

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report

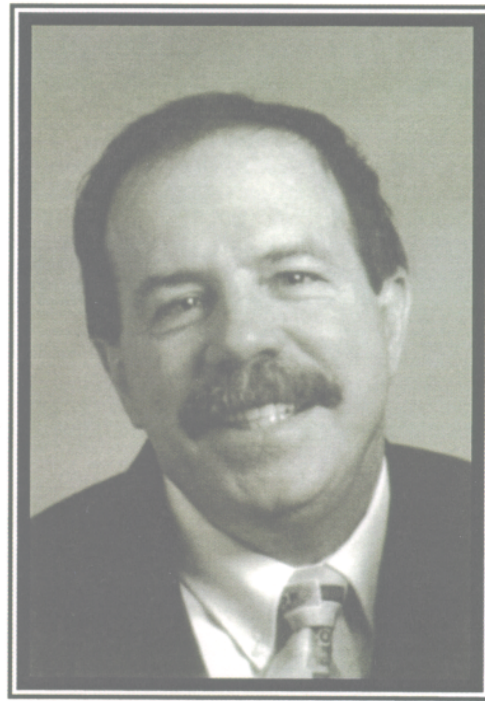


Fiscal Year 2000

July 1, 1999 - June 30, 2000
Rockville, Maryland

**The Comprehensive Annual
Financial Report
is dedicated to**

R. Eugene Hann



1949-2000

Accounting General Ledger Manager
Montgomery County, Maryland
Department of Finance

31 Years Service to the County



MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Prepared by the
Department of Finance

Timothy L. Firestine, Director
101 Monroe Street
Rockville, Maryland 20850
240-777-8860

Fiscal Year 2000
July 1, 1999 - June 30, 2000





Montgomery County

Vision Statement

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

Guiding Principles

We Will Provide Excellence in Government By:

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

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INTRODUCTORY SECTION



DEPARTMENT OF FINANCE

Douglas M. Duncan
County Executive

Timothy L. Firestine
Director

November 22, 2000

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

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report of Montgomery County, Maryland (the County), for the fiscal year ended June 30, 2000. This report was prepared by the County's Department of Finance in cooperation with the finance departments of the County's component unit and joint venture organizations.

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

The accompanying report consists of four sections: introductory, financial, statistical, and index. The introductory section includes this transmittal letter, a list of principal officials, a copy of our Certificate of Achievement for Excellence in Financial Reporting awarded for the FY99 report, a list of special acknowledgments, and the Montgomery County, Maryland organization chart. The financial section includes the general purpose financial statements and the combining, individual fund, and individual account group financial statements and schedules, as well as the report of the independent auditors. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The index is presented solely to facilitate the identification of the individual funds, account groups, and component units of the County.

Office of the Director

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

THE REPORTING ENTITY AND ITS SERVICES

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

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

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

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

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

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

ECONOMIC CONDITION AND OUTLOOK

Summary of the Local Economy

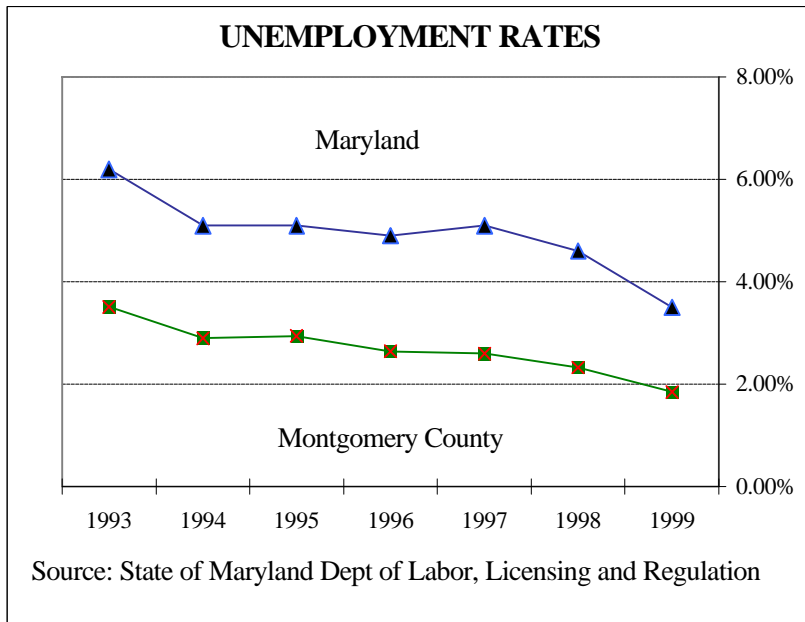
The national economy recorded its longest expansion in U.S. history in February 2000. The current expansion - now in its 10th year - is not only remarkable for its longevity, but also for the strength of its underlying fundamentals. Notably among these are low inflation and unemployment, strong earnings, and a robust construction and real estate market. Due to a rising concern that excessive economic growth may lead to a jump in inflation, the Federal Reserve Board tightened monetary policy on six consecutive occasions by raising interest rates starting in 1999. This has resulted in slower growth in various sectors of the national economy.

Compared to the national economy, it took the local economy longer to recover from the 1990-recession. Moderate improvements in private sector employment, new construction, and real estate were key to the slow recovery through the mid-1990s. A multi-year contraction of the federal government employment base further dampened the recovery. The economic expansion in Montgomery County accelerated in 1997 as growth improved in important areas of the local economy. This trend continued in the two subsequent years. One of the tightest labor markets in the County's history resulted in record low unemployment, strong earnings, and high consumer confidence. Coupled with low mortgage interest rates and record-high returns in investment from the stock market, new residential construction and the market for existing homes improved dramatically over the past three years. Strong business expansion was reflected in a consistent decline in the County's office vacancy rate.

The employment growth trend during the 1990s illustrates the economy's initial moderate recovery and the acceleration in the latter part of the decade. Following job losses in 1990 and 1991, the number of new jobs in the subsequent period measured through 1996 improved, on average, only 1 percent annually. In fact, it wasn't until 1996 that the County's job base had fully recovered from the 1990 recession when the total number of jobs finally surpassed the 1989 level. In the last three years of the decade, however, employment growth jumped, on average, more than 3 percent annually. The extent to which the employment picture has improved in the County from the last recession, is illustrated when comparing employment levels in 1991 and 1999. In that eight-year stretch, more than 58,700 new jobs were created in Montgomery County, representing 16 percent growth. However, during that period the federal government initiated its employment reduction program, as a result of which the County "lost" close to 6,000 federal jobs – a 13 percent decline. Increased hiring by local governments during this period, primarily for law enforcement and education, brought the aggregate public sector to a net decline of just 1 percent. The real strength in job growth in the period 1991-1999 resides with the private sector, which added almost 60,000 new jobs to the County's payrolls – with almost two-thirds of this growth in the last three years. Newly created jobs in the County reflect a continued transition to service-related industries – a sector that includes business, medical, architectural, and legal services – with 3 out of 4 new private sector jobs created between 1991 and 1999 in this sector. In fact, half of all private sector jobs in the County are now in services.

While the employment growth remained impressive in 1999, the continued tightening of the labor market reduced the rate of new job growth last year. Even though the demand for labor remains high, the growth in the labor force continues to fall short of employment growth – bringing the unemployment rate down in the process. However, since it also becomes increasingly more difficult for employers to fill positions, jobs remain unfilled, and the rate of new job growth slows. This slower job growth occurred in 1999 when the rate of new private sector job growth dropped from 4.5 percent in 1998 to 3.1 percent in 1999, and well below the 4.1 percent growth in 1997. The number of new private sector jobs declined from 13,000 in 1997 and 14,700 in 1998 to 10,500 in 1999.

Employment growth in 1999 was broad-based and covered most industrial sectors of the County's economy. Areas with particularly robust growth were the services and financial (finance, insurance, and real estate) sectors, both of which were up 4 percent. The latter sector undoubtedly benefited from the fifth consecutive year with "bull market" performance of the stock markets. In terms of new jobs added to the base, the services and financial sectors represent 80 percent of new private sector jobs in 1999. The third largest growth, in terms of new jobs, was in the wholesale and retail trade sectors which added close to 1,200 new jobs (1.4 percent). Following two consecutive years with considerable growth in the construction sector, the job base remained unchanged in 1999, reflecting the moderation in residential construction last year and difficulty in attracting new workers. In aggregate, the private sector grew 3.1 percent in 1999. Contributing to the overall job picture in the County last year was a modest expansion of 270 new federal jobs – the first annual job growth following a total employment reduction over the period 1992-1998 of 6,700 and a 15 percent reduction from the high-water mark in 1992. The improved federal employment situation contributed to 1.5 percent growth in public sector jobs, and 2.8 percent growth in the combined public and private sectors of the County employment base in 1999.



