

# MONTGOMERY COUNTY MARYLAND

## *Comprehensive Annual Financial Report*



*Fiscal Year 2011*

**July 1, 2010 - June 30, 2011**  
**Rockville, Maryland**

# 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, 2010

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.



President

Executive Director

# MONTGOMERY COUNTY MARYLAND

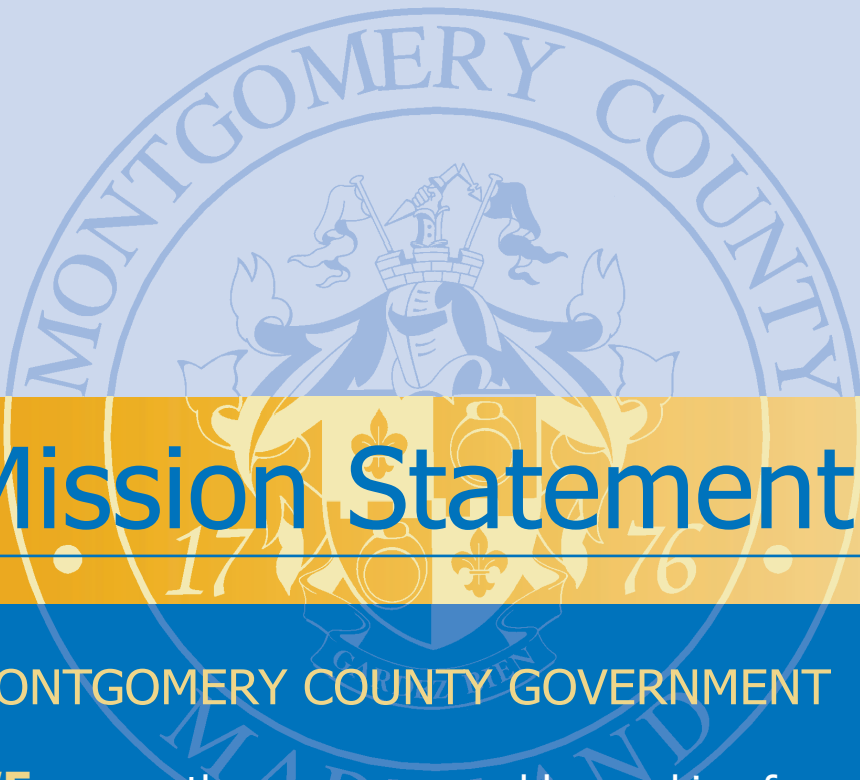
## *Comprehensive Annual Financial Report*



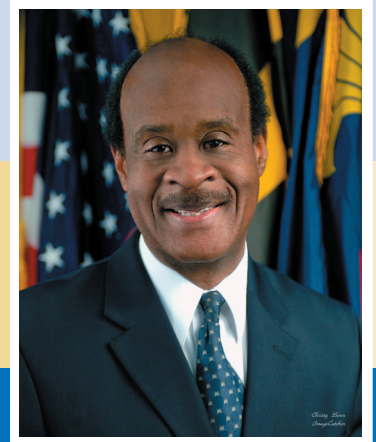
Prepared by the  
DEPARTMENT OF FINANCE

Joseph F. Beach, Director  
101 Monroe Street  
Rockville, Maryland 20850  
240-777-8860

Fiscal Year 2011  
July 1, 2010 - June 30, 2011



# Mission Statement



*Isiah Leggett*  
**ISIAH LEGGETT**

## MONTGOMERY COUNTY GOVERNMENT

**WE** pursue the common good by working for and with Montgomery County's diverse community members to provide:

- A Responsive and Accountable County Government
- Affordable Housing in an Inclusive Community
- An Effective and Efficient Transportation Network
- Children Prepared to Live and Learn
- Healthy and Sustainable Communities
- Safe Streets and Secure Neighborhoods
- A Strong and Vibrant Economy
- Vital Living for All of Our Residents

**AS** dedicated public servants, the employees of the Montgomery County government strive to embody in our work these essential values:

- Collaboration
- Inclusiveness
- Knowledge
- Competence
- Innovation
- Respect for the Individual
- Fiscal Prudence
- Integrity
- Transparency

Montgomery County, Maryland  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 Fiscal Year Ended June 30, 2011  
 TABLE OF CONTENTS

Exhibit	Description	Page	Exhibit	Description	Page	
<b>INTRODUCTORY SECTION</b>			<b>SUPPLEMENTARY DATA – Combining and Individual Fund Financial Statements and Supplementary Schedules</b>			
	Transmittal Letter .....	vii	<b>Governmental Funds:</b>			
	Acknowledgments .....	xix	B-1	Combining Balance Sheet – Nonmajor Governmental Funds .....	130	
	Organization Chart .....	xx	B-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds .....	131	
	Listing of Officials.....	xxi	B-3	Combining Balance Sheet – Nonmajor Governmental Funds - Special Taxing Districts.....	132	
<b>FINANCIAL SECTION</b>			B-4	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – Special Taxing Districts ....	133	
	Independent Auditors’ Report .....	1	B-5	Combining Balance Sheet – Nonmajor Governmental Funds – Other .....	134	
	Management’s Discussion and Analysis .....	3	B-6	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – Other .....	135	
<b>BASIC FINANCIAL STATEMENTS</b>			Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:			
<b>Government-wide:</b>			B-7	Debt Service .....	136	
A-1	Statement of Net Assets .....	25	B-8	Capital Projects.....	138	
A-2	Statement of Activities .....	26	B-9	Recreation.....	139	
<b>Funds:</b>			B-10	Fire Tax District .....	140	
A-3	Balance Sheet – Governmental Funds .....	28	B-11	Mass Transit Facilities.....	141	
A-4	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	29	B-12	Urban Districts.....	142	
A-5	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds ..	30	B-13	Noise Abatement Districts.....	144	
A-6	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	31	B-14	Rehabilitation Loan .....	145	
A-7	Statement of Net Assets – Proprietary Funds .....	32	B-15	Economic Development .....	146	
A-8	Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds .....	33	B-16	Cable TV .....	147	
A-9	Statement of Cash Flows – Proprietary Funds.....	34	B-17	Drug Enforcement Forfeitures.....	148	
A-10	Statement of Fiduciary Net Assets – Fiduciary Funds .....	35	B-18	Water Quality Protection .....	149	
A-11	Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	36	B-19	Restricted Donations .....	150	
<b>Component Units:</b>			<b>Enterprise Funds:</b>			
A-12	Statement of Net Assets – Component Units.....	37	C-1	Combining Statement of Net Assets – Nonmajor Enterprise Funds.....	152	
A-13	Statement of Activities – Component Units .....	38	C-2	Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Nonmajor Enterprise Funds.....	153	
<b>Notes to Financial Statements.....</b>			39	C-3	Combining Statement of Cash Flows – Nonmajor Enterprise Funds.....	154
<b>Required Supplementary Information:</b>			C-4	Schedule of Expenses – Budget and Actual – Enterprise Funds.....	155	
Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) –			<b>Internal Service Funds:</b>			
	RSI-1 General Fund.....	116	D-1	Combining Statement of Net Assets – Internal Service Funds .....	160	
	RSI-2 Revenue Stabilization.....	121	D-2	Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Internal Service Funds.....	161	
	RSI-3 Housing Initiative.....	122				
	RSI-4 Grants .....	123				
	Retiree Health Benefits Trust Supplement .....	125				

