official Statement")) from the Transfer Station to the RRF; (2) Non-Processible Waste (as such term is defined in the Official Statement) from the Transfer Station to

a landfill designated by the County (the "County Designated Landfill"); and (3) Residue (as such term is defined in the Official Statement) from the RRF to the County Designated Landfill. The Transportation System involves an 18-mile movement of forty-foot long intermodal containers (boxes) stacked two high on lightweight special purpose rail cars. The rail cars are pulled by CSX Transportation locomotives using tracks owned by CSX Transportation and operated by its employees. Currently Non-Processible Waste is transported by truck to an out-of-County landfill, and Residue is delivered to a contractor at the RRF. The Contractor's residue containers are loaded onto railcars, and, under its own arrangements with CSX, transports it by rail to the County Designated Landfill.

The RRF consists of three 600 TPD mass-burning, refuse fired boiler units designed to process 1,800 TPD of solid waste (at 5,500 Btu/lb) and produce high pressure, high temperature steam for electrical power generation. Electricity is generated by a steam turbine-generator rated at approximately 62,000 kWe gross generation and a net of 55,000 kWe per hour after taking into account the RRF's in-plant electrical requirements. The RRF includes air pollution control equipment which is capable of meeting the Maximum Achievable Control Technology ("MACT") emission standards promulgated by the United States Environmental Protection Agency ("USEPA") under the federal Clean Air Act ("CAA"). The RRF is located on a 35-acre parcel of land (the "RRF Site") near Dickerson, Maryland. The power produced by the RRF is sold to Mirant pursuant to a 20 year power sales agreement. Currently the price of electricity is set until December 31, 2003 and the County expects the price to be renegotiated prior to that time. Ash residue remaining after incineration of the solid waste at the RRF is disposed of in the County Designated Landfill (currently an out-of-County facility), as defined in the Official Statement.

The RRF is owned by the Authority. The County pays the Authority for solid waste management services pursuant to the Waste Disposal Agreement between the County and the Authority dated as of November 16, 1990, as amended (the "Waste Disposal Agreement"). The Authority financed the Project in 1993 through the issuance of \$325,985,000 of tax-exempt Solid Waste Revenue Bonds (Montgomery County Resource Recovery Project), Series 1993 A (the "Authority Series 1993 A Bonds"), and approximately \$34,660,000 of taxable Solid Waste Revenue Bonds (Montgomery County Resource Recovery Project), Series 1993 B (the "Authority Series 1993 B Bonds," and collectively with the Authority Series 1993 A Bonds, the "Authority 1993 Bonds"). The proceeds of the Authority 1993 Bonds were used to: (1) finance the cost of construction of the RRF; (2) finance the cost of the Transportation System, including the cost of improvements to the Transfer Station; (3) fund a debt service reserve fund for the Authority Series 1993 A Bonds; (4) provide capitalized interest on the Authority 1993 Bonds during construction of the Project; (5) pay the cost of certain issuance expenses; (6) to reimburse the County for previously incurred development expenses; and (7) certain other additional facilities as defined in the Trust Indenture. The Authority 1993 Bonds were issued pursuant to an Indenture of Trust (the "Trust Indenture") between the Authority and The Bank of New York (successor to the Signet Trust Company), serving as the Trustee. At the time of the issuance of the Authority 1993 Bonds, the County issued \$50,680,000 of Montgomery County Solid Waste Revenue Bonds, 1993 Series A (the "County 1993 Bonds"). The proceeds of the County 1993 Bonds were used: (1) to refund \$34,365,000 principal amount of Montgomery County, Maryland Solid Waste System Revenue Bond Anticipation Notes; (2) to pay costs of closing then-existing cells at the County's Oaks Sanitary Landfill; (3) to pay costs of developing new landfill space at the Oaks Sanitary Landfill and at the undeveloped Site 2 landfill which is located less than two miles from the RRF; (4) to pay costs of developing the County's recycling center; and (5) to pay costs of issuing the original bonds.

The Authority plans to refund a portion of the Authority 1993 Bonds through the issuance of an estimated \$184,450,000 of tax-exempt Northeast Maryland Waste Disposal Authority Solid Waste Refunding Revenue Bonds (Montgomery County Solid Waste Disposal System) Series 2003 (the "Authority 2003 Bonds"). The proceeds of the Authority 2003 Bonds will be used to: (1) refund a portion of the Authority 1993 Bonds; (2) establish a debt service reserve fund for the Authority 2003 Bonds; and (3) pay for certain costs associated with the issuance of the Authority 2003 Bonds. The County also plans to refund the County 1993 Bonds through the issuance of approximately \$31,075,000 of Tax Exempt Montgomery County Solid Waste Disposal System Refunding Revenue Bonds (2003 Series A) (the "County 2003 Bonds"). The proceeds will be used to refund the County 1993 Bonds and pay for certain costs associated with the issuance of the County 2003 Bonds.

Scope of Review

During the preparation of this Report, we have reviewed the Company's current method of operation of the Project and seven years of the Company's historical operating records related to the RRF. We have visited and made general field observations of the Project. The general field observations were visual, aboveground examinations of selected areas which we deemed adequate to comment on the condition of the existing facilities and were not in the detail which would be necessary to reveal conditions with respect to safety; the internal physical condition of any facilities; or the conformance with agreements, codes, permits, rules, or regulations of any party having jurisdiction with respect to the construction, operation, and maintenance of the facilities comprising the Project. We have met with representatives of the County, the Company, and the Authority. We have reviewed: (1) the Company's current and proposed maintenance program; (2) the Company's projected level of renewals and replacements; (3) the experience and capabilities of those Company personnel currently involved in the operation and maintenance of the Project; and (4) information provided by Covanta Energy Corporation ("Covanta") regarding the reported capabilities of home office personnel located in its Fairfield, New Jersey headquarters.

We contacted regulatory agencies to review the current status of permits of the Project and the Company's compliance with the permit requirements. We reviewed those sections of the Service Agreement dealing with operating performance guarantees and compared the historical operation of the RRF with the guarantees set forth in the Service Agreement. It should be noted that we have not reviewed any information related to the other components of the System, the availability of solid waste to the Project, the competitive tipping fee for solid waste generated in and around the County, or the price to be received for electricity generated by the RRF.

PROJECT PARTICIPANTS

Introduction

Presented below is a brief discussion of the major participants in the Project.

The County

The County has covenanted in the Master Authorization to provide solid waste disposal services for all waste generated in the County so long as bonds or other long-term obligations of the County disposal system are outstanding. The County is responsible for delivering or causing the delivery of Processible Waste generated within the County to the Project pursuant to the terms and conditions of the Waste Disposal Agreement. The County is also responsible for making arrangements to deliver Non-Processible Waste and Residue from the Transfer Station or the RRF to the County Designated Landfill. The County pays the Authority a Waste Disposal Fee for the services the Project provides to the County that is calculated in accordance with the terms of the Waste Disposal Agreement. The County has 74 full time employees involved in managing solid waste activities in the County.

The Authority

The Authority was established to assist the participating subdivisions in Maryland and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the requirements for disposal of solid waste. The Authority has perpetual existence as a corporation. The Authority is empowered to issue its revenue bonds and to lend the proceeds of the sale thereof to any person for the construction, acquisition, or refinancing of facilities and properties useful in connection with waste disposal facilities, pollution control facilities, and facilities for generating and furnishing electric energy or gas or other forms of energy, including land, structures, equipment, patents, licenses, and other rights necessary or useful in the construction or operation of such facilities.

Covanta Energy Corporation

Covanta, a Delaware corporation, is engaged in providing a variety of services through corporate subsidiaries concentrating primarily on waste-to-energy services and the environmental and energy services area.

Covanta Systems

Covanta Systems, Inc., ("Covanta Systems"), a Delaware corporation, is a wholly owned subsidiary of Covanta Projects and was organized in April 1983. Its principal offices are located in Fairfield, New Jersey. In April 1983, Covanta Systems entered into a cooperation agreement (the "Cooperation Agreement") with Martin GmbH fur Umwelt-und Energietechnik of Germany ("Martin"), whereby Covanta Systems acquired the rights to the Martin technology for solid waste disposal and energy recovery on an exclusive basis in the United States, Mexico, and certain Caribbean countries.

The RRF incorporates the proprietary combustion technology of Martin which has been utilized in Europe for over 35 years and is used in over 140 operating installations throughout the world.

The Company

The Company was created in 1989 under the laws of the State of Maryland as a wholly owned subsidiary of Covanta Systems for the purpose of developing and implementing the Project. The Company designed, constructed, equipped, started-up, and tested, and has been operating the Project in accordance with the Service Agreement. The Company presently operates and maintains the Project.

CSX Transportation, Inc.

CSX was formed November 1, 1980, by merger of Chessie System, Inc. and Seaboard Coast Line Industries, Inc. CSX provides rail haul services to the Authority for the transportation of Processible Waste from the Transfer Station to the RRF. Such services are provided pursuant to the Rail Transportation Agreement. CSX also provides ash hauling services, outside of the Rail Transportation Agreement, to the residue ash contractor.

PROJECT AGREEMENTS

Operating Agreements

The Project was developed pursuant to a series of agreements dealing with the delivery of solid waste to the Transfer Station, the construction and operation of the RRF, the site of the RRF, the modification and operation of the Transfer Station, the transportation of waste via rail from the Transfer Station to the RRF, the sale of electricity produced by the RRF, the disposal of bypass waste, the disposal of residue ash generated by the RRF, and payment by the County to the Authority for waste disposal services. Presented below is a brief discussion of certain points included in the various agreements related to the operation of the Project.

The Waste Disposal Agreement

The Waste Disposal Agreement obligates the Authority to operate the Project and provide solid waste disposal service to the County. The County has designated the Project as the central County solid waste acceptance facility for the disposal of non-recycled, acceptable waste generated in the County. The Authority's obligations with regard to the amount of waste it must accept from the County are the same as the Company's obligations under the Service Agreement. The term of the Waste Disposal Agreement expires on the final maturity date of all outstanding Authority 2003 Bonds. The County has consistently paid the Authority the Waste Disposal Fee.

The Service Agreement

The Project is being operated by the Company pursuant to the Service Agreement. The Service Agreement obligates the Company to operate the Project until the later of (1) August 7, 2015; (2) the end of one of the three 5-year renewal terms or (3) the date on which the Authority 2003 Bonds mature (or the maturity date of any additional bonds issued under the Trust Indenture) or are defeased. Included among the terms and conditions of the Service Agreement are the following:

1. The Project must meet certain performance guarantees which include: (a) transferring a guaranteed quantity of waste per year that is delivered to the Transfer Station; (b) incinerating a guaranteed quantity of waste per year at the RRF, subject to adjustment for waste higher heating value ("HHV"); (c) generating a guaranteed quantity of kilowatt hours ("kWh") of electricity from each ton of waste incinerated (on a net basis), subject to adjustment for waste HHV and certain other adjustments; (d) generating no more than 30 percent residue from each ton of waste incinerated subject to certain adjustments; (e) recovering a minimum percentage of the ferrous metals in the waste incinerated, subject to certain limitations; (f) consuming a maximum amount of utilities at the RRF and the Transfer Station; and (g) satisfying all applicable air emissions and environmental requirements. Specific guarantees are presented later herein.

2. During the operating period, the Authority is required to pay the Company an annual Service Fee. The Company can earn excess fees for the processing of waste in excess of an amount specified in the Service Agreement.

The total Service Fee paid by the Authority to the Company includes: (1) the Operating Charge; (2) Approved Passthrough Costs; (3) revenue credits from the sale of electricity and recovered materials; and (4) service fee adjustments and charges for any liquidated damages.

Facility Site Agreement

The Facility Site Agreement among PEPCO, the Authority and the County was signed on October 5, 1989. Pursuant to this agreement, PEPCO sold the RRF Site to the Authority. The Authority deeded the property to the County on November 16, 1990 and signed the Project Site Lease. PEPCO also granted the Authority easements located appurtenant to the RRF Site for a period equal to the shortest of: (1) 29 years which may be extended for successive 29-year terms; (2) until the County no longer owns the RRF Site; or (3) until the Authority no longer operates the RRF. The easements include access to water in the water discharge canal, utility easements, and rail easements.

Project Site Lease

The Project Site Lease, dated as of November 16, 1990, is between the County and the Authority (the "Project Site Lease") and provides the Authority access to the Transfer Station and the RRF Site. The Project Sites consist of the Transfer Station Site and the RRF Site. The Project Site Lease provides that the County will: (1) lease the RRF Site, and any improvements thereon, other than the RRF, to the Authority so that the Authority may perform its obligations under the Waste Disposal Agreement; and (2) grant the Authority an irrevocable right to use the Transfer Station Site and all personal property and improvements thereon. The term of the lease is 40 years from the Lease Commencement Date, unless earlier terminated.

The Landfill Agreement

The Landfill Agreement dated as of November 16, 1990 as amended (the "Landfill Agreement") provides the Authority with access to landfill capacity at a County Designated Landfill in order to fulfill its obligations under the Waste Disposal Agreement. The Landfill Agreement must remain in effect as long as any Authority 2003 Bonds are outstanding. The County must accept, at the County Designated Landfill, to the extent that the County has sufficient capacity at such County Designated Landfill all Residue produced at the RRF and all acceptable waste delivered to the Transfer Station. We note that acceptable waste includes both Processible Waste and Non-Processible Waste. Currently, all Residue and Non-Processible Waste is sent to an out-of-County landfill under a contract that can be extended under the same terms to 2017.

The Rail Transportation Agreement

The Rail Transportation Agreement addresses the transportation of waste via rail from the Transfer Station to the RRF. The Rail Transportation Agreement, dated as of October 1, 1989 and as subsequently amended on September 1, 1990, is between the Authority and CSX; the Company administers certain provisions of the Rail

Transportation Agreement. The term of the agreement expires on August 7, 2015 and is subject to extension by mutual agreement of the parties. CSX is required to provide service to the RRF and the Transfer Station under a rate formula set forth in this agreement.

Included among the terms and conditions of the Rail Transportation Agreement are the following:

1. The Authority is responsible, at its expense, for acquiring, providing and maintaining the containers, rail cars, and associated equipment necessary to fulfill its obligations.
2. CSX is responsible, at its expense, for providing and maintaining all machinery and equipment which CSX requires to transport the rail cars containing waste and residue, including railroad track and railroad locomotives.
3. The Authority is responsible for loading waste into and unloading waste from containers at the Transfer Station and the RRF. The Authority is responsible for placing containers onto and removing them from rail cars at the Transfer Station and the RRF.
4. CSX is responsible for obtaining and maintaining all permits necessary to perform its obligations.
5. Freight charges are established and adjusted pursuant to a rate schedule set forth in the Rail Transportation Agreement.

PROJECT DESCRIPTIONS

Presented below is a brief description of the three components which comprise the Project.

The Transfer Station

After non-recycled solid waste is collected in the County, it is brought to the Transfer Station. The Transfer Station is located on an approximately 40-acre site in the central part of the County near Derwood, Maryland. Designed to receive up to 2,400 TPD and has handled 3,000 TPD, the Transfer Station has been in commercial operation since the spring of 1982 and is permitted to receive up to 821,500 tons of waste annually. There is currently no daily limit in the Transfer Station permit.

Solid waste is delivered to the Transfer Station by collection vehicles and Processible Waste is loaded into containers which are transported to the RRF. Modifications were made to the Transfer Station by the Company as part of the development of the Transportation System. Such modifications included the addition of compactors, the rail yard, roadway improvements and new mobile equipment.

The Transportation System

Overview

The Transportation System facilitates the transportation of: Processible Waste from the Transfer Station to the RRF in containers, Non-Processible waste from the Transfer Station to the County Designated Landfill via truck, ferrous metals from the RRF to market via truck, and Residue from the RRF to the County Designated Landfill via rail in containers and yard debris in containers from the Transfer Station to the RRF for shipment to the compost facility via truck.

The central element of the Transportation System is the 18-mile movement of forty-foot long intermodal containers (boxes) stacked two high ("double stacked") on lightweight, special purpose rail cars via a railroad right-of-way between a railroad yard located adjacent to the existing Transfer Station and a 1.2-mile access track and rail yard located adjacent to the RRF. Rail transportation is accomplished in trains pulled by CSX Transportation locomotives and using tracks owned by CSX Transportation and operated by its employees. In addition, truck tractors and chassis were acquired and are deployed by the County to perform specific complementary transport system functions, as described below. In the event of a rail system disruption, these pieces of highway

equipment can be combined with supplementary conventional tractor trailer highway equipment to provide a credible transport supply alternative to the rail system moving the same daily volumes.

Transportation System Process

The Transportation System is a series of integrated processes. First, the Company compacts Processible Waste into logs via compactors at the Transfer Station. The logs are mechanically discharged into forty-foot sealed containers. Once filled with compacted Processible Waste, the containers are driven approximately 600 yards from the Transfer Station to an adjacent rail yard at which containers are loaded double-stacked onto light weight rail cars for movement to the RRF. On their return from the RRF, containers are unloaded from the railcars.

A CSX train crew switches the cars together to form a single train of 45 cars (assuming 2,250 TPD on the average are being transported) loaded with 40 forty-foot containers, totaling 2,800 feet in length. The train crew pushes the train out onto the main line, pulls it approximately 18 miles to Dickerson, and pushes it backwards two miles along a side track to a rail yard located adjacent to the RRF.

At the RRF, containers of solid waste are unloaded directly onto waiting tractors with chassis or onto a paved temporary storage area while tractors and chassis shuttle them between the rail yard and the RRF, a distance of less than one-half mile. Truck chassis that tilt are placed under the forty-foot containers to facilitate dumping the Processible Waste at the RRF. After the train makes its return trip to the Transfer Station, empty forty-foot containers are unloaded and shuttled to the Transfer Station for the next cycle of Processible Waste loading.

Transportation of Residue, Non-Processible Waste and Bypassed Waste

Residue from the RRF is temporarily stored in a residue pit at the RRF before being loaded into containers. Residue is rail-hauled to an out-of-County landfill under a long term contract with a waste hauler. The waste hauler supplies its own containers and rail cars. The waste hauler also transports Non-Processible Waste and bypass waste (if any) from the Transfer Station by truck to the same out-of-County landfill.

The RRF

RRF Site Description

The RRF Site consists of a total of 35 acres in the northwestern portion of the County. The RRF Site is shown in Figure A-1. All necessary utilities, including water, waste water disposal, telephone, auxiliary fuel, fire protection, and electricity, are made available to the RRF Site. The process water obtained from the Mirant Discharge Canal is treated in a make-up water treatment system prior to use at the RRF. Potable water is obtained from an on-site well. Wastewater from the RRF is discharged, after treatment, to Mirant's Cooling Water Discharge Canal.

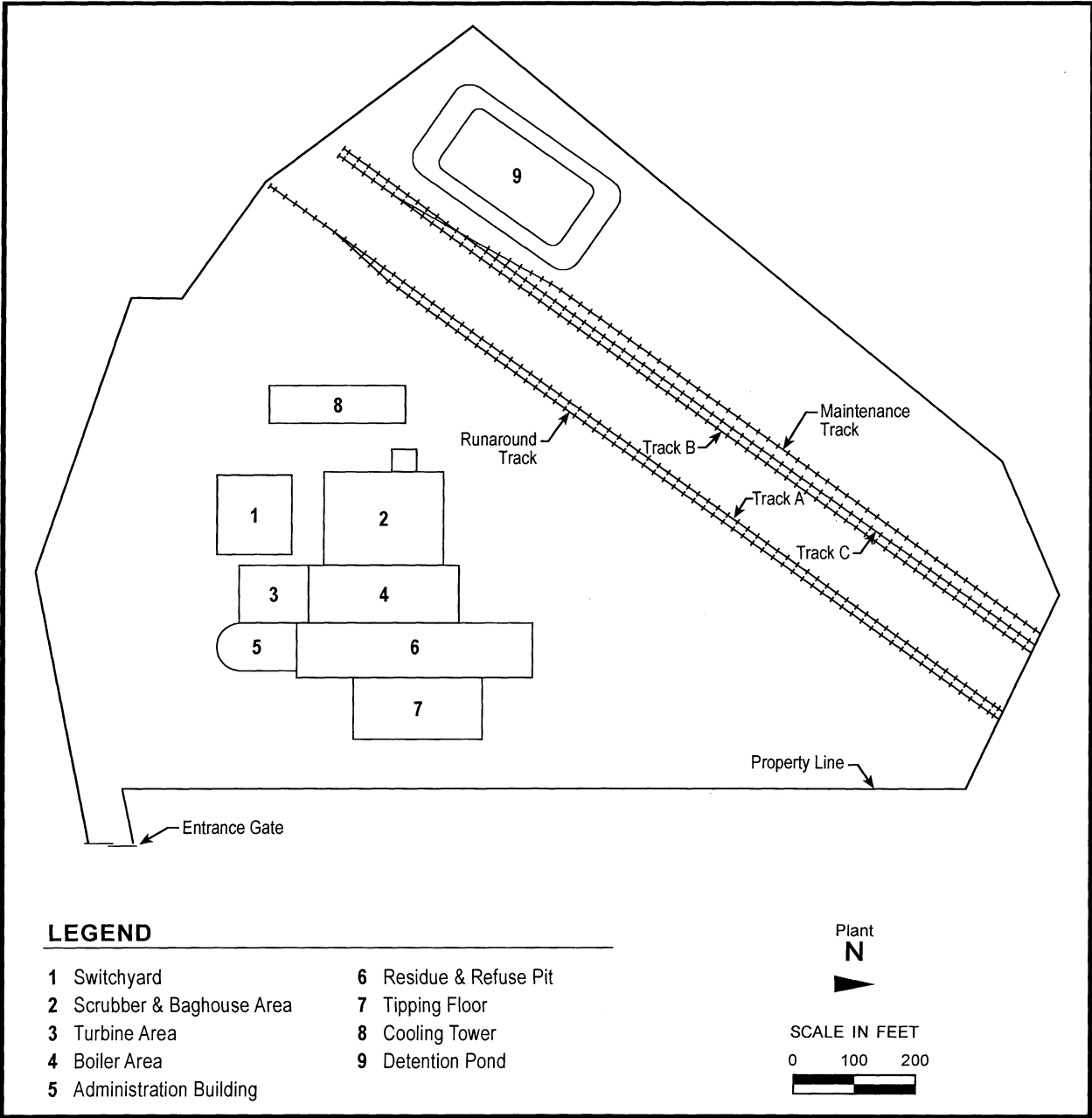
A 69 kV power line from the RRF is connected to the substation (owned by PEPCO) at Mirant's Station H, which is approximately 0.5 miles from the RRF Site. On site, an electrical switchyard contains equipment and auxiliaries necessary to deliver the generator output voltage to the power grid.