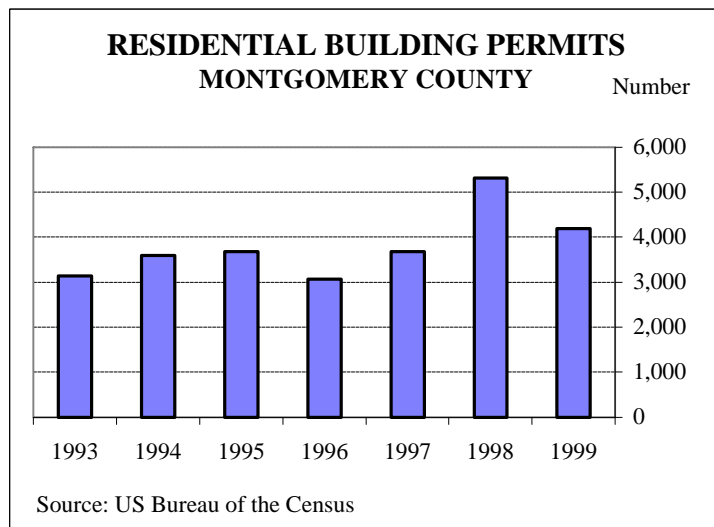
The County's tight labor market is highlighted by its unemployment rate, which is consistently the lowest in Maryland. The unemployment rate dropped to 1.8 percent in 1999, and dipped to just 1.4 percent in April 2000 before increasing modestly in subsequent months. In April 2000 the pool of available labor was at a record-low of less than 7,000 individuals in Montgomery County – a considerable decline from the close to 19,000 unemployed during the last recession. This current record-tight labor market suggests that, unless the labor

force begins to increase at a greater rate than the employment base, the County's employment base expansion will continue to slow.

In terms of the total value of new construction, activity in the County in 1999 improved dramatically from the prior year. In contrast to 1998, when the total value improved only 6 percent, total new construction jumped 48 percent last year. The trend of the two components of residential and non-residential construction changed significantly as well. While residential construction was up 28 percent in 1998, it was down 16 percent last year.

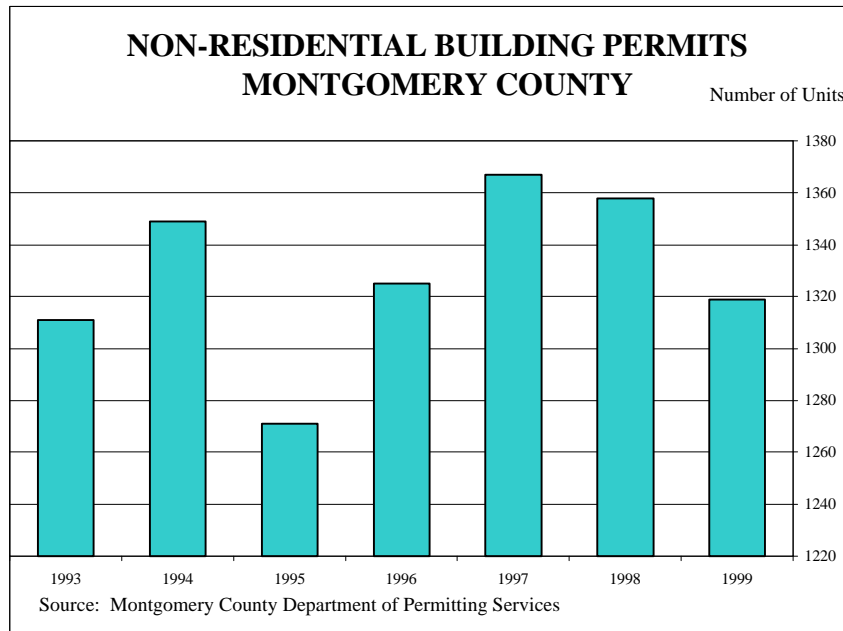
Conversely, while the non-residential sector was down 12 percent in 1998, it more than doubled (129 percent) in 1999. In fact, the last time that non-residential construction experienced this much activity was in 1987.

Measured by the number of residential units for which building permits were issued in 1999, new construction was down 21 percent in Montgomery County. Despite the decline last year, a total of close to 4,200 permits were issued which is 9 percent above the average for the entire decade – suggesting a strong new housing market. Even though the trend was more significant in the County, moderation in new housing construction also occurred statewide (down 6 percent) and nationwide (up 2 percent). Undoubtedly, a significant increase in mortgage interest rates during the year dampened new housing construction nationwide to levels more in line with the historical growth trend of new population and replacement of existing homes.



construction nationwide to levels more in line with the historical growth trend of new population and replacement of existing homes.

The non-residential sector last year jumped impressively to a twelve-year-high. Although activity was strong for all categories within this sector, three categories deserve special attention. First, the commercial category jumped 123 percent in 1999 primarily due to a boost in new office construction that added in excess of 2 million new square feet of office space – quadruple the space added in the prior year. Second, due to a new health research center for John Hopkins University at Shady Grove, the cost of construction was ten times the value in 1998. Finally, new school construction resulted in a 21 percent jump in new construction.

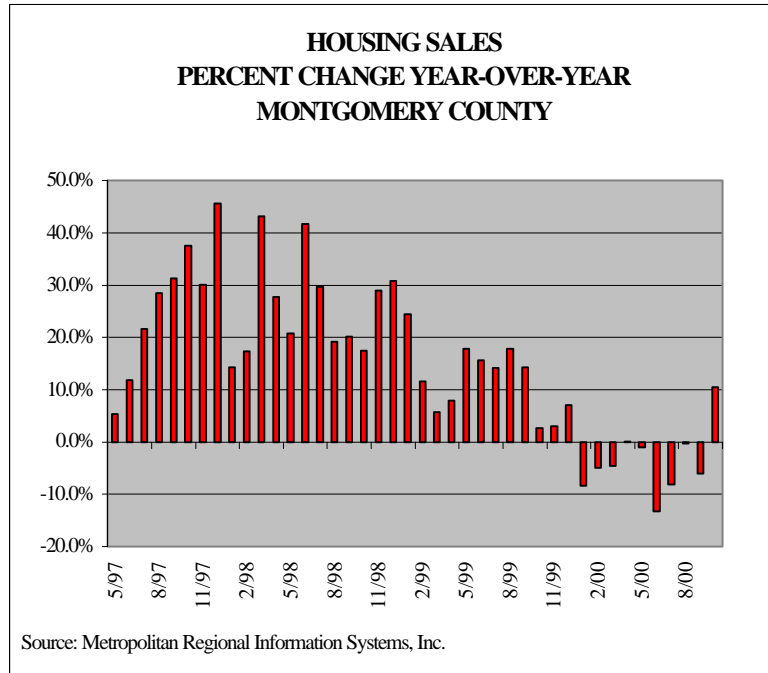


In comparing the aggregate non-residential construction in 1999 to prior years, last year's experience highlights its substantial volatility since so much may be dependent upon a few large projects. This is indicated by the data for the first six months of 2000, when non-residential construction fell 56 percent below the value of new construction in the same period in 1999. Even though commercial construction continued to advance, significant reductions in new school construction and the absence of a new health research center resulted in the decline. By comparison, the residential sector continued to improve during this period, reflecting current stable mortgage interest rates, strong earnings, and high consumer confidence.

The real estate market experienced a dramatic improvement at the onset of fiscal year 1998. This followed an extended period of lackluster sales growth in both residential and commercial sectors. Buoyed by a tight labor market, solid wage gains, low financing cost, and strong stock market gains, residential and commercial properties were purchased at a record pace. The strong trend in residential sales continued in fiscal year 1999, when the number of properties sold jumped 20 percent, on top of a 15 percent jump in the prior fiscal year. However, with an annual rate of population growth in the County of approximately 1 percent and allowing for additional sales due to transfers into and within the County, the high rate of residential sales in fiscal years 1998 and 1999 is unsustainable. This is illustrated in fiscal year 2000, when the impact from slower demographic growth and higher mortgage interest rates reduced the growth rate in residential sales to 7.5 percent. Especially in the first half of fiscal year 2000, growth was robust in both new and existing homes. More recently, however, existing home sales have moderated. Even though the market exhibited reduced growth for most of calendar 1999, sales actually fell below the prior year at the end of the year. This negative trend continued in 2000 with sales of existing homes down 6 percent in the first six months of 2000, compared to the same period last year. This follows the nationwide trend where sales of existing homes were also down 6 percent for the same period. Even though the residential real estate market for existing homes has weakened, sales of new homes remains strong. Also, home

prices continue to increase at rates well above those found in prior years. For example, while average existing home prices in the County increased 3.3 percent in 1998, prices jumped 6.5 percent last year – above the 5.8 percent growth nationwide. This trend reflects a strong economy and high earnings, low inventory of homes for sale, and a continued move towards higher-valued properties. The sale of commercial properties, on the other hand, followed a different trend last year. Even though the number of commercial sales was up 18 percent in fiscal year 1998 and another 7 percent in fiscal year 1999, the total value of commercial properties sold dropped 29 percent in fiscal year 1999, following an unprecedented 109 percent jump in the prior fiscal year.