Montgomery County, Maryland  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 Fiscal Year Ended June 30, 2011  
 TABLE OF CONTENTS

Exhibit	Description	Page	Exhibit	Description	Page
<b>SUPPLEMENTARY DATA, Continued</b>			9-c	Real and Personal Property Tax Rates – Overlapping Governments – Cities and Towns – Last Ten Fiscal Years .....	194
D-3	Combining Statement of Cash Flows – Internal Service Funds .....	162	9-d	Real and Personal Property Tax Rates – Overlapping Governments – Villages – Last Ten Fiscal Years .....	196
D-4	Schedule of Expenses – Budget and Actual – Internal Service Funds .....	163	10	Ten Highest Commercial Property Taxpayers – Current Fiscal Year and Nine Years Ago .....	197
<b>Fiduciary Funds:</b>			11	Property Tax Levies and Collections – Last Ten Fiscal Years .....	198
E-1	Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds .....	166	12	Schedule of Fiscal Year Property Tax Levy, Property Tax Revenues, and Additional Items Related to the Property Tax Billing .....	199
E-2	Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds .....	167	13	Schedule of Property Taxes Receivable by Fund Type.....	200
E-3	Combining Statement of Fiduciary Net Assets – Private Purpose Trust Funds.....	168	14	Income Tax Rates – Last Ten Tax Years.....	202
E-4	Combining Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Funds .....	169	15	Income Tax Filers Summary Information – Last Ten Tax Years.....	203
E-5	Combining Statement of Changes in Assets and Liabilities – All Agency Funds.....	170	16	Income Tax Filers, Net Taxable Income, and Liability by Adjusted Gross Income Level – Last Ten Tax Years.....	204
<b>Component Units:</b>			<b>DEBT CAPACITY</b>		
F-1	Combining Statement of Net Assets – Nonmajor Component Units .....	174	17	Ratios of Outstanding Debt by Type – Last Ten Fiscal Years .....	206
F-2	Combining Statement of Activities – Nonmajor Component Units .....	175	18	Ratios of General Bonded Debt Outstanding – Last Ten Fiscal Years .....	208
<b>STATISTICAL SECTION – “Unaudited”</b>			19	Direct and Overlapping Governmental Activities Debt .....	209
<b>Tables:</b>			20	Computation of Legal Debt Margin – Last Ten Fiscal Years .....	210
<b>FINANCIAL TRENDS</b>			21	Pledged-Revenue Coverage – Last Ten Fiscal Years .....	212
1	Net Assets by Component – Government-Wide (Governmental and Business-type Activities) – Last Seven Fiscal Years.....	181	<b>DEMOGRAPHIC AND ECONOMIC INFORMATION</b>		
2-a	Changes in Net Assets – Government-Wide (Governmental and Business-type Activities) – Last Seven Fiscal Years.....	182	22	Principal Employers – Current Fiscal Year and Nine Years Ago .....	213
2-b	General Tax Revenues – Governmental Activities – Last Seven Fiscal Years.....	184	23	Demographic Statistics – Last Ten Fiscal Years ....	214
3	Fund Balances – Governmental Funds – Last Ten Fiscal Years .....	185	<b>OPERATING INFORMATION</b>		
4	Changes in Fund Balances – Governmental Funds – Last Ten Fiscal Years .....	186	24	Employee Workyears by Function – Last Ten Fiscal Years .....	215
5	Combined Schedule of "Cash and Investments" and "Investment and Interest Income" – All Funds .....	188	25	Operating Indicators by Function – Last Ten Fiscal Years .....	216
6	Combined Schedule of Cash and Investments – By Financial Institution .....	189	26	Capital Asset Statistics by Function .....	218
7	Combined Schedule of Investments .....	189	<b>INDEX</b>		
<b>REVENUE CAPACITY</b>			Fund Titles.....		
8	Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years.....	190	220		
9-a	Real and Personal Property Tax Rates – County Direct Rate – Last Ten Fiscal Years .....	192			
9-b	Real and Personal Property Tax Rates – County Special Taxing Districts – Last Ten Fiscal Years...	193			



---

**INTRODUCTORY SECTION**

---



DEPARTMENT OF FINANCE

Isiah Leggett  
*County Executive*

Joseph F. Beach  
*Director*

March 29, 2012

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

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of Montgomery County, Maryland (the County), for the fiscal year ended June 30, 2011.

**FORMAL TRANSMITTAL OF THE CAFR**

This report, presented in conformity with accounting principles generally accepted in the United States of America (GAAP), 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. The CAFR has been prepared pursuant to the provisions of Article 2, Section 214 of the Charter of the County, 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.

The County is responsible for the completeness and fairness of the information, including disclosures, presented in this report. We believe the information presented is complete and accurate in all material respects, and that it fairly presents the County's financial position and results of operations. To provide a reasonable basis for making these representations, management of the County has established a comprehensive framework of internal control. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

The public accounting firm of CliftonLarsonAllen LLP has performed an independent audit of, and issued an unqualified opinion on, the County's financial statements as of and for the year ended June 30, 2011. The independent auditors' report is located at the front of the financial section of this report. This independent audit of the County's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The independent auditors' reports associated with the Single Audit are available in a separately issued Report on Expenditures of Federal Awards.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

**PROFILE OF THE GOVERNMENT**

Montgomery County, named after the early American general, Richard Montgomery, was established in 1776 by the State Convention. The County government was structured under the County Commission system until 1948, when voters adopted a charter, which gave the County home rule and a council-manager form of government.