Based on our review, we are of the opinion that the RRF Site is adequate for operation of the RRF and for the required components of the Transportation System.

Description of the RRF

The RRF commenced construction in 1993 and completed its acceptance tests in August 1995. Commercial operation began in August 1995 and continues. The RRF incorporates the Martin mass-burning grate technology similar in design to units used in other waste-to-energy facilities built and operated by Covanta Systems. The design of the RRF incorporates the use of a spray dryer absorber ("SDA") flue gas scrubber with fabric filter baghouse in the flue gas outlet of each of the refuse-fired boilers. In addition, hydrated lime injection into the boilers, ammonia injection for control of nitric oxides, and sorbent injection for control of mercury are also utilized. Dolomitic lime is added to the ash for stabilization.

Figure A-1
Montgomery County Resource Recovery Facility
Site Plan



The RRF consists of three 600 TPD mass-burning, refuse-fired boiler units designed to process 1,800 TPD of solid waste (at 5,500 Btu/lb) and produce high pressure, high temperature steam for electrical power generation. The RRF operates 24 hours per day, 365 days per year, with sufficient redundancy to permit continuous processing of waste at reduced capacity during periods of maintenance and overhaul of major equipment. The RRF's guaranteed annual throughput capacity is 558,450 tons, subject to adjustment for waste HHV.

The RRF consists of an enclosed tipping floor and waste receiving and storage pit, three refuse-fired boilers and auxiliary equipment, air pollution control equipment, ash handling system, ferrous recovery equipment, Mirant Discharge Canal water intake structure, pumps, and pipeline, water treatment equipment, a turbine-generator, stack, full capacity by-pass condenser, cooling towers, electrical switchyard, and other equipment for a completely operational steam electric power plant. The RRF also includes a rail yard and intermodal container off-loading equipment, an administration building, residue container weigh station, maintenance building, residue storage pit, and parking facilities.

Refuse Storage Areas

After the incoming solid waste transfer containers have been removed from the train, they are placed on transfer vehicles. The vehicles are driven, a distance of less than one-half mile, into a completely enclosed receiving area providing access to the refuse storage pit. Solid waste is received Monday through Saturday, after the trains arrive at the rail yard. The refuse storage pit incorporates nine tipping bays and has a total design refuse storage capacity of 7,200 tons, which is equivalent to four days of continuous processing at 1,800 TPD. The storage pit has accommodated over 10,000 tons of waste during operations.

The receiving area, the refuse storage pit, stoker feed hoppers, and refuse charging cranes are enclosed in a building structure designed to maintain a slightly negative air pressure by drawing the combustion air from these areas. This measure is intended to limit the escape of solid waste odors from the building.

Boilers and Steam Cycle

One of two overhead cranes transfers solid waste from the storage pit to the water-cooled loading chutes, where hydraulically-operated feeders push the solid waste onto the grates at a rate determined by the automatic combustion control system. The Martin grates are constructed as assemblies of modular grate units. The units are driven by hydraulic systems to provide a reverse reciprocating motion of the grates, which move the burning refuse along the length of the downward sloped grate. At the end of its travel along the grate, the solid waste is completely combusted, and the remaining ash residue falls into a proprietary Martin ash residue discharger, which receives the combustion residue and cools it in a quench chamber. The fly ash from the dry flue gas scrubber and the fabric filter baghouse is conveyed to the ash discharger where it is combined with the bottom ash and quenched. The residue, containing sufficient moisture to prevent dusting, is transferred by a conveyor to the residue storage pit. The residue pit is sized for five days' storage at a waste throughput of 1,800 TPD. One of two overhead cranes transports the residue to a scalper screen which extracts pieces of residue larger than 10 inches for protection of downstream equipment. Oversized material is collected in a roll-off container at one end of the residue pit. The smaller material is transmitted to the residue loading building where it passes beneath a magnetic drum to separate ferrous metal and ash. Ferrous material removed via the drum magnet is conveyed to a rotating trommel screen for cleaning. The cleaned ferrous material is discharged from the trommel into open top trailers for transport to market. Residue is loaded into containers that are loaded on a train supplied by the waste hauler and the residue is disposed of in the County Designated Landfill.

Steam from the refuse-fired boilers drives the condensing turbine-generator, which, under normal operating conditions, allows the RRF to produce a net electrical output of approximately 55,000 kWe per hour when burning solid waste having an HHV of approximately 5,500 Btu/lb at the rate of 75 tons per hour. This is net of the RRF's in-plant electrical requirements which are provided by the turbine-generator.

Air Pollution Control Equipment

The RRF incorporates air pollution control equipment for compliance with applicable emission standards and minimize air quality impact. As part of the emission limits specified in the Title V Air Operating Permit (the "Title V Permit"), the RRF is required to reduce a variety of pollutants including acid gases, particulates, products of incomplete combustion, trace metals, nitrogen oxides and dioxins/furans. The RRF is required to meet certain other emissions limits in addition to those specified in the Title V Permit due to requirements imposed by the County including additional trace metals and polynuclear aromatic hydrocarbons. Each boiler operates at a minimum temperature, and residence time to control dioxins and furans, and is equipped with a dry flue gas scrubber in combination with a reverse air fabric filter baghouse in order to meet these requirements. In addition, a hydrated lime injection system in each furnace is included to augment the acid gas removal capability of the RRF.

The purpose of the dry injection/dry flue gas scrubbers is to remove the acid gases (mainly sulfur oxides, hydrochloric acid, and hydrofluoric acid) from the flue gas. Flue gases flow through the vertical cylindrical chambers of the dry flue gas scrubbers and are contacted by sprays of lime slurry. Pebble lime (calcium oxide) is delivered to the RRF by truck and stored in a silo. Lime from the silo is mixed with water forming the slurry for use in the dry flue gas scrubbers. Water in the slurry is evaporated while the acid gases are neutralized to form a collectable dry powder. The treated cooled flue gas flows to the adjacent reverse air type fabric filter baghouse where the flyash, dry powder reaction products and unreacted lime are removed from the flue gas. The treated flue gas is discharged to the atmosphere through the stack.

The RRF incorporates selective non-catalytic reduction ("SNCR") system for the control of oxides of nitrogen ("NO_x"). The process utilizes the injection of ammonia into the high temperature zone of the boiler (1,600°F to 2,000°F). The ammonia reacts with NO_x to form nitrogen and water which are emitted from the RRF stack.

The RRF incorporates a mercury control system to meet the conditions to satisfy the Title V Permit. Removal is accomplished by injecting activated carbon into the flue gas stream after the boiler economizer. Mercury in the vapor state is adsorbed onto the surface of the carbon particles. The solid sorbent with the adsorbed mercury is collected in the baghouse and combined with bottom ash for disposal. The carbon is stored in a bulk storage area and is transferred to each unit and injected at a constant feed rate.

PROJECT GUARANTEES

Introduction

The following are the technical guarantees set forth in the Service Agreement with respect to operation of the Project. Solid waste throughput and electrical generation at the RRF are dependent on the heating value of the solid waste. The Company's history of meeting these guarantees is discussed under Historical System Performance, presented later herein.

Operating Guarantees

The Operating Guarantees which the RRF is required to meet are set forth in Table 1. The RRF Guarantees are based on different HHV of the solid waste. The actual HHV of the solid waste has ranged between 5,000 to 5,500 Btu/hr.

Table 1
RRF Operating Guarantees

Waste HHV (Btu/lb)	Throughput ⁽¹⁾ (tons)	Net Electrical ⁽¹⁾⁽²⁾ (kWe/ton)	Residue ⁽³⁾ %
4,500	614,304	502	29.8
5,000	614,304	570	29.8
5,500	558,450	643	29.8
6,000	511,910	718	29.8
6,500	472,530	788	29.8

- (1) For HHV's between the designated points a linear interpolation is performed except that a throughput maximum is set at HHV less than or equal to 5,000 Btu/lb.
(2) This generation is net of in-plant use.
(3) Residue guarantee is increased by a maximum of 0.22 percent for carbon and dolomitic lime addition.

The ferrous recovery guarantee is set at 80 percent of the ferrous material greater than one inch. We note that the electrical guarantee does not take effect for any day in which all three units are not operating above 90 percent capacity factor solely due to a lack of waste or cooling water. Further, the ferrous recovery guarantee reverts to a "best efforts" basis if there is less than five percent ferrous material in the solid waste delivered to the RRF. The County's original plans for the Project included the sizing of the RRF to accommodate future growth in the waste stream and thus, initially not utilizing the full capacity of the Project. Thus, prior to FY 2002, the amount of Processible Waste delivered to the RRF was not sufficient for the electrical guarantee to be effective. In addition, as a result of the success of the County's recycling program, there has been insufficient ferrous in the solid waste for the numerical ferrous recovery guarantee to be effective.

Presented in Table 2 below is a summary of the guarantees the RRF was required to meet once a correction has been made for the actual HHV of the incoming solid waste. A discussion on the actual level of operation of the RRF, and comparison to the guarantees is presented in the section of the Report entitled Historical System Performance.

Table 2
RRF Operating Guarantees Corrected for HHV

Year ⁽¹⁾	Actual HHV (Btu/lb)	Guaranteed Processible Waste (Tons)	Guaranteed Net kWe/ton
1996 ⁽²⁾	5,235	539,049	604
1997	5,219	589,840	602
1998	5,221	589,616	602
1999	5,334	576,994	619
2000	5,346	575,876	620
2001	5,250	586,377	607
2002	5,204	591,516	600
2003 ⁽³⁾	5,177	594,532	596

- (1) Year ending June 30.
(2) 11 months.
(3) 6 months, guarantee level assumes the HHV remains constant for the year.

The transportation system guarantee requires the Company to transport 1,920 TPD of Processible Waste from the Transfer Station to the RRF. However, the rail sidings are designed to handle 2,250 TPD. In

addition, the Company guarantees to handle the following amounts of Processible Waste delivered to the Transfer Station.

- A maximum of 1,925 tons on any day.
- A maximum of 2,125 tons on the first day in a calendar week that the amount of processible waste exceeds 1,925 tons.
- A maximum of 10,800 tons in any seven consecutive day period.
- A maximum of 558,450 tons per year.

In addition, the Company guarantees to handle up to a maximum of 400 cubic yards of Non-Processible Waste during any 24 hour period.

The Transfer Station guarantees are not corrected for waste heating value. The Company is also required to use reasonable efforts to accept additional waste if: (1) Transfer Station capacity is available; (2) the waste is available during normal Transfer Station operating hours; (3) accepting the waste is consistent with applicable law; and (4) the additional use is consistent with the Company's maintenance obligations.

Environmental Guarantees

The Company has guaranteed that the Project will meet the environmental guarantees set forth in the Service Agreement and the operating permits. The assessment of the compliance with these guarantees is monitored on a continuing basis for the following parameters: Particulates, Sulfur Dioxide, Nitrogen Oxides, Carbon Monoxide, Hydrogen Chloride, Sulfuric Acid, Fluorine, Beryllium, Hydrocarbons, Lead, Mercury, Dioxins/Furans, Ammonia, Non-Methane Hydrocarbons, Chlorophenols, Bichlorinated Biphenols, Chlorobenzynes, Antimony, Arsenic, Cadmium, Chromium, Cobalt, Copper, Selenium, and Zinc. Such monitoring takes the form of annual stack testing, performed by an outside contractor.

Certain parameters are measured by the Continuous Emissions Monitoring System ("CEMS"), and such parameters include carbon monoxide, sulfur dioxide, hydrogen chloride, nitric oxide and opacity. The specific performance criteria for all five parameters are set forth in the Service Agreement as "Long-Term CEM Performance Guarantees".

The Company is required to notify the Authority and the County if the monitoring program indicates that RRF emissions exceed annual average emission targets set forth in the Service Agreement. The Company must propose a corrective plan to bring the RRF back into compliance, and the Company's plan must be agreed to by the Authority and the County. If the implementation of the agreed upon plan does not correct the problem, a further plan will be implemented.

HISTORICAL SYSTEM PERFORMANCE

Introduction

We have reviewed historical data regarding the operation of the Project since the commencement of commercial operation in 1995. Such historical data included, but was not limited to annual plant availability, solid waste processed, electricity generated and sold, ferrous material recovered and residue ash generation.

Operation History

The Project was accepted by the Authority and entered commercial operation in August 1995, and has accepted solid waste at the Transfer Station, transported the Processible Waste via the rail system to the RRF and combusted the delivered Processible Waste for approximately seven and one-half years.

Transfer Station

Table 3 presents historical data regarding the amount of solid waste handled by the Company at the Transfer Station since acceptance of the RRF in 1995. As Table 3 indicates, the amount of solid waste handled by the

Company at the Transfer Station has increased over time, at the point where in FY 2002, the level of waste delivered to the Transfer Station exceeded, for the first time, by a small amount, the guaranteed processing level in the Service Agreement. We note that the Company has handled all of the waste delivered to the Transfer Station. Due to the nature of the operation of the Transportation System, a significant number of containers are continually in transit between the Transfer Station and the RRF. With the increase in solid waste deliveries, combined with the container maintenance requirements and occasional delays by CSX in returning containers back to the Transfer Station, the Company has experienced increased operating challenges regarding the availability of containers. Furthermore, it was reported by the Company, and confirmed by the County, that on peak days the amount of Processible Waste requiring transfer to the RRF was approaching the available number of containers at the Transfer Station. The current container fleet contains 183 units which are used by the Company to transport the Processible Waste to the RRF. Additional containers are used by the County for other waste disposal system purposes. The initial design of the Transportation System included spare containers to accommodate peak waste deliveries ("Surge Capacity"). The increase in peak waste deliveries, combined with occasional delays in the CSX schedule and required container maintenance has used up this Surge Capacity. Forty-five new containers have been ordered by the Company and are currently being delivered to the Transfer Station to restore the needed Surge Capacity. In addition, the current container fleet, as part of the five year container replacement program, is in the process of being evaluated by the Company to determine how many old containers may be retained as additional spares. The Company anticipates that a net increase in the container fleet will result in sufficient spare containers to allow for unusual events and still handle incoming waste on peak delivery days.

Table 3
Solid Waste Handled at the Transfer Station

<u>Year⁽¹⁾</u>	<u>Solid Waste Handled by the Company at the Transfer Station (tons)⁽⁴⁾</u>	<u>Non-Processible Tons at the Transfer Station⁽⁵⁾</u>	<u>Solid Waste Processed at the RRF Tons⁽⁶⁾</u>
1996 ⁽²⁾	359,000	11,416	347,622
1997	474,000	17,622	456,082
1998	448,000	12,117	435,833
1999	488,000	18,252	469,748
2000	515,000	17,688	497,557
2001	536,000	18,830	517,186
2002	607,000	29,115	578,540
2003 ⁽³⁾	320,000	15,712	304,617

(1) Year ending June 30.

(2) 11 months.

(3) 6 months.

(4) Rounded, due to differences in moisture between the Transfer Station and the RRF which are not measured.

(5) Handled by the Company and directed to landfill. Other non-processible tons are handled by the County.

(6) Measured by loading crane at the RRF. The measurement has been reconciled with pit inventory. This measurement is from distinct "loaded on rail at the Transfer Station" as reported in the Official Statement.

The Transfer Station accepts solid waste six days per week and compact the processible solid waste into containers. The tipping floor is cleaned prior to receiving solid waste by the start of the next day. Table 3 indicates that in FY 2002, the Company was able to handle waste at the Transfer Station and deliver processible waste to the RRF in amounts greater than the guarantee levels. In the first six months of FY 2003, the Company has continued that performance.

The compactors are available to operate 480 hours in a typical 30-day month. Table 4 shows the actual utilization and availability of the compactors based on this schedule. The difference between the two values is the time when the compactors were on stand-by but not actually in use. We note that compactor availability was not recorded by the Company prior to January 1, 1998.

Table 4
Compactor Availability

Year ⁽¹⁾	Compactor #1		Compactor #2		Compactor #3	
	Utilization	Availability	Utilization	Availability	Utilization	Availability
1998 ⁽²⁾	45.1	68.5	67.1	92.3	31.9	97.2
1999	63.2	88.0	61.3	86.2	20.1	89.4
2000	48.3	66.2	69.3	89.1	48.0	99.7
2001	66.6	94.2	67.9	89.7	42.1	97.5
2002	66.9	82.4	75.8	86.0	55.6	87.5
2003 ⁽²⁾	67.2	82.3	73.9	80.1	58.7	80.3

(1) Year ending June 30.

(2) 6 months.

Although the current difference between availability and utilization indicates that the compactors should be capable of handling additional quantities of processible waste, the Company has reported that on peak days, the compactors have been required to operate three to four hours beyond their typical 16 hours per day. The County has stated that it expects future increases in peak waste deliveries above the guaranteed levels. Such additional deliveries will impact Transfer Station operations, including the ability of the compactors to process all of the waste prior to the next day's deliveries. This is of particular concern if a compactor experiences a major forced outage. The County is currently planning to purchase an additional compactor for installation in FY 2004 to enable the Company to handle the anticipated increase in peak waste flow and allow the Company to maintain operations even if one compactor experiences significant forced outage.

In summary, the Company has demonstrated the ability to operate the Transfer Station at levels which exceed the guarantees set forth in the Service Agreement.

RRF

During the first six years of operation, the amount of processible waste caused to be delivered by the County to the Transfer Station was less than the design rating of the RRF. Therefore, all three boilers were not required to operate at design capacity. The Company took the operating approach of placing one boiler in standby mode when sufficient waste was not available. All units were rotated through the idling stage to even out the wear on the individual boiler trains. Table 5 presents data regarding the key operating statistics for the RRF that are part of the Company guarantees. The level of waste deliveries during the first six years of operation was not sufficient for the electrical power guarantee to be effective. The Company was able to burn all processible waste delivered during this period, and has exceeded the processing guarantee and electrical production guarantee for the first six months of FY 2003. In addition, the residue guarantee has been met since the initiation of operations.

Table 5
Key RRF Operating Statistics

<u>Year</u> ⁽¹⁾	<u>Processible Waste Processed (tons)</u>	<u>Net Electrical Production kWe/ton</u>	<u>Ash Production % of Processible Waste</u>	<u>Ferrous Recovery % of Processible Waste</u>
1996 ⁽²⁾	353,606 ⁽⁴⁾	513 ⁽⁴⁾	26.9	3.0
1997	450,478 ⁽⁴⁾	535 ⁽⁴⁾	26.3	3.1
1998	441,600 ⁽⁴⁾	527 ⁽⁴⁾	26.8	3.0
1999	476,626 ⁽⁴⁾	576 ⁽⁴⁾	27.3	2.5
2000	500,178 ⁽⁴⁾	579 ⁽⁴⁾	27.5	3.0
2001	522,037 ⁽⁴⁾	564 ⁽⁴⁾	27.6	2.9
2002	578,540 ⁽⁵⁾	585 ⁽⁶⁾	29.8	3.0
2003 ⁽³⁾	314,617	598	29.0	3.0

(1) Year ending June 30.

(2) 11 months.

(3) 6 months.

(4) Insufficient waste to effectuate performance guarantees shown in Table 1.

(5) Exceeded transportation handling guarantee.

(6) Missed electrical guarantee.

During FY 2002, the Company did not meet the electrical production guarantee and the Company and the Authority negotiated a settlement for that particular guarantee for 2002. The actual calculation of the electrical production guarantee, according to the Service Agreement, excludes from the calculation days when the boilers operate at less than 90 percent steam flow provided that these excluded times are caused by items outside of the Company's control (lack of waste or cooling water). Additionally, the Company is required to provide the Authority with advance notice that a day, in their opinion, is to be excluded from the electrical guarantee calculation, and thus the average net electrical production shown in Table 5 is not reflective of the calculation which is undertaken to determine this particular guarantee. According to the settlement between the Company and the Authority, the two parties agreed that the Company missed the electrical guarantee in 2002 by approximately 4 kWe/ton. We have reviewed this matter with both the Authority and the Company and our review indicates that in FY 2002, the Company failed to provide any notice for excluded days. The result of this administrative oversight was that low production days were included in the calculation of the electrical production guarantee. Accordingly, the Company failed to meet the net electrical generation guarantee by less than one percent and the Authority deducted approximately \$184,000 from the FY 2002 Service Fee for this occurrence. However, specific historical data and the data for the first six months of the current fiscal year (FY 2003) demonstrate the ability of the Company to meet the electrical production guarantee. The administrative oversight experienced in 2002 has been corrected by the Company.