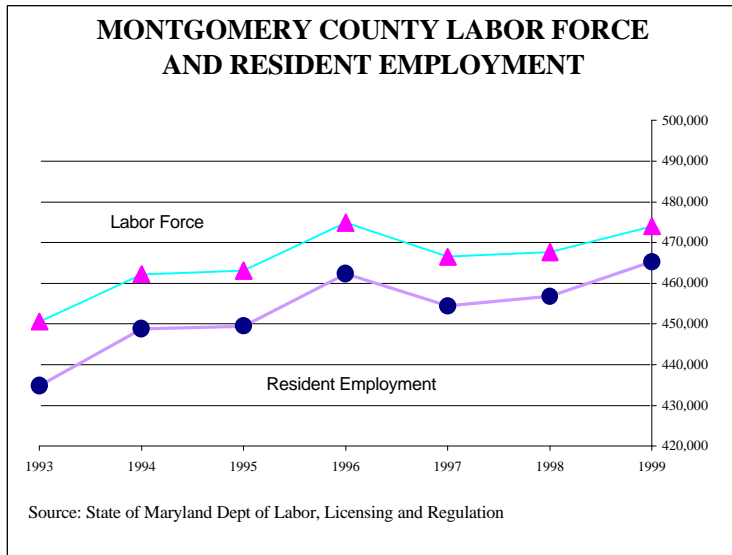
Higher financing costs and low inventory may have contributed to a further decline in fiscal year 2000, when the number of commercial properties sold dropped 17 percent and the associated value declined 2 percent.



Robust consumer spending in the County extended to retail sales as well. However, even though retail sales improved significantly in 1999, with sales up 6 percent and well above the less than 4 percent in 1998, last year's growth rate was below the 8 percent growth statewide and 9 percent growth nationwide. While above average sales were recorded in apparel, automotive and sectors supporting the strong construction market, such as building materials, sales in the furniture and appliances sector declined in 1999, perhaps reflecting the strong competition among neighboring jurisdictions for this sector of the retail market. In contrast to strong retail sales nationally (11 percent) and statewide (9 percent), the County trend weakened as sales grew only 4 percent in the first six months of 2000. This weakness was primarily due to declines in the food and apparel sectors, while other retail sales categories, notably automotive sales and machinery, remained strong during this period.

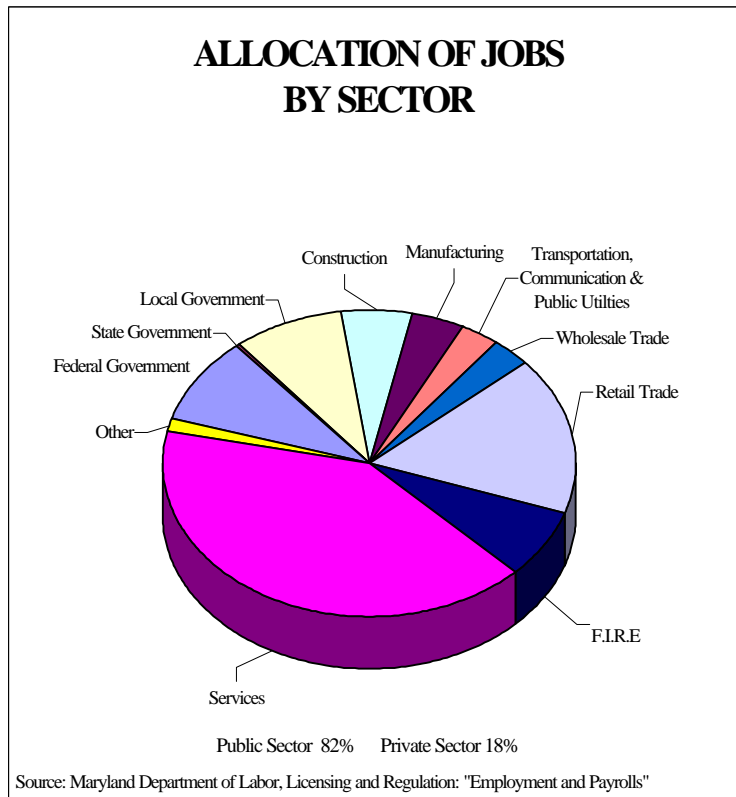
Federal procurement spending is related to outsourcing by the federal government to private sector industries. In a continued effort to reduce its operating costs, the federal government, during the decade of the 1990s, accelerated its efforts to increase outsourcing (privatizing) of many of its functions, while reducing its employment base. Since such procurements represent a large investment in the economy's private sector, it is important to our local economy. In fact, procurement spending, which reached \$3.5 billion in federal fiscal year 1999, equates to approximately 10 percent of the County's total economic activity. The County's share of the total amount of procurement spending in the Washington Metropolitan Statistical Area (MSA) is 13 percent – a share that has been shrinking consistently since the mid-1980s when the share was 22 percent. Most of the growth in the past decade within the Washington MSA occurred in the Northern Virginia jurisdictions due to a greater concentration of defense-related and high-technology industries. Following a 10 percent jump in procurement spending in the County in 1998, spending declined 2 percent last year.

Industries Affecting the Local Economy



Montgomery County is the second largest suburban employment center in the greater Washington region, with a resident employment base of 470,529 in 1999. The County's private sector represents 82 percent of the County's total employment base, with the remaining 18 percent distributed primarily between federal (51 percent) and local (48 percent) governments. The County's private sector includes the following industrial categories: services (50 percent), retail trade (20 percent), finance, insurance & real estate (F.I.R.E.) (9 percent), construction (7 percent), manufacturing (5 percent), wholesale trade (4 percent), transportation (4 percent), and miscellaneous (1 percent).

Over time, the County's job base is becoming less dependent on government and more on the private sector, as illustrated by a steady decline in the government share from 26 percent twenty years ago to the current 18 percent share. Despite the shrinking share of the government sector, the federal government is the third largest industrial sector and the largest single employer in the County. As mentioned in the previous section, following six consecutive annual declines, in which 6,700 jobs were lost, the number of federal government jobs expanded again last year.



Montgomery County is home to 23 federal agencies, including a number of prestigious research facilities such as the National Institutes of Health in Bethesda, the National Oceanic and Atmospheric Administration in Silver Spring, and the National Institute of

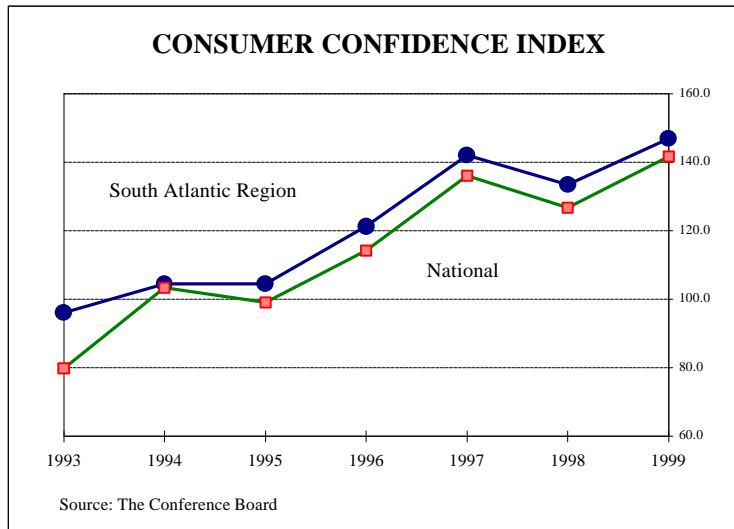
Standards & Technology in Gaithersburg. Federal agencies include the Department of Health and Human Services (30,500 employees), Department of Defense (14,600), Department of Commerce (8,900), Department of Energy (2,400), and the Nuclear Regulatory Commission (2,000). These five agencies, combined, employ 97 percent of all federal civilian employees in the County.

There are also several thousand private sector employers in the County, including Adventist Healthcare (6,000), Giant Food Corp. (5,300), Chevy Chase Bank (4,500), Lockheed Martin Corp. (4,200), Marriott International Inc. (3,500), Verizon (3,000) and IBM (3,000 employees). The County actively supports the high-technology industries, including a high-technology business incubator program at the Shady Grove Life Sciences Center. High-technology industries employ 14 percent of all private sector jobs in the County and close to one-third of all such jobs and high-technology companies in Maryland – by far the largest concentration of such jobs and firms statewide. Growth in high-technology jobs in 1998 – the last year for which data are available – was 3,000 (6.7 percent) representing the highest gain in number of such new jobs in Maryland. Montgomery County has the largest concentration of Maryland’s high-technology employment in computer & data processing services, engineering services, commercial physical research, and biological research organizations, with a significant number of such firms located along the I-270 Technology Corridor.