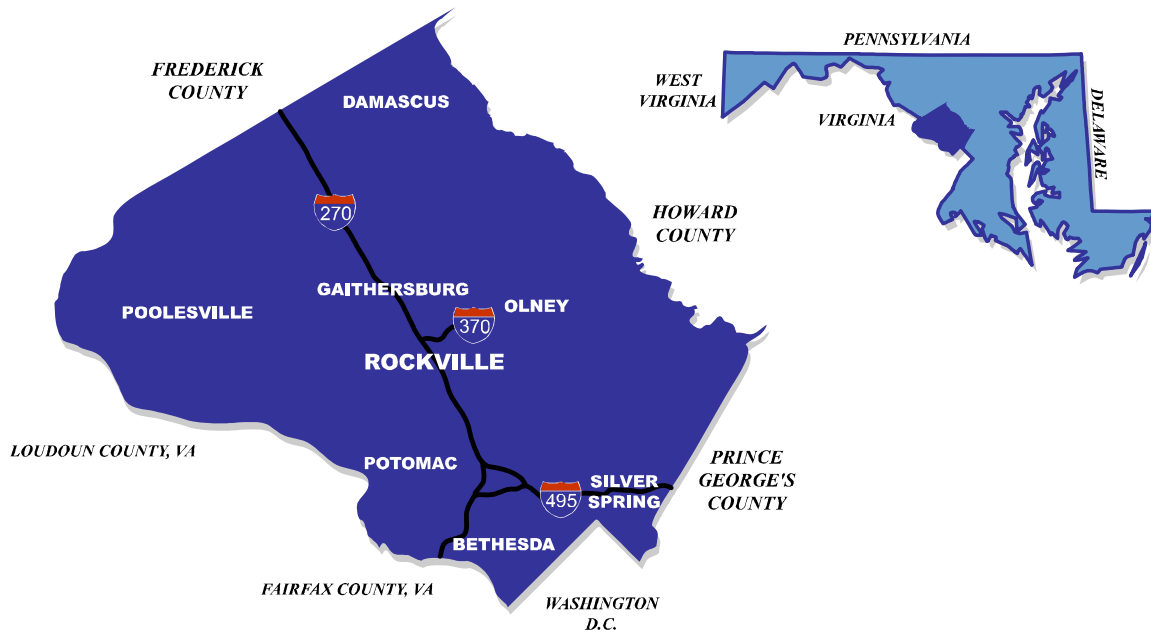
**Office of the Director**

---

101 Monroe Street, 15th Floor • Rockville, Maryland 20850 • 240-777-8860 • 240-777-8857 FAX  
[www.montgomerycountymd.gov](http://www.montgomerycountymd.gov)



The governing authority of the County, today, is still the charter, which was fully implemented in 1970, with the election of an executive and a council. Currently, Montgomery County is the most populated and affluent jurisdiction in Maryland and enjoys the distinction of being named an All-American community.



## Budgetary Overview

The annual budget provides the basis for coordinating and controlling the County government programs and expenditures, which include public safety, public works and transportation, culture and recreation, health and human services, community development and housing, environment, and general government services. Education services, funded in large part by the County (see Note III-I.1), are provided by Montgomery County Public Schools (MCPS) and Montgomery College (MCC). For County government services, the County Executive annually develops and recommends operating budget proposals and the County Council then authorizes expenditures and sets property tax rates. Expenditure authority is provided at the fund and department level in two major categories (personnel costs and operating). Budgets are annually adopted by the County Council for the General Fund, Debt Service Fund, substantially all Special Revenue Funds, Enterprise Funds (except Liquor), and two Internal Service Funds (Liability and Property Coverage Self-Insurance and Employee Health Benefits Self-Insurance). The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. Additional spending authority, in the form of supplemental or special appropriations, may also be approved by the County Council during the year. The budget of the Liquor Enterprise Fund is approved by the County Executive, since State law provides for the County Executive to determine the amount of working capital required by the Department of Liquor Control (DLC) and to retain from the DLC's net profits, before making any deposit into the General Fund, the funds necessary to service DLC-related debt and provide adequate working capital. The Capital Projects Fund budget is appropriated at the project level on an annual basis, with an annual reappropriation of unencumbered appropriation. The County Council approves the six year Capital Improvements Program (CIP) on a biennial basis with opportunities for limited amendments in the intervening years.

Budget-to-actual comparison schedules (statements) for major funds are presented in Exhibits RSI-1 to RSI-4 as part of the Required Supplementary Information section of this annual report. Non-major funds are presented in the Supplementary Data section of the report.

### **The Reporting Entity**

The following organizations are included as component units in the accompanying financial statements: MCPS, MCC, Housing Opportunities Commission of Montgomery County (HOC), Montgomery County Revenue Authority (MCRA), and 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 IV-D): Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Washington Suburban Transit Commission, Washington Metropolitan Area Transit Authority, Metropolitan Washington Council of Governments, and 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.

### **INFORMATION USEFUL IN ASSESSING THE COUNTY'S ECONOMIC CONDITION**

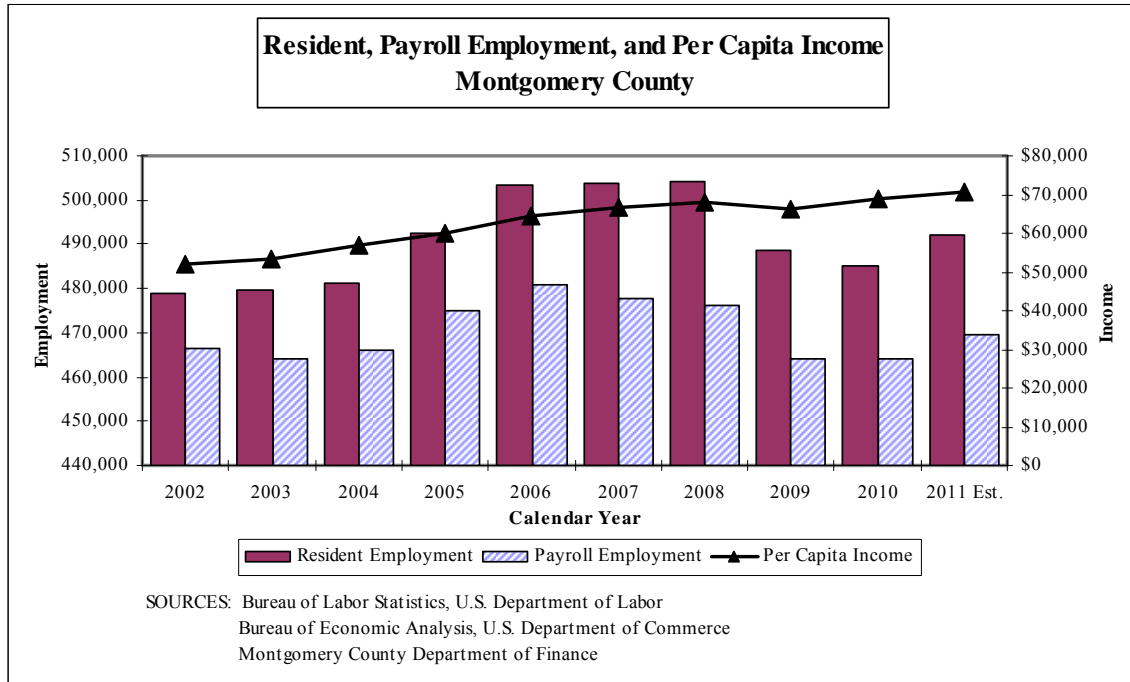
The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which Montgomery County operates.

### **The Local Economy**

Montgomery County experienced mixed economic performance during fiscal year (FY) 2011. The major reasons for the County's weak performance was a decrease in sales of existing homes largely attributed to the expiration of the federal first-time homebuyers credit and an unemployment rate of 5.3 percent. In June 2011, the County's unemployment rate declined from 5.7 percent in June 2010 to 5.6 percent. Positive indicators include an increase in employment – both resident (labor forces series) and payroll employment (establishment series) and a rebound in the average sales price for existing homes. Non-residential construction also picked up in FY11.

### **Personal Income and Employment**

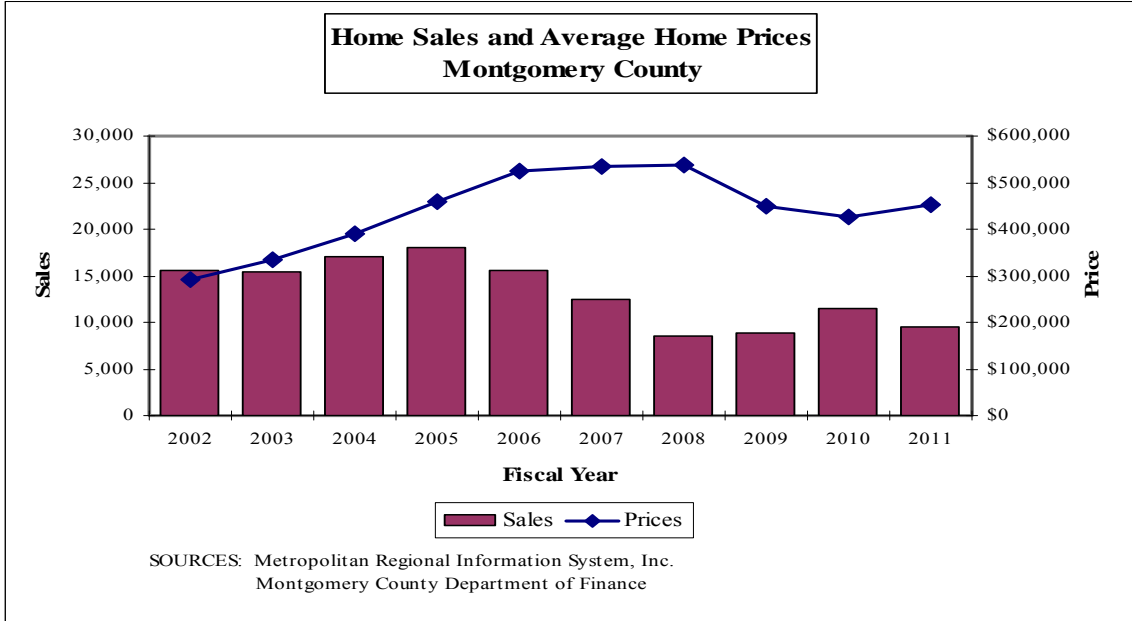
Income tax revenues for the County represented 41.0 percent of total tax revenues for the General Fund in FY11. Two economic indicators, personal income and employment, are the major contributors that drive income tax receipts. On a calendar year basis, per capita personal income increased from \$51,814 in 2002 to an estimated \$70,665 in 2011 – an average annual rate of 3.4 percent. However, over the past ten years, the rate of growth in per capita personal income experienced two distinct cycles. From 2002 to 2008, per capita income grew at a 4.5 percent average annual rate, while it is estimated to have grown at an annual rate of 1.3 percent from 2008 to 2011.



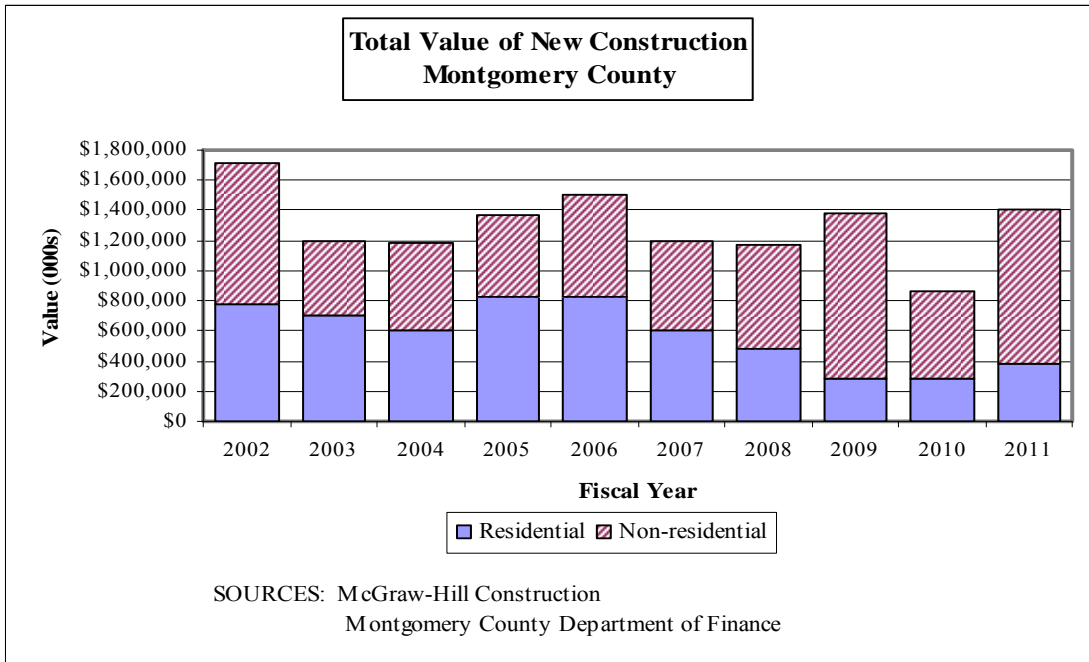
In 2002, resident employment in Montgomery County stood at approximately 478,800. By calendar year 2011, employment is expected to reach approximately 492,200 — an average annual increase of 0.3 percent. However, growth in resident employment experienced two distinct cycles. Between 2002 and 2008, employment grew at an average annual rate of 0.9 percent, while resident employment is estimated to have declined at an average annual rate of 0.8 percent between 2008 and 2011. Payroll employment in the County was approximately 466,510 in 2002 and an estimated 469,570 in 2011 — an average annual rate of increase of less than 0.1 percent with all of that increase occurring between 2002 and 2008 (↑0.3%).

### **Construction and Real Estate**

The property tax (tax-supported) and the transfer and recordation taxes consisted of 41.9 percent and 5.1 percent share, respectively, of total tax revenues for the General Fund in FY11. Construction and real estate activity play a significant role in Montgomery County’s economy and their effects on the amount of property taxes and transfer and recordation taxes collected. Non-residential and residential construction help maintain the value of existing assessable property tax base by replacing technologically obsolescent property (equipment, and real estate) and provide additional capacity to meet increases in employment and new households. Changes in home prices affect both the property tax and the transfer and recordation taxes. The recent declines in home values between FY09 and FY10 did not affect the taxable assessable base in FY11 for residential property because of the outstanding amount in the homestead tax credit. However, average prices were up 6.1 percent in FY11, but sales of homes decreased 17.6 percent largely attributed to the expiration of the federal first-time homebuyers tax credit. That decrease in home sales followed an increase of 4.2 percent in FY09 and 28.5 percent in FY10, largely attributed to the federal first-time homebuyers credit. The increase in average sales price was offset by the decline in sales such that transfer taxes from residential sales were down 15.1 percent with the overall receipts from the tax down 6.9 percent in FY11. Recordation taxes collected for the General Fund, including the portion transferred from the revenue collected from the tax rate premium, were up 28.5 percent over FY10 and considerably higher than the growth in transfer taxes also due to an increase in refinancing (↑21.4%).



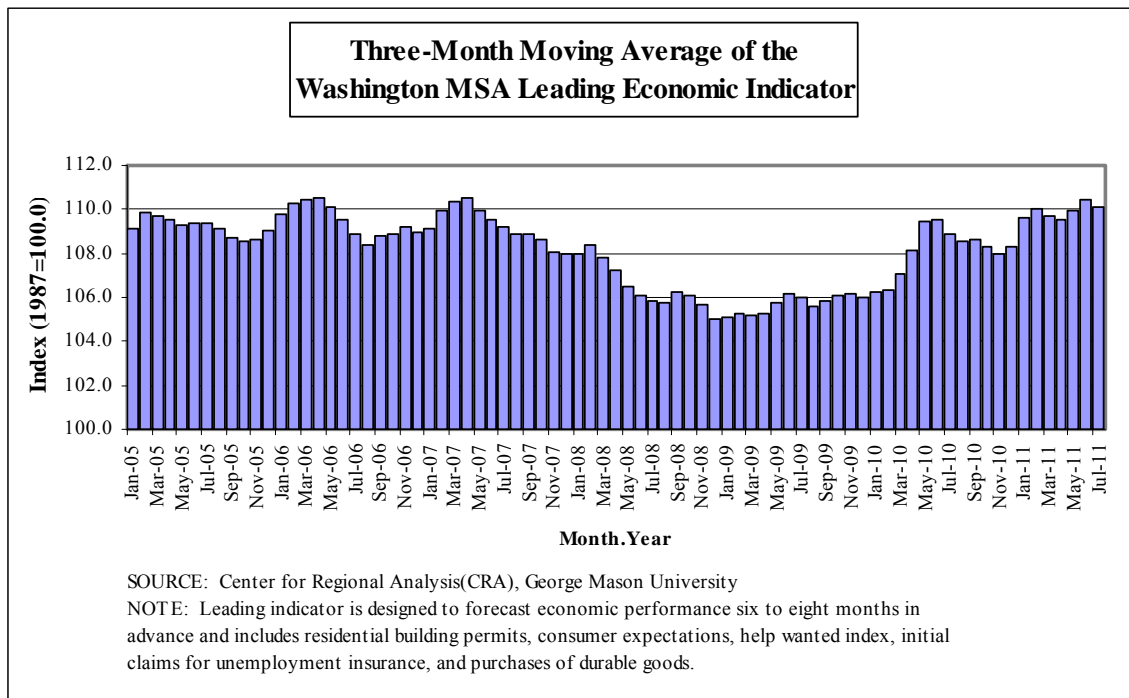
During FY11, the value of total new construction in the County stood at nearly \$1,407.6 million, which was the third highest value over the past ten fiscal years. The value of non-residential construction added \$1,021.2 million to the County's real estate property and above the average added value of \$725.6 million between FY06 and FY10. The value of new residential construction, \$386.4 million, was up 33.3 percent from FY10 but below the average of \$747.1 million during the housing boom cycle between FY02 and FY06.



## Future Economic Outlook

Following calendar year 2010 in which the County’s economy experienced a decline in resident employment (↓0.7%), an estimated increase in personal income (↑4.0%), and a decline in sales prices for existing homes (↓5.4%), the outlook for FY12 is expected to see a very modest recovery in the County’s economy and is partly dependent on changes in federal spending locally that impact Federal employment and facilities. With resident employment increasing 1.1 percent, an average monthly unemployment rate of 5.2 percent, and a decline in home sales (↓13.6%) during the first eight months of calendar year 2011, the outlook for the near term will continue to present challenges to the County’s economy. If the real estate market undertakes a modest rebound during the latter half of FY12, either through sales or a continuation of price increases, the revenues from transfer and recordation taxes will experience a slight improvement compared to FY11. Because of the possibility of weak equity markets in FY12, income taxes from taxpayers who file for an extension may experience no significant change in FY12 capital gains income than currently estimated. The revenues from those taxpayers may be offset by growth in collections from withholdings attributed to an improved labor market.

According to the Center for Regional Analysis (CRA), George Mason University, the Washington Area Leading Index, which forecasts the performance of the region’s economy six to eight months in advance, has been at its highest level the past three months since its peak in April 2007. However, the strength and sustainability of the recovery will depend on consumer confidence in the economy as reflected by labor market conditions and the housing market. While the labor market lags the economic recovery, the risk to short- and long-term economic performance in the region will depend on the potential changes in federal procurement and employment.



## Collective Bargaining

The current three year agreement with the Fire and Rescue Bargaining Unit, the International Association of Fire Fighters Local 1664 (IAFF), expires June 30, 2011. This agreement was amended in FY09, FY10, and FY11. Significant economic terms of the agreement as amended include:

- A general wage adjustment of 2 percent effective in the first full pay period after July 1, 2008; a 2 percent adjustment in January 2009; a 4 percent adjustment scheduled for July 2009 postponed per amendment, but salary-based benefits not to be diminished by the postponement; and a 3.5 percent adjustment in July 2010, postponed by amendment;
- A service increment of 3.5 percent for eligible employees;
- A new longevity adjustment at 28 years of service in July 2009;
- An expansion of the list of illnesses for which an employee is automatically entitled to a service-connected disability retirement; and
- Limitation of employer contribution toward the high option prescription drug plan to 80 percent of the value of the standard option plan.
- Employees can accept a forfeiture of annual leave in lieu of other disciplinary actions; the dollar amount of the forfeited leave is donated to a designated charity.

However, due to the County's budget situation no pay increases or increments (including new progression to both longevity steps) were given in FY11. Any previously postponed wage increases continued to be postponed during FY11. The County has negotiated a new agreement with IAFF that was effective July 1, 2011.

Effective July 1, 2010, the County and the Fraternal Order of Police Lodge 35 (FOP) agreed to terminate the existing agreement which was due to expire on June 30, 2011 and replace it with a new two year agreement that expires on June 30, 2012. The fiscal terms contained in the old agreement were incorporated into the new agreement by reference, except for two amendments with no fiscal impact. Significant economic terms of the agreement as amended include:

- A general wage adjustment computed by adding \$3,151 at Step 0, Year 1, with increments and promotions for all other steps and pay grades calculated from the new Step 0, Year 1 basis (equates to 7.5 percent) effective July 1, 2007; a 4 percent adjustment in July 2008; and a 4.25 percent adjustment scheduled in July 2009, postponed per amendment; salary-based benefits not to be diminished due to the postponement
- A service increment of 3.5 percent for eligible employees;
- Pension changes that re-establish a retirement DROP plan, increase the maximum credited service to 36 years, and provide for unreduced pension benefits with 25 years of credited service at any age;
- Officers who live outside the County, but within the general commuting area can take assigned vehicles to/from place of domicile; and
- Officers can accept a forfeiture of annual leave in lieu of suspension and the dollar amount of the forfeited leave can be donated to a designated charity.

However, due to the County's budget situation no pay increases or increments (including new progression to the longevity step) were given in FY11. Any previously postponed wage increases continued to be postponed during FY11. The new successor agreement contains a provision for re-negotiating the economic terms of the agreement to be effective for the second year of the agreement, known as an "economic re-opener." Any new economic terms agreed to as part of the "economic re-opener" will be effective July 1, 2011.

The current agreement with the Municipal and County Government Employees Organization (MCGEO)/ United Food and Commercial Workers Local 1994, expires June 30, 2011. MCGEO represents two separate bargaining units of the County (OPT and SLT). The current agreement amends a previous agreement that was set to

expire on June 30, 2010 by suspending most of the economic terms of that agreement. Significant economic terms of the old agreement included:

- A general wage adjustment of 4 percent effective the first full pay period after July 1, 2007; a 4.5 percent adjustment in July 2008; and a 4.5 percent adjustment scheduled for July 2009 postponed per amendment;
- A 1 percent increase in longevity (totaling 3 percent) effective the first full pay period after January 1, 2008;
- A service increment of 3.5 percent for eligible employees;
- An increase in the Social Security integration multiplier to 1.65% for ERS Group E members; and
- Introduction of a Guaranteed Retirement Income Plan (GRIP) option effective July 1, 2009.

However, due to the County's budget situation the parties agreed to suspend pay and increment increases (including new progression to the longevity step) provided for in the old agreement for FY11. Any previously postponed wage increases continued to be postponed during FY11. The County has negotiated a new agreement with MCGEO that was effective July 1, 2011.

### **Long-term Financial Planning**

Montgomery County is required by its adopted fiscal policies (Council Resolution 16-1415, June 29, 2010) to budget for a reserve in the General Fund of 5 percent of General Fund revenues in the preceding fiscal year (maximum permitted under §310 of the County Charter) and to build up and maintain the sum of Unrestricted General Fund Balance and the Revenue Stabilization Fund Balance to 10% of Adjusted Governmental Fund Revenues, as required in Section 20-68 of the County Code. Adjusted Governmental Fund Revenues are defined in Section 20-65 of the County Code.

The reserves will be budgeted in order to provide sufficient funds for unanticipated revenue shortfalls or unexpected expenditure requirements. The County's Revenue Stabilization Fund was established to accumulate funds during periods of strong economic growth in order to provide budgetary flexibility during times of funding shortfalls. Annual transfers to the Revenue Stabilization Fund must be made of the greater of: fifty percent of selected revenues in excess of budgeted amounts; or 0.5 percent of Adjusted Governmental Revenues or the amount needed to obtain a total reserve of 10% of Adjusted Governmental Revenues. Additional discretionary contributions may also be made. Withdrawals may be used, with the vote of six or more council members, only to support appropriations which have become unfunded.

As part of the annual operating budget process, the County develops a structurally balanced six-year fiscal plan. This plan addresses long-term structural issues in the budget and maintains the General Fund reserves at the required policy levels as well as emphasizing the priorities of education, public safety, affordable housing, transportation, and health and human services.

There are significant challenges, however, that lay ahead including rising retirement and medical costs, recognition of retiree health expenses, addressing deferred maintenance and funding program improvements. In addition to these challenges, actions implemented at the Federal and State level may complicate the County's ability to plan for the FY13-18 period.

## **Relevant Financial Policies**

The financial policies as put forth by the Executive of Montgomery County, which again were recognized by all major rating agencies with the continuation of a AAA credit rating, remain unchanged: grow the local economy and tax base; obtain a fair share of State aid; maintain strong reserves; minimize the tax burden on citizens; and manage indebtedness and debt service very carefully. Spending affordability guidelines are adopted annually for the County's capital and operating budgets. The County limits its exposure in future years to rising costs by controlling baseline costs and allocating one-time revenues to one-time expenditures, whenever possible.

## **Major Initiatives**

Major initiatives of the County during FY11 that are expected to affect future financial position, include the following:

Housing: The Montgomery Housing Initiative Special Revenue Fund provided resources of over \$40 million for the acquisition, preservation, and rehabilitation of affordable housing units in the County.

Public Safety: Added one sworn and six civilian positions for the Police Forensics Laboratory to meet new State imposed accreditation standards.

Opened the Milestone fire station in the summer of 2010.

Transportation: Continued to develop a new Computer Aided Dispatch/Automatic Vehicle Locator in all Ride On depots, providing real-time location data, a stable communication system, and a base from which to implement automated transit information.

Replaced aging and inefficient lighting systems in public garages with energy efficient lighting systems.

Environment: Continued to work with the Maryland Department of the Environment to help County homeowners receive Bay Restoration grants to upgrade their existing septic systems, which will reduce nitrogen inputs into the Chesapeake Bay.

Increased the Washington Suburban Sanitary Commission's infrastructure maintenance and renewal efforts by providing funds for 36 miles of small water main reconstruction (a five mile increase) and for 15 miles of inspection, repair, and installation of fiber optic cabling (an early warning system) for large diameter water mains involving pre-stressed concrete cylinder pipe.

Supported major new initiatives in WSSC's capital budget, including projects to rehabilitate or reconstruct large diameter water mains and trunk sewers, as well as continuing to support environmental projects at Blue Plains and other facilities.

Culture and Recreation: Opened the Mid-County Community Recreation Center and provided a full year of programming in the Wisconsin Center in Friendship Heights to offer expanded recreational activities in those communities.

Opened the Silver Spring Civic Building at Veteran's Plaza in the summer of 2010.

Education: The funding per pupil for K-12 education in Montgomery County decreased to \$14,832, down from \$15,662 in FY10.



Opened the high-tech Rockville Science Center at Montgomery College, providing 20 additional science labs.

General Government: Moved County operations out of leased spaces, saving the County approximately \$3 million.

Funded the full implementation of MC311, a centralized call center and customer service website providing a one-stop source for information and referral for County services. This was done by consolidating five existing call centers and information and referral services from twelve departments into the MC311 centralized call center.

Continued to work on ARRA funded grants in the following departments and agencies: Department of Economic Development, Department of Environmental Protection, Department of Transportation, Health and Human Services, Montgomery County Public Schools, Department of Police, Department of Housing and Community Affairs, and the Sheriff's Office.

Funded four positions to improve access to County facilities for the disabled.

## **AWARDS AND ACKNOWLEDGMENTS**

### **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 CAFR for the fiscal year-ended June 30, 2010. Montgomery County has received the Certificate of Achievement more times than any other county in the nation – forty-one times – as early as 1951 and consecutively for thirty-nine 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 CAFR. 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 the Distinguished Budget Presentation Award to Montgomery County, Maryland, for its annual budget for the fiscal year beginning July 1, 2011. In order to receive this award, a government 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 every year 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.

### **Acknowledgments**

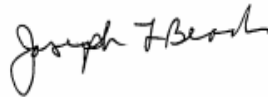
The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the staff of the County's Department of Finance. I express my appreciation to all participants who assisted and contributed to its preparation. I particularly express my sincerest appreciation to Karen Hawkins,

Chief Operating Officer, Lenny Moore, Controller, and his staff, particularly the General Accounting, Grants Accounting, and Administration Sections, for their outstanding performance in the preparation of this report. A list of individuals whose dedicated efforts produced 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 who served the County during the reporting period, and their staffs, for their interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

#### **USE OF THIS REPORT**

This report, and other financial information prepared by the Montgomery County Department of Finance, can be accessed on the County's website at <http://www.montgomerycountymd.gov> (see Departments, Finance, Financial Reports). Copies of this report are also placed in the County Library System for use by the general public.

Respectfully submitted,

A handwritten signature in black ink that reads "Joseph F. Beach". The signature is written in a cursive style with a large initial "J".

Joseph F. Beach  
Director of Finance

## ACKNOWLEDGMENTS

The following individuals' efforts were instrumental in performing the year-end closing of the County's funds, and in preparing this Comprehensive Annual Financial Report:

### **Department of Finance**

Lenny Moore	Kyna Carr	Cindy Lee	Lih Jiang
Gerri Davis	Chander Chadha	Heidi Metzger	Erin Von Nessen
Mauricio Delgado	Gloria Diaz	Lal Sangliani	Joelle Banota
Danielle Henderson	Karen J. Jackson	Darane Tiev	Kini Wright
Susan E. Kaplan	Veronica Jaua	Almon Turner	
Jay Narang	John Ji	Joyce Wallace-Dennis	
Felix O. A. Ogunba	Tim Hughes	Perla Campbell	

### **Department of General Services**

Maggie Orsini	Michelle West
Quinton McHenry	Rick Taylor

Joseph Wright and the Print Shop

### **Department of Liquor Control**

Melissa Chui
Sunil Pandya

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

### **Department of Finance**

Jacqueline Carter	Terry Fleming	Nancy Moseley	David Platt
Michael Coveyou	Robert Hagedoorn	Avion Phillip-Alleyne	Laleh Shabani

### **Department of Environmental Protection**

Anthony Skinner	Richard Hands
Tom Kusterer	Scott McClure

### **Office of Management and Budget**

Alex Espinosa	Chris Mullin
Beryl Feinberg	

### **Office of Public Information**

Thomas Whorton

### **Department of Transportation**

Carolyn McKenzie	Rick Siebert
Luz Rodriguez	

### **Component Units**

#### **Montgomery County Public Schools**

Larry A. Bowers	Susanne G. DeGraba
Robert J. Doody	Susan B. Chen

#### **Housing Opportunities Commission**

Cornelia Kent	Eugenia Pascual
Varun Chawla	Linda Pyles

#### **Montgomery College**

Thomas Sheeran	Ruby Sherman
Robert Preston	

#### **Montgomery County Revenue Authority**

Michael Boone

#### **Bethesda Urban Partnership, Inc.**

Jeff Oyer

## ACKNOWLEDGMENTS

### Continued

Special thanks and appreciation are extended to many individuals who contributed significantly to analysis, research, reporting, and issue resolution for the FY11 year-end closing process, the first year-end under the County's new Enterprise Resource Planning (ERP) system. The dedication, commitment, and teamwork of these individuals were invaluable to the preparation and production of this report.

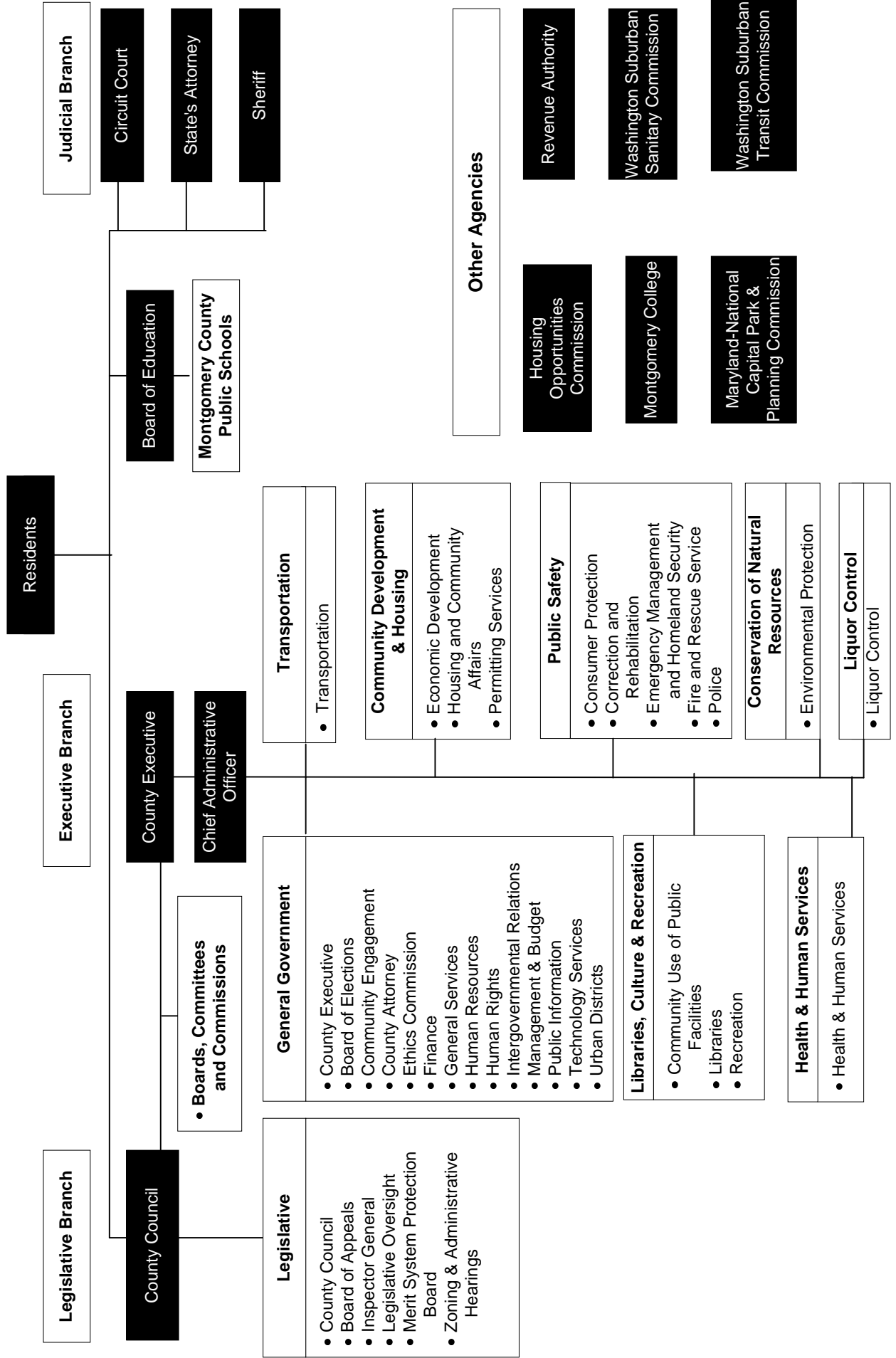
Numerous individuals listed on the previous page participated in these efforts. In addition, the individuals below were integrally involved in such efforts.

Amanda Hardy-Konkus	Karen Plucinski
Bethel Tadesse	Jeff Brammer
Ome Patel	Kirk Murray
Heidi Metzger	Usha Vasanth
Marty Utermohle	Hui Xu
Pam Vaughn	Sing Chan
Ed Stockdale	Jenson Jose
John Lee	Saji Jose
Rose Glavinic	Shailender Kolipaka
Siva Venkatachalam	Sravan Kuman
Dennis Denisov	Lily Li
Amit Punjabi	Maruthi Prasad
Donna Harris	Amar Reddy
Michael Decker	Tom Stirling
Ernesto Hernandez	Coan Chen
Jennifer Morgart	Prasanna Xavier
David Rathje	Yoseph Abera
Michelle Callachino	AhYoung Moon

Appreciation is also 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 the Department of Finance (Accounts Payable, Information Technology, and Payroll), Office of Management and Budget, Office of Procurement, Department of Technology Services, and Board of Investment Trustees. Special thanks to Leslie Rubin in the Office of Legislative Oversight.

Appreciation is also extended to employees in all County departments and agencies who participate in the year-end processes.

# Montgomery County, Maryland Functional Organization Chart



**MONTGOMERY COUNTY, MARYLAND**

**ELECTED OFFICIALS**

**June 30, 2011**

**COUNTY EXECUTIVE**

**Isiah Leggett**

**COUNTY COUNCIL**

Valerie Ervin	President
Roger Berliner	Vice President
Phil Andrews	Nancy Navarro
Marc Elrich	Craig Rice
Nancy Floreen	Hans Riemer
George Leventhal	

**Other Elected Officials**

Administrative Judge Circuit Court	John W. Debelius, III
Clerk of the Circuit Court	Loretta Knight
Register of Wills	Joseph M. Griffin
Sheriff	Darren M. Popkin
State's Attorney	John McCarthy

**APPOINTED OFFICIALS**

Chief Administrative Officer	Timothy L. Firestine
Board of Appeals	Katherine Freeman
Correction and Rehabilitation	Arthur M. Wallenstein
County Attorney	Marc Hansen
County Council	Stephen B. Farber
Economic Development	Steven A. Silverman
Emergency Management and Homeland Security	Christopher Voss
Environmental Protection	Bob Hoyt
Finance	Joseph F. Beach
Fire and Rescue Service	Richard Bowers
General Services	David Dise
Health and Human Services	Uma Ahluwalia
Housing and Community Affairs	Richard Nelson
Human Resources	Joseph Adler
Inspector General	Edward L. Blansitt, III
Intergovernmental Relations	Melanie L. Wenger
Legislative Oversight	Karen Orlansky
Liquor Control	George Griffin
Management and Budget	Jennifer Hughes
Merit System Protection Board	Kathleen Taylor
People's Counsel	Martin Klauber
Permitting Services	Diane Schwartz Jones
Police	J. Thomas Manger
Public Information	Patrick Lacefield
Public Libraries	Parker Hamilton
Recreation	Gabriel Albornoz
Technology Services	E. Steven Emanuel
Transportation	Arthur Holmes, Jr.
Zoning and Administrative Hearings	Martin Grossman

**Montgomery County Officials, Concluded**

**COMPONENT UNIT OFFICIALS**

**Montgomery County Public Schools**

**Board of Education:**

Christopher S. Barclay, President  
Shirley Brandman, Vice President

Laura V. Berthiaume	Philip S. Kauffman
Dr. Judy R. Docca	Patricia B. O'Neill
Michael A. Durso	Alan Xie, Student Member

Dr. Joshua P. Starr, Superintendent of Schools

**Montgomery County Revenue Authority**

**Board of Directors:**

Stephen H. Edwards, Chair  
Herbert L. Tyson, Secretary-Treasurer

David Freishtat	Scott W. Reilly
Jonathan Powell	Diane Schwartz-Jones, Ex-Officio

Keith Miller, Executive Director

**Bethesda Urban Partnership, Inc.**

**Board of Directors:**

Christopher Bruch, Chair  
Anne Mead, Vice Chair  
Peter M. Hogdson, Treasurer  
Andy O'Hare, Secretary

Kenneth B. Hartman	Jane Mahaffie
Marc Korman	Thomas D. Murphy, Past Chair
Mark A. Kramer	John Weintraub
Richard E. Lashley	

W. David Dabney, Executive Director

**Montgomery College**

**Board of Trustees:**

Dr. Michael C. Lin, Chair  
Stephen Z. Kaufman, First Vice Chair  
Georgette W. Godwin, Second Vice Chair

Gloria A. Blackwell	Roberta F. Shulman
Reginald M. Felton	Marsha S. Smith
Dr. Kenneth J. Hoffman	Christina Cieplak, Student
Dr. Leslie S. Levine	

Dr. DeRionne Pollard, President and Secretary-Treasurer

**Housing Opportunities Commission of Montgomery County**

**Commissioners:**

Roberto Pinero, Chair  
Sally Roman, Vice Chair  
Michael J. Kator, Chair Pro Tem

Jean Banks	Pamela T. Lindstrom
Rick Edson	Michael Wienczek

Jerry Robinson, Acting Executive Director and Secretary-Treasurer

**INDEPENDENT AUDITORS**

CliftonLarsonAllen LLP  
9515 Deereco Road, Suite 500  
Timonium, MD 21093

# Elected Officials

## Montgomery County, Maryland



Isiah Leggett  
County Executive



Valerie Ervin  
Council President



Roger Berliner  
Council Vice-President



Phil Andrews  
Council Member



Marc Elrich  
Council Member



Nancy Floreen  
Council Member



George Leventhal  
Council Member



Nancy Navarro  
Council Member



Craig Rice  
Council Member



Hans Riemer  
Council Member