Table 6 presents data regarding the overall availability and utilization of each boiler. Utilization is based on actual boiler operating hours while availability includes operating hours and stand-by hours. Utilization is an hourly metric, and based on the HHV of the waste, it would overstate the capacity factor of the boilers by between three percent and six percent depending upon the year of operation. In FY 2002, the boilers operated at 97.8 percent of design and at an 83.1 percent capacity factor, while processing all the waste that was available. The RRF design is based on an 85 percent capacity factor. Stand-by hours occur when the boiler could have been operated if sufficient waste was available. In general, we would expect some forced outages to occur if the units had operated during the stand-by time.

Table 6
Boiler Availability and Utilization

Year ⁽¹⁾	Boiler No. 1		Boiler No. 2		Boiler No. 3		All Boilers	
	Available	Utilized	Available	Utilized	Available	Utilized	Available	Utilized
	%	%	%	%	%	%	%	%
1996 ⁽²⁾	96.3	58.6	95.7	67.5	99.0	65.7	97.0	63.9
1997	95.1	72.8	94.0	58.0	95.7	72.3	94.9	67.7
1998	96.0	81.3	96.6	72.4	93.1	47.7	95.2	67.1
1999	93.8	65.0	96.4	75.7	96.4	80.0	95.5	73.6
2000	96.5	82.0	94.1	73.9	97.3	71.6	96.0	75.8
2001	94.9	79.1	96.6	73.4	93.6	71.2	95.0	74.6
2002	91.4	84.7	89.2	85.9	96.8	91.4	92.5	87.3
2003 ⁽³⁾	90.0	90.0	94.5	93.5	94.7	94.7	93.0	92.7

(1) Year ending June 30.

(2) 11 months.

(3) 6 months

The total number of in-service hours for the three boilers during this time period is 49,450 hours, 48,157 hours and 47,519 hours with corresponding stand-by hours of 12,193 hours, 13,831 hours and 14,814 hours for Boiler Nos. 1, 2 and 3 respectively. The high level of stand-by hours was the result of waste deliveries that were below the RRF's capacity level prior to FY 2002. In addition, the level of standby hours has resulted in less wear on the units than originally designed for and should have a positive effect on the useful life of the RRF. Thus far in FY 2003, boilers one and three had no stand-by hours while Boiler No. 2 had approximately 45 stand-by hours. The capacity factor for the first half of FY 2003 is approximately 90 percent.

Until FY 2002, there had been a substantial amount of stand-by boiler time due to a lack of waste. This has allowed the Company to stretch out the time between scheduled outages and may have extended the useful life of the RRF. The level of forced outages at approximately 1.4 percent of in-service hours indicates a properly maintained system. The original system throughput guarantees of 558,450 TPY (processable waste) were based upon an average availability of 85 percent. The historical data regarding availability indicate that the RRF can accept and exceed this processing level.

We note that in FY 2002 and FY 2003, two phenomena occurred which has increased the utilization of the boilers and reduced the amount of stand-by hours. First, the amount of available waste has increased to a level which would require an increase in the utilization as reported for prior years. Secondly, the Company has attempted to take advantage of higher power rates during peak hours by scaling back processing during off-peak hours (evenings and weekends) in order to maximize power generation during the higher value periods.

Our review of data regarding the availability of the turbine indicates that on an annual basis the availability ranged from 95.1 percent in 2002 when the major overhaul was undertaken, to 99.9 percent in 2001. Since the commencement of commercial generation, the turbine has average 98.6 percent which meets expected industry performance. In FY 2002, the steam turbine underwent its six year major overhaul. The Company reported that based on the condition of the turbine, it will conduct the next major overhaul in seven years. A summary of historical data regarding turbine availability is set forth in Table 7.

Table 7
Turbine Availability

<u>Year</u> ⁽¹⁾	<u>In Service</u> <u>Hours</u>	<u>Stand-by</u> <u>Hours</u>	<u>Outage</u> <u>Hours</u>	<u>Available</u> <u>%</u>
1996 ⁽²⁾	7,862	0	178	97.8
1997	8,676	7.6	76.9	99.1
1998	8,622	0	138.1	98.4
1999	8,741	0	19	99.8
2000	8,737	0	47	99.5
2001	8,769	0	1	99.9
2002 ⁽³⁾	8,319	0	441	95.1
2003 ⁽⁴⁾	4,416	0	0	100.0

(1) Year ending June 30.

(2) 11 months.

(3) Major turbine overhaul.

(4) 6 months.

Environmental Performance

The environmental performance is discussed in “Environmental Regulatory Considerations” later herein. We note that the County reports the continuous emissions monitoring data from each boiler at the RRF on its website www.mcrecycles.org.

REVIEW OF THE CURRENT CONDITION OF THE PROJECT

Transfer Station and Transportation System

We have made visual observation of the equipment and structures at the Transfer Station and at the two railyards. We have also reviewed the Company’s maintenance procedures and monthly operations and maintenance reports.

In general, the equipment and structures appeared to be in satisfactory condition. Both the exterior and interior of the buildings were maintained in a clean condition. We did not note, nor are we aware of, an equipment condition which would significantly affect the ability of either the Transfer Station or the Transportation System to continue to meet the guaranteed throughput of 558,450 tons per year of processible waste.

A set of operation and maintenance manuals exists and were conveniently located for use by the Transfer Station personnel. The Transfer Station staffing, as reported by the Company, includes a total of 48 persons, including eight persons working as part of the Transportation System at the RRF. The Company reports that employee turnover is relatively low with the highest turnover being in the entry-level positions. There is currently one unfilled position, a plant worker, at the Transfer Station.

The majority of the maintenance in the Transfer Station and the Transportation System consists of container inspection and repair, compactor maintenance and hydraulic hose repair, concrete and pavement repairs and maintenance of rolling equipment. The three compactors were recently inspected by the manufacturer, Harris Waste Management Group (“Harris”) in January 2003. This report concludes that “the general condition of the compactors has improved since the last inspection.” Several items needing repair were discussed for compactors No. 1 and 2, as well as a list of major rework to be done on compactor No. 3 which was completed in March 2003. The previous inspection report of June 2001 prepared by Harris, while noting required repairs and suggested improvements to operating practices, concluded that, as compared to equipment of other customers with comparable usages, the compactors are being maintained and operated in “a very acceptable manner.” Compactor Nos. 1, 2 and 3 are scheduled to be inspected by Harris approximately annually and repaired as required. A spare hydraulic cylinder that pushes the compactor’s ram is in stock. The compactors are scheduled to be refurbished on a five-year cycle.

The containers originally transported processible waste from the Transfer Station to the RRF and residue ash back to the Transfer Station. The residue ash was then transported by truck from the Transfer Station to the County Designated Landfill. In 1997, the County entered into a contract with a third party to rail haul the ash directly from the RRF to an out-of-County landfill. Prior to this change, the containers that handled ash showed extensive deterioration due to the corrosive and erosive nature of the ash and the containers required continuing repair. The containers that exclusively handled processible waste did not show the same level of wear. The Company has recently purchased an additional 45 containers (to add to the 183-container fleet) which will provide additional Surge Capacity, for peak waste delivery days. As of FY 2003, the containers are on a ten year replacement schedule (each container is replaced after ten years of service), with the entire container fleet being refurbished/replaced over the first five years of the cycle. The purchase of the 45 containers in FY 2003 initiated the five-year cycle. The next five-year cycle is scheduled to begin in FY 2013.

RRF

We have made a visual observation of the equipment and structures at the RRF. We have also reviewed the Company's maintenance procedures, and monthly operations and maintenance reports.

In general, the equipment and structures at the RRF appeared to be in satisfactory condition. Both the exterior and interior of buildings were maintained in a clean condition. We did not note, nor are we aware of, an equipment condition which would significantly impair the ability of the RRF to continue to generate the guaranteed quantity of electricity and to meet the guaranteed throughput of 558,450 tons per year of processible waste.

A set of operation and maintenance manuals exists and were conveniently located for use by the RRF personnel. RRF staffing, as reported by the Company, includes a total of 53 persons. This does not include the eight persons who are assigned to the Transportation System. The Company reports that employee turnover is very low.

The operating procedures and maintenance practices at the RRF are generally in conformance with industry practice and encompass those areas which we would expect in a state-of-the-art, mass-burn waste-to-energy facility. The RRF utilizes a software maintenance management program that is also utilized at other Covanta Energy waste-to-energy facilities and provides preventative maintenance scheduling, work order tracking, spare parts management, certain cost data information, and other services.

The Company reports that a scheduled outage is held for each unit twice a year, at approximately six-month intervals. During the outage period, outstanding work orders and certain scheduled outage tasks are completed. Stoker maintenance, cleaning/testing of boiler tubes is a large part of these outage activities. The Company reports that it monitors tube metal thickness in the furnace area, leading evaporator, superheater and economizer tubes, areas near sootblowers, areas around curved openings, and other areas of the boilers during the major outages. The Company has had a program of monitoring the tube thickness since Project acceptance in 1995. This monitoring and repair of potential problem areas is part of a Company effort to minimize the number of forced outages caused by tube leaks. The repair efforts undertaken by the Company, based on the thickness monitoring surveys, include inconel cladding of tubes, tube shields, and refractory repair. We note that these types of activities have been successful in reducing forced outages caused by tube leaks in other waste-to-energy facilities with which we are familiar.

A major turbine outage was held for the steam turbine-generator during the fall of 2001. This was a major scheduled maintenance outage that is performed at approximately seven-year intervals, in accordance with normal industry practice. In a report prepared by the Company, there were no indications that any significant problems were encountered in the condition of the steam turbine and associated equipment. The next major turbine outage is scheduled to occur in the year 2008.

REVIEW OF TECHNOLOGY

In addition to reviewing the data presented in Tables 3 to 7 herein, we have also reviewed how the technology employed at the RRF, the Transfer Station and the Transportation System is working.

Transfer Station and Transportation System

Based on our review, we are of the opinion that the compactor technology used at the Transfer Station and rail technology utilized within the Transportation System have proven to be a technically successful means of compacting and moving waste from the Transfer Station to the RRF, and that the Company has operated the Transfer Station and Transportation System in accordance with generally accepted industry standards.

RRF

Based on our review, we are of the opinion that the technology utilized by the RRF is a sound and proven method of solid waste disposal and energy recovery. The RRF has demonstrated its ability to operate as originally proposed and to meet the performance guarantees set forth in the Service Agreement. Furthermore, we are of the opinion that the Company has operated the RRF in accordance with generally accepted industry standards.

ESTIMATED USEFUL LIFE OF THE PROJECT

Transfer Station and Transportation System

We have reviewed the characteristics and components of the rail yards which were constructed, the Company's method of operating and maintaining the Transportation System, and the Company's schedule of renewals and replacements for the Transportation System. On the basis of that review and assuming the Transportation System continues to be properly operated and maintained and that all renewals and replacements are made on a timely basis, we are of the opinion that the Transportation System should have a useful life extending beyond the final maturity of the Authority 2003 Bonds.

RRF

We have reviewed the quality of equipment installed in the RRF, the current method of operating and maintaining the RRF, including the level of loading of solid waste in the boilers, the amount of operation during the past seven years, and the schedule of renewals and replacements. On the basis of this review and assuming the RRF continues to be properly operated and maintained as proposed by the Company, and as required by the Service Agreement, and that all required renewals and replacements are made on a timely basis, we are of the opinion that the RRF should have a useful life extending beyond the maturity of the Series 2003 Bonds.

REVIEW OF OPERATORS

As part of the preparation of this Report, we have reviewed information provided to us by the Company and Covanta regarding: (1) the experience of the senior operating personnel employed by the Company who are currently working at the Project; and (2) the number of personnel, and their relevant experience, employed by Covanta Energy at its corporate headquarters who provide technical, engineering, environmental and operating support to the 26 waste-to-energy facilities operated by subsidiaries of Covanta, including the Project.

Our review indicates that the Company is currently employing experienced personnel for the key operating positions at the Project. In fact, many of the key operating positions at the Project are staffed by individuals who have been employed by the Company since the RRF went into commercial operation in 1995. Based on our review, we are of the opinion that the Company currently has the technical capabilities necessary for the operation of the Project in accordance with the Project's operating permits and the technical operating provisions of the Service Agreement.

The home office staff of Covanta, located in Fairfield, New Jersey, provides technical and business support functions to the 26 waste-to-energy facilities operated by subsidiaries of Covanta. Covanta reports that it has 175 employees at its headquarters, 45 of which are engineers, technical specialists, or environmental specialists who provide support to the operation of the waste-to-energy facilities.

Covanta is set up along functional lines and the technical services it provides include the following: (1) Environmental (compliance, testing, permitting); (2) Engineering; (3) Performance Monitoring; (4) Technical

Support; (5) Specialized Maintenance; and (6) Administrative (management information systems, human resources, legal and accounting).

Covanta has developed proprietary technical standards for the waste-to-energy facilities it operates and Covanta audits the actual performance of the facilities against its' standards. Covanta also monitors operating trends at specific facilities.

We have had discussions with a senior representative of Covanta regarding Covanta's current capabilities to provide home office support to waste-to-energy facilities, who reported that he had not experienced any lack of available support services at the national level during the past year. In addition, he reported that he has not experienced any increase in the level of concerns regarding the level of home office support raised by the owners/customers of the waste-to-energy facilities operated by subsidiaries of Covanta. Further, the representative reported that Covanta had experienced relatively little turn-over among its senior support personnel and most of the current employees have worked for Covanta for a significant number of years.

Based on our review of the data and information provided by Covanta, our visual observation of the RRF, and our observation of certain other waste-to-energy facilities operated by Covanta, we are of the opinion that Covanta currently has the employees at its corporate headquarters who have the necessary background and experience to assist the Company with technical, operating, environmental and permitting issues which may arise related to the operation of the RRF. Based on our review of the information provided by Covanta, we are of the opinion that Covanta currently employs experienced support personnel who have the technical backgrounds and capabilities necessary to allow Covanta to continue to provide adequate home office support to the Project.

In the event the Service Agreement should be terminated in the future, there are other operators of waste-to-energy facilities who have demonstrated the technical capabilities necessary for the operation of waste-to-energy facilities and should have the necessary experience to serve as a replacement operator of the RRF. Based on the demonstrated previous experience of such other operators, we are of the opinion that it is reasonable to assume that such operators should be capable of operating the RRF in accordance with the technical terms of the Service Agreement and the operating requirements of the RRF permits. It should be noted that not all of the potential replacement operators have had experience operating a rail transportation system. In such an event, the Authority could elect to separate the operation of the Transportation System from the RRF. There are other experienced operators of similar transportation systems.

REVIEW OF SERVICE FEE

Pursuant to the terms of the Service Agreement, the Authority pays the Company a Service Fee which includes provision for the annual Operating Charge, plus Approved Pass Through Costs, plus the Revenue Credit, plus any Service Fee Adjustments. In 2002, the total Service Fee was calculated as shown in Table 8. The Operating Charge was for the receipt and processing of 558,450 tons of processible waste. One of the approved pass through costs was a deduction (credit to the Authority) based on the Company not having to transport the ash from the RRF.

Table 8
Service Fee for FY2002 ⁽¹⁾

<u>Cost Component</u>	<u>\$(000)</u>
Operating Charge	\$ 19,372 ⁽³⁾
Approved Pass Through Costs	5,386
Revenue Credit ⁽²⁾	904
Service Fee Adjustment	<u>(1,102) ⁽⁴⁾</u>
Total Service Fee	\$24,384

(1) Based on Covanta invoice.

(2) Includes increased revenue sharing for processing above the guaranteed level.

(3) Includes a reduction of \$500,000 from the base amount in the Service Agreement that may be available to a different operator.

(4) Includes the O&M Reserve Fund deposit (\$1,011,300) and other items that may be available to a different operator.

The cost per ton to operate the Project was approximately \$34.61 per ton for the base tonnage (558,450 tons) without: (1) ash hauling; (2) the \$500,000 reduction; (3) other passthroughs; and (4) the Service Fee Adjustments. In addition, the Company was paid approximately \$1.23 per ton as a revenue credit (up to the 558,450 tons). In order to be able to compare the cost of operating the RRF with the cost of operating other waste-to-energy facilities, it is necessary to deduct from the Total Service Fee the costs associated with operating the Transfer Station and the Transportation System that are part of the Operating Charge.

For the purpose of this Report, we have developed an estimate of the cost of operating the Transfer Station/Transportation System that is included in part of the Operating Charge. Such estimate is based on our experience in reviewing the operating expenses of other reasonably similar transfer stations which utilize compactors. Based on this review, we estimate that the cost of operating the Transfer Station, including handling the containers on the train and handling non-processible waste, would be approximately \$5 per ton. This cost does not include any capital charges. Other transportation costs are passthroughs.

Subtracting the estimated cost of operating the Transfer Station of \$5 per ton from the cost of operating the Project (without passthroughs) results in an estimated net cost to operate the RRF of approximately \$29.61 per ton. In addition, the Company was paid another \$1.23 per ton as a revenue share. Further, the Company is also paid \$13.83 per ton for handling the Non-Processible Waste that would typically be counted in the Transfer Station cost. In 2002, this payment for Non-Processible Waste was equivalent to \$0.72 per ton of processible waste processed pursuant to the Service Agreement. After making the various adjustments to the Operating Charge, we calculate that the Company's total payment for operating the RRF is approximately \$31.56 per ton ($29.61 + 1.23 + 0.72$).

We have compared the net payments discussed above with the reported costs of operating and maintaining other waste-to-energy facilities with which we are familiar, and have adjusted those reported costs for similar passthrough items. The cost per ton of waste processed at large, mass-fired waste-to-energy facilities, relatively similar to the RRF, is reported to average approximately \$30.50 per ton, net of the cost of ash disposal. Based on this comparison of the payment the replacement operator of the RRF would receive pursuant to the Service Agreement with the reported cost of operating and maintaining waste-to-energy facilities, we are of the opinion that it is reasonable to assume that a replacement operator of the RRF should be capable of operating the RRF for the Service Fee specified in the Service Agreement over the term of the Authority 2003 Bonds.

ENVIRONMENTAL REGULATORY CONSIDERATIONS

Environmental Regulatory Requirements

Discussion of Certain Municipal Waste Combustor Standards

Maximum Available Control Technology. On December 20, 1989, the USEPA proposed revised emission guidelines and standards for municipal solid waste combustors ("MWCs") under the authority delineated in the CAA. Revised NSPS were promulgated on February 11, 1991 for new MWCs and new Emissions Guidelines were issued for existing MWCs. The 1991 Emission Guidelines were the first comprehensive attempt at the federal level to regulate emissions from existing facilities. The 1995 Emission Guidelines applied to existing sources and were intended to assure that existing MWC facilities utilize MACT emissions standards. The USEPA placed responsibility for the implementation of MACT at state level; therefore, the Maryland Department of the Environment ("MDE") is responsible for establishing MACT standards for the RRF. The RRF and its MWCs are subject to the revised air emissions standards under MACT standards. The MDE essentially adopted the federal requirements for all major parameters with the exception of more stringent values for particulates, sulfur dioxide and mercury emissions.

Fine Particulates. The USEPA is in the process of collecting data throughout the country to designate geographic areas as attainment or non-attainment for fine particulates (i.e., $PM_{2.5}$). After the USEPA assigns these designations, it will require that the individual states develop a plan to comply with $PM_{2.5}$ ambient standards. Each state will modify its state implementation plan ("SIP") to include new control measures, comparable to what was done for the ozone non-attainment areas. It will likely be several years before the impact of these regulations from the individual states will be seen. There also have been some court challenges to the with $PM_{2.5}$ standards. It is important to note that plants that already have baghouses, such as the RRF, will likely be less impacted by the $PM_{2.5}$ standards, if impacted at all, than plants without baghouses. In essence however, it is unknown at this time what, if any, impact the $PM_{2.5}$ standards will have on the RRF.

Status of Permits and Approvals

The Project must be operated in accordance with applicable federal, state, and local regulations, codes, standards, guidelines, policies, and laws. The principal regulatory agencies charged with overseeing these provisions include the USEPA and the MDE. The Project is principally subject to the jurisdiction and operating review of the MDE. The Project's operations are guided by a number of key environmental operating permits and regulatory approvals issued by the MDE, which has been delegated the authority to administer the federal programs of air and water management. The Company is responsible for obtaining and maintaining the permits, licenses, and approvals necessary to meet its obligations under the Service Agreement. Table 9 lists the current status of key permits and approvals required for the continued operation of the Project.

The Company has identified the key permits and approvals required for operation of the Project, the status of which are listed in Table 9 and discussed below.

Table 9
Montgomery County Resource Recovery Facility and Transfer Station
Status of Key Permits and Approvals

Permit/ Approval	Responsible Agency	Current Status	Comments
RRF			
Title V Air Operating Permit	USEPA/ MDE	Issued: 11/30/01 Expires: 10/31/06	Required for an air emission source. Sets forth state- and federally-enforceable air emission limits, monitoring, and reporting requirements for the air emission sources from power and steam generating equipment, as well as, additional requirements for fugitive dust and other emissions due to operations.
Refuse Disposal Permit	MDE	Issued: 4/23/98 Expires: 4/22/03	Required for the disposal of solid waste and applicable to any refuse disposal system, including: municipal landfills; land clearing debris landfills; industrial landfills; rubble landfills; municipal and special medical wastes incinerators; waste transfer stations; and waste processing facilities. The Authority and the County filed a timely renewal application for this permit on March 4, 2003.
National Pollutant Discharge Elimination System (Process Wastewater/Stormwater) Discharge Permit for Operations	USEPA/ MDE	Issued: 10/1/96 Expired: 9/30/01	Required for the discharge of industrial wastewater and stormwater during operations; establishes effluent limitations, monitoring, and reporting requirements. The Authority and the County submitted a timely renewal application, and in accordance with a permit shield, continues to operate under the expired permit.
Water Appropriation Permit	MDE	Issued: 12/29/94 Expires: 12/1/03	Required for any activity that withdraws water from surface and underground waters unless exempted.
Well Water Appropriation Permit	MDE	Issued: 12/1/94 Expires: 12/1/06	Required for any activity that withdraws water from surface and underground waters unless exempted.
Sewage Sludge Utilization Permit	MDE	Issued: 2/8/01 Expires: 2/7/06	Required for any collection, incineration, storage, treatment, application to land, transportation, or disposal of sewage sludge, septage, or any final products of the treatment of sewage at a sewage/wastewater treatment plant.