Future Economic Outlook

Following a year with continued growth among many sectors, and a slowing trend in some key areas of the County’s economy, the outlook is for a return to a more modest growth trend throughout the entire economy. Such an outlook is consistent with a national economic forecast reflecting near-term sustained tight monetary policy that is projected to reduce economic growth from the current rate of more than 4 percent to below 3 percent in the second half of 2000 and in 2001. In fact, several key indicators of the national and local economy exhibit slower growth in the latter part of 1999 and the first part of 2000. Notable among these are slower job growth, weaker commercial and existing residential real estate markets, weak stock market, moderating residential new construction, and weak commercial new construction. Clearly, the County’s economy has fully recovered from the 1990-recession with solid underlying fundamentals, notably in employment and new construction. While employment growth is projected at annual rates of 2 percent, real wage growth is not expected to exceed 3 percent. Personal income is estimated to grow 6 percent annually. With a continued moderate inflation environment, estimated to remain in the low 3 percent range, interest rates – including mortgage interest rates – are expected to remain low by historical standards.

Consumer confidence will remain high, which will further assist the housing market and retail trade industry in the County. The aggregate residential real estate market is projected to remain strong in 2000, but exhibit a decline in sales in the subsequent year as new construction returns to a historical growth rate. The stock market, which has contributed significantly to an unprecedented jump in income tax receipts nationwide, statewide, and countywide, over the past several years, is expected to remain volatile in the near future as investors remain concerned with a reduced profit outlook and the increased possibility of higher inflation.



A return to a historical trend is also expected for residential construction, with growth reflecting new household formation plus replacement of existing housing stock. While employment levels at federal agencies are projected to expand, private sector job growth is expected to moderate. Even though federal employment is projected to increase, such increases are modest reflecting the federal government’s policy towards privatization. Slower private sector employment growth reflects both slower economic growth and a significantly reduced pool of available labor.

MAJOR INITIATIVES

Major initiatives of the County, including certain initiatives of its component units, during FY00, presented by functional area, include the following:

All-America City Program: Montgomery County was named an All-America City by the National Civic League, one of only 10 communities in the United States to receive the honor this year. The All-America City program recognizes communities in which residents, government, businesses and non-profit organizations work together to address critical local issues. This was the first time the County has received this award in 50 years.

Community Development and Housing

Affordable Housing: Seven affordable housing rental properties with a total of 784 housing units were preserved and rehabilitated by the Housing Opportunities Commission (HOC). In addition, a total of 252 first-time homebuyer loans were made through the Mortgage Purchase and Closing Cost Assistance programs. Other HOC programs served homeless families and encouraged family self-sufficiency.

Business Retention and Development: The Economic Development Fund made offers of \$3.86 million to 26 companies, and awarded \$1.46 million to assist 16 companies as a way to promote growth and create jobs in the County. Activities resulted in retaining and attracting over 1,945 jobs in the County, and should result in the creation of over 4,200 new jobs in the County within the next three years.

The County succeeded in attracting QIAGEN Sciences, Inc. to purchase an 18-acre site in Montgomery County to serve as the company's North American Manufacturing and Research and Development headquarters. The 190,000 square-foot facility will be arranged in a campus-like style and will accommodate over 300 employees in manufacturing as well as 100 in research and development by the beginning of 2002. First manufacturing activities are expected to begin in mid 2001. Development of the Shady Grove Life Sciences Center was completed in FY00, with private investment of over \$25 million in the now completed County owned facility.

Social Studies Curriculum on Fair Housing: The County was awarded a 2000 Best Practice Recognition from the United States Department of Housing and Urban Development for a partnership with Montgomery County Public Schools and others that resulted in creation of a comprehensive set of fair housing lessons for incorporation into the 10th grade social studies curriculum. The lessons are being taught in approximately 100 classrooms in all 26 of the County's high schools.

Education

Montgomery County Public Schools (MCPS) Service Efforts: During FY00, MCPS operated the nineteenth largest educational system in the nation, serving over 131,000 students in pre-kindergarten through Grade 12 in 189 schools. In addition, the system operated programs and centers for adult education, evening high school, and summer school programs serving several thousand students and adult learners. The system served more than 3,000 additional students in FY00, with more than 76 percent of the operating budget devoted to instructional costs. The operating budget included \$13.1 million for new initiatives to improve the quality of education. In FY00, MCPS received more than \$67 million in grants, an increase of 63 percent over two years. Among the grantors were the U. S. Department of Education, the National Science Foundation, and the Howard Hughes Medical Institute.

Class Size Reduction: During FY00, the County continued its class size reduction initiatives at a cost of \$7.8 million. MCPS completed the implementation of its innovative Reading Initiative, reducing class size for reading in Grades 1 and 2 to a maximum of 15 students. The completion of this initiative added 105.5 classroom teachers with the goal of having every student read independently and on grade level by the end of second grade. MCPS also added 11.5 classroom teacher positions to reduce the maximum class size to 20 students in Grade 9 Algebra 1 classes. The operating budget also included funds to add 48 classroom teacher positions to eliminate nearly all oversized elementary school classes.

Montgomery County Public Schools Accomplishments: Average scores on the 1999 Scholastic Assessment Test (SAT) increased to 1096 overall, but dropped by 22 points for Hispanic students and remained flat for African American students. Results on other standardized tests reflected the need to align school system resources to close the gap in student performance by race and ethnicity. MCPS dropped from fourth to fifth place in the rankings of state school districts on the Maryland School Performance Assessment Program (MSPAP). Twenty-two County public schools were named among the state's fastest improving schools. An average of 58 percent of students system-wide met the proficiency standard in mathematics and an average of 70 percent met the reading proficiency standard on MCPS Criterion-Referenced Tests (CRTs).

Accountability and Improving Student Performance: MCPS completed development of a new teacher evaluation system in partnership with the Montgomery County Education Association. The new system will be implemented in 35 schools in FY01. MCPS began an extensive external audit of its curriculum, beginning with mathematics. During FY00, the school system developed a comprehensive plan to improve student performance and close the achievement gap. This plan resulted from extensive community collaboration. It prepared the way for a record operating budget with more than \$26 million in new initiatives for FY01 to improve the standards of teaching and learning, stress early childhood programs, prepare all students with improved literacy skills, and expand the role of technology in the classroom.

Environment

Environmental Assessment 2000: Environmental Assessment 2000, released on Earth Day 2000, was the first report of its kind for Montgomery County. It identified significant resource concerns throughout the County in key areas, including agriculture, air quality, biodiversity, energy, groundwater, hazardous material, noise, transportation, solid waste and recycling, and watershed quality. Within each key area, individual indicators have been identified that measure and explain baseline environmental conditions in the County. Citizen advisory committees and County agencies and regional groups helped develop and review the environmental indicators.

General Government

Semi-Annual Real Property Tax Payments: In tax levy year 1999, under the optional payment plan, approximately 32,000 County taxpayers paid their real property taxes using a semi-annual schedule. The County estimates that in tax levy year 2000, under the mandatory program, approximately 180,000 taxpayers will pay real property taxes for owner occupied homes on a semi-annual basis. The 1999 semi-annual legislation, Maryland State Code Section 10-204.3, required counties to collect a small service charge with the second payment. Effective tax levy year 2000, the Code made the service charge optional. The Montgomery County Executive and County Council eliminated the service charge for tax levy year 2000 (FY01). Assuming that nearly all eligible taxpayers will pay on a semi-annual schedule, the elimination of the service charge will reduce County revenues by approximately \$3.0 million.

Y2K Compliance: This program ensured the Year 2000 compliance of all enterprise and Emergency Communications System/Computer Aided Dispatch computing and telecommunications platforms, and coordinated the compliance of all County government computer and information technology systems. The County identified 211 projects for review, analysis, and remediation, and spent \$45.88 million on personnel costs, operating expenditures, and replacement system costs between FY97 and FY00, with \$7.48 million spent during FY00. Three large exercises were held to prepare for potential problems related to Y2K, including one State multi-jurisdictional exercise, one County multi-agency exercise, and one Council of Governments multi-jurisdictional exercise. Fifteen town meetings were held, and over 700,000 home preparedness guides were distributed via newspapers and at the meetings.

Health and Human Services

Betty Ann Krahnke Center: Dedicated in April 2000 and named in honor of retiring County Councilwoman Betty Ann Krahnke, this new facility replaced the County's former six-bedroom shelter for battered women and their children. The new Center was designed to provide a safe, uplifting environment for residents. The new facility has an emergency unit for crisis situations and a stabilization unit for those who need to create a long-term plan for independent living. The \$2.3 million Center was funded by State and County funds.

Rewarding Work Initiatives: Based on the belief that no Montgomery County resident who works full time and supports a family should be poor, a comprehensive package of programs and services was enacted to assist working families in the County. The package provided dollars to low-wage earners through a local refundable Working Families Income Supplement, with total spending of over \$2.2 million in FY00, and increased funding for services to help working families get childcare, health care, housing assistance, job training, and transportation. The modified Rental Assistance Program (RAP) provided housing assistance. Both the law and regulation governing the Rental Assistance Program were changed, resulting in an increase in the maximum monthly rent subsidy from \$95 to \$200 per month. In addition, RAP increased outreach efforts to potentially eligible recipients.