Table 9
Montgomery County Resource Recovery Facility and Transfer Station
Status of Key Permits and Approvals

Permit/ Approval	Responsible Agency	Current Status	Comments
Transfer Station			
National Pollutant Discharge Elimination System Stormwater Discharge General Permit for Operations	USEPA/ MDE	Issued: 11/26/02 Expires: 11/30/07	Required for the discharge of general stormwaters during operations; establishes effluent limitations, monitoring, and reporting requirements.
Refuse Disposal Permit Transfer Station	MDE	Issued: 6/9/01 Expires: 6/10/06	Required for the disposal of solid waste and applicable to any refuse disposal system, including: municipal landfills; land clearing debris landfills; industrial landfills; rubble landfills; municipal and special medical wastes incinerators; waste transfer stations; and waste processing facilities.

RRF Refuse Disposal Permit

The refuse disposal permit for the resource recovery facility is due to expire on April 22, 2003. The Authority and the County filed a renewal application with the MDE on March 4, 2003. MDE staff indicated that if a renewal application were filed in a timely manner, which did occur on March 4, 2003, could continue to operate under the provisions of the current permit until such time that a renewed permit is issued by the MDE.

RRF NPDES Permit

The National Pollutant Discharge Elimination System ("NPDES") Permit for the RRF expired on September 30, 2001. The Authority and the County submitted a timely renewal application to the MDE prior to the NPDES Permit's expiration. Accordingly, the Company continues to operate the RRF under an applicable permit shield for the expired NPDES Permit. The MDE indicates that this permit shield is in effect and it will issue a renewed NPDES Permit at a later date. Furthermore, the MDE indicates that it is in the process of revamping the NPDES Permit Program, including bringing uniformity to all issued NPDES Permits in the state, but at this time, staff constraints prevent it from expediting this process. We note that a permit shield, described in language in the applicable Federal and State codes, is a process which provides protection from enforcement actions where the permittee has complied with all conditions of its permit, which in this case, includes submitting of a timely renewal application.

Air Operating Permit

The MDE has issued the Title V Operating Permit for the Project (the "Air Permit"). The Air Permit incorporates the MACT standards and provides for three MWCs and associated equipment. The Air Permit includes emissions limits (short-term and annual) for the MWCs and additional sources, and also sets forth testing requirements, monitoring, recording and record keeping requirements.

Solid Waste Operating Permits

The MDE has issued two refuse disposal permits for the Project, one for the Transfer Station and one for the RRF. The RRF refuse disposal permit provides for three MWCs and associated equipment.

Other Permits and Approvals

There are other miscellaneous permits and approvals required for the Project, which are not listed above. Continued renewals of these permits and approvals are considered routine if the renewals are pursued in a timely manner.

Hazardous Waste Management

The Company indicates that it maintains a protocol for turning away hazardous waste materials that may inadvertently be delivered to the Project. With regard to other hazardous wastes generated at the Project, the Company indicates that it maintains contracts with licensed waste contractors for removal of solvents from its parts washing system and for removal of used oils.

Operating Compliance

The Facilities must continually demonstrate operating compliance with applicable federal, state, and local regulations, codes, standards, guidelines, permits, and approvals. We have undertaken a review of the status of operating compliance of the Project, as well as identification of any Notices of Violations (“NOVs”), Notices of Non-Compliance (“NONs”) or Administrative Consent Orders (“ACOs”) related to the Project’s operations under their respective permits and approvals. We note that the County and the Authority have closely monitored the environmental compliance of the Project, and have encouraged the Company to meet their obligations in the Service Agreement, which go beyond the permit requirements.

Air Emissions Compliance

We have reviewed the operations and emissions reports, submitted by the Company for 2001 and 2002. In addition, we have reviewed the Emissions Certification Report and Air Toxics Emissions Certifications Reports for 1995 through 2001. Also, we have reviewed historical stack tests from 1995 through 2001 and the most recent stack tests performed during October 2002. These reports indicate that on an annual basis, the Project has been in material compliance with its air operating permits. The Company reports, and the County confirms, that the RRF has only experienced two reportable emissions deviations: one for sulfur dioxide from one unit and one for carbon monoxide from one unit as discussed below. We note that there have been a small number of other exceedances that have not been reportable due to the standard exclusions in the regulations which include start-ups, shut downs and equipment malfunctions. From an environmental compliance perspective, the RRF is being operated within industry standards.

On April 26, 2002, Unit 2 experienced a reportable three-hour SO₂ emissions deviation. The corresponding concentration and removal efficiency results were 31 ppmvd and 84 percent compared to the Title V criteria of 30 ppmvd and 85 percent, respectively. According to MDE’s Air and Radiation Management Administration (“ARMA”) Technical Memorandum 90-01 Continuous Emission Monitoring System (“CEMs”) Policies and Procedures referenced in the monitoring requirements of Section IV of the Title V Permit, the Project is permitted one deviation per quarter of a gaseous emission standard when monitored by a CEMs. The MDE, in a letter dated May 21, 2002, acknowledged the event as an emissions deviation and that there was no violation of any emissions standard with this one deviation.

On October 8, 2002, the RRF experienced elevated CO levels in one unit, that exceed the Air Permit limits of the one hour (430 ppm versus 200 ppm) and four hour (117 ppm versus 100 ppm) block average but not on the 24 hour block average, due to a plugged feed chute. The Company claims that this exceedance falls under the equipment malfunction exclusion in the regulations. During our discussions with MDE staff, after this CO incident, MDE compliance staff indicated to us that they consider the RRF to be operating in material compliance with the air permit and other applicable regulations.

Notice of Violations

We are not aware of any and the County confirms that there are no Notices of Violations, Notices of Non-Compliance or Administrative Consent Orders issued by MDE.

Residue Ash Testing

The County has the residue ash from the RRF tested on a periodic basis in order to determine whether or not the residue ash exhibits characteristics which would cause it to be classified by the USEPA as a hazardous waste. The tests on the ash were conducted by an outside laboratory with a copy of the test results forwarded to the Company, the County and the Authority. We have reviewed the results of the ash tests for 1995 through 1999 and March and December 2002 as part of the preparation of this Report. The results of the ash tests conducted to date indicate that the ash from the RRF has not exhibited characteristics that would cause it to be classified as hazardous waste.

Discussion with MDE Staff

Beck had discussions with key MDE staff in the compliance and permitting section for the Air, Solid Waste, and Wastewater Divisions of the MDE. In unanimous response, all MDE staff indicated the Project is operating in compliance, that all permits are valid or have been reviewed in a timely manner, and that there are no pending regulatory changes known that would affect the Project's ability to continue to operate in compliance with the requirements of the permits. We note that the MDE's response with respect to pending regulatory changes is consistent with previous discussions herein regarding PM_{2.5}, in that the PM_{2.5} issue is in an immature state.

Compliance Summary

Our review indicates that the Company has maintained and is maintaining the key permits and approvals, including the renewal of such permits and approvals, required for the continued operation of the Project. In addition, the Project is being operated in material compliance with the requirements of its permits, including the MACT standards.

Future Changes in Environmental Regulations

We have contacted several individuals at the MDE regarding potential regulatory and legislative changes and actions at the state level that would affect the Project and its MWCs. The MDE indicated that it knew of no planned changes to air quality regulations, solid waste, wastewater or MACT that would affect the Project and its MWCs. The MDE also indicated that it knew of no proposed regulations or legislation that would apply to the Project and its MWCs.

PRINCIPAL CONSIDERATIONS AND ASSUMPTIONS

In the preparation of this Report and the opinions that follow, we have made certain assumptions with respect to conditions which may exist or events which may occur in the future. While we believe these assumptions to be reasonable for the purpose of this Report, they are dependent upon future events, and actual conditions may differ from those assumed. In addition we have used and relied upon, certain information provided to us by sources which we believe to be reliable. We believe the use of such information and assumptions is reasonable for the purposes of our Report. However, some assumptions may vary significantly due to unanticipated events and circumstances. To the extent that actual future conditions differ from those assumed herein or provided to us by others, the actual results will vary from those discussed in the Report. This Report summarizes our work up to the date of the Report. Thus, changed conditions occurring or becoming known after such date could affect the material presented to the extent of such changes.

The principal considerations and assumptions made by us, in preparing the Report and the principal information provided to us by others include the following:

1. As Independent Engineer, we have made no determination as to the validity and enforceability of any contract, agreement, rule, or regulation applicable to the System and its operations. However, for purposes of this Report, we have assumed that all such contracts, agreements, rules, and regulations will be fully enforceable in accordance with their terms.

2. Any changes in required licenses, permits, and approvals will not require changes in design or operation of the Project resulting in significant increases in the costs of operating the Project.

3. The Company will operate the Project in accordance with the terms of the Service Agreement.

4. The Company will maintain the Project in accordance with generally accepted maintenance practices, make all required renewals and replacements in a timely manner, and will not operate the equipment to cause it to exceed the equipment manufacturers' recommended maximum ratings.

5. The Company will employ qualified and competent personnel who will properly operate and maintain the equipment in accordance with the manufacturers' recommendations and with generally accepted operating practices and will generally operate the Project in a sound and businesslike manner.

CONCLUSIONS

On the basis of our review and analyses of the Project and the assumptions set forth in the Report, we are of the opinion that:

1. The Company has operated and maintained the Project in accordance with generally accepted industry practices.

2. The Transportation System has demonstrated the ability to transport Processible Waste between the Transfer Station and the RRF and meet the guarantees as set forth in the Service Agreements.

3. The mass-burn Martin technology used in the RRF is a sound and proven method of solid waste disposal and energy recovery. In addition, the RRF has demonstrated the ability to meet the performance guarantees set forth in the Service Agreement.

4. The Company has processed all of the processible waste delivered to the Transfer Station by the County, and has demonstrated the ability to operate the Transfer Station at levels which meet or exceed the guarantees set forth in the Service Agreement.

5. The Authority constructed the Project to account for future growth in the County's waste generation. Prior to FY 2002, the quantities of Processible Waste which were delivered to the Transfer Station were not sufficient for the electrical guarantee to be effective. Due to an administrative oversight in 2002 regarding the failure to provide notice for excluded days in the calculation of this guarantee, the Company failed to meet the net electrical generation guarantee by less than one percent and the Authority deducted approximately \$184,000 from the FY 2002 Service Fee for this occurrence. However, specific historical data and the data for the first six months of the current fiscal year (FY 2003) demonstrate the ability of the Company to meet the electrical production guarantee. We believe that the administrative oversight experienced in 2002 has been corrected by the Company.

6. Past and most recent stack test results and residue ash tests indicate that the Company is meeting the environmental guarantees set forth in the Service Agreement. In addition, the County's routine testing of the residue ash from the RRF on a periodic basis has demonstrated that the ash has not exhibited characteristics that would cause the ash to be classified as hazardous waste.

7. The Company has maintained and is maintaining the key permits and approvals, including the renewal of such permits and approvals, required for the continued operation of the Project, and the Project is being operated in material compliance with the requirements of its permits including the MACT standards.

8. The Company currently has employees with the technical capabilities necessary for the proper operation of the Project in accordance with the Project's operating permits and the technical operating provisions of the Service Agreement.

9. Covanta currently has employees at its corporate headquarters who have the technical backgrounds and capabilities necessary to continue to provide adequate home office support to the Project.

10. In addition to the Company, other replacement operators of waste-to-energy facilities have demonstrated the technical capabilities necessary for the operation of waste-to-energy facilities and it is reasonable to assume that such operators should be capable of operating the RRF in accordance with the technical requirements of the Service Agreement and the operating requirements of the Project permits.

11. We are not aware of any technical reason to believe that the Company, or another replacement operator, cannot continue to operate the Project at similar technical performance levels set forth in the Service Agreement for the Service Fee specified in the Service Agreement, during the term of the Authority 2003 Bonds.

12. Assuming the operator of the Project properly operates the Project pursuant to the terms of the Service Agreement, performs routine maintenance in accordance with industry standards and the needs of the Project and undertakes all required renewals and replacements on a timely basis, it is reasonable to expect that the useful life of the RRF should extend beyond the term of the Authority 2003 Bonds.

Respectfully submitted,

/s/ R. W. BECK, INC.

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APPENDIX C

DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE MASTER AUTHORIZATION

Definitions of Certain Terms

“Accountant” means any independent certified public accountant of recognized standing designated by the County from time to time to perform the duties of the Accountant thereunder.

“Annual Budget” means the Solid Waste Collection and Disposal Fund budget or amended budget for a Fiscal Year, as adopted by the County in accordance with the Master Authorization.

“Applicable Law” means any law, regulation, requirement or order of any federal, state or local agency, court or other governmental body applicable from time to time to the acquisition, design, construction, equipping, start-up, testing, financing, ownership, possession or operation of the Authority Facilities or the performance of any obligations under the Authority Project Agreements, the Authority Bond Documents or any other agreements entered into in connection with the Authority Project Agreements or the Authority Bond Documents.

“Authority” means the Northeast Maryland Waste Disposal Authority, a body politic and public instrumentality of the State.

“Authority Bond Documents” means the trust indenture, any supplemental trust indenture, the bond insurance policy, any other Credit Facility and any other agreement executed in connection with the issuance of the Authority Bonds or any additional bonds by the Authority.

“Authority Bonds” means the 1993 Authority Bonds and the 2003 Authority Bonds, collectively.

“Authority Bond Trustee” means The Bank of New York, New York, New York, as Trustee under the Authority Indenture.

“Authority Component” means the Disposal System Components that are to be undertaken by the Authority pursuant to the Waste Disposal Agreement.

“Authority Facilities” means (i) the Authority Project, (ii) the Authority Project Sites and (iii) any additional facilities.

“Authority Indenture” means the Indenture of Trust dated as of March 1, 1993, as supplemented by a First Supplemental Indenture of Trust dated as of April 3, 2003, between the Authority and the Authority Trustee.

“Authority Project Agreements” means, collectively, (i) the Service Agreement, the Landfill Agreement, the Authority Project Site Lease, the Facility Site Agreement, the Rail Transportation Agreement, the Mirant Agreement, the Guaranty Agreement and, as the term is used other than in descriptions of the Service Agreement, the Waste Disposal Agreement, and (ii) any other agreements that are necessary for the Authority to fulfill its obligations under the Waste Disposal Agreement or the Authority Bond Documents.

“Authority Project” means, collectively, the Transfer Station, the Resource Recovery Facility, the Transportation System and any changes to the Transfer Station and the Resource Recovery Facility made in accordance with the Waste Disposal Agreement.

“Authority Project Revenues” means (i) all amounts payable to the Authority or the Authority Trustee pursuant to the Authority Project Agreements, including, without limitation, all amounts payable pursuant to the Energy Sales Agreement, all amounts payable by or on behalf of the Company pursuant to the Service Agreement, all amounts payable by or on behalf of CSX pursuant to the Rail Transportation Agreement and all amounts payable by or on behalf of the County pursuant to the Waste Disposal Agreement, the Landfill Agreement and the Authority Project Site Lease, and (ii) all other receipts, revenues, rentals, income, insurance or condemnation proceeds, and other moneys payable to or due to the Authority attributable to the ownership, leasing or operation of the Authority Facilities including, without limitation, (A) all rates, fees, service charges, user charges, and other

charges, income or receipts that are payable to, received by or imposed by the Authority or the Trustee in connection with the Authority Project Agreements or the Authority Facilities, (B) all revenues generated from the sale of Recovered Materials, (C) the proceeds of any automobile liability insurance or insurance that is "Required Insurance" as defined in the Service Agreement, (D) any other revenues of the Authority which revenues would constitute "Revenues" pursuant to the Master Authorization if earned or received by the County; provided, however, that "Revenues" do not include (i) any amount paid to the Authority in respect of the Authority development and implementation fee as provided in the Authority Indenture or the certain amounts that the Company pays to the Authority in support of the Authority's general activities, (ii) any amount paid to the Authority in respect of any Authority administrative costs or administrative expenditures, or (iii) any other amounts paid by the Authority Trustee to the Authority.

"Authority Project Site Lease" means the Authority Project Site Lease between the Authority, as tenant, and the County, as landlord, dated as of November 16, 1990, as supplemented by a letter of interpretation dated March 11, 1993.

"Authority Project Sites" means the Facility Site and the Transfer Station Site.

"Authorized County Officer" means the County Executive or the Director of Finance and, when used with reference to an act or document, also means any other person who, pursuant to the Montgomery County Code or regulations promulgated with respect thereto, or by executive order, is authorized to perform such act or execute such document.

"Authorizing Legislation" means, collectively, Section 24 of Article 31 of the Annotated Code of Maryland (1997 Replacement Volume and 2002 Supplement) and Sections 20-47 through 20-54 of Chapter 20 of the Montgomery County Code (1994 Edition, as amended).

"Beneficiary" means, any party and any express third-party beneficiary to a Long Term Obligation

"Bondholder" means the registered owner of a Series 2003 Bond.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer in connection with the issuance of the Series 2003 Bonds.

"Bond Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Bond Resolution" means the resolution of the County Council adopted in connection with the issuance of County Bonds pursuant to the County Revenue Bond Act, Section 20-47 through 20-54 of the Montgomery County Code, as amended, and includes any order of the County Executive issued in connection therewith for the purpose of effectuating such Bond Resolution.

"Brunswick" means Brunswick Waste Management Facility, Inc.

"Brunswick Agreement" means the Service Agreement between the County and Brunswick dated as of June 19, 1997.

"Brunswick Landfill" means the modern sanitary landfill in Brunswick County, Virginia owned by Brunswick and identified as the facility to receive waste under the Brunswick Agreement.

"Bypassed Waste" means Processible Waste that is accepted by the Company or any Substitute Operator but is not Processed at the Facility.

"Calculation Date" means the first Business Day of each month.

"Capital Costs" means, whether incurred prior to or after the date of the Master Authorization, all costs incurred by the County relating to the financing, construction, acquisition, improvement, completion, testing and placing in service of all or any portion of the County Disposal System, including, but not limited to, the following: (a) costs and expenses of the County which are incurred for labor and materials and payments to any contractors, builders and materialmen, (b) any payments due under any contracts with any person, public

corporation or state agency for services rendered by, or costs incurred by, such parties, (c) the cost of any surety or similar bond or letters of credit in lieu of or in addition to such surety bond and the cost of insurance of any kind that may be required or that may be necessary during the course of construction of the County Disposal System which is now paid by any contractor or contractors or otherwise provided for, (d) the costs and expenses of the County for test borings, surveys, estimates, plan and specifications and preliminary investigations therefor, and for supervising construction, as well as for the performance of all other duties which are required by or which are consequent to the proper construction of the County Disposal System, (e) compensation, fees and expenses of any fiduciary, any financial advisor, engineering, legal, accounting, financial and printing expenses and any fees and all other expenses incurred in connection with the (i) issuance of any bonds in connection with the County Disposal System whether issued pursuant to the County Revenue Act or in accordance with any Solid Waste Management Contract and (ii) obtaining and maintaining any credit facility issued to secure the funding requirement for the debt service reserve account of the Solid Waste Disposal Fund, (f) all other costs which the County is required to pay for the development, financing, acquisition, construction, improvement, completion, installation, testing or placing in service of all or any part of the County Disposal System, (g) any sums which are required to reimburse the County for advances made for any of the above items, or for any other costs which are properly incurred and for work done, which are properly chargeable as capital costs to the County Disposal System, (h) deposits into accounts established pursuant to any Bond Resolution for the payment of principal and redemption price of and interest on any County Bonds or subordinated indebtedness, including, but not limited to, deposits into any reserve fund or account established pursuant to a bond resolution, including, but not limited to, any account established for the purpose of providing funds for the payment of interest during construction and a six-month period thereafter, (i) the payment of the principal of, redemption price, if any, and interest on any indebtedness issued to temporarily finance the payment of any of the foregoing items of cost of the County Disposal System, (j) deposits into the Renewal and Replacement Account of the Solid Waste Disposal Fund, (k) the administrative expenses of the County incurred in connection with the foregoing, (l) acquisition of certain disposal rights in landfills located outside of the geographic boundaries of the County, (m) any cost related to the closure of any component of the County Disposal System to the extent such cost is not paid as an Operating Expense, (n) any other proper item of cost which is provided for under the definition of "cost" in section 2-48 of the Montgomery County Code and is incurred in connection with the acquisition, construction, improvement, completion or installation of the County Disposal System, and (o) such other expenses which are not specified herein as may be necessary or incidental to the construction, acquisition, improvement, completion or installation of all or any part of the County Disposal System, the financing thereof and the placing of the same in use and operation.

"Capital Improvement Report" means the County's Long Term Capital Improvement Report prepared pursuant to the provisions of Section 5.24 of the Master Authorization.

"Chapter 48" means Chapter 48 of the Montgomery County Code (1994 Edition, as amended), and any amendments thereof and any supplements thereto.

"Code" means the Internal Revenue Code of 1986, as the same may be amended from time to time, and the regulations promulgated thereunder.

"Collection Account" means the account of that name established pursuant to the Master Authorization.

"Collection and Disposal District" means the collection and disposal district established pursuant to Chapter 48 in which the County is required to provide solid waste collection services, as such district may be expanded from time to time.

"Collection and Disposal District Residences" means residences located in the Collection and Disposal District.

"Collection Expenses" means the costs and expenses of the County in providing Collection Services.

"Collection Fees" means the fees and charges imposed by the County for providing Collection Services.

"Collection Revenues" means any amounts collected by the County for providing Collection Service within the Collection and Disposal District.

"Collection Services" means the portion of the County System involving collection of Disposable Refuse

(other than Recyclable Materials) provided by the County to certain residences within the Collection and Disposal District. "Collection Service" does not include (1) the services performed as part of the County Disposal System or (2) the collection of Recyclable Materials.

"Company" means Covanta Montgomery, Inc (formerly, Ogden Martin Systems of Montgomery, Inc.), a Maryland corporation.

"Completion Indebtedness" means any indebtedness issued or increase in obligations of the County incurred in accordance with the terms of any Long Term Obligation (including County Bonds), which is issued or incurred to (1) pay the costs of completing any Disposal System Component for which indebtedness has previously been issued pursuant to the terms of such Long Term Obligation, but only to the extent such completion indebtedness exceeds the amount of indebtedness originally expected to be issued to complete such Disposal System Component, as described in the Long Term Obligation pursuant to which the previous indebtedness was issued or (2) pay the costs of meeting, maintaining or restoring any reduction in, capacity in any Disposal System Component which was due to an unforeseen or uncontrollable circumstance or a change in law.

"Composting Facility" means the Dickerson Composting Facility located in the northwest part of the County.

"Construction Account" means the account of that name established in the Solid Waste Disposal Fund.

"Consulting Engineer" means an independent engineer or engineering firm or corporation of engineers of recognized standing, having skill and experience with respect to the design, construction and operation of facilities similar to those which comprise the County Disposal System, as may be designated by the County from time to time in accordance with the Master Authorization. R.W. Beck is currently the Consulting Engineer.

"County" means Montgomery County, Maryland, a body politic and corporate and a political subdivision of the State.

"County Bonds" means any of the bonds, notes or other obligations for borrowed money of the County issued in connection with the County Disposal System pursuant to a Bond Resolution which bonds are secured, in whole or in part, by County Disposal System Revenues.

"County Bond Debt Service Reserve Account" means the account of that name established pursuant to the Master Authorization.

"County Bond Debt Service Reserve Requirement" means, as of the date of any computation, an amount which is equal to the greatest amount of Debt Service becoming due with respect to County Bonds in the Fiscal Year in which such computation is made or in any succeeding Fiscal Year or such other amount as may be allowed within the limitation of the Code. The requirement may be met by a Credit Facility or other similar banking facility or guaranty facility with a minimum rating of "A" from Moody's and Standard & Poors. If the County issues County Bonds which are secured in addition to County Disposal System Revenues by a general obligation of the County for which its full faith and credit is pledged, such pledge may be deemed to satisfy the County Bond Debt Service Reserve Requirement.

"County Designated Landfill" means one or more landfills or facilities which the County owns, operates or has a contractual right to use, designated and made available to the Authority by the County for disposal of Landfill Waste under the Landfill Agreement.

"County Disposal System" means the portions of the County System relating to the disposal of solid waste.

"County Disposal System Components" means the facilities which comprise the County Disposal System, including without limitation, resource recovery facilities, waste-to-energy facilities, landfills, recycling facilities, composting facilities, transfer stations, collection equipment, rail transportation facilities and equipment, facilities and equipment related to the interconnection of the County Disposal System to any purchaser of energy generated through the operation of the County Disposal System, administrative facilities, treatment facilities, storage facilities and including all real property, fixtures, rights therein, and rights-of-way, easements and other interests and all

personal property and rights therein which are necessary or desirable for the efficient operation of the County Disposal System or the provision of disposal services and any appurtenances which are necessary or useful and convenient therefor.

“County Disposal System Revenues” means (a) all moneys in the Solid Waste Disposal Fund, (b) all rents, rates, fees, service charges, user charges, instruments, chattel paper, negotiable documents and other charges, income or receipts which are payable to, received by or imposed by the County in connection with the County Disposal System, including but not limited to, County Disposal System Revenues relating to (i) the collection, transportation, storage, treatment, recycling and disposal of Refuse by any County Disposal System Components, or derived as a result of the provision of disposal services, including without limitation, rates and charges imposed upon haulers of Disposable Refuse, municipalities or anyone in respect of the disposal of Disposable Refuse (regardless of where such Disposable Refuse originates or is received), (ii) amounts payable to the County pursuant to any Solid Waste Management Contract, (iii) the sale of Recyclable Materials, (iv) revenues generated through the operation of any Disposal System Component owned by the County, (v) payments from the County to the Solid Waste Disposal Fund for services rendered to the County through the County Disposal System, (c) any moneys received by or on behalf of the County from the United States of America, or any agency thereof, or from the State, or any agency thereof, as or on account of a grant or contribution not repayable by the County with respect to the County Disposal System (but not including grants made for the purpose of providing funds for the payment of Capital Costs); (d) the proceeds of insurance covering a loss due to an interruption in the operation of the County Disposal System, if any, (e) any investment income which is derived from the investment of any funds in the Solid Waste Disposal Fund (other than investment income of any funds in the Construction Account), (f) any moneys deposited by the County in the Solid Waste Disposal Fund at the discretion of the County (but not including moneys deposited by the County for the purpose of paying a specific Capital Cost or Operating Expense), (g) any grants from any persons relating to the operation and maintenance of the County Disposal System; provided, however, that “County Disposal System Revenues” do not include (1) the proceeds of County Bonds deposited in the Construction Account established by the Master Authorization or (2) interest earned on the Rebate Account established by the Master Authorization or (3) certain prepayments and collateral received by the County in connection with the County Disposal System until such time as waste for which the prepayment was made or the County is entitled to retain the collateral, as the case may be.

“County Generated Waste” means the solid waste generated in the County.

“County System” means (a) plants, structures, buildings, machinery, equipment, fixtures and other real and personal property owned or leased by the County pursuant to and for the purpose of complying with the Master Authorization and providing solid waste management service (including curbside collection of Recyclables) pursuant to Chapter 48, including but not limited to any County Disposal System Components which are necessary or desirable for the efficient operation of the County System and any appurtenances which are necessary or useful and convenient therefor including any item which would in whole or part constitute a "Project" as such term is defined in Montgomery County Code Section 20-48 as may be amended from time to time and (b) any rights and obligations of the County under any Solid Waste Management Contracts, as such contracts may be amended, modified or renewed.

“County System Indebtedness” is a collective term meaning (a) debt service on the Series 2003 Bonds and the Prior Bonds and (b) the debt service component of the Waste Disposal Fee, which is generally all amounts payable by the Authority under the Indenture with respect to the Authority Bonds and any additional bonds that may be issued under the Authority’s indenture.

“Credit Facility” means any letter of credit, surety bond, loan agreement or other credit agreement, facility, insurance or guarantee agreement issued by a financial institution, insurance company or association which secures, through a reimbursement agreement or otherwise, County Bonds or any other bonds issued in accordance with a Long Term Obligation and, for purposes only of the a debt service reserve account for County Bonds, secure the requirement thereof.

“CSX” means CSX Transportation, Inc. and its permitted successors and assigns under a Rail Transportation Agreement between CSX and the Authority dated as of October 1, 1989.

“Debt Service” means, for any period, the sum of the interest and principal accruing during such period with respect to County Bonds and Prior County Bonds, and premium, if any, including any amounts required to be paid to a sinking fund established in connection with any County Bonds and Prior County Bonds or such other

sums as will reflect the amount of interest and principal becoming due and payable, as estimated or fixed with respect to variable rate financing optional tender bonds, capital appreciation bonds, balloon debt or the like as set forth in the Bond Resolution.

“Default Trustee” means the trustee appointed by the County pursuant to the terms of Article VI of the Master Authorization.

“Disposable Refuse” means all waste materials and debris, including but not limited to, garbage, sludge, debris from building construction, ashes, junk, industrial waste, dead animals, salvable waste, dead or felled trees, uprooted tree stumps, slash, tree limbs, bushes, plants, leaves, grass, garden trimmings, street refuse, abandoned vehicles, machinery, bottles, cans, waste paper, cardboard, sawdust and slash from sawmill operations, and all other waste materials and any other materials designated by the County Executive as suitable for disposal through the County Disposal System. Disposable Refuse also includes Recyclable Materials that the County recycles through the County Disposal System and Residue.

“Disposal Services” means all Disposable Refuse disposal services which are required to be provided by the County pursuant to the Service Covenant, whether such services are provided through the use of the County Disposal System, by Solid Waste Management Contracts or otherwise. “Disposal Services” includes any recycling or materials recovery activities undertaken within the County Disposal System.

“Disposal System Expenses” means expenses of the County Disposal System.

“Disposal System Reserve Requirement” means, with respect to any Fiscal Year, the amount which is determined by the Consulting Engineer pursuant to the Master Authorization as the amount which is reasonably necessary as a reserve for expenses with respect to the County Disposal System for (a) scheduled major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals pursuant to a maintenance and repair program, (b) for repairs, renewals and replacements resulting from the occurrence of uncontrollable circumstances which are not covered by the proceeds of an insurance policy, and (c) any amounts which must be deposited in the Renewal and Replacement Account pursuant to the Master Authorization.

“DTC” means the Depository Trust Company.

“Electricity Sales Agreement” means the Mirant Agreement and any other agreements for the sale of steam, electricity, hot water or any other energy produced at the Resource Recovery Facility from the processing of waste.

“Event of Default” means any of the events described below under “Events of Default (Section 7.1)”

“Facility Site” means the real property located in Dickerson, Maryland, on which the Resource Recovery Facility is located.

“Facility Site Agreement” means the Facility Site Agreement among PEPCO, the Authority and the County dated October 5, 1989, as amended and supplemented by a Confirmation and Clarification dated December 5, 1989, a Joint and Mutual Determination dated June 20, 1990 and a Letter of Interpretation dated February 18, 1993.

“Fiduciary” means the Default Trustee, the Paying Agent, any registrar, any tender agent or remarketing agent for any County Bonds or any indebtedness issued pursuant to any Long Term Obligation, or any or all of them, as the case may be.

“Fiscal Year” means the twelve-month period beginning on July 1 of each year and ending on the last day of June of the following year or any consecutive twelve-month period adopted by the County as the official accounting year of the County.

“Flow Control Covenant” means the covenant described below under “Flow Control Covenant (Section 5.11).”

“General Account” means the account of that name established by the Master Authorization.

“Guaranty Agreement” means the Guaranty Agreement, dated November 16, 1990, executed by Covanta Energy Corporation for the benefit of the Authority.

“Investment Obligations” means any obligations that constitute legal investments for the County and which are rated at an investment grade of not less than “Aa” by Moody’s Investors Service, Inc. and not less than “AA” by Standard & Poor’s Corporation.

“Long Term Expenses” means, for any period, any amounts required to be paid by the County pursuant to (a) Long Term Obligations or (ii) debt service on the Prior County Bonds.

“Long Term Obligations” means (1) County Bonds, (2) any Solid Waste Management Contracts, including the Waste Disposal Agreement, which expressly provide for the issuance of indebtedness by the other party which is to be secured by County Disposal System Revenues, (3) any reimbursement agreement that secures bonds that are Long Term Obligations and (4) any other multiyear Solid Waste Management Contract which (a) does not contain an express provision that such contract is subject to appropriations and (b) is not terminable at the option of the County without the payment of damages, penalties or other extraordinary amounts by the County upon termination. “Long Term Obligations” does not include subordinated indebtedness that is secured by County Disposal System Revenues.

“Long Term Obligations Account” means the account of that name established by the Master Authorization.

“Long Term Obligation Requirement” means, unless otherwise provided in a Master Authorization Supplement, (a) as of any date of calculation, an amount of money which is equal to the amount necessary to provide for the payment of Long Term Expenses (other than debt service on County Bonds) for a period beginning on such date of calculation and ending on the first Calculation Date subsequent thereto and (b) with respect to County Bonds, as of any date of calculation, an amount of money which is equal to the amount necessary to provide for the payment of Debt Service on County Bonds for a period beginning on such date of calculation and ending on the next Calculation Date.

“Master Authorization” means the Master Authorization of the County, which became effective on November 16, 1990.

“Master Authorization Supplement” means any amendment, modification or supplement to the Master Authorization that is duly adopted and executed in accordance with the provisions of the Master Authorization.

“Materials Recovery Facility” means the materials recovery facility owned by the County and located in Derwood, Maryland.

“Mirant” means Mirant Americas Energy Marketing, L.P.

“Mirant Agreement” means the Electricity Sales Agreement between the Authority and Mirant dated as of July 12, 2001.

“Non-Processible Waste” means solid waste that is not Processible Waste. “Operating Account” means the account of that name established by the Master Authorization.

“Operating Account Requirement” means (unless a greater amount is expressly provided in a Master Authorization Supplement), as of any date of calculation, an amount of money which is equal to the amount necessary to provide for the payment of Operating Expenses (in accordance with the provisions of the Annual Budget which is in effect as of such date) for a period beginning on such date of calculation and ending on the first Calculation Date subsequent thereto. In the event that the exact amount of any Operating Expenses cannot be determined as of any date of calculation, an Authorized County Officer may estimate such Operating Expenses for purposes of determining the Operating Account Requirement.

“Operating Expenses” means the reasonable or necessary costs and expenses of the County (but not including Long Term Expenses) of operating, maintaining, repairing, insuring, and administering the County Disposal System or providing disposal services, including, without limitation, (a) all administrative, general and

commercial expenses, (b) insurance and surety bond premiums, (c) payments to others for the collection, transfer, disposal or processing of solid waste (other than expenses relating to Refuse collection), (d) engineering expenses, (e) legal expenses, and any damages, judgments, awards, fines, penalties, assessments, impositions, charges, levies, litigation settlement amounts or other similar costs or expenses properly incurred and owing by the County in connection with the County Disposal System, (f) auditing expenses, (g) ordinary and current rentals of equipment or other costs which are not paid from the Construction Account, (h) any other current expenses which are required or permitted to be paid by the County in connection with the County Disposal System under the provisions of the Master Authorization or by law, including, without limitation, payments made to consultants and professionals retained by the County, all to the extent that such expenses are properly incurred by the County and attributable to the County Disposal System, (i) expenses which are incurred in connection with the issuance of County Bonds or the execution of Long Term Obligations, (j) costs incurred in connection with the preparation of any reports, plans, opinions or certificates which are required to be prepared under the terms of the Master Authorization and (k) costs incurred in connection with the monitoring of any Disposal System Component, whether before or after its closure.

“Outstanding,” when used with respect to (1) County Bonds and as of any particular date, means all County Bonds previously authenticated and delivered except (a) any County Bond which has been canceled by the County or by the registrar for such County Bonds on or prior to such date, (b) any County Bond which is no longer outstanding pursuant to the terms of the Bond Resolution authorizing such County Bond, (c) any County Bond in lieu of or in substitution for which another County Bond has been authenticated and delivered pursuant to the provisions of the Master Authorization, and (d) any County Bond which is deemed to have been purchased by the tender agent pursuant to the terms of the Bond Resolution authorizing such County Bond; and (2) any Long Term Obligation other than County Bonds and as of any particular date, means any Long Term Obligations previously executed by the County except if (a) such Long Term Obligation has been terminated, discharged or has expired pursuant to the terms thereof and (b) the County has paid (or placed in a segregated trust account) all amounts required to be paid by the County pursuant to the terms of such Long Term Obligation, including any amounts required to be paid by the County in connection with any optional termination by the County of such Long Term Obligation.

“Paying Agent” means Wachovia Bank, National Association, Richmond, Virginia, and any other bank or trust company, as designated from time to time by the County, authorized to pay the principal or purchase price of, premium, if any, and interest on any County Bonds.

“Person” means any individual, corporation, partnership, joint venture, association, joint-stock company or unincorporated organization, or any governmental unit or agency or political subdivision.

“Prior County Bonds” means certain general obligation bonds that the County issued prior to adoption of the Master Authorization and of which \$282,233 in principal amount remains outstanding as of April 1, 2003.

“Processible Waste” means solid waste that can be processed at the Resource Recovery Facility.

“Rail Transportation Agreement” means the Railroad Transportation Agreement between the Authority and CSX dated as of October 1, 1989, as amended September 1, 1990.

“Rate Covenant” means the covenant described below under “Rate Covenant.”

“Rate Stabilization Account” means the account of that name established by the Master Authorization.

“Rate Stabilization Requirement” means (unless a greater amount is expressly provided in any Master Authorization Supplement), as of any date of calculation, an amount determined by the County in its discretion as appropriate for the purpose of the Rate Stabilization Account of the Solid Waste Disposal Fund, as evidenced by a certificate of an Authorized County Officer.

“Rating Agencies” means, with respect to the Series 2003 Bonds, Fitch, Inc. and Moody’s Investors Service, Inc.

“Rebate Account” means the account of that name in the Solid Waste Disposal Fund.

“Recovered Materials” means any salvageable items recovered from the material that remains after the waste has been processed.

“Recyclable Materials” means those materials, or any materials that may be recovered either prior to or after processing, which are separated from solid waste pursuant to a requirement imposed by the County, either at the source of such solid waste or mechanically at any Disposal System Component, and which are capable of being returned to the economic mainstream.

“Recyclables” means Processible Waste that may be recovered and separated from Processible Waste and that is capable of being returned to the economic mainstream.

“Refunded Bonds” means the County’s Solid Waste System Revenue Bonds, 1993 Series A, listed on Appendix E hereto.

“Refunding Obligations” means any indebtedness issued or increase in obligations of the County incurred in accordance with the terms of any Long Term Obligation (including County Bonds), which is used to refund any previously issued indebtedness or previously incurred obligation.

“Refuse” means Processible Waste other than Recyclables.

“Registrar” means Wachovia Bank, National Association, Richmond, Virginia, and any successor duly appointed by the County.

“Reimbursement Agreement” means any agreement between the County and any issuer of a Credit Facility which secures in whole or in part County Bonds or any other bonds issued in connection with a Long Term Obligation and, if appropriate in context, will be deemed to include a policy of municipal bond insurance on County Bonds.

“Renewal and Replacement Account” means the account of that name established by the Master Authorization.

“Residue” means ash and other residue resulting from operation of the Resource Recovery Facility

“Resource Recovery Facility” means the Authority’s mass-burn, resource recovery facility located in Dickerson, Maryland.

“Revenue Account” means the account of that name established by the Master Authorization.

“Series 2003 Bonds” means the County’s Solid Waste Disposal System Refunding Revenue Bonds (2003 Series A).

“Service Agreement” means the Service Agreement between the Authority and the Company, as amended, and as supplemented by certain letters of interpretation and the Project Implementation Agreement between the Authority and the Company dated as of January 30, 2002.

“Service Covenant” means the covenant described below under “Service Covenant.”

“Solid Waste Act” means Chapter 48.

“Solid Waste Collection and Disposal Fund” means the fund of that name established by Chapter 48.

“Solid Waste Disposal Fund” means the fund of that name established pursuant to Chapter 48.

“Solid Waste Management Contracts” means all contracts, leases and agreements with any person to which the County is a party which bear upon or affect the Rate Covenant, the Service Covenant, or the Waste Delivery Covenant or any other obligation or responsibility of the County under the Master Authorization, including without limitation (a) any Long Term Obligation and (b) any other contract, lease or agreement providing for the design, construction, maintenance or operation, disposal service, property acquisition, sale or use, of energy

or material sales.

“State” means the State of Maryland.

“Subordinated Indebtedness” means any indebtedness of the County described in Section 5.21 of the Master Authorization incurred in connection with the County Disposal System which is secured by a pledge of County Disposal System Revenues under the Master Authorization but which is, by the express terms of such indebtedness, subordinate to the pledge of County Disposal System Revenues securing Long Term Obligations.

“Substitute Operator” means, following a termination of the Service Agreement, if any, a Person procured by the Authority to operate all or any portion of the Authority Project or otherwise perform some or all of the Company’s obligations under the Service Agreement.

“System Benefit Charge” means the charges for solid waste management services imposed by the County on residential and non-residential property within a County-wide Solid Waste Management District and include a base System Benefit Charge, an incremental System Benefit Charge and a solid waste disposal fee.

“Tax-Exempt Obligations” means any County Bonds the interest on which is intended to be excludable from gross income pursuant to the Code (notwithstanding the application of the provisions of the Code relating to alternative minimum taxation).

“Tipping Fees” means the fees payable for Refuse delivered to the Transfer Station.

“Transfer Station” means the transfer station facilities owned by the County and located on Shady Grove Road in Montgomery County, Maryland.

“Transfer Station Site” means the site located on Shady Grove Road in Montgomery County, Maryland, on which the Transfer Station is located, together with certain rail transportation property rights, as more particularly described in the Authority Project Site Lease.

“Transportation System” means the intermodal solid waste transportation system, including railcars, which is a component of the Authority Project.

“Waste Disposal Agreement” means the Amended and Restated Waste Disposal Agreement, dated April 3, 2003 between the County and the Authority.

“Waste Disposal Fee” means the annual fee payable to the Authority by the County under the Waste Disposal Agreement, a component of which is debt service on the Authority Bonds.

“Yard Waste” means grass clippings, leaves, brush and other related organic material.

“1993 Authority Bonds” means the Authority’s Solid Waste Revenue Bonds (Montgomery County Resource Recovery Project), Series 1993A

“2003 Authority Bonds” means the Authority’s Solid Waste Refunding Revenue Bonds (Montgomery County Solid Waste Disposal System), Series 2003.