Public Safety

Aggressive Driver Enforcement: During FY00, the County installed its first red light enforcement cameras, resulting in over 25,000 red light runners ticketed since October 1999. The "Smooth Operator" program, begun in May 1999, has caught over 11,000 drivers exhibiting aggressive driving behavior.

Children First Initiative: During FY00, the County began phased implementation of a pilot Riskwatch Program, the first comprehensive injury prevention curriculum available for use in schools. The program is targeted to pre-kindergarten through eighth grade children, for whom injuries are the number one health risk. The Bike Helmet Safety campaign had a goal of distributing over 600 helmets to children without helmets or with improperly fitted or damaged helmets.

Handgun Safety Campaign: Initiated in July 1999, this program was launched to prevent children from unintentional injury with handguns. Handgun locks and lockable handgun boxes are distributed free of charge, and pediatricians are asked to help educate parents on handgun safety.

Traffic Computers: As part of a settlement agreement with the Department of Justice, in June 2000, County police officers began using hand-held personal computers to track data during traffic stops, including the age, race, and gender of the person stopped. These handheld PCs reduce paper work, and provide a more manageable way for officers to access needed information.

Public Works and Transportation

Mixed Paper Recycling Update: A Countywide recycling system for collecting, processing, and marketing residential mixed paper was successfully implemented. Residential mixed paper includes newspaper, corrugated containers, paper bags, magazines, telephone directories, and junk mail. Nearly 200,000 homes now have weekly curbside collection for mixed paper recycling.

Resource Recovery Facility (RRF) Ash Recycling Update: A pilot project was initiated to recycle approximately one third of the ash currently generated at the RRF. The pilot will continue through FY02 and ultimately recycle more than 80,000 tons of RRF ash. One hundred percent of the ash is recycled, so none of it goes to a landfill. Because of the initial success of this pilot project, the County is developing a long-term project in FY01 and is expected to issue an RFP later in the year for long-term ash recycling services.

Transit Service Expansions: Nineteen diesel buses due to be retired were replaced with buses fueled by Compressed Natural Gas as part of a pilot program to explore alternative fuel options.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

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

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

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

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

Internal Accounting Controls

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

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

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

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

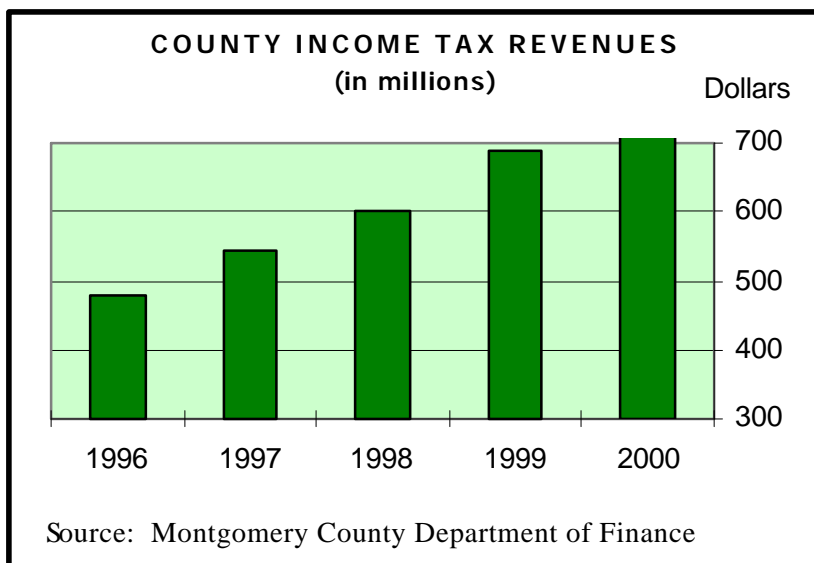
General Governmental Functions

Revenues

Montgomery County concluded the fiscal year ended June 30, 2000, with an undesignated General Fund balance of \$75.4 million, a decrease of \$14.3 million from the balance of the previous fiscal year. Primarily due to continued strong revenue growth, the total fund balance grew from \$230.3 million, at the beginning of the fiscal year, to \$276.4 million by year-end.

Due to higher than expected tax revenues, the Revenue Stabilization Fund (RSF) grew to \$70.6 million – the maximum fund size for that fiscal year. Following the mandatory contribution requirement, half of actual General Fund receipts from the income tax, transfer and recordation taxes, and investment income above the budget estimate must be transferred to the RSF. Even though all revenue categories came in higher than expected, the income tax was the primary source for the overall growth in this Fund. Due to the maximum fund size requirement, the mandatory contribution was limited to \$8.4 million in FY00. There were no discretionary contributions made to the Fund in FY00, while, pursuant to the County Code, the \$3.4 million interest earned in the Fund during the year was transferred to the Debt Service Fund.

General Fund budgetary revenues totaled \$1,659.8 million and are 9.4 percent above the budget estimate for the year. Revenues reflect a 6.6 percent growth over the prior fiscal year. Compared to the budget estimate, the largest contributor to the revenue growth occurred in the tax category. In fact, collections from all taxes exceeded the budget estimate by \$132.6 million (9.6 percent), representing 93 percent of the excess revenues for the year. The County income tax, fueled by a continued strong employment growth and financial market performance, contributed the majority of the excess tax collections, as receipts came in \$82.5 million (12.2 percent) higher than the budget estimate. The booming real estate market resulted in an unprecedented jump in transfer and recordation tax receipts, with a combined \$30.2 million (43.3 percent) excess revenue stream for the year. Higher than expected receipts from the combined income tax and real estate taxes, explain 79 percent of the variance between the budgeted General Fund revenues and actual receipts. Reflecting stronger than projected assessable base growth, higher collection factor, higher receipts from penalties and prior years, and a lower than projected cost from several tax credits, the property tax collections came in 3.3 percent higher than the budget estimate. The continued strength of the national and regional economies, contributed to better than expected revenues from the telephone tax (7.7 percent), while the fuel/energy tax came in as projected (0.0 percent). By contrast, the hotel/motel (-3.4 percent) and admissions tax (-3.8 percent) came in slightly below the budget estimate for the year. For fiscal year 2000, the County Council passed legislation to implement a one-year tobacco tax, with the intent to fund programs aimed at reducing teenage smoking in the county. The actual revenues from the tobacco tax came in more than double (107.9 percent) the original budget estimate for the fiscal year. Reflecting the higher revenues and improved investment yield, General Fund investment income came in \$4.9 million above the budget estimate, contributing 3.5 percent to the total General Fund revenue variability in fiscal year 2000. Other categories that contributed to the higher General Fund revenues were Intergovernmental (2.2 percent), and Fines and Forfeitures (1.2 percent). More than compensating for lower than expected revenues from several State aid sources, revenues from State Highway Fund and Federal reimbursements resulted in Intergovernmental coming in \$3.2 million above the budget estimate. The shortfalls to the non-tax General Fund revenues were modest and occurred only in Charges for Services (-\$0.9 million).



The County income tax received another boost from higher capital gains income due to the booming stock market, as well as stock options, corporate bonuses, and commissions from an expanding economy. Revenues jumped 10.4 percent in FY00 – the fourth year with double-digit growth rates. Because of Montgomery County’s high concentration of wealthy taxpayers, the County receives a large share of non-wage income, amounting to roughly 30 percent of taxable income. An additional factor that contributed to the

strong FY00 income tax collections is employment growth. The number of jobs in the County jumped 2.8 percent in 1999, with a more than 3 percent growth in private sector jobs. Combined with average wage growth of 4.5 percent, reflecting the tight labor market in the County, the expanding employment base provided a further boost to FY00 income tax receipts. As a result of income tax liability growth in non-wage and wage categories, both estimated payments and withholdings jumped 10 percent in calendar year 1999 – identical to the prior two years. Similar to the FY97 through FY99 experiences, receipts again increased due to significant growth in late-filer collections from taxpayers who, in this case, underestimated their 1998 tax liability which the County otherwise

would have received in fiscal year 1999. As a result of these trends, collections were \$761.1 million, or \$82.5 million above the original budget estimate. Mid-year revisions for FY00 captured close to 94 percent of the increase, while subsequent data suggest that the estimate for the next fiscal year remains on track. Even though income tax receipts remained robust in FY00, while employment growth was strong in calendar year 1999, there was some moderation. Most notably, private sector employment growth slowed from 4.2 percent in 1997 and 4.5 percent in 1998, to 3.1 percent in 1999. Similarly, average wages in the County moderated from 5.0 percent in 1998 to 4.5 percent in 1999. The stock markets, which jumped to unprecedented growth rates in the period 1995 through 1999, exhibit considerable weakness in 2000. As a result, the outlook is for a return to lower growth rates in this tax source in the coming years. National and regional economies are projected to slow-down in the current and subsequent year, while financial markets are expected to remain well below recent, and even the lower historical, growth rates in the near term. As a result, growth in income tax receipts is projected to moderate to a more historical growth pattern.

Property tax collections of \$610.4 million exceeded the budget estimate by 3.3 percent and contributed \$19.6 million to the excess collections in the General Fund. The variance between the original budget forecast and final receipts is attributed to several factors. Foremost is the stronger than projected growth in the assessable base and higher collection factor. Additionally, revenues from prior tax years as well as penalties & interest jumped significantly above their historical average. Finally, expected declines in revenues from two tax credits came in well below their estimates. Primarily due to significant growth in new construction and slightly higher reassessment growth, the real property tax base grew 2.8 percent in fiscal year 2000. New construction occurred mainly in the residential sector and reflected the sharpest jump in construction activity in the post-1990 recession period in Montgomery County. In addition, construction in the commercial sector increased to an eight-year high in FY00. Following a 3.6 percent decline in the personal property base (roughly 12 percent of the total base) in FY98, personal property grew 2.8 percent in FY99 and 3.2 percent in FY00. Hence, despite the continued negative impact from changes in tax law pertaining to the depreciation of computer equipment and an expanded number of exemptions, the robust economy resulted in a net increase in the personal property tax base over the past two years. Corporate personal property jumped 11 percent to reach an all-time high and more than compensated for declines in both the utility and individual personal property components in FY00. Due to solid growth in both real and personal property, the total assessable base grew 2.8 percent in FY00. With solid residential new construction growth and improved reassessments of the existing base, while personal property is projected to continue to improve as new accounts more than compensate for the negative impact from several tax law changes, the property base is projected to grow close to 3 percent annually.

The third major tax category in the County is the combined transfer and recordation taxes. Following a 40 percent jump in receipts in FY98, this tax category experienced a further 12 percent increase in FY99, but moderated to 7.3 percent growth in FY00. However, in contrast to FY98 when transfer tax revenues grew from an exceptionally strong residential and commercial real estate market, only the residential portion continued to grow another 11 percent in FY99, while the commercial sector fell 29 percent below the prior year. This trend continued in FY00 when residential sales grew 9 percent, while commercial sales declined another 2 percent. Total FY00 receipts for these two taxes came in \$30.2 million, or 43.3 percent, above the budget estimate. Even though the projected decline in the commercial market occurred in FY00, the robust residential market continued to exceed projections of national and regional housing sales. Since the residential sector represents more than 80 percent of this tax category, the exceptional strength in this sector of the real estate market explains the excess revenues in FY00. However, even though the residential market remains robust, the real estate market for existing homes grew only 2 percent in FY00, in contrast to 19 percent in the prior fiscal year. Moreover, since the number of existing home sold in the second half of FY00 was below sales in the prior year period, it indicates a distinct weakening trend. The reason for the continued strength in the aggregate residential market is that new home sales have remained strong last year, and more than compensated for the underlying weakness in the existing housing market. For most of the 1990's the real estate market remained weak, despite a strong economy, low mortgage interest rates, high consumer confidence, and a tight labor market. At the onset of fiscal year 1998, however, the market

experienced a dramatic improvement and has remained on this upward trend for the past three fiscal years. The number of residential transfers reached 22,000 in FY00, which was a ten-year record and represents 7.5 percent growth from the prior year. In addition to the jump in the number of transfers, the average residential transfer tax increased 3 percent. While the FY00 results are strong, they are well below the prior two fiscal years in terms of both number of transfers (15 and 20 percent in FY98 and FY99, respectively) and average tax (7 and 5 percent in FY98 and FY99, respectively). The commercial real estate market has fluctuated significantly over the past three fiscal years, with an initial large jump in revenues, followed by a significant decline in FY99, and further moderation in FY00. The exceptional jump in average commercial transfer taxes in FY98, which increased to its highest level in more than a decade, was, as projected, unsustainable in FY99. Burdened by credit tightening and higher financing costs, the commercial sector was especially susceptible to changes in financial conditions. As a result, the more than doubling in revenues in FY98 (109 percent) was partially reversed in FY99 when revenues declined 29 percent, even though the number of commercial transfers increased 7 percent that year. The associated 34 percent drop in the average tax in FY99 is explained by the lack of a number of higher valued properties that boosted FY98 collections. In FY00, the number of commercial transfers declined 17 percent, pushing revenues down another 1.5 percent from the prior year. A mid-year revision of the FY00 revenue estimate for the aggregate real estate category reflected most of the increase observed at the end of the fiscal year. Further interest rate hikes, combined with a reversal of the “wealth effect,” are projected to result in continued moderation in residential market activity. Hence, the outlook is for a return to lower levels of real estate activity, and specifically for the residential sector to be in line with the moderate population and residential replacement growth trends for the County.

The remaining tax sources - consisting of the hotel/motel, fuel-energy, telephone, admissions, and tobacco taxes - came in only \$0.3 million (0.7 percent) above the combined budget estimate of \$43.0 million in FY00. The continued growth in the economy and improved corporate and personal incomes, contributed to a significant growth in revenues from the hotel/motel (9 percent) and telephone (12 percent) taxes compared to FY99. The 12 percent jump in the telephone tax is for landlines, since effective FY00 the tax on wireless components, such as cellular phones, has been eliminated. Even though occupancy rates have generally remained stable over time, the combined effect of a growing number of hotel rooms in the County and room rates that increased well above the rate of inflation, resulted in a 9 percent growth in tax revenues for the hotel/motel tax. The fuel-energy tax, on the other hand, decreased less than 2 percent in FY00, primarily due to a decline in the purchase of heating oil and natural gas, which is, in part, explained by the mild winter weather.

Investment income increased substantially in FY00. In the General Fund, it was \$4.9 million above the budget estimate of \$16.9 million, reflecting stronger than expected tax revenue growth and a significant jump in the yield on cash equity. Total budgetary pooled investment income (all funds and outside participants) came in at \$50.9 million, which reflects a 26 percent growth from the prior fiscal year. The improvement in revenues is reflected in the “daily cash average” which jumped from \$798 million in FY99 to \$890 million in FY00, and is significantly higher than the budget estimate of \$782 million. Reflecting the general weakness in the bond market, the yield on cash equity declined from 5.63 percent to 5.14 percent in FY99. However, as the bond market recovered and the Federal Reserve Board increased interest rates, yields rebounded to average 5.72 percent in FY00 – the highest level since the early 1990s. With a moderate overall revenue outlook, while expenditure pressures continue to increase, daily cash balances are expected to grow modestly. In contrast, expected rates of returns on “money market instruments” are expected to improve, contributing to moderate growth rates in investment income in the coming years.

Revenues for General Governmental functions (General, Special Revenue, and Debt Service Funds) and the changes in those functional revenue categories from FY99 to FY00 are presented below:

Revenues by Source	Amount		Increase (Decrease)
	FY00	FY99	
Taxes	\$ 1,664,359,903	\$ 1,555,560,176	6.99%
Licenses and Permits	8,131,722	7,606,773	6.90%
Intergovernmental	178,156,441	219,251,769	(18.74%)
Charges for Services	38,349,591	35,824,547	7.05%
Fines and Forfeitures	5,363,772	3,914,705	37.02%
Investment Income	37,507,641	26,495,214	41.56%
Miscellaneous	7,984,760	6,803,620	17.36%
Total Revenues by Source	\$ 1,939,853,830	\$ 1,855,456,804	4.55%

Expenditures

Expenditures for General Governmental functions (General, Special Revenue, and Debt Service Funds) and General Fund transfers to certain component units for educational purposes totaled \$1,845.4 million in FY00, an increase of 4.16 percent over FY99. General Governmental expenditures and certain other uses (educational transfers) by function and the changes in those functional categories from FY99 to FY00 are presented below:

Expenditures and Other Uses by Function	Amount		Increase (Decrease)
	FY00	FY99	
General Government	\$ 143,117,682	\$ 136,821,692	4.60%
Public Safety	260,800,496	244,011,790	6.88%
Public Works and Transportation	109,177,626	136,838,993	(20.21%)
Health and Human Services	160,972,782	158,247,919	1.72%
Culture and Recreation	59,310,643	54,490,733	8.85%
Community Development and Housing	7,194,841	6,805,008	5.73%
Environment	3,106,472	2,837,448	9.48%
Education	946,442,024	880,287,191	7.52%
Debt Service	155,241,180	151,356,155	2.57%
Total Expenditures and Other Uses by Function *	\$ 1,845,363,746	\$ 1,771,696,929	4.16%

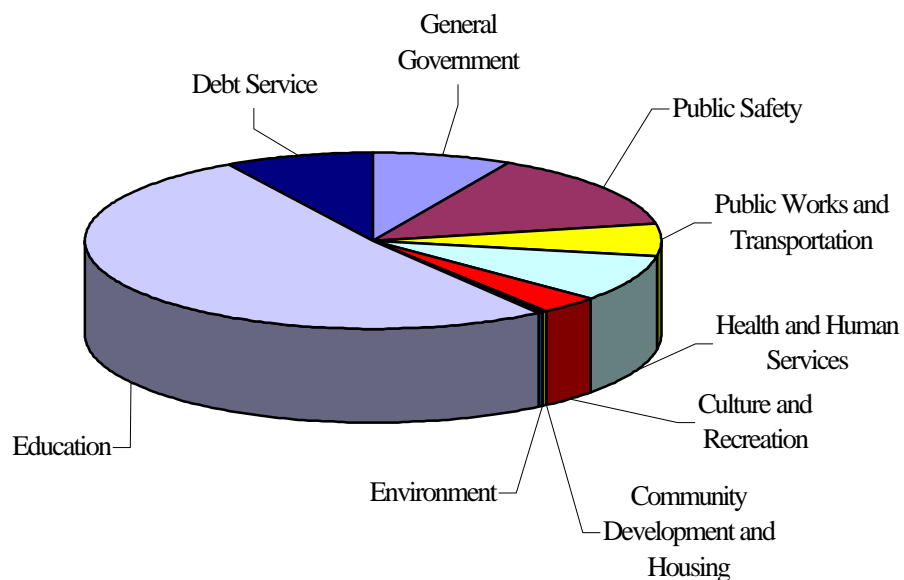
* Excludes \$130 million in bond anticipation notes retired through the issuance of general obligation bonds in FY00.

Included in all FY00 General Governmental functional categories, except education and debt service, are general wage adjustments and service increments, ranging from approximately 6.0 to 6.5 percent. Other significant expenditure changes, after consideration of wage adjustments and service increments, include the following:

- Public Works and Transportation:
 - Elimination, for County reporting purposes, of the State's funding of the Montgomery County portion of the operations of the Washington Metropolitan Area Transit Authority (WMATA), a joint venture. Actual FY99 expenditures reported for these operations were \$50.7 million;
 - Purchases of Ride-On buses amounting to \$15.2 million, of which \$6.3 million was funded by the Mass Transit Special Revenue Fund and \$8.9 million was funded by grants from Federal, State, and other sources. This includes purchases of buses budgeted for and encumbered in FY99, but for which the County did not take delivery of the assets until FY00;
 - Expanded paratransit services of approximately \$3.2 million under the Americans with Disabilities Act (ADA) and Call & Ride programs, including additional trips, an increased volume of longer trips, and expanded programs to eligible participants;

- Increases of about \$1 million in the Access to Jobs grant, which provides late-night public transportation to moderate-to-low income persons trying to enter into and stay in the workforce;
 - Expanded contracted bus services to cover an increased number of routes, and higher repairs and maintenance costs on the County's Ride-On bus fleet, accounting for a combined increase of \$2.4 million; and
 - Reduced expenditures over FY99 related to less severe winter snow and ice storms.
- Health and Human Services:
 - A one-time increase of \$15 million in FY99 under the Community Mental Health grant from the State, passed through the County to a not-for-profit organization, for fees for services provided to eligible clients;
 - An FY00 increase of approximately \$4 million in the Community Partnership Grant, which combines community resources to provide care for children in need;
 - Programmatic improvements of approximately \$5 - \$6 million provided to County residents in need including support to school aged children, their families, and the developmentally disabled and new State Family Investment program funds for child care, welfare-to-work and child protective services; and
 - Rewarding Work Initiative funding of \$1.1 million received mid-year for child care, health, training and education services, and housing and transportation services to assist low wage earners in obtaining and maintaining employment.

FY00 EXPENDITURES AND OTHER USES BY FUNCTION



Source: Montgomery County Department of Finance

Proprietary Operations

The County operates a variety of enterprise activities which include solid waste disposal and collection activities, community use of public facilities, permitting services, four parking lot districts, and the nation's only county-controlled wholesale and retail liquor operation. The Liquor Enterprise Fund makes an annual operating transfer to the General Fund which, in FY00, amounted to \$14.6 million. Significant financial balances and results of operations of all enterprise funds as of and for the year ended June 30, 2000, include the following:

Total Assets	<u>\$ 319,903,051</u>	Operating Revenues	<u>\$ 259,660,444</u>
Total Equities	<u>\$ 184,227,353</u>	Net Income	<u>\$ 21,119,366</u>

The County maintains four internal service funds to account, on a cost reimbursement basis, for the financing of goods or services provided by one department to other departments and governments. Goods and services provided include motor pool operations, central duplicating services, liability and property coverage, and employee health benefits coverage. Charges for these services during FY00, to reimburse costs incurred, amounted to \$109.6 million.

Fiduciary Operations

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

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

Plan Name	Covered Payroll	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL
Employees' Retirement System of Montgomery County	\$ 299,649,316	\$ 1,911,114,401	\$ 1,931,914,313	\$ 20,799,912
Employees' Retirement Savings Plan of Montgomery County	56,573,000	20,386,475	-	-
Montgomery County Public Schools Employees' Retirement and Pension System **	700,491,000	653,017,000	653,446,000	429,000
Montgomery Community College Aetna Plan	7,182,074	13,839,187	9,442,405	(4,396,782) *
* Represents actuarial value of assets in excess of AAL				
** FY99 data				

Plan Name	Employer Contributions	Employee Contributions	Number of Members	# of Persons Receiving or Entitled to Benefits
Employees' Retirement System of Montgomery County	\$ 44,347,078	\$ 10,924,466	6,396	3,869
Employees' Retirement Savings Plan of Montgomery County	3,654,243	2,082,800	2,544	2,544
Montgomery County Public Schools Employees' Retirement and Pension System	15,679,468	3,345,269	26,899 *	9,723 *
Montgomery Community College Aetna Plan	-	717	425	290
* FY99 data				

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

Debt Administration

At June 30, 2000, the County had outstanding general obligation bonds of \$1,131,833,054 and outstanding bond anticipation notes (BANs) of \$160 million. Over the last ten years, the County has issued its general obligation bonds at least once a year, and twice in some years. With the passage of the Tax Reform Act of 1986, the County adopted a policy in 1988 of initially financing capital construction with BANs. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY91, the County has sold single general obligation bond issues of up to \$130 million, with total annual issuances of up to \$135 million in bonds. Over the last ten fiscal years, the County's annual issues have averaged about \$112 million. During FY00, the County issued general obligation bonds, dated January 1, 2000, in the amount of \$130 million. The proceeds of this bond issue were used to pay off an equal amount of the County's BANs.

The County continues to maintain its status as a top rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its general obligation bonds, the County is a 'Triple AAA' rated County, and has received ratings of Aaa from Moody's Investors Service, Inc., AAA from Standard and Poor's, and AAA from Fitch, Inc. Montgomery County has consistently had a Aaa rating from Moody's Investors Service, Inc. since April 1973. Bonds issued by the County since July 1976 have consistently been rated AAA by Standard and Poor's.

As of June 30, 2000, Montgomery County is one of only seven 'Triple AAA' rated counties in the nation with a population greater than 800,000. According to Standard and Poor's, a deep, diverse, and growing economy; strong financial management; and a low debt burden are the hallmarks of counties rated 'AAA.' The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties have demonstrated an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-thought-out capital plans, maintaining sufficient reserves, and planning for future contingencies.

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

Cash Management

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

Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's investment policies as approved by the County Council. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secures. Cited statutes also authorize investments in bankers' acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade and in money market funds whose portfolio is operated consistent with the Securities and Exchange Commission rule 2a-7. The County requires that these money market funds invest only in obligations that a federal agency or instrumentality issues in accordance with an act of Congress and repurchase agreements collateralized by an obligation of the United States, its agencies, or instrumentalities. The average maturity of the County's working capital portfolio is generally less than six months. At June 30, 2000, the investment balance of the County's portion of the consolidated portfolios was \$789.2 million and had earned investment income of \$51.5 million for FY00.

Risk Management

Montgomery County is self-insured for most claims filed by third parties. Property exposures are commercially insured above a high dollar retention. Potential losses are mitigated by a strong safety program, contractual transfer of exposure to others, and ongoing analysis of risk associated with County activities. In addition to the component units covered by this financial report, the following agencies are also members of the risk management program: Maryland-National Capital Park and Planning Commission, City of Rockville, Housing Authority of the City of Rockville, City of Gaithersburg, the Town of Somerset, the Village of Martin's Additions, and the Village of Drummond (as of March 1, 2000).

INDEPENDENT AUDIT

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

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

AWARDS AND RECOGNITION

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Montgomery County, Maryland, for its comprehensive annual financial report for the fiscal year ended June 30, 1999. Montgomery County has received the Certificate of Achievement more times than any other county in the nation -- thirty times -- as early as 1951 and consecutively for twenty-eight years, since 1972.

The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Department of Finance believes its current report continues to meet the Certificate of Achievement Program's requirements and is submitting it to GFOA to determine its eligibility for another certificate.

Distinguished Budget Presentation

GFOA presented an award of Distinguished Presentation to Montgomery County, Maryland, for its annual budget for the fiscal year beginning July 1, 1999. In order to receive this award, a governmental unit must publish a document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. The award is valid for a period of one year only. Montgomery County has received this award consecutively since 1984, the year the program was established. The Office of Management and Budget believes the current budget continues to conform to program requirements and is submitting it to GFOA to determine its eligibility for another award.

USE OF THIS REPORT

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

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


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

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

ACKNOWLEDGMENTS

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Timothy L. Firestone", with a stylized flourish at the end.

Timothy L. Firestone
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Montgomery County,
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1999

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



Anne Spray Kinney
President

Jeffrey L. Essler
Executive Director

ACKNOWLEDGMENTS

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

Department of Finance

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

Department of Public Works and Transportation

Judy Sparks	Millie M. Souders
Florence Okolo	Len Horan

Department of Liquor Control

Andy Brown

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

County Government

Department of Finance

Jennifer Barrett	Terry Fleming
David J. Bernstein	Ray Gulhar
Phavann Chhuan	Robert Hagedoorn
Michael Coveyou	Glenn Wyman
Richard J. Duthoy	

Office of Public Information

Thomas Whorton

Office of Management and Budget

Robert K. Kendal	Nancy Moseley
Joseph Beach	

Department of Public Works and Transportation

Heidi Chapman	Bill Davidson
Thomas Huff	Tom Kusterer
Edna McGraw	
Richard Taylor and the Print Shop	

Component Units

Montgomery County Public Schools

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

Montgomery Community College

Marshall Moore	Linda Hickey
Kenneth Mullinex	

Housing Opportunities Commission

Linda Mansouri	Frances Hartley
----------------	-----------------

Montgomery County Revenue Authority

John Luke

Bethesda Urban Partnership, Inc.

Deborah Williams

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

**MONTGOMERY COUNTY, MARYLAND
LISTING OF OFFICIALS**

COUNTY EXECUTIVE

Douglas M. Duncan

COUNTY COUNCIL

Michael L. Subin	President
Blair G. Ewing	Vice President
Phil Andrews	Derick P. Berlage
Nancy Dacek	Howard A. Denis
Isiah Leggett	Marilyn Praisner
Steven Silverman	

MONTGOMERY COUNTY (Primary Government) OFFICIALS

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

(Continued)

Montgomery County Officials, Concluded

COMPONENT UNIT OFFICIALS

Montgomery County Public Schools

Board of Education:

Patricia O'Neill, President
Kermit V. Burnett, Vice-President

Steve Abrams	Reginald M. Felton
Beatrice B. Gordon	Nancy J. King
Mona M. Signer	Christopher Lloyd
	Student Member

Jerry D. Weast, Superintendent of Schools

Montgomery County Revenue Authority

Board of Directors:

Stephen Edwards, Chairman
Carol McGarry, Secretary-Treasurer

Peter L. Gray	Christopher W. Hill
John F. Wolf, Jr.	

Marc D. Atz, Executive Director

Bethesda Urban Partnership, Inc.

Board of Directors:

Arnold J. Kohn, Chair
Benjamin King, Vice-Chair

Page Lansdale, Treasurer
Mier Wolf, Secretary

Edward Hall Asher	Robert Brewer
Robert Hebda	Jason Hoffman
Gail Nachman	Jeanette Pfothenhauer
Carol Trawick	

W. David Dabney, Executive Director

Montgomery Community College

Board of Trustees:

Robert E. Shoenberg, Chair
Owen D. Nichols, First Vice-Chair
Gene W. Counihan, Second Vice-Chair

Mary E. Cothran	Sylvia W. Crowder
Michael W. Gildea	Roberta F. Shulman
Etienne Takougang, Student	

Charlene R. Nunley, President and Secretary/Treasurer

Housing Opportunities Commission of Montgomery County

Commissioners:

Ralph D. Bennett, Jr., Chairman
Richard Y. Nelson, Jr., Vice-Chairman
Warren Lasko, Chair Pro Tem

Robbie Callaway	Norman Cohen
Marjorie M. Harris	George H. Sealey, Jr.

D. Scott Minton, Executive Director and Interim, Secretary Treasurer

INDEPENDENT AUDITORS

KPMG LLP
2001 M Street, N.W.
Washington, DC 20036

Elected Officials

Montgomery County, Maryland



Douglas M. Duncan
County Executive



Michael L. Subin
Council President



Blair Ewing
Council Vice-President



Phil Andrews
Council Member



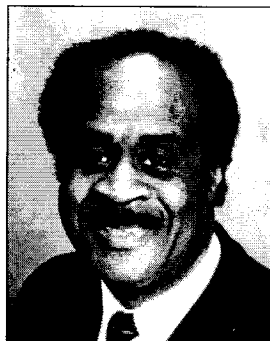
Derick P. Berlage
Council Member



Nancy Dacek
Council Member



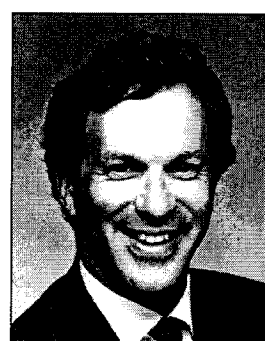
Howard Denis
Council Member



Isiah Leggett
Council Memembr

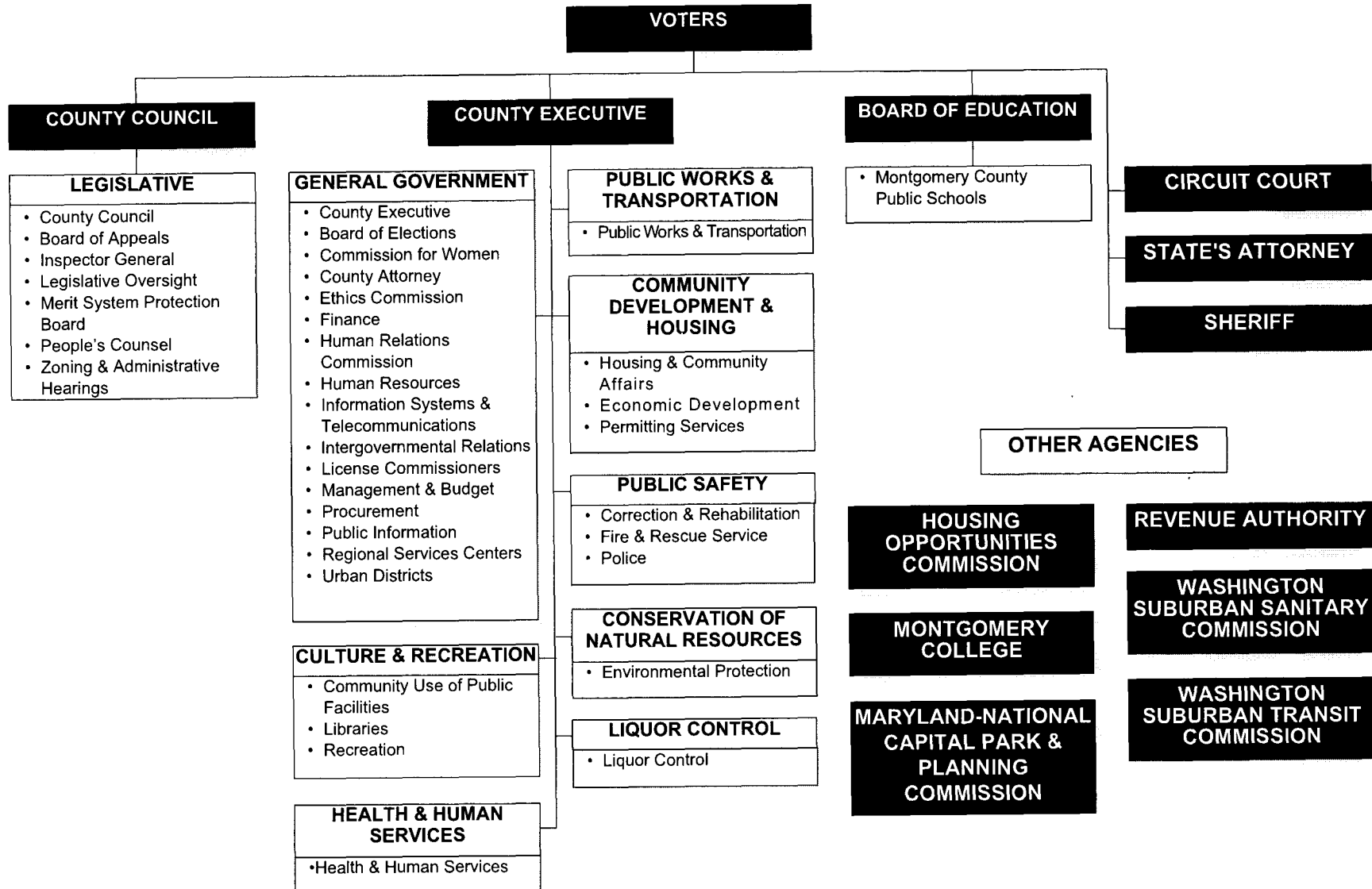


Marilyn Praisner
Council Member



Steven Silverman
Council Member

MONTGOMERY COUNTY, MARYLAND FUNCTIONAL ORGANIZATION CHART





Prepared by the:
Department of Finance
Division of the Controller
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