Summary of Certain Provisions of the Master Authorization

The following summarizes certain provisions of the Master Authorization. This summary is qualified in its entirety by reference to the document itself (Section references below are to Sections of the document; summaries of certain subsections may not be presented below but subsection designations are retained as they appear in the document itself).

Master Authorization to Constitute Contract (Section 2.2).

The provisions of the Master Authorization constitute a contract between the County and any Beneficiary, and the covenants and agreements set forth therein are for the equal and ratable benefit of each Beneficiary. The pledge which is made in the Master Authorization is for the equal benefit, protection and security of any person which enters into a Long Term Obligation with the County, subject only to the provisions of the Master Authorization permitting the application of any pledged amounts for or to the purposes and on the terms and conditions set forth in the Master Authorization. The Master Authorization must be attached to, and constitute a part of, each and every Long Term Obligation.

Limited Obligation of County (Section 2.3).

Long Term Obligations are limited obligations of the County and any payments required thereunder are payable by the County solely from the moneys and accounts which are pledged, as and to the extent provided in Section 4.1 of the Master Authorization. Any person which enters into a Long Term Obligation with the County is entitled to the benefit of the continuing pledge and lien created by the Master Authorization to secure the full and final payment of any amounts required to be paid by the County pursuant to such Long Term Obligations, subject only to the provisions of the Master Authorization permitting the application of any pledged amounts for or to the purposes and on the terms and conditions set forth in the Master Authorization.

Master Authorization Supplements Adopted For Certain Purposes Effective Without Consent of Persons With Which the County Has Entered Into Long Term Obligations (Section 2.6).

The Master Authorization may be amended, modified or supplemented without the consent of any Beneficiary, if such amendment, modification or supplement is adopted for any of the following purposes and the amendment, modification or supplement, in the opinion of Bond Counsel, is not inconsistent with the provisions of the Master Authorization: (1) to close the Master Authorization against, or provide limitations and restrictions (in addition to the limitations and restrictions contained in the Master Authorization) on, the execution of other Long Term Obligations; (2) to add additional covenants or agreements to be observed by the County; (3) to add additional limitations or restrictions to be observed by the County; (4) to surrender any right, power or privilege which is reserved to or conferred upon the County by the terms of the Master Authorization; provided, however, that such amendments described in clauses (1) through (4) may not impair the ability of the County to meet its obligations to any Beneficiary under the Master Authorization or any Long-Term Obligation; (5) to confirm, as further assurance, any pledge which is created under, and the subjection to any lien or pledge created or to be created by, the terms of the Master Authorization, of the County Disposal System Revenues or of any other moneys, securities or funds; provided that such confirmation shall not affect the priority of interests of any Beneficiary; (6) to specify, determine or authorize any and all matters and things relative to the issuance of County Bonds; (7) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Master Authorization; (8) to clarify matters or questions arising under the terms of the Master Authorization which are not contrary to or inconsistent with the terms of the Master Authorization as theretofore in effect; and (9) to effectuate the issuance by the County of Subordinated Indebtedness to the extent consistent with the terms of the Master Authorization as theretofore in effect.

Master Authorization Supplements Effective with Consent of Persons With Which the County Has Entered Into Long Term Obligations (Section 2.7).

Except as provided in Sections 2.6 and 2.8 thereof, the Master Authorization may only be amended, modified or supplemented with the consent of (i) a majority of the Beneficiaries (as determined pursuant to Section 7.4(B) of the Master Authorization), (ii) each Beneficiary that is the provider of a Credit Facility, and (iii) any Beneficiary whose interest under a Long Term Obligation would be materially adversely affected thereby.

Whether or not consent to Master Authorization Supplements is given will be determined by the Default Trustee in the following manner:

(1) With respect to Long Term Obligations described in clause (1) of the definition thereof, all series of County Bonds will be deemed to be a single Long Term Obligation for the purpose of determining consent, and the Bond Resolutions adopted in connection with the issuance of such series of County Bonds will control the determination of whether or not consent is given.

(2) With respect to Long Term Obligations described in clause (2) of the definition thereof, each contract described in such clause will be deemed a separate Long Term Obligation for the purposes of determining consent and each Beneficiary may determine whether or not its consent is given in its discretion.

(3) With respect to Reimbursement Agreements described in clause (3) of the definition of Long Term Obligation, the provisions of the particular Long Term Obligation which is secured by the Credit Facility issued pursuant to such Reimbursement Agreement will control the rights of the person which enters into such Reimbursement Agreement to determine whether or not the consent of the Long Term Obligation is given.

Prohibited Modification of Duties and Obligations of Fiduciary or Issuer of Credit Facility (Section 2.8).

Notwithstanding the provisions of the Master Authorization, no modification or supplement of the Master Authorization may (i) change the amount of any payment due under any Long Term Obligation or the due date for such payment without the consent of the Beneficiary of such Long Term Obligation, (ii) except as expressly permitted thereby, permit the creation of a claim or lien upon, or a pledge of, the County Disposal System Revenues ranking prior to or on a parity with the claim, lien and pledge created by the Master Authorization, a preference or priority of any Long Term Obligation over any other Long Term Obligation or a reduction in the percentage of Long Term Obligation, the consent of the Beneficiaries of which is required for any modification of the Master Authorization without the unanimous consent of the Beneficiaries of the Outstanding Long Term Obligations, or (iii) change or modify any of the duties or obligations of any Fiduciary or the issuer of any Credit Facility without its prior written consent thereto.

Conditions Precedent to the Execution of Long Term Obligations (Section 3.2).

(A) The County must not execute any Long Term Obligations or permit the issuance of indebtedness pursuant to Long Term Obligations pursuant to the terms of the Master Authorization unless theretofore or simultaneously therewith there has been delivered to the Director of Finance, the following:

(1) A copy of the Master Authorization and a copy of each Master Authorization Supplement, if any, which has been duly adopted prior to the execution of the Long Term Obligation and which remains in full force and effect, each certified by an Authorized County Officer as a true and accurate copy;

(2) An opinion of Bond Counsel as to the due authorization and delivery of the Long Term Obligations and certain other matters;

(3) If such Long Term Obligations are County Bonds, (a) a copy of the Bond Resolution authorizing the issuance of such County Bonds, (b) any instruments which are required to be delivered to the Director of Finance pursuant to such Bond Resolution and (c) any amounts which are required to be paid into the Solid Waste Collection and Disposal Fund pursuant to the terms of such Bond Resolution;

(4) A certificate of an Authorized County Officer setting forth any payments that are required to be paid by the County pursuant to the Long Term Obligation. The amount set forth therein shall assume the estimated maximum cost as set forth in the Bond Resolution or as estimated in the certificate as required to complete the Disposal System Component regardless of whether or not the actual amount is then being issued. The balance of the amount required to be issued up to such maximum cost shall be deemed Completion Indebtedness (assuming the plan of financing therefor is to finance some by County Bonds or Long Term Obligations) and shall not be subject to the provisions of subsections (6) and (7) below;

(5) Such other documents as may be required by the terms of a Master Authorization Supplement duly adopted prior to the execution of the Long Term Obligation;

(6) A certificate duly executed by an Accountant stating that, at the rates and charges which are in effect on the date of such certificate, the Rate Covenant was satisfied during a twelve-month period which must be either (i) the Fiscal Year most recently ended prior to the date of execution of such Long Term Obligation, or (ii) any other twelve-month period ending on a date which is not more than 180 days prior to the date of execution of such Long Term Obligation; such certificate shall not be required if the expressed purpose of the execution of the Long Term Obligation or issuance of such indebtedness is to cure a Rate Covenant default or other Waste Disposal Agreement default;

(7) A certificate of the Consulting Engineer setting forth (a) his estimate of the Long Term Expenses, Operating Expenses and County Disposal System Revenues for each of the three Fiscal Years immediately succeeding the later of (i) the completion of the improvements to be financed with proceeds of such Long Term Obligation and (ii) the execution of the Long Term Obligation, calculated on the assumption that County Disposal System Revenues will be charged and collected at the rates in effect on the date of such certificates or such higher rate as the County has covenanted to charge for such Fiscal Year provided that the Long Term Expenses consisting of debt service must be amortized on a level payment basis if the payment schedule defers principal payments to a greater extent), (b) if such Long Term Obligation is County Bonds the County Bond Debt Service Reserve Requirement for each such Fiscal Year, and (c) his opinion that County Disposal System Revenues for each Fiscal Year set forth in such certificate can be expected to be generated in amounts sufficient for the County to meet the Rate Covenant; and

(8) A certificate of the Director of Finance stating that (a) no default exists in the payment of any Long Term Expenses or otherwise pursuant to any Long Term Obligation, and (b) the County is not in default in the performance of any of its covenants and agreements under the Master Authorization.

(B) If any Long Term Obligation is County Bonds issued for the payment or refunding of any County Bonds, the County must apply the proceeds which are derived from the sale thereof as follows: (1) an amount which is sufficient to pay the costs incurred in connection with the authorization, issuance and sale of such County Bonds must be deposited in the Construction Account, and (2) the remaining amount of such proceeds must be applied to the payment or refunding of such County Bonds in accordance with the terms of the Bond Resolution authorizing the issuance of such County Bonds.

(C) Notwithstanding the foregoing, the certifications described in (A)(6) and (A)(7) above are not required for (1) the issuance of County Bonds or the execution of other Long Term Obligations in each case in an amount up to \$25,000,000 in the aggregate for the purpose of financing a Disposal System Component constituting one or more landfills, (2) the issuance of Completion Indebtedness, including with respect to (2) of the definition of Completion Indebtedness upon the filing of a certificate of the Consulting Engineer that the Capital Cost to be financed by the County Bonds or execution of Long Term Obligation is necessary to meet, maintain or restore any reduction in, capacity in the Disposal System Component which was due to an unforeseen or uncontrollable circumstance or a change in law and (3) the issuance of Refunding Obligations which results in a decrease in the debt service component of the amount payable by the County pursuant to the Long Term Obligation which is refunded in every Fiscal Year after such Refunding Obligations are issued.

(D) In addition, even though the County is not executing any Long Term Obligation or issuing indebtedness under (A) above, in the event the County is providing, accepting or otherwise adding substantial capacity to the Disposal System by a new Disposal System Component for which Operating Expenses are to be paid from County Disposal System Revenues deposited or credited into the Operating Account, the provisions relating to the execution or issuance of a Long Term Obligation with respect to the authorization of such addition shall be complied with, particularly paragraphs (6) and (7).

Pledge Securing Payment of Amounts Required to be Paid by the County Pursuant to Long Term Obligations (Section 4.1).

(A) To secure the payment of any amounts required to be paid by the County pursuant to any Long Term Obligations in accordance with their terms and the provisions of the Master Authorization and the punctual performance by the County of all its obligations thereunder and for the benefit of the Long Term Obligations and subject only to the provisions of the Master Authorization permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Master Authorization, the County pledges all right, title, and interest of the County in and to (1) the County Disposal System Revenues (except such County Disposal System Revenues or other moneys which are on deposit in the Rebate Account and which are required to be rebated to the United States government pursuant to the provisions of the Code), (2) all moneys, securities and funds which are held in the Solid Waste Collection and Disposal Fund (other than Collection Revenues), (3) all moneys, securities and funds set aside or which are to be held or set aside pursuant to the terms of the Master Authorization or which are held in any account which are established and created under the terms of the Master Authorization (other than amounts which are deposited in the Rebate Account and which are required to be rebated to the United States government pursuant to the provisions of the Code), including without limitation (a) proceeds derived from the sale of any County Bonds, subject in this case to Applicable Law and any limitation on the use of such proceeds in the Bond Resolution authorizing such County Bonds,

(b) the proceeds of any business interruption, use and occupancy or casualty insurance (or the proceeds of any insurance policy maintained for the repair or replacement of any Disposal System Component) and any condemnation award made with respect to any Disposal System Component, and (c) payments made with respect to any County Bonds by the issuer of any Credit Facility, (4) as and to the extent provided in clause (C) below, the County's interest in any Solid Waste Management Contracts, and (5) to the extent permitted by and in accordance with the procedures permitted under any applicable law, any rights of the County under any permits, licenses and approvals relating to the Disposal System.

(B) In the event that any Credit Facility is provided with respect to any County Bonds, any moneys which are made available under the terms of such Credit Facility are pledged to secure the payment of the principal of and interest on the County Bonds with respect to which the Credit Facility was issued.

(C) All rights of the County to receive payment under the provisions of any Solid Waste Management Contracts are pledged and assigned for the benefit and security of any person with whom the County enters into a Long Term Obligation in order to secure the punctual payment of any amounts required to be paid by the County pursuant to any Long Term Obligations and the punctual performance by the County of its obligations under the Master Authorization, subject, however, to the right of the County, except as provided in Article VII of the Master Authorization upon the happening of an Event of Default, to carry out its obligations and duties, and to receive certain payments and apply the same in each case as provided in the Master Authorization and, further subject to the terms and conditions set forth in the Master Authorization to enforce or realize upon its rights and interests in such Solid Waste Management Contracts.

Establishment of Accounts (Section 4.2).

(A) The County has established and created the following special accounts:

- (1) Construction Account;
- (2) Revenue Account;
- (3) Long Term Obligation Account;
- (4) Operating Account;
- (5) County Bond Debt Service Reserve Account;
- (6) Renewal and Replacement Account;
- (7) Rate Stabilization Account;
- (8) General Account;
- (9) Rebate Account; and
- (10) Collection Account.

(B) Each of said accounts must be held by the County or any Fiduciary designated by the County.

Deposits Into Construction Account (Section 4.3).

Any moneys which are received by the County from any source (but excluding bonds or other evidences of indebtedness issued by a Beneficiary pursuant to a Long Term Obligation that is a Solid Waste Management Contract) for payment of costs related to the construction, acquisition, restoration, improvement or completion of any Disposal System Component, including the proceeds (or any portion thereof) derived from the issuance of any County Bonds, the proceeds of any insurance or any condemnation award and any grants for the payment of any Capital Costs must be deposited in the Construction Account.

Payments from Construction Account (Section 4.5).

Before any payment can be made from the Construction Account, an Authorized County Officer must file certain requisitions and certificates with the Director of Finance relating to the use of the moneys requested and other related matters.

Investment Income Credited to the Construction Account (Section 4.6).

Notwithstanding Section 4.21 of the Master Authorization, investment income must be credited to the Construction Account or to the appropriate sub-account therein and applied in accordance with the terms of the Master Authorization.

Deposit of Revenues and Other Payments (Section 4.8).

(A) All County Disposal System Revenues must be collected by or on behalf of the County and must be deposited daily, as far as practicable, in the Revenue Account (other than amounts which are deposited in the Construction Account pursuant to the Master Authorization). Unless otherwise permitted by the Master Authorization, any other moneys which are received by the County from any other source for operating, maintaining and repairing the Disposal System must also be deposited in the Revenue Account.

(B) Notwithstanding anything contained in the Master Authorization to the contrary, amounts received by the County as prepayments or collateral pursuant to the provisions of the Solid Waste Act must not constitute "County Disposal System Revenues" until (and to the extent that) (1) the person making such prepayment has delivered Disposal Refuse to the Disposal System for disposal or (2) the County is permitted to retain such collateral pursuant to the provision of the Solid Waste Act.

(C) Notwithstanding anything contained in the Master Authorization to the contrary, any amounts received by the County as interest income from the investment of moneys shall not constitute "County Disposal System Revenues" to the extent such amounts are required to be paid to the United States of America in accordance with the provisions of Section 4.17 of the Master Authorization.

(D) All Collection Revenues must be deposited in the Collection Account upon receipt thereof and segregation by the County.

Periodic Withdrawals From Revenue Account (Section 4.9).

The County must transfer any moneys which are on deposit in the Revenue Account into the following several accounts, but as to each such account only within the limitation indicated in this Section with respect to each account and only after maximum payment within such limitation into every such account previously mentioned in the tabulation below. Such transfers must be made (1) at any time there is a deficiency in the amounts on deposit in any other account and (2) on each Calculation Date; provided, however, that with respect to transfers to be made into the County Bond Debt Service Reserve Account, the Renewal and Replacement Account and the Rate Stabilization Account, the County may limit its transfers in any single month to one-twelfth of any deficiency in the requirement relating to such account.

First: Into the Operating Account, to the extent, if any, needed to increase the amount which is on deposit in the Operating Account, until the amount on deposit equals the Operating Account Requirement;

Second: Into the Long Term Obligation Account, to the extent, if any, needed to increase the amount which is on deposit in the Long Term Obligation Account until the amount on deposit equals the Long Term Obligation Requirement;

Third: Into the County Bond Debt Service Reserve Account, to the extent, if any, needed to increase the amount which is on deposit in the County Bond Debt Service Reserve Account until the amount on deposit equals the County Bond Debt Service Reserve Requirement;

Fourth: Into the Renewal and Replacement Account, to the extent, if any, needed to increase the amount which is on deposit in the Renewal and Replacement Account until the amount on deposit equals the Disposal System Reserve Requirement;

Fifth: Into the Rate Stabilization Account, to the extent, if any, needed to increase the amount which is on deposit in the Rate Stabilization Account until the amount on deposit equals the Rate Stabilization Requirement; and

Sixth: Into the General Account, the balance, if any remaining after having made the foregoing transfers or deposits.

Operating Account (Section 4.10).

The County must make payments from time to time out of the Operating Account of all amounts required for Operating Expenses. Payments by the County from the Revenue Account into the Operating Account must be consistent with the requirements of the Annual Budget.

Application, Investment and Restoration of Long Term Obligation Account (Section 4.11).

The County must pay in a timely manner Long Term Expenses from the Long Term Obligation Account. If at any time there is not a sufficient amount available in the Long Term Obligation Account to provide for any required payment therefrom, the County must, on or prior to the date on which such payment is required to be made, transfer an amount which is sufficient to make up such deficiency in the following priority: first, from amounts on deposit in the Revenue Account, second, from amounts on deposit in the General Account, third, from amounts on deposit in the Rate Stabilization Account, fourth, to the extent required, from amounts, if any, on deposit in the Renewal and Replacement Account, and, if a deficiency remains (but only with respect to Debt Service on County Bonds), then from the County Bond Debt Service Reserve Account. Any such amounts must be transferred to or deposited into the Long Term Obligation Account.

Application of Renewal and Replacement Account (Section 4.12).

(A) The County must withdraw from the Renewal and Replacement Account any reasonable and necessary expenses of the County with respect to the Disposal System Components or major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals. The County must apply such amounts to the payment of such expenses upon the same terms and in the same manner as provided in Section 4.5 of the Master Authorization. However, before any disbursement is made, an Authorized County Officer must file with the Director of Finance a requisition therefor and, in certain circumstances, a certificate of the Consulting Engineer.

(B) If on any date all withdrawals or payments which are required to be made from the Renewal and Replacement Account by any other provision of the Master Authorization have been made or provided for and the amount on deposit in the County Bond Debt Service Reserve Account equals the County Bond Debt Service Reserve Requirement, and the amount in the Renewal and Replacement Account exceeds the Disposal System Reserve Requirement, the County, upon the filing of a certificate of an Authorized County Officer with the Director of Finance requesting such withdrawal, may withdraw the amount of such excess from the Renewal and Replacement Account and may pay the moneys so withdrawn into any account established under the Master Authorization (other than the Collection Account).

Application of Rate Stabilization Account (Section 4.13).

Any amounts which are on deposit in the Rate Stabilization Account may be used by the County in any Fiscal Year to offset any increases in the rates and charges imposed by the County pursuant to the Rate Covenant to reflect any unusual or extraordinary costs incurred by the County subsequent to the adoption of the Annual Budget for such Fiscal Year. Any such use of such amount in the Rate Stabilization Account shall be specified, if applicable, in any amended Annual Budget adopted during such Fiscal Year pursuant to Section 5.14(B) of the Master Authorization. Upon the inclusion of such amounts in the amended Annual Budget for the Fiscal Year, such amount shall be considered along with revenues in determining compliance with the Rate Covenant.

General Account (Section 4.14).

(A) The County may withdraw from the General Account any amounts on deposit therein for the following reasons: (1) payment of principal of and interest on any Subordinated Indebtedness; or (2) deposits into any account established under the Master Authorization.

(B) Notwithstanding the foregoing, if there is at any time a deficiency in the Operating Account, the County must withdraw amounts from the General Account (to the extent of such deficiency and to the extent that such moneys are on deposit therein) and must transfer such amount to the Operating Account.

Deposits Into, Application and Investment of Rebate Account (Section 4.15).

The County must deposit into the Rebate Account any investment earnings on any accounts to the extent required pursuant to the Arbitrage and Tax Regulatory Certificate executed by the County in connection with the authentication and delivery of County Bonds. The County must determine the amounts which are subject to rebate to the United States government pursuant to the provisions of the Code in accordance with the terms of the Arbitrage and Tax Regulatory Certificate executed by the County in connection with the authentication and delivery of any County Bonds. The amounts which are required to be rebated to the United States government must be withdrawn from the Rebate Account at such times and paid to the United States government. If there is not a sufficient amount in the Rebate Account for any required payment to the United States government, the County must promptly pay, from moneys which are on deposit in the Rate Stabilization Account or such other amounts in the Solid Waste Collection and Disposal Fund (other than Collection Revenues) which are available for such purpose, the amount which is necessary to make up such deficiency. If on any date the amount which is on deposit in the Rebate Account exceeds the amount which the County is obligated (as of the date of such determination) to rebate to the United States government or to create a reserve therefore, the County must withdraw such excess from the Rebate Account and deposit such amount into the Revenue Account.

Application of Amounts in Collection Account (Section 4.16).

The County may pay Collection Expenses from amounts on deposit in the Collection Account. Collection Expenses may not be paid from any revenues pursuant to the Master Authorization other than the revenues of the Collection Account.

Limitation on Optional Redemption of County Bonds or Optional Termination of Other Long Term Obligations (Section 4.19).

The County may not effectuate the optional redemption of County Bonds or the optional termination of any other Long Term Obligations unless the Director of Finance has received prior to such termination or redemption a certificate of the Consulting Engineer stating that, in its opinion, such optional redemption or termination will not adversely affect the ability of the County to meet its obligations under the Master Authorization.

Disposition of Excess Moneys in Accounts (Section 4.20).

If on any Calculation Date, the moneys on deposit in any account established under the Master Authorization exceed the requirement applicable to such account, the amount in excess must be credited to the next succeeding account in the priority described in Section 4.9 of the Master Authorization.

Investments (Section 4.21).

Moneys on hand in each of the accounts may be invested in Investment Obligations which mature in such amounts and at such times as will permit funds to be available when needed by the County. The County is not required to maintain separate bank accounts for the accounts created thereunder. Any moneys in such accounts may be invested in conjunction with other funds of the County; provided, however, that each account (other than the Rebate Account) must be held in trust by the County for the benefit of persons with whom the County has entered into Long Term Obligations. Investment Obligations in all accounts must be valued by the Director of Finance at least annually. Valuation must be determined at the lower of amortized cost or market

value. Except as otherwise provided in Section 4.6 of the Master Authorization, any investment income must be credited to the Revenue Account.

Effect of Covenants (Section 5.1).

Under the Master Authorization, the County particularly covenants and agrees with any person with which the County enters into a Long Term Obligation, and makes provisions which must be a part of its contract with such parties to the effect and with the purpose set forth in Article V of the Master Authorization.

Service Covenant (Section 5.3).

The County must provide or cause the provision of the service of providing capacity for the disposal or recycling of all Disposable Refuse generated within the geographic boundaries of the County, including the disposal of ash residue from the processing of Disposable Refuse at any resource recovery facility and the disposal of Disposable Refuse in excess of the processing capacity of any such resource recovery facility. The County must carry out the Service Covenant in a manner which will not impair the ability of the County to comply with the Rate Covenant, the Service Covenant and the Flow Control Covenant.

Powers as to Disposal System, Disposal Services and Collection of Revenues (Section 5.4).

The County has, and will have, as long as any Long Term Obligations remain Outstanding, the legal right and lawful authority to construct the Disposal System and to maintain, operate, improve and reconstruct the Disposal System and to provide or cause the provision of the Disposal Services. The County has the power and covenants to prescribe and from time to time charge and collect rates to be charged for use of the Disposal System and the Disposal Services and to demand and to collect all County Disposal System Revenues which are due or which are becoming due to it for the use of the Disposal System and the Disposal Services, all in accordance with the Rate Covenant, the Service Covenant and the Flow Control Covenant.

Maintenance of Disposal System (Section 5.5).

The County must diligently construct, maintain and manage the Disposal System in accordance with the County Ten Year Plan.

Compliance with Solid Waste Management Contracts and Enforcement of Revenues (Section 5.6).

(A) The County must (1) take all reasonable measures which are permitted by the Solid Waste Act or otherwise by law to enforce prompt payment to it of all County Disposal System Revenues to be derived by the County under the terms of any Solid Waste Management Contracts and (2) at all times, to the extent permitted by the Solid Waste Act or otherwise by law, defend, enforce, preserve and protect the rights, benefits and privileges of the County under or with respect to the Solid Waste Management Contracts consistent with the County's reasonable business judgment and, in any event, to the extent necessary to enable the County to comply with the Rate Covenant, the Service Covenant and the Flow Control Covenant.

(B) The County may make any amendment of any Solid Waste Management Contracts that will not materially adversely affect the amount of County Disposal System Revenues which are expected to be available for payment of Long Term Expenses, Operating Expenses or amounts which are required to be deposited into the County Bond Debt Service Reserve Account or the Renewal and Replacement Account, or will not materially and adversely affect the security for the payment of Long Term Expenses or the rights of any Beneficiary under the provisions of the Master Authorization. The County must not exercise its right to terminate any Solid Waste Management Contracts for convenience or without cause in a manner which requires the County to make a payment upon such termination unless, at the time of termination, the amount of such payment is on deposit (and available for such purpose) in the Solid Waste Collection and Disposal Fund or has otherwise been provided for by the County.

(C) Any other amendment of any Solid Waste Management Contract may be made only upon the filing of a certificate of a Consulting Engineer stating that in the Fiscal Year of the amendment and in the succeeding Fiscal Year the County Disposal System Revenues expected to be received assuming imposition of rates by the County pursuant to its Rate Covenant, at the rates to be charged, can be expected to be sufficient for the County to meet the requirements of its Rate Covenant.

Insurance; Condemnation (Section 5.7).

(A) The County must continuously maintain (or cause to be maintained), with qualified and experienced insurers having a reputation for insuring facilities of like character as those which constitute the Disposal System Components and which insurers are authorized to do business in the State of Maryland or in such other manner as may be required or permitted by law, all insurance as is customarily maintained with respect to facilities of like character as the facilities which constitute the Disposal System Components. The County must continuously maintain, to the extent commercially available at reasonable rates, the types of insurance, and in the amounts which are recommended by an independent insurance consultant retained by the County, as necessary or desirable to enable the County to comply with the terms and conditions of the Master Authorization. Such insurance must include the following: (1) Multi-risk insurance for or with respect to the facilities which constitute the Disposal System Components; (2) Insurance covering losses related to actions taken by or on behalf of the County or its employees or agents; and (3) Public liability insurance covering injuries to persons and property relating to or arising out of the construction, maintenance, reconstruction or operation of the Disposal System.

To the extent permitted by law, the County may comply with these provisions by maintaining self-insurance in accordance with the provisions of the County Code.

(B) If any useful portion of the Disposal System is damaged or destroyed, the County must, as expeditiously as practicable, continuously and diligently pursue the repair, reconstruction or replacement thereof. However, subject to the Waste Disposal Agreement, no such repair, reconstruction or replacement must be undertaken if the County, in accordance with the provisions of (C) below, determines not to so repair, reconstruct or replace such damaged property. Any proceeds received by the County from any casualty insurance (except casualty insurance with respect to the Authority Component), including the proceeds of self-insurance, or proceeds received as a result of any condemnation of all or any portion of the Disposal System (other than the Authority Component), must be deposited in a special account in the Construction Account and must be applied to the necessary Capital Costs involved in the repair and replacement of the Disposal System. Any such proceeds of casualty insurance, including the proceeds of self-insurance and any such proceeds of a condemnation award, which are not applied or committed to the repair, reconstruction or replacement of the Disposal System within reasonable time thereafter or six months after receipt thereof must be deposited by the County in the Long Term Obligation Account and applied to the payment of any Long Term Expenses; provided, however, that, to the extent that the County certifies that such proceeds are required for the repair, reconstruction or replacement of the Disposal System, and that such proceeds will be expended for such purpose within a reasonable additional period of time, such proceeds may then remain on deposit in the Construction Account. In the event that the Capital Costs of such repair and replacement of the damaged or condemned property exceed the proceeds of such insurance or condemnation award which are available for payment of the same, any moneys which are on deposit in the General Account and the Construction Account may be used, to the extent necessary, for such purpose as directed by the County as evidenced by a certificate duly executed by an Authorized County Officer. If funds which are on deposit in the General Account and in the Construction Account are insufficient for such purpose, any funds which are available in the Renewal and Replacement Account must be used, to the extent necessary, for such purpose. In addition, the County may apply any other moneys of the County which are not pledged for another purpose, to the extent necessary, for such purposes, subject to the provisions of Section 4.9 of the Master Authorization.

(C) Subject to the Waste Disposal Agreement, if any portion of the Disposal System has been damaged or destroyed, and the County has determined that the operation of the Disposal System has not been materially adversely affected, and as such the County has determined not to repair, reconstruct or replace the damaged or destroyed property and the County has received a certification of the Consulting Engineer to such effect, the proceeds of insurance which are received by the County, if any, must be deposited into the Long Term Obligation Account and applied to the payment of Long Term Expenses in accordance with the provisions of Article IV of the Master Authorization.

(D) The proceeds of any insurance coverage constituting County Disposal System Revenues (other than the proceeds of liability insurance) must be deposited in the Revenue Account.

Operation and Maintenance of Disposal System (Section 5.8).

The County must, at all times (1) operate the Disposal System (or cause the same to be operated) properly and in a sound and economical manner, and (2) maintain, preserve and keep the same properly (or cause the same to be so maintained, preserved and kept), including all appurtenances thereto and every part and parcel thereof, in good repair, working order and condition. Further, the County must make (or cause to be made) from time to time, all necessary and proper repairs, replacements and renewals so that the operation of the Disposal System may be properly and advantageously conducted at all times. The County agrees, to the fullest extent permitted by Applicable Law, that it may not reduce or diminish geographic boundaries of, or the type of residences served within, the Collection and Disposal District; provided, however, that the County may reduce or diminish the geographic boundaries of, or the type of residences served within the Collection and Disposal District if the Solid Waste Management District Legislation which establishes County-wide solid waste Systems Benefit Charges is in full force and effect, and the County covenants not to take any action that will impair its ability to impose or collect Systems Benefit Charges.

Rules, Regulations and Other Details (Section 5.9).

(A) The County must establish and enforce reasonable rules and regulations governing the operation, use and services of the Disposal System and the Disposal Services, including the establishment of designated hauler licensing, registration or permit systems to enable the County to comply with its Flow Control Covenant and the other terms and conditions of the Master Authorization. The County must diligently proceed to obtain (or cause to be obtained), and thereafter to observe (or cause to be observed) the conditions of, all required or necessary permits, licenses, approvals or consents for the acquisition and operation of the Disposal System or the provision of Disposal Services, and must observe, perform and comply with all applicable Federal, State and County laws, ordinances, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body to the extent that the same are applicable to the Disposal System, to the Disposal Services or to the County.

(B) The County must use its best efforts to cause others to obtain or observe and comply with the conditions and provisions of any permits relating to the Disposal System or the provisions of any laws relating to the Disposal System.

(C) The County must cause each licensed hauler to maintain collateral for the payment of any fees and charges that may become payable by such hauler to the extent permitted under the Solid Waste Act; provided, however, that the County is not required to cause any hauler to maintain collateral if such haulers pay the County for any Disposal Services prior to, or concurrent with, the rendering of such services.

Payment of Lawful Charges and Compliance With Law (Section 5.10).

The County must pay (or cause to be paid) all taxes and assessments or other municipal or governmental charges, if any, which are lawfully levied or assessed upon it for or with respect to the Disposal System, or upon any part thereof or upon any County Disposal System Revenues derived therefrom, when the same become due. The County must duly observe and comply with, and must use its reasonable efforts to cause all of its contractors, subcontractors, employees and agents to observe and comply with, all valid Federal, State, County and local laws, regulations, rules and orders relating or applicable to the County, the Disposal System and the Disposal Services, and the County must not create or suffer to be created any lien or charge upon the Disposal System or upon any part thereof, except as permitted by the Master Authorization, and the County must not create or suffer to be created any lien or charge upon the County Disposal System Revenues, except as expressly provided by the terms of the Master Authorization. The County must pay and discharge (or cause to be paid and discharged) or must make adequate provision to satisfy and discharge within sixty (60) days after the same must accrue, all lawful claims and demands for labor, materials, supplies or other objects which, if unpaid, might by law become a lien upon the Disposal System or upon any part thereof or upon the County Disposal System Revenues; provided, however, that nothing contained in this Section requires the County to pay and discharge (or cause to be paid and discharged) any such lien or charge as long as the validity thereof is contested in good faith and by appropriate legal proceedings.

Flow Control Covenant (Section 5.11).

The County must deliver or cause the delivery to the County System of all Disposable Refuse generated (a) from Collection and Disposal District Residences (defined below) and (b) from County facilities. It also obligates the County to use its best efforts (other than by legislation) to deliver or cause the delivery to the County System of substantially all other Disposable Refuse generated within the County. This obligation is subject to the provisions of the County Ten Year Plan that provide for the development of source reduction programs and commercial recycling programs which may be implemented through private facilities.

Competitive Facilities and Services; Private Solid Waste Acceptance Facilities (Section 5.12).

The County agrees, to the extent permitted by law, that it will not (i) construct, acquire or operate or permit or consent to the construction, acquisition or operation of any plants, structures, facilities or properties, or (ii) provide or permit to be provided any waste disposal services, that, in the case of (i) or (ii) may compete or tend to compete within the County with the Disposal System or Disposal Services and will not enter into a Long Term Obligation with respect to facilities outside the County which may tend to compete outside the County with the Disposal System or with the Disposal Services.

Rates and Charges; Rate Covenant (Section 5.13).

(A) With respect to the Disposal Services, the County must make, impose and charge rates, fees and other charges in accordance with the terms of the Solid Waste Act requiring the Solid Waste Collection and Disposal Fund to be maintained and managed so that revenues equal expenses ("Act Requirement"), other applicable laws of the County and the State, and as provided for in the Master Authorization. In addition, the County must impose Collection Fees within the Collection and Disposal District sufficient to pay any Collection Expenses.

(B) The County must fix, charge and collect rates, fees and charges for the Disposal Services, and must revise such rates, fees and charges as may be necessary or appropriate, to produce in each Fiscal Year revenues which, when combined with balances in the General Account, the Rate Stabilization Account and, to the degree permissible, the Renewal and Replacement Account available for transfer to the Revenue Account, will in each Fiscal Year at least equal the sum of (1) 100% of the Operating Expenses for such Fiscal Year, plus (2) 110 % of the Long Term Expenses respecting debt service plus 100% of the sum of the balances of amounts payable on Long Term Expenses for such Fiscal Year, plus (3) 100% of the sum of the amounts, if any, required to be deposited in the County Bond Debt Service Reserve Account, the Renewal and Replacement Account and the Rate Stabilization Account for such Fiscal Year.

(C) For purposes of (B) above, available balances in the General Account, the Rate Stabilization Account and the Renewal and Replacement Account may not exceed more than 25% of the rates, fees and charges which would have to be imposed in order to meet the requirements of (B) if such available balances were not considered or included in the computation.

(D) Other than (1) as provided in the Solid Waste Act relating to disposal by residents of up to 500 pounds of Disposable Refuse at an identified component of the Disposal System, and only to the extent required and permitted by the Act Requirement referred to above or (2) as required by any exigencies due to an emergency condition within the County, the County will neither furnish nor supply (nor cause to be furnished or supplied) any use of or service by the Disposal System free of charge to any person (including the County), and the County must, consistent with prudent solid waste management practices, enforce the payment of any and all accounts when due and owing, including the charges which are imposed pursuant to paragraph (B) above, to the County by reason of its ownership, operation or interest in the Disposal System or the provision of Disposal Services by all lawful means including filing suit therefor (in such cases as the County determines that an action for collection of such charges is consistent with prudent solid waste management practices) in accordance with the Solid Waste Act. Notwithstanding the foregoing, as long as the County is in compliance with the requirements of (A) and (B) above, the County shall be permitted to provide Disposal Services with respect to specified types of Disposable Refuse at reduced rates or for free so as to provide incentives for the use of particular Disposal System Components.

Annual Budget; Long Term Operating Plan (Section 5.14).

(A) The County must prepare, file and adopt an Annual Budget for each Fiscal Year in accordance with the provisions of the Solid Waste Act and the Master Authorization.

(B) The Annual Budget must be structured so as to permit compliance by the County with the Rate Covenant and with the Waste Disposal Agreement. The Annual Budget must set forth in reasonable detail the estimated County Disposal System Revenues, Operating Expenses, Long Term Expenses and other cash requirements of the Disposal System and such Annual Budget must include estimates of the amounts to be deposited during such Fiscal Year in the Accounts established under the Master Authorization, and, only if required by Applicable Law, appropriations for the amounts which are estimated to be expended from each Account established under the Master Authorization, with reasonable provision for contingency receipts and payments. In addition, such Annual Budget may in estimating such County Disposal System Revenues provide for a reserve for such portion of such County Disposal System Revenues which have not been or may not be collected by the County and may contemplate the use of amounts in the General Account which the County intends to use to reduce or offset the rates and charges imposed by the County pursuant to Section 5.13 of the Master Authorization. Nothing contained in the Annual Budget must supersede the provisions of the Master Authorization as to the application of County Disposal System Revenues or other amounts. The Annual Budget must also set forth such detail with respect to the Revenues, Operating Expenses, Long Term Expenses and other expenditures and such deposits, as required by law, and may set forth such additional information as the County may determine. In preparing the Annual Budget, the County must take into account any grants from any persons relating to the Disposal System and any moneys deposited by the County in its discretion in the Solid Waste Collection and Disposal Fund which are required by the terms thereof to be applied to a specific Capital Cost or Operating Expense and the County must apply such amounts to the purpose for which they were granted. Following the end of each quarter of each Fiscal Year, the County must review its estimates set forth in the Annual Budget for such Fiscal Year, and in the event that such estimates do not substantially correspond with actual County Disposal System Revenues, Operating Expenses, Long Term Expenses or other requirements of the County, the County Executive must adopt and file with the Director of Finance an amended Annual Budget or take such other actions as may be necessary, desirable or appropriate for the County to comply with its obligations under the Master Authorization for the remainder of the Fiscal Year. In addition, if, at any time during any Fiscal Year, the County makes or becomes obligated to make payments which are not included in the then effective Annual Budget or are for unusual or extraordinary costs, the County must adopt and file with the Director of Finance an amended Annual Budget for the remainder of the Fiscal Year or take such other actions as may be necessary, desirable or appropriate for the County to comply with its obligations under the Master Authorization. Such amended Annual Budget may provide for the use of available moneys in the Rate Stabilization Account to avoid or reduce any increase in the rates and charges imposed by the County for the use of the Disposal System due to such unusual or extraordinary costs.

(C) A copy of the Annual Budget and any amendment thereto must be filed with the Director of Finance on or prior to the last day of each Fiscal Year and must be mailed by the County to any person with which the County has entered into a Long Term Obligation upon written request therefor.

(D) At least 60 days prior to the end of each Fiscal Year, the Consulting Engineer must provide a certificate to the County setting forth the Disposal System Reserve Requirement for the subsequent Fiscal Year. In calculating the Disposal System Reserve Requirement, the Consulting Engineer shall take into account any funds held for similar purposes for the Disposal System under Long Term Obligations. The County shall include such Disposal System Reserve Requirement in the Annual Budget required pursuant to this Section.

Limitations on Operating Expenses (Section 5.15).

The County must not incur Operating Expenses or any other costs which are payable from the Operating Account in any Fiscal Year in excess of the reasonable and necessary amount (in the discretion of the County) thereof; provided, that amounts payable under Long Term Obligations shall be deemed reasonable and necessary. Nothing which is contained in Section 5.15 of the Master Authorization limits the amount that the County may expend for Operating Expenses in any Fiscal Year.

Other County Activities (Section 5.17).

Except as and to the extent expressly provided in the Master Authorization, the County must not apply the County Disposal System Revenues, or use any Disposal System Component or any other County asset which is actually used or expressly dedicated to the provision of Disposal Services or which is required to enable the County to satisfy its Service Covenant, Flow Control Covenant or Rate Covenant for any other purpose than those described in the Master Authorization.

Accounts and Audit (Section 5.18).

The County must keep proper books of account in which complete and correct entries must be made of its transactions relating to the Disposal System or any part thereof and the Disposal Services and must cause its books and accounts to be audited annually as of the end of each Fiscal Year.

Ownership of Disposal System (Section 5.19).

The County must not enter into any contract which provides for payment to be made for labor or to contractors, builders or materialmen on account of the construction or reconstruction of any part of the Disposal System (excluding the Authority Component) which is owned by the County, unless such part is located on lands to which the title or over which perpetual easement, in either case sufficient for the purposes of the County, is owned by the County or leased by the County for a term in excess of the expected useful life of the component of the Disposal System which is owned by the County, or unless such part is a part of the Disposal System which is located on land in which a right or interest less than a fee simple or a perpetual easement has been acquired from the United States of America, the State or from a political subdivision thereof or from a public utility and such lesser right or interest has been approved by an opinion of Bond Counsel as being sufficient for the purposes of the County.

Creation of Liens; Subordinated Indebtedness (Section 5.20).

Except as provided in this Section, the County must not issue any bonds, notes, or other evidences of indebtedness or enter into any obligations, other than Long Term Obligations, which are secured by a pledge of or other lien or charge on the County Disposal System Revenues and must not create or cause to be created any lien or charge on such County Disposal System Revenues under the terms of the Master Authorization; provided, however, that neither this Section nor any other provision of the Master Authorization prevents the County from issuing bonds or notes or other obligations for the purposes of the County which are payable out of or which are secured by a pledge of County Disposal System Revenues which are to be derived on and after such date as there are no longer any Long Term Obligations outstanding. In addition, the County is not prevented from issuing bonds or notes or other obligations for the purposes of the County which are payable out of or which are secured by a subordinate pledge of the County Disposal System Revenues, or by a pledge of amounts which may be withdrawn from the General Account pursuant to the terms of Section 4.15 of the Master Authorization, and (1) that are issued for a purpose, the completion of which, in the opinion of an Authorized County Officer, will not cause a reduction in County Disposal System Revenues to be thereafter derived by or for the account of the County, (2) which must recite on their face that (a) such pledge of said amounts is and must be in all respects subordinate to the provisions of the Master Authorization and the lien and pledge created by the Master Authorization and (b) no payment of the principal or redemption price of or interest on such obligations shall be made in any year, nor shall any County Disposal System Revenues or other assets of the Disposal System be applied to the purchase or other acquisition or retirement of such obligation unless (i) all Long Term Expenses and all deposits to the Operating Account, the County Bond Debt Service Reserve Account, the Renewal and Replacement Account and the Rate Stabilization Account for such year have been made and (ii) no Event of Default has occurred and is continuing or would occur immediately after giving effect to such payment or application and (3) there is delivered to the Director of Finance a certificate of a Consulting Engineer meeting the requirements of Section 3.2(A)(7) of the Master Authorization as if such Subordinated Indebtedness were a Long Term Obligation.

Sale or Encumbrance (Section 5.21).

(A) Except to the extent provided in the Authority Project Site Lease, the Waste Disposal Agreement, and the bond documents relating to the Authority Bonds, no part of the Disposal System may be

sold, mortgaged, pledged, encumbered or otherwise disposed of by the County, except for dispositions in the ordinary course of business and except as provided below.

(1) The County may sell or exchange or otherwise dispose of, at any time and from time to time, any property, equipment or facilities constituting part of the Disposal System only if (a) the County shall determine that such property, equipment or facilities are not useful in the ownership or operation of the Disposal System or (b) if the proceeds of such sale are \$5,000,000 or less, the County shall file with the Director of Finance a certificate of the Consulting Engineer stating, in the opinion of the signer, that the fair value of the property, equipment or facilities sold or exchanged is \$5,000,000 or less, or (c) if such proceeds or fair value exceeds \$5,000,000, the County shall file with the Director of Finance a certificate of the Consulting Engineer stating, in the opinion of the signer, that the sale or exchange of such property, equipment or facilities will not impair the ability of the County to comply during the current or any future year with the Service Covenant or the Rate Covenant. The proceeds of any such sale or exchange not used to acquire other property necessary or desirable for the safe or efficient operation of the Disposal System must be deposited in the Long Term Obligation Account and applied to the payment of Long Term Expenses.

(2) The County may lease or make contracts or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights with respect to, any part of the Disposal System, only if it shall determine that such part of the Disposal System is not useful in the operation of the Disposal System and provided that any such lease, contract, license, arrangement, easement or right (a) does not impede such operation by the County of the Disposal System and (b) does not in any manner materially impair or adversely affect the rights of the County or the rights or security of persons with which the County has entered into Long Term Obligations; and provided, further, that if the fair value of the property to be covered by any such lease, contract, license, arrangement, easement or other right exceeds \$5,000,000, the Consulting Engineer shall first certify that the action of the County with respect thereto does not result in a breach of the conditions under this paragraph. Any payments received by the County under or in connection with any such lease, contract, license, arrangement, easement or right in respect of the Disposal System shall constitute County Disposal System Revenues. Any payments received under or in connection with any such lease, contract, license, arrangement, easement or right in respect of the Disposal System, or any part thereof, must constitute County Disposal System Revenues and must be paid directly into the Revenue Account.

(B) In addition to the requirements of (A) above, no part of the Disposal System may be sold, exchanged, leased, mortgaged or otherwise disposed of unless the County receives an opinion from Bond Counsel to the effect that such sale, exchange, lease, mortgage or other disposition will not adversely affect the exclusion of the interest payable on the bonds from gross income for Federal income tax purposes to the extent that such portion of the Disposal System was financed through the issuance of Tax-Exempt Obligations.

Consulting Engineer (Section 5.23).

(A) The County must designate a Consulting Engineer from time to time to provide the services and certifications required under the Master Authorization.

(B) At least 30 days prior to the preparation of the Annual Budget by the County in each Fiscal Year, the Consulting Engineer must file with the County a report on the then current state of the Disposal System containing specified information including (1) the level of progress made with respect to the construction or repair of any Disposal System Component (if applicable), (2) the sufficiency of the County's program of maintenance and repair of the Disposal System and (3) any other relevant aspect of the Disposal System or the County's performance of its obligations under the Master Authorization. Such report must also set forth in tabular form, as to the succeeding Fiscal Year, the Consulting Engineer's estimate of the following: (1) estimated Operating Expenses, (2) Long Term Expenses, (3) the sum of all amounts estimated to be paid into and credited to the Revenue Account pursuant to Section 4.9 or Section 5.13 of the Master Authorization, (4) the estimated volume and classification of Disposable Refuse (expressed in tons or otherwise) expected to be disposed of by operation of the Disposal System and the provision of Disposal Services and setting forth the minimum rates and charges for such Fiscal Year necessary and required to be in effect for the whole of such Fiscal Year so as to comply with the provisions of Section 5.13 of the Master Authorization, and (5) the amount which is payable during such Fiscal Year so as to amortize any future closure costs which will be payable in connection with the termination or closure of any Disposal System Component.

Long Term Disposal System Report (Section 5.24).

(A) Within four years of the execution of the first Long Term Obligation pursuant to the Master Authorization, the County must prepare a Long Term Capital Improvement Report (the "Capital Improvement Report"). Such report must describe any major capital improvements in connection with the Disposal System contemplated by the County in connection with the Disposal System to be constructed within a six-year period subsequent to the preparation of the report (or any update thereof). The County must update the Capital Improvement Report at least once every two years following its initial preparation.

(B) The Capital Improvement Report must also outline the County's intended method of financing the closure of any Disposal System Components to the extent applicable. The Capital Improvement Report must specify whether the County intends to finance such costs (1) by paying them on a current basis as they are incurred, (2) through the issuance of County Bonds at the time of closure, or (3) through the use of moneys in the Renewal and Replacement Account. To the extent the County intends to use moneys in the Renewal and Replacement Account for such purpose, the Disposal System Reserve Requirement must include in each Fiscal Year prior to the contemplated closure an amount which, together with all deposits for such purpose in the Fiscal Years prior to such closure, will be sufficient to pay the estimated costs of the closure.

Appointment of Default Trustee (Section 6. 1).

Allfirst Trust Company National Association (formerly known as First National Bank of Maryland), a national banking association having trust powers, has been appointed under the Master Authorization to serve as Default Trustee.

Deposit of Funds (Section 6.5).

To the extent permitted by law, all moneys (not including securities) which are held by any Fiduciary pursuant to the terms of the Master Authorization, may be deposited by it, in demand or time deposits, in its banking department or with such other banks, trust companies, national banking associations or other banking institutions, each having its principal office in the State, as may be designated by the County. Interest with respect to moneys or securities which are on deposit in any fund or account must be credited in each case to the fund or account in which such moneys or securities are held.

Compensation (Section 6.7).

Unless otherwise provided by the terms of a contract with the Fiduciary, the County must pay reasonable compensation from time to time to each Fiduciary for all services rendered by it under the Master Authorization, and the County must also reimburse any Fiduciary for all of its reasonable expenses, charges, counsel fees and other disbursements and those of its attorneys, agents, and employees which are incurred in the performance of its powers and duties under the Master Authorization.

Resignation of Fiduciary (Section 6.9).

A Fiduciary, or any successor thereof, may at any time resign and be discharged of its duties and obligations created by the Master Authorization or Bond Resolution by following specific procedures described in the Master Authorization.

Removal (Section 6.10).

Any Fiduciary, or any successor thereof, may be removed at any time by the County by written instrument, except during the pendency of any Event of Default, upon the appointment and assumption of office of a successor.

Appointment of Successor Fiduciary (Section 6.11).

In case any Fiduciary, or any successor thereof, resigns or is removed or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of such Fiduciary or of its property is appointed, or if any public officer must take charge or control of such Fiduciary or of its property

or affairs, a successor may be appointed by the County. Any successor Fiduciary appointed under the provisions of this Section must be a bank, trust company, national banking association or other banking institution doing business and having its principal office located in the State or (in the case of a Paying Agent, in the State or in the Borough of Manhattan, City and State of New York) having the qualifications which are prescribed by the Master Authorization.

Events of Default (Section 7.1).

The occurrence of any of the following events is defined as and is declared to be and to constitute an “Event of Default” under the Master Authorization:

- (1) Default in the due and punctual payment of any amount owed under Long Term Obligations;
- (2) Subject to the provisions of Section 7.9 of the Master Authorization (relating to the opportunity of the County to cure defaults), failure by the County to observe and to perform any covenant, condition or agreement on the part of the County which is provided by the Master Authorization and the continuance of such failure for a period of thirty (30) days after written notice, or such longer period as must be provided under Section 7.9 of the Master Authorization, specifying such failure and requesting that it be remedied, has been given to the County; or
- (3) The filing by the County or the Solid Waste Collection and Disposal Fund of a petition seeking relief under any federal or state bankruptcy or similar laws.

Notwithstanding the foregoing provisions, no breach by the County pursuant to Section 8.1 of the Waste Disposal Agreement shall constitute an “Event of Default” under the Master Authorization unless the Authority in writing to the Default Trustee instructs the Default Trustee to undertake its responsibilities under the Master Authorization.

Remedies (Section 7.2).

(A) Upon the occurrence of an Event of Default, the Default Trustee may pursue any remedy which is available to it at law or in equity or by statute, including the appointment of a judicially approved receiver of the County Disposal System Revenues and assets of the County pledged and assigned under the Master Authorization to the extent allowed by law. However, the appointment of a trustee or receiver does not limit the obligation of the County to continue to perform its obligations under the terms of the Master Authorization.

(B) In addition to any other remedies, the Default Trustee shall have upon the occurrence of an Event of Default the right to have delivered to it all the funds in any account established under Article IV of the Master Authorization and the right to receive all County Disposal System Revenues from whatever source. The County shall thereafter cause any and all County Disposal System Revenues to be paid directly to the Default Trustee and shall remit immediately to the Default Trustee any County Disposal System Revenues it receives.

Rights of Persons With Which the County Has Entered Into Long Term Obligations (Section 7.3).

If an Event of Default has occurred and is continuing and if requested to do so by a Person which enters into a Long Term Obligation with the County and if indemnified as provided in the Master Authorization, the Default Trustee is obligated to exercise one or more of the rights and the remedies conferred by the Master Authorization as the Default Trustee deems to be in the interests of any Person which enters into a Long Term Obligation with the County and which are not contrary to law. Except as specifically provided in the Waste Disposal Agreement, no Person which enters into a Long Term Obligation with the County has any right to institute any suit, action or proceeding in equity or at law for the enforcement of the provisions of the Master Authorization, for the execution of any trust thereof or for the appointment of a receiver or to enforce any other remedy thereunder, unless (1) a default has occurred of which an authorized officer of the Default Trustee has been notified as provided in the Master Authorization; (2) such default has become an Event of Default and the Default Trustee has been offered reasonable opportunity either to proceed to exercise the powers which were thereinbefore granted or to institute such action, suit or proceeding in its own name; (3) such person with which the County has entered into a Long Term Obligation has provided the Default Trustee with the indemnification

which is provided in the Master Authorization; and (4) the Default Trustee has thereafter failed or refused to exercise the powers thereinbefore granted or to institute such action, suit or proceedings in its, his, her, or their own name or names.

Rights of Persons With Which the County Has Entered Into Long Term Obligations to Direct Proceedings (Section 7.4).

(A) Anything in the Master Authorization to the contrary notwithstanding, a majority of the persons with whom the County has entered into Long Term Obligations have the right, at any time by a written instrument or instruments which is duly executed and delivered to the Default Trustee, to direct the method and the place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Authorization or for the appointment of a receiver or any other proceeding hereunder; provided, however, that such direction must not be otherwise than in accordance with the provisions of law and the provisions of the Master Authorization.

(B) The Default Trustee must determine whether or not there exists a majority of persons with which the County has entered into Long Term Obligations for purposes of (A) above on the basis of the outstanding amount of indebtedness issued in accordance with Long Term Obligations in the manner described in this clause (B). The Default Trustee must determine the sum ("Total Indebtedness") of (1) the aggregate amount of Outstanding County Bonds and (2) the aggregate amount of Outstanding indebtedness issued in accordance with the provisions of Long Term Obligations described in clause (2) of the definition thereof. The Default Trustee must then assign a number of votes to the holders of Outstanding County Bonds equal to the product of (a) a fraction the numerator of which is the aggregate amount of Outstanding County Bonds and the denominator of which is the Total Indebtedness, times (b) 100. The Default Trustee must then assign to each person with which the County has entered into a Long Term Obligation described in clause (2) of the definition thereof a number of votes equal to the product of (a) a fraction the numerator of which is the amount of indebtedness issued in accordance with such Long Term Obligation then Outstanding and the denominator of which is the Total Indebtedness, times (b) 100.

Application of Moneys (Section 7.5).

(A) All moneys which are received by the Default Trustee pursuant to any right which is given or any action which is taken under the provisions of Article VII of the Master Authorization must be deposited into the Long Term Obligation Account (after payment of the costs and the expenses of the proceedings resulting in the collection of such moneys and after payment of the fees, expenses, liabilities and advances which have been incurred or made by the Default Trustee, including legal fees), and all moneys which are on deposit in the various accounts established under the terms of the Master Authorization (except the Rebate Account) must be applied as follows:

First: To the payment of all Operating Expenses and, as certified to the Default Trustee by the Consulting Engineer, for the reasonable and necessary renewals, repairs and replacements of any Disposal System Component so as to prevent any decrease in the amount of County Disposal System Revenues charged and collected; and

Second: To the payment of Long Term Expenses which are then due on Long Term Obligations and, if the amount which is available is not sufficient to pay in full all such amounts, then to the payment ratably, according to the respective amounts then due on such Long Term Obligations as calculated in accordance with Section 7.4(B) of the Master Authorization, to the persons who are entitled thereto, without any discrimination or privilege; and

Third: To the payment of Prior County Bonds.

(B) Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys must be applied at such times, and from time to time, as the Default Trustee determines, having due regard to the amount of moneys which are available for application and the likelihood of additional moneys becoming available for application in the future. Whenever the Default Trustee applies such funds, it must fix the date upon which application is to be made. The Default Trustee must give notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such date.

(C) Whenever all amounts which are required to be paid by the County pursuant to the provisions of all Long Term Obligations and Prior County Bonds have been paid under the provisions of this Section and all fees, expenses, including legal fees, and charges of the Default Trustee have been paid, any balance which is remaining in the Long Term Obligation Account must be paid to the County.

Waivers of Defaults (Section 7.8).

The Default Trustee may in its discretion waive any Event of Default, and the consequences specified in Section 7.2 of the Master Authorization, and rescind any declaration of maturity of principal and must do so upon the written request of a majority of the persons with whom the County has entered into Long Term Obligations. Upon such waiver or rescission or in case any proceedings taken by the Default Trustee on account of any such Event of Default have been discontinued or abandoned or determined adversely, then and in every such case the County, the Default Trustee and the persons with whom the County entered into Long Term Obligations will be restored to their former positions and rights under the Master Authorization, respectively, but no such waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Notice of Events of Default; Opportunity of the County to Cure Defaults (Section 7.9).

No Event of Default which is specified in clause (2) under the caption "Events of Default" herein will constitute an Event of Default thereunder until notice of such Event of Default has been given by the Default Trustee or by persons with whom the County has entered into a Long Term Obligation to the County, by registered or certified mail, and the County has had thirty (30) days after receipt of such notice to correct such Event of Default or cause such Event of Default to be corrected and has not corrected such Event of Default or caused such Event of Default to be corrected within the applicable period; provided, however, that if such Event of Default is such that it cannot be corrected within the applicable period, it will not constitute an Event of Default if corrective action which is designed to remedy such Event of Default is instituted by the County within the applicable period and diligently pursued until such Event of Default is corrected.

Concerning the Bond Insurer

As long as the Bond Insurance Policy remains in full force and effect with respect to the Series 2003 Bonds and the Bond Insurer has not failed to honor a demand for payment thereunder in accordance with its terms, the County and the Paying Agent agree to comply with, among others, the following provisions:

1. Any provision of the Master Authorization expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer.
2. Unless otherwise provided in the Master Authorization, the Bond Insurer's consent shall be required in addition to Bondholder consent, when required, for the following purposes: (i) execution and delivery of any supplement to the Master Authorization; (ii) removal of the Paying Agent and selection and appointment of any successor paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Bondholder consent.
3. Anything in the Master Authorization to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default under the Master Authorization, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders under the Master Authorization, including without limitation: (i) the right to accelerate the principal of the Series 2003 Bonds as described in the Master Authorization, and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.
4. The Paying Agent may be removed at any time, at the request of the Bond Insurer, for any breach of its obligations set forth in the Order.
5. No removal, resignation or termination of the Paying Agent shall take effect until a successor, acceptable to the Bond Insurer, shall be appointed.
6. To the extent that the Master Authorization confers upon or gives or grants to the Bond Insurer

any right, remedy or claim under or by reason of the Master Authorization, the Bond Insurer is explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right remedy or claim conferred, given or granted hereunder.

7. Notwithstanding anything in the Master Authorization to the contrary, in the event that the principal and/or interest due on the Series 2003 Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Series 2003 Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the County, and the assignment and pledge of the County and all covenants, agreements and other obligations of the County to the Bondholders shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such registered owners.

8. Notwithstanding any other provision of the Master Authorization, in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the Master Authorization, the County shall consider the effect on the Bondholders as if there were no Bond Insurance Policy.

9. Any reorganization or liquidation plan with respect to the County must be acceptable to the Bond Insurer. In the event of any reorganization or liquidation, the Bond Insurer shall have the right to vote on behalf of the Bondholders absent a default by the Bond Insurer under the Bond Insurance Policy.

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Appendix D
Draft Approving Opinion of Bond Counsel

[Closing Date]

County Executive and County Council for
Montgomery County, Maryland
Rockville, Maryland

Ladies and Gentlemen:

We have acted as bond counsel to Montgomery County, Maryland (the "County") in connection with the issuance of its \$31,075,000 Montgomery County, Maryland Solid Waste Disposal System Refunding Revenue Bonds (2003 Series A) (the "Bonds"). In such capacity, we have examined such laws and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Bonds are issued under the provisions of the Montgomery County Charter (the "Charter"), Section 24 of Article 31 of the Annotated Code of Maryland, as amended (the "Act"), and the Master Authorization of the County which became effective on November 16, 1990 (the "Master Authorization"). The Bonds are authorized to be issued and sold by Resolution No. 15-89 of the County Council for Montgomery County, Maryland, adopted on March 11, 2003 (the "Resolution") and by Executive Order No. B245-03 of the County Executive of the County passed as of April 3, 2003 (the "Order"). The terms of the Bonds are as set forth in the Bonds, the Act, the Resolution, the Master Authorization and the Order.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any change in law that may hereafter occur.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the County and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

Based on the foregoing, it is our opinion that, under existing law:

(a) The Bonds have been duly authorized and legally issued in accordance with the Constitution and Public Laws of the State of Maryland, the Charter, the Act, the Resolution, the Master Authorization and the Order.

(b) The Resolution has been duly and properly adopted by the County Council of the County, and is valid and binding on the County in accordance with its terms, subject to (i) bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and (ii) equitable principles, whether considered at law or in equity.

(c) The Order has been duly and properly passed by the County Executive of the County, and is valid and binding on the County in accordance with its terms, subject to (i) bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and (ii) equitable principles, whether considered at law or in equity.

(d) The Master Authorization has been duly and properly entered into by the County, and is valid

and binding on the County in accordance with its terms, subject to (i) bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and (ii) equitable principles, whether considered at law or in equity. The Master Authorization creates the valid pledge of and lien on the Revenues (as defined in the Master Authorization) that it purports to create, subject only to the provisions thereof permitting the withdrawal, payment, setting apart or appropriation thereof for or to the purposes and on the terms and conditions set forth therein.

(e) The Bonds are valid and legally binding special obligations of the County payable solely from the Revenues. The Bonds constitute Long Term Obligations under the Master Authorization. The Master Authorization contains provisions permitting the issuance of certain additional long term obligations of the County on an equal basis with the Bonds (the "Additional Long Term Obligations"). The Revenues are pledged under and as set forth in the Master Authorization for the equal and ratable benefit of the holders from time to time of the Bonds and, to the extent provided in the Master Authorization, any Additional Long Term Obligations. The Bonds and any Additional Long Term Obligations issued within the limitations and provisions of the Master Authorization are entitled to the benefit and security of the Master Authorization as provided therein.

(f) The Bonds do not constitute a general obligation or a pledge of the faith and credit of the County. The County is not obligated to pay the Bonds or the interest thereon except from Revenues to the extent provided in the Master Authorization.

(g) Under existing law, the interest on the Bonds (i) is excludable from gross income for Federal income tax purposes, and (ii) is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations, and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

In rendering the opinion expressed above in this paragraph (g), we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate and Compliance Agreement of even date herewith executed and delivered by the County (the "Tax Agreement"), which covenants and agreements are designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the income tax regulations issued thereunder (the "Regulations") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal tax purposes. In our opinion, the covenants and agreements in the Tax Agreement are sufficient to meet such requirements (to the extent applicable to the Bonds) of the Code and Regulations. However, we assume no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includible in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds.

(h) Under existing law of the State of Maryland, the interest on the Bonds and profit realized from the sale or exchange of the Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Bonds or the interest thereon.

Other than as set forth in the preceding paragraphs (g) and (h), we express no opinion regarding the federal or state income tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Very truly yours,

Appendix E
Refunded Bonds Outstanding as of April 3, 2003

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number</u>
2004	\$2,445,000	5.50%	613367 AN1
2005	2,580,000	5.60	613367 AP6
2006	2,725,000	5.70	613367 AQ4
2013	24,075,000	5.875	613367 AT8

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Appendix F
Specimen Municipal Bond Insurance Policy

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee