
Montgomery County, Maryland

**ANNUAL
INFORMATION
STATEMENT**

In Connection With Bonds and Other Obligations

Department of Finance



December 27, 2000

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

COUNTY EXECUTIVE

Douglas M. Duncan

COUNTY COUNCIL

Blair Ewing	<i>President</i>
Steven Silverman	<i>Vice President</i>
Phil Andrews	
Derick P. Berlage	
Nancy Dacek	
Howard Denis	
Isiah Leggett	
Marilyn J. Praisner	
Michael L. Subin	

The terms of the County Executive and all County Council members expire in December 2002.

APPOINTED OFFICIALS

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

BOND COUNSEL

Venable, Baetjer and Howard, LLP
Baltimore, Maryland

INDEPENDENT PUBLIC ACCOUNTANTS

KPMG, LLP
Washington, D.C.

DEBT MANAGEMENT AND DISCLOSURE INFORMATION

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Rockville, MD 20850
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ANNUAL INFORMATION STATEMENT IN CONNECTION WITH BONDS AND OTHER OBLIGATIONS

This Annual Information Statement (“the AIS”), dated December 27, 2000, has been prepared by Montgomery County, Maryland (“the County”), to provide, as of its date, certain general information concerning the County and its operations. Included is information on the 1) County government, organizational structure and services, 2) County financial reporting, 3) County budget, 4) results of fiscal years 1996-2000, 5) County retirement system, 6) County property taxes, and 7) selected demographic and economic statistics, and information including population, employment and income.

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

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

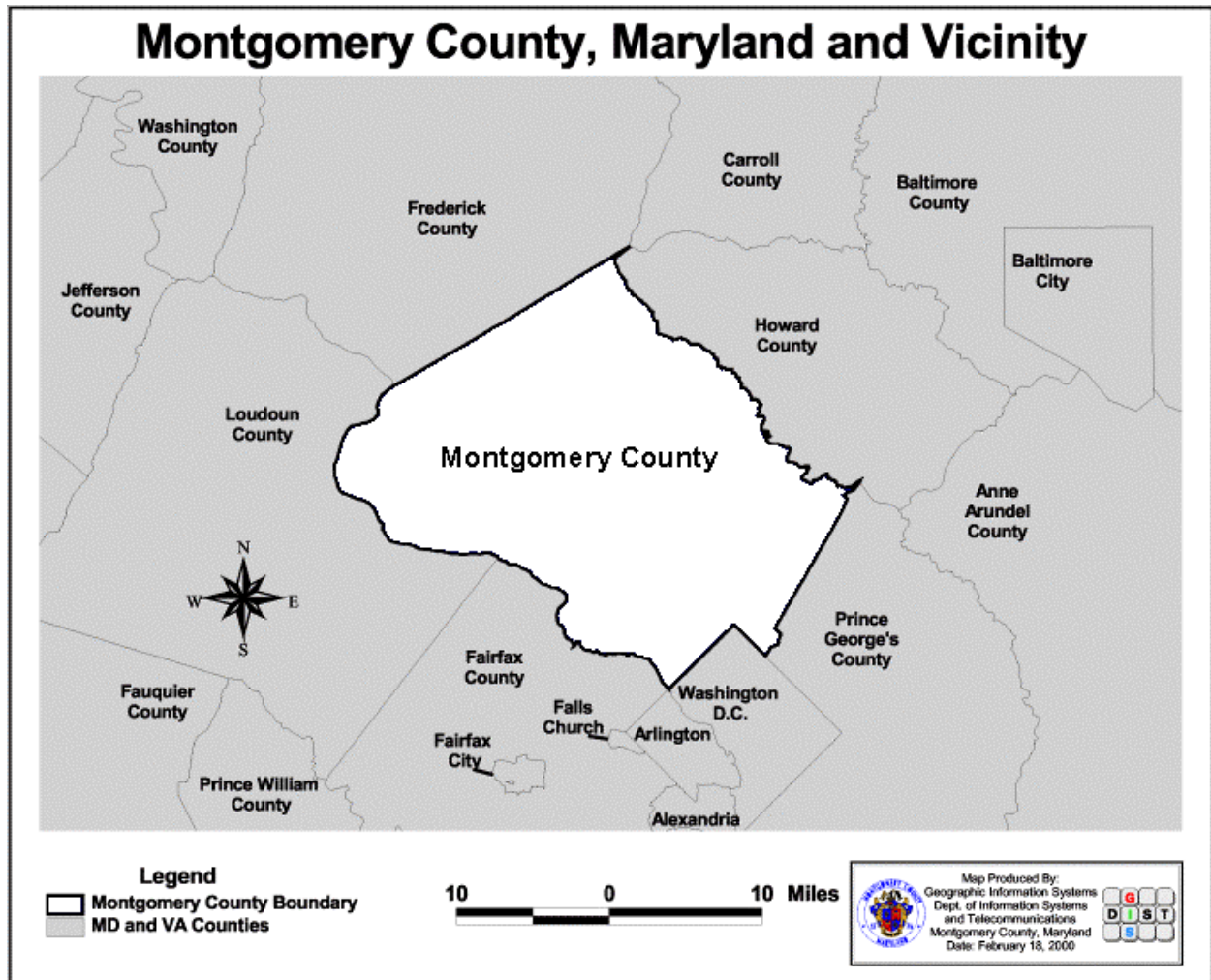
Questions regarding information in the AIS should be directed to Timothy L. Firestine, Director of Finance, Montgomery County, Maryland, 101 Monroe Street, EOB 15th Floor, Rockville, Maryland 20850. Telephone: 240-777-8860; fax: 240-777-8857.

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ORIENTATION TO THE COUNTY, ITS HISTORY, AND GOVERNMENT

Location

Montgomery County is located adjacent to the nation’s capital, Washington, D.C., and includes 497 square miles of land area. The topography is rolling with small hills. Elevations range from 52 feet above sea level at the junction of the Potomac River and the District Line, to 850 feet in the northern portion of the County near Damascus. Bordering the County are Howard County to the northeast, Prince George’s County to the southeast, Frederick County to the northwest, the District of Columbia to the south, and Virginia to the southwest.

History

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

Government

The County Council is composed of nine members, four of whom are elected by the qualified voters of the entire County. Each of the five other members of the Council must, at the time of their election, reside in a different one of five Councilmanic districts of the County and each of these five members shall be nominated and elected by the qualified voters in their respective districts. Populations of the Councilmanic districts are substantially equal.

The County Executive, who must have been a qualified voter of the County for the five years preceding his or her election and who may not be less than thirty years of age, is elected by the qualified voters of the entire County at the same time as the Council. Both the County Executive and the County Council members serve a four-year term.

County Officials

County Executive - Douglas M. Duncan

Douglas M. Duncan was elected Montgomery County's fifth County Executive on November 8, 1994. He was re-elected to his second term on November 3, 1998, and sworn in on December 7, 1998. A lifelong Rockville resident, Mr. Duncan graduated from St. John's College High School. He went on to attend Columbia University and, in three years, earned a Bachelor of Arts degree, with a double major in Psychology and Political Science (1976). Mr. Duncan worked for the County's Criminal Justice Coordinating Commission before joining AT&T in 1981. He held several positions during his 13-year career at the company, culminating with his assignment as National Account Manager for AT&T Integrated Solutions.

Mr. Duncan's political career began with his election in 1982 to the Rockville City Council, where he served three two-year terms. In 1987, he was elected Mayor of Rockville, a post he maintained for three two-year terms. During Mr. Duncan's tenure as Mayor of Rockville, the City won national and regional awards for governmental excellence, fiscal responsibility, community policing, and environmental achievements. Mr. Duncan bypassed a run for a fourth term as Rockville Mayor in order to pursue his successful bid for the County Executive's post in 1994.

President, County Council – Blair Ewing

Blair Ewing is serving his first term on the Montgomery County Council. He was named Council vice president by his colleagues in December 1999, and president in December 2000. He currently chairs the Council's Health and Human Services Committee, and is a member of the Transportation and Environment Committee.

Mr. Ewing was elected six times to the Montgomery County Board of Education, where he served for 22 years; he twice served as President of the Board. He was a senior executive for 22 of his 28 years of service in the federal government, at the Department of Justice, the Office of Personnel Management, the Office of Management and Budget, and the Department of Defense, where he was Director of Management Improvement for his last 12 years. A community college and university teacher, as well as an adjunct professor at Georgetown Law Center, Mr. Ewing holds a Bachelor of Arts degree from the University of Missouri, and a Master of Arts degree from the University of Chicago, both in political science.

Chief Administrative Officer - Bruce Romer

Bruce Romer has served as Chief Administrative Officer since January 17, 1995. Prior to Mr. Romer's appointment, he served for six years as City Manager for Rockville, Maryland. His thirty-year career in professional local government management has included city management positions in Davenport, Iowa; Sidney, Ohio; Brighton, Michigan; and suburban Philadelphia, Pennsylvania.

Mr. Romer holds a Bachelor of Arts Degree in Political Science and Business Administration from Wittenburg University and a Master of Government Administration Degree from The Wharton Graduate School, University of

Pennsylvania. Mr. Romer is President of the International City/County Management Association (ICMA), and is Vice President, and a member of the Board of Directors, of the Metropolitan Washington Council of Governments. Mr. Romer also serves on the Board of Directors of the District of Columbia Water and Sewer Authority, and is a member of the Urban Consortium Steering Committee of Public Technology, Incorporated.

Director, Department of Finance - Timothy L. Firestine

Timothy L. Firestine was appointed Director, Department of Finance on July 26, 1991 and was confirmed on August 6, 1991. Prior to his appointment, Mr. Firestine served as Chief of the Budgets Division, Chief of Interagency Analysis and Review, Budget and Planning Program Manager and Senior Management and Budget Specialist in the County Office of Management and Budget. Before coming to the County, Mr. Firestine was the Budget Officer for the Allegheny County, Pennsylvania, Controller's Office.

Mr. Firestine received his Bachelor of Arts Degree from Albright College and his Master of Public Administration Degree from the University of Pittsburgh. Mr. Firestine is a member of the Board of Investment Trustees for the Employees' Retirement System of Montgomery County. He is a member of the Government Finance Officers Association and serves on its Committee on Debt and Fiscal Policy. Mr. Firestine is a member of the Executive Board of the Maryland Public Finance Officers Association and is Chairman of the Board of Trustees for Suburban Health Care System, Inc., in Bethesda, Maryland.

Director, Office of Management and Budget - Robert K. Kendal

Robert K. Kendal was appointed Director of the Office of Management and Budget on July 17, 1987. Prior to this appointment, Mr. Kendal served as Chief of the Budgets Division, and for the 12 years prior, served as Assistant Chief Administrative Officer for the County. In his present position, Mr. Kendal is responsible for the annual preparation and administration of the six-year Public Services Program, the Operating and Capital Budgets, and the biennial preparation of the six-year Capital Improvements Program. Both six-year programs and both budgets cover all major agencies of the County.

Mr. Kendal began his government career in 1968 as Director of Finance for the City of Bowie, Maryland, and became a budget analyst for the County three years later. Mr. Kendal received his Bachelor of Arts Degree in Economics from Duke University and did graduate work in public affairs at the University of Pittsburgh. He served in the Peace Corps for two years as an English teacher in Tunisia. Mr. Kendal serves on the County Government's Labor Relations Committee and is Chair of the Board of Investment Trustees for the Employees' Retirement System of Montgomery County.

County Attorney - Charles W. Thompson, Jr.

Charles W. Thompson, Jr. was appointed County Attorney on February 9, 1995, and was confirmed on March 7, 1995. For the prior 17 years, Mr. Thompson served as County Attorney for Carroll County, Maryland. From 1975 to 1978, Mr. Thompson was an assistant state's attorney in Carroll County. In the mid-seventies, Thompson served as a law clerk for the Honorable Kenneth C. Proctor, associate judge, Circuit Court, Baltimore County. He was also an administrative specialist with the Maryland Real Estate Commission. Prior to that time he was an administrator for the Maryland State Board of Censors where he managed the administrative and inspections staff of the Maryland Board of Motion Picture Censors.

Mr. Thompson received a bachelor's degree in history from Virginia Military Institute and earned his Juris Doctor from the University of Baltimore School of Law. In addition to serving as president of the Carroll County Bar Association, Mr. Thompson has been active with the Montgomery County Bar Association and the Maryland State Bar Association. He is a member of the Board of Directors of the International Municipal Lawyers Association, serving as Chairman of the Board of the State and Local Government Law Section of the Maryland State Bar Association from 1981 - 1997. Mr. Thompson also served on the Board of Directors and as President of the County Civil Attorneys group in the Maryland Association of Counties.

GENERAL INFORMATION ABOUT COUNTY GOVERNMENT AND SERVICES

Culture and Recreation

The County Department of Recreation provides a wide range of programs for children and youth, including teen programs, high adventure activities, youth sports, camps, and summer playgrounds. The Department also operates 15 community centers that facilitate leisure activity, social interaction, family participation, and neighborhood civic involvement. Four additional community centers are planned for development within the next six years. There are presently six large public outdoor swimming pools and three indoor pools operated by the County. Three indoor aquatic complexes include weight and exercise rooms, meeting rooms, and changing facilities. The Recreation Department also sponsors a number of major special events drawing thousands of residents, such as the Ethnic Heritage Festival, an Oktoberfest, a 4th of July celebration, "First Night Montgomery," and a variety of community festivals.

The Strathmore Hall Arts Center, located in the historic Corby Mansion, houses the Strathmore Hall Foundation and the Montgomery County Arts Council. The center has undergone a \$3 million addition and renovation, and is used for art shows, concerts, and dramatic readings. An additional \$5 million was approved in FY99 for the planning and design of a multi-disciplinary education and performance center on a five-acre site adjacent to the Center. The Arts Education facility will house a full range of complementary arts education classes for children and adults. It will combine studio, classroom, rehearsal, and performance space for students. The Performance Hall will be capable of supporting large-scale (2,000 seat) musical presentations including major choral, orchestral, and popular entertainments. Both facilities are expected to open in 2004.

As part of the Silver Spring Redevelopment project, the historic Silver Theatre is currently being restored, with two additional theatres being constructed on the same site. The County has selected the American Film Institute to operate the Theatre. On an adjacent site, a theatre is being constructed for the Round House Theatre School; this facility will operate both theatrical and educational programs. Additional cultural opportunities are available at Montgomery College. The College operates a Summer Dinner Theatre, and its Performing Arts Series features theatre, dance, and music performances.

Economic Development

Department of Economic Development

The mission of the Montgomery County Department of Economic Development (DED) is to develop and implement strategies and programs aimed at expanding the County's economic base and promoting business growth that will generate employment opportunities and tax revenues.

To achieve this mission, DED provides services to help existing businesses expand, assists small and minority-owned businesses to grow, promotes high technology development, attracts foreign investments, expands the County's export base, preserves farmland, and enhances the viability of the agricultural industry. DED's responsibilities also include initiatives to enhance the presence of higher education, develop a County-owned biotechnology research park, the Shady Grove Life Sciences Center, and operate the County technology business incubator center. In addition, DED oversees the County training and employment programs operated by the Workforce Development Corporation, tourism promotion programs operated by the Montgomery County Conference and Visitor's Bureau, and the financial program for small businesses operated by the Montgomery County Bankers' Small Business Loan Fund.

Existing and prospective new businesses receive professional assistance from DED. This assistance can take the form of site searches, information on zoning, comparative tax data, socioeconomic statistics, available office, R&D, and production space, and development authorization expediting. DED maintains an inventory listing of available office, R&D and industrial space in the County. A Small Business Guide is also available to assist business start-

ups and expansions in the County. DED teamed up with the Small Business Development Center (SBDC) in 1993 to provide specialized counseling services to small and start-up businesses in the County. SBDC is a joint partnership among the State of Maryland, the County, and the Small Business Administration.

Economic Development Fund

Businesses seeking to either establish a presence or expand facilities in the County may qualify for assistance through the County's Economic Development Fund. Established in 1995, the Economic Development Fund provides assistance to private employers who will either retain jobs in the County, or create new jobs through the expansion of current businesses or location of new businesses to the County. In addition to the original Economic Development Grant and Loan Program, three new programs have been added. The Technology Growth Program was developed to facilitate the growth of technology-based companies located or desiring to locate in the County. The Program is aimed at leveraging private sector financing and State Challenge and Equity Investment funds. The Small Business Revolving Loan Program will augment a grant from the Maryland Industrial Land Act to finance economic development projects that cannot be financed from traditional private and public sources due to non-priority industry sectors and/or transaction site. Through these programs, DED works to develop offers of assistance, frequently in close cooperation and coordination with the State of Maryland, and frequently leveraging additional offers of assistance from State sources. The Demolition Loan Program is administered by the Department of Housing and Community Affairs. This innovative program provides assistance to owners of obsolete, underutilized commercial buildings to demolish buildings and clear the land to ready it for redevelopment. The Economic Development Fund is administered by the Department of Finance.

As of November 1, 2000, 117 of 164 offers for grants and loans totaling \$14.2 million had been accepted. The economic impact of these transactions is estimated to include: 23,370 jobs retained or gained; over \$974.3 million in private investment; and an annual net revenue return of over \$26.6 million.

Economic Advisory Council (EAC)

This 24-member blue ribbon group advises the County Government on important economic development policies, as well as on fiscal, budgetary, and management issues. Comprised of business, education, and community group representatives, the EAC helps DED evaluate economic trends and develop strategies related to the County's employment base and the attraction, retention, and growth of businesses; and organize teams of specialists to assist County Government with particular management issues.

Shady Grove Life Sciences Center

The Shady Grove Life Sciences Center (the "Center") is an advanced research technology park exclusively oriented to the needs of bio-technology firms and health care businesses. It is also home to Montgomery County campuses of the University of Maryland and The Johns Hopkins University. The Center is owned, developed and operated by the County. DED has the lead responsibility for coordinating the development and operation of the Center.

The Center's first bio-technology tenant, Otsuka Pharmaceutical Company, a major Japanese firm, leased land at the Center and completed construction of a 25,000 square foot research facility that opened in 1985. Since then, Otsuka has leased 70,000 square feet of office space off-site, and completed a 30,000 square foot addition to their research facility. BioReliance Corporation, formerly Microbiological Associates, occupies 80,000 square feet of research and development space and recently occupied a new 50,000 square foot headquarters facility. Their gene therapy division is now occupying a new 60,000 square foot manufacturing facility.

In 1988, Montgomery County concluded the sale of 11.4 acres at the Center for phased development of Key West Research Center. This site includes 250,000 square feet of speculative laboratory space for small and mid-sized bio-technology firms. All of the buildings on the site have been constructed and are 100 percent leased to several bio-technology operations, including Human Genome Sciences, EntreMed, Large Scale Biology, and the National Institutes of Health. Life Technologies Inc. ("LTI"), entered into a lease-purchase agreement for a 19 acre parcel and moved into its new 150,000 square foot R&D facility training center in February 1997. A 50,000 square foot

headquarters facility attached to the existing building was completed in mid-1998. The University of Maryland, in December 1996, dedicated its second education building, which includes conference and laboratory space. An 80,000 square foot expansion of the Center for Advanced Research in Biotechnology was completed in the summer of 1997.

The Maryland Technology Development Center opened in December 1998, and serves as the permanent home for the County technology incubator providing office and lab space for start-up infotech and biotech companies. In late 1999, The Johns Hopkins University expanded its presence in the Center by completing a second campus building. The newest addition to the Center is ATTO Instruments, who has constructed a 40,000 square foot headquarters and instrumentation facility on the last available parcel in the park.

The Belward Research Campus, an extension of the Center, is being jointly developed by the County and the Maryland Economic Development Corporation. The 30-acre campus site was donated by Johns Hopkins University to the County. This project will create needed sites for the development of biotech and high tech businesses, and will enable the County to compete for the retention or attraction of growing biotech companies.

Education

The 1990 Census indicated that County residents, on average, continue to be more highly educated than the rest of the nation or the State. The proportion of County residents 25 years old or over completing four or more years of college increased from 33.2 percent in 1970 to 51.9 percent in 1990, compared with 26.5 percent in Maryland. This proportion continued to increase to 59.2 percent in 1997 as indicated by the Maryland-National Capital Park and Planning Commission (M-NCPPC) Census Update Survey. Over thirty percent of the adult population has advanced degrees. In 1990, high school graduates accounted for 90.3 percent of the County population aged 18 and over, considerably above the 79.5 percent proportion in 1970, the 87.3 percent in 1980 and the 78.4 percent in 1980 State-wide and nationally.

The M-NCPPC Census Update Survey indicated in 1997 that high school graduates accounted for 91.6 percent of the adult County population.

Within a 40 mile radius of Montgomery County, there are 32 colleges and universities offering degrees in various disciplines. Many of those institutions also offer advanced degree programs in engineering, medical, business, and computer sciences. The following table lists selected schools within or near the County, and shows the student enrollment and offered degrees for each institution.

**Table 1
Secondary Education**

<u>School</u>	<u>Student Enrollment</u>	<u>Types of Degrees Offered</u>
American University	11,306	4-year, professional
Catholic University	5,600	4-year, professional
Hood College	1,776	4-year, professional
Howard University	10,248	4-year, professional
Johns Hopkins University	17,996	4-year, professional
Montgomery College	43,499	2-year*
University of Maryland	48,750	4-year, professional

* Articulation agreements with 4-year institutions are available.
Note: Most current data available for each institution.

Montgomery County Public Schools (MCPS) is governed by an elected Board of Education comprised of eight members, including one student member. The Board, which was created by State law, appoints the Superintendent and all other employees. Currently the 19th largest, and 13th fastest-growing, school district in the nation, the system operates 189 elementary and secondary schools. The operating budget is \$1.216 billion for FY01, a 10.0 percent increase over the prior year, and the capital improvements budget is \$140.1 million. The emphasis that County residents place on education is reflected in per pupil operating expenditures of \$9,011 in FY01, and in the high percentage of high school graduates who continue formal education. In FY01, projected enrollment is 134,953 students, 3.0 percent above the previous year. Between 1985 and 2000, 42 schools were built or reopened in response to increasing enrollments.

Facilities and Services

The Division of Facilities and Services, in the Department of Public Works and Transportation, provides facility and administrative services to all departments of the County government. Facility services include design and construction management for capital improvements; leasing support; space planning and alterations; maintenance and operations; physical security; facility engineering support; and parking operations. Administrative services include document duplication and mail operations; recycling; warehousing; food services; and archives. In FY01 the Division has a general fund operating budget of \$25.6 million and staff of 186; and an internal services fund budget of \$3.5 million and staff of 28.

Libraries

There are 22 libraries located throughout the County. In addition, three bookmobiles provide limited book selections to numerous small communities, and a library is also operated at the County Detention Center. During FY00 nearly 575,000 registered patrons used library facilities, and the collection exceeded 2.75 million volumes; total circulation was over ten million. Per capita circulation of 11.8 books is among the highest in Maryland and nationally.

Liquor Control

A County monopoly on the sale of all alcoholic beverages was established by State legislation effective in December, 1933. The Liquor Control Board, established in 1933, was abolished on July 1, 1951, and the Montgomery County Department of Liquor Control was established. It is the only county-operated liquor distribution system in the nation.

The Department's responsibilities include the operation of 25 County retail liquor stores and a County liquor warehouse, with distribution of alcoholic beverages from the warehouse to the County stores and to approximately 800 licensees, including beer and wine stores, restaurants, and clubs. Currently, three private contractors operate County stores. The Department, with 214 full-time and 23 part-time employees, is a self-supporting business enterprise. All operating requirements are included in the Department's annual budget, and income in excess of departmental needs is transferred to the General Fund to finance other governmental operations.

Parks

The Maryland-National Capital Park and Planning Commission administers more than 30,000 acres of parkland in the County. This includes 12 developed and three undeveloped regional and recreational parks, each typically consisting of over 200 acres, and featuring more than 630 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake, and Pine Lake. There are also more than 370 smaller park and open space areas which serve as local and neighborhood parks. Additionally, Seneca Creek State Park is located in the heart of the County, and Patuxent River State Park is located along the County's northeastern border. The National Park Service provides additional park facilities including the C & O Canal National Historic Park, Great Falls National Park, and Glen Echo Park. Also, several municipalities within the County, including Rockville, Gaithersburg, Poolesville, and Washington Grove, among others, maintain local parks.

Public Safety

Fire Departments

Fire and volunteer rescue services in the County are provided by 19 independent corporations, which operate 33 fire and rescue stations. The Montgomery County Fire and Rescue Service carries out overall planning, fire prevention programs, operation of a centralized dispatch service, and training, and acts as a liaison between fire departments and other agencies. There are 891 uniformed career employees who man the fire departments in the County, as well as 792 trained volunteer firefighters, and 78 trained volunteer paramedics.

Police Department

The Montgomery County Police Department is a highly trained merit system force consisting of 1,031 sworn officers, and is accredited by the Commission for the Accreditation of Law Enforcement Agencies.

In coordination with other County agencies, the Department is a major participant in the Public Safety 2000 project. This \$120 million effort is aimed at developing a complete mobile data system that includes computers in public safety vehicles, and new systems for computer aided dispatch, record management, automated vehicle location, and mapping. A new Emergency Communications Center has opened to house the new system. This project also includes the implementation of a new 800Mhz radio system that will accommodate both voice and data transmissions.

The Department is also exploring the emerging Geographic Information System (GIS) and Global Positioning System (GPS) technologies, which are expected to provide a wide variety of analytical capabilities and resource management information.

On December 31, 2000, the Police Department will open a new substation in the Gaithersburg/Montgomery Village area, which will initiate the effort toward establishing a sixth police district. It is anticipated that the sixth district will be fully operational within five to six years.

Department of Correction and Rehabilitation

The Department of Correction and Rehabilitation provides progressive and comprehensive correctional services through a variety of detention and supervision programs. The department operates several facilities, including the Montgomery County Detention Center (MCDC) and a Pre-Release Center. The MCDC, located in Rockville, houses men and women serving sentences up to 18 months, or awaiting trial or sentencing. In FY02, when the Montgomery County Correctional Facility (MCCF) opens in Clarksburg, MCDC will serve as a 72-hour holding facility, the interim in which most people are bonded out and have an initial court appearance. In FY00, the local inmate average daily population was 665, and the average population at the Pre-Release Center was 122. The local inmate average population is projected to grow to over 1,000 by the year 2020. To meet this need, the County's Approved FY01-06 CIP includes \$85 million for the construction of the MCCF, and planning dollars for the renovation and re-use of the MCDC.

Solid Waste Management

The County has implemented a comprehensive solid waste management program to handle waste generated in the County. The basic elements of the program are source reduction, recycling, resource recovery and landfill maintenance.

The County established aggressive goals to achieve a source reduction and recycling rate of 50 percent by FY00. The program includes curbside collection of yardwaste, newsprint and glass, and metal and plastic containers from 198,853 single-family households. County collection of mixed paper from these households was added during the period of March 1999 to August 2000. Municipal collection at another 32,618 single-family homes is expected to contribute mixed paper as well. Under a contract with the County, the Maryland Environmental Service ("MES")

constructed and operates two facilities for the processing and marketing of the materials. MES operates a 42-acre composting facility located in the northwest part of the County which processes yard trimming materials collected in conjunction with a ban prohibiting disposal of yard waste effective January 1, 1994. A Materials Recovery Facility, located mid-County, is operated by MES and is capable of processing 200 tons per day of recyclable containers. On December 16, 1998, the County entered into a long-term agreement with Office Paper Systems (OPS) to develop a facility to assure the processing and marketing of all County residential mixed paper. That facility began operation on July 3, 2000. The County has also enacted mandatory multi-family and commercial recycling regulations and works with such properties to design and operate recycling programs.

The County's non-recycled waste is accepted at the County's Shady Grove Transfer Station and transported by rail to the County's mass burn Resource Recovery Facility ("RRF") adjacent to the Potomac Electric Power Company ("PEPCO") power plant near Dickerson, Maryland. The facility, with a capacity of 1,800 tons per day, is operated by Ogden Martin Systems of Montgomery Inc., and began commercial operations in August 1995. The RRF generates electricity which is sold under a long term contract to PEPCO. A new landfill (known as Site 2), located approximately two miles from the RRF, is being permitted with adequate capacity for the disposal of all ash, bypass, and non-processible waste. Under County Council Resolution 13-514, adopted May 7, 1996, the County will continue its permitting efforts, but will not develop the Site 2 landfill unless economic conditions or changes in law render out-of-county waste disposal infeasible. The County began the export of ash and non-processible waste on October 20, 1997. The Oaks Landfill was closed on October 22, 1997.

Transportation

Roads

The Department of Public Works and Transportation's objective is to ensure full, continuous, and safe use of the County's highway system by performing routine, preventive, and emergency maintenance to roads, bridges, sidewalks, curbs and gutters, and storm drainage systems. This section has 292 full-time and 12 part-time positions with a FY01 budget of \$21.3 million.

During FY00, the County was responsible for maintaining: 2,490 miles of roads and streets; 1,021 miles of sidewalk; 2,020 miles of curb and gutter; 867 miles of storm drainage; and 185 bridges.

Ride-On Bus System

The County's Ride-On bus system, designed to complement the service provided by other transit operators in the County, operates on 84 routes. All of those routes serve one or more of the 12 Metrorail Red Line Stations in the County. It is anticipated that over 20 million passenger trips (including transfers) will occur in the County's system during 1999. The entire fleet consists of 231 buses owned and operated by the County, and 80 smaller buses owned and operated by a contractor.

Parking Districts

There are four parking lot districts in the major commercial areas of the County. Prior to 1987, general obligation bonds were issued by the County to finance the construction of parking facilities in these areas. In 1987, the County began using parking revenue bonds. A special ad valorem tax is levied on certain commercial property located within each district to service debt used to finance parking facilities within the district, the maintenance and operation of such facilities, and capital construction projects within each district. Other significant sources of revenue used to finance the parking program are meter collections, fees from off-street lots and parking garages, and parking fines. The County has issued parking revenue bonds in the amount of \$55 million for land acquisition, construction, repair and renovation of parking facilities. The four districts collectively have 15 garages with a total of 14,380 parking spaces; 26 surface lots with 2,148 spaces; and 2,165 on-street metered spaces. Two new parking garages, totaling 3,100 new spaces, are planned to be under construction in Silver Spring in FY01. Another new parking garage, totaling 750 spaces, is under construction in Bethesda and will open in FY01.

Airports

The County is well served by three major airports located within 35 miles of Rockville, the County seat. These airports provide high levels of short, long, and international flight services.

Ronald Reagan Washington National Airport (Reagan National) is located in Arlington County, Virginia, across the Potomac River from Washington, D.C. Reagan National is accessible to Montgomery County by Metro's Red Line (via a transfer to either the Yellow or Blue Lines). A significant renovation of the airport was completed in 1997, including a new Main Terminal and Middle/North Parking garage. The airport serves nearly 41,900 passengers per day (approximately 15.3 million passengers a year) with flights that provide commercial, general aviation and commuter service. Formerly a "short-haul" airport only, Reagan National now offers a limited number of non-stop flights to destinations in the western U.S.

Dulles International Airport (Dulles) is located in adjacent Fairfax/Loudoun counties, Virginia. Dulles serves over 56,000 passengers a day, with approximately 1,300 flights that include commercial, general aviation and commuter service, and was the fastest growing airport in the country in 1999. Over 20 million passengers fly into and out of Dulles each year, with 3.75 million of those passengers on international flights. The 16 mile Dulles Access Highway provides two dedicated lanes in each direction and a direct connection to Interstate 66 and the Beltway. Dulles is currently in the beginning stages of a six-year, \$3.4 billion improvement program.

Baltimore-Washington International Airport (BWI) is located in Anne Arundel County, Maryland. Passenger traffic at BWI increased rapidly during the first half of 2000, with 59,000 passengers daily in June. Also recently renovated and improved, BWI is accessible from the County via the Beltway and either Interstate 95 or the Baltimore/Washington Parkway.

Metrorail Transit System

Services of the Washington Metropolitan Area Transit Authority (Metro) are the backbone of the County's transit system. Twelve rapid rail stations, with 12,000 parking spaces and served by 150 Metrobuses, provide service to County residents, workers, and visitors. With the opening of the final Metrorail station in the County (Glenmont) in July 1998, there are now 19.5 miles of rail service operating in the County. County residents make approximately 140,000 Metrorail trips each weekday.

Metro is a planned 103-mile regional network connecting Washington, D.C. with the expanding Maryland and Virginia suburbs. It includes 38.3 miles of rapid transit services in the District of Columbia, 35.3 miles in Maryland and 29.4 miles in Virginia. Partial service within all three jurisdictions, comprising 77 stations and 97 miles, is currently in operation. The final five stations and six miles will be opened for service on January 13, 2001.

Metrobus

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

MARC Rail

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

Water and Sewer Service

Operation and maintenance of the water and sewer system in the County (exclusive of the City of Rockville and the Town of Poolesville) is the responsibility of a bi-county agency, the Washington Suburban Sanitary Commission (WSSC). WSSC operates under State law and is governed by a six-member Commission. The county executives of Montgomery County and Prince George's County each appoint three members, subject to confirmation by the respective county councils. The FY01 approved operating budget for WSSC totals \$457.5 million.

Two major sources, the Potomac and Patuxent Rivers, provide the raw water supply. WSSC has 14 billion gallons of water supply storage and an effective filtration capacity of 320 million gallons per day ("MGD"). Two reservoirs, Jennings Randolph Reservoir near Bloomington on the North Branch Potomac River, and Little Seneca Lake near Boyds on Little Seneca Creek, can supplement flows to Potomac River water users, including WSSC and Rockville, with approximately 17 billion gallons of raw water, if needed during low flow periods. Most of the WSSC sewage flows through a gravity trunk line system for treatment at the Blue Plains Wastewater Treatment Plant ("Blue Plains") in Washington, D.C. The District of Columbia Water and Sewer Authority has recently completed an expansion of Blue Plains, increasing treatment capacity from 309 MGD to 370 MGD. WSSC's allocated capacity at this facility totals approximately 170 MGD. WSSC has begun an expansion of the Seneca Creek Wastewater Treatment Plant. Scheduled for completion in the spring of 2003, the expansion will increase treatment capacity from 5 MGD to 20 MGD. This facility, located in southern Germantown, will treat wastewater flows from Gaithersburg, Germantown, and Clarksburg.

Maintenance of WSSC property is the function of the Operations Team, which is responsible for systems maintenance, systems reconstruction, electrical/mechanical maintenance, instrumentation/communications, and utilities. WSSC contracts annually for cleaning, removing debris, and mortar lining of several miles of water main.

There is a routine fire hydrant inspection program and an extensive, expanding preventive maintenance effort is currently under way.

The City of Rockville operates its own water and wastewater system, which serves approximately 90 percent of the City. The City's Sandy Landing Road Water Treatment Plant draws raw water from the Potomac River. The City's sewage is treated at Blue Plains. Average daily demand for water in 1999 was 4.955 MGD. The City's allotted capacity at Blue Plains is 9.3 MGD.

The Town of Poolesville also operates its own water and wastewater systems, which serve the majority of the Town. Groundwater wells supply the raw water for the Town's system, with an average daily demand of approximately 0.6 MGD. The Town's own wastewater treatment plant operates at a treatment capacity of 0.625 MGD.

Financial Institutions

There are 22 national banks and 11 federal savings and loan associations, operating 279 branch bank locations, throughout the County. This represents 16.7 percent of the total branch locations within the State of Maryland. Of those 279 branches, 206 (74%) are located in the Silver Spring, Bethesda, Rockville, and Gaithersburg areas of the County. Chevy Chase Bank, F.S.B., is the largest bank in Montgomery County, with 48 locations, \$3.2 billion in deposits, and a 24 percent market share in the County. Other large banks operating in the County are SunTrust (formerly Crestar), with 39 locations, deposits of \$2.3 billion, and a 17.1 percent market share; Bank of America, with 30 locations, deposits of \$2.2 billion, and a 16.5 percent market share; and First Union National Bank, with 27 locations, deposits of \$1.2 billion, and a 9.1 percent market share. These four banks have total deposits of \$8.9 billion, or 14.8 percent of the \$60.5 billion in deposits within the State. Also, 13 banks -- with 42 branches, deposits of \$1.5 billion, and a 2.5 percent market share -- have their corporate offices located within the County. In addition, the County has 26 federal credit unions operating 42 branch locations. The above data were compiled as of June 30, 1999.

Healthcare

Five accredited hospitals are located within the County: Holy Cross Hospital in Silver Spring, Suburban Hospital in Bethesda, Washington Adventist Hospital in Takoma Park, Shady Grove Adventist Hospital, near Gaithersburg, and Montgomery General Hospital in Olney. One military hospital, Bethesda Naval Hospital, has a facility in the County, and the National Institutes of Health in Bethesda operates one of the world's foremost centers of medical research. Also accessible to the County are Frederick Memorial Hospital in Frederick County; Laurel Regional Hospital and Prince George's Hospital Center, in Prince George's County; Walter Reed Army Medical Center, and 10 other hospitals in the District of Columbia; and 11 hospitals in Northern Virginia.

Travel and Tourism

Travel and tourism generated over \$900 million in related expenditures, \$275 million in payroll, and 14,000 jobs in the County during 1998. Average annual employment in tourism that year was 14 percent of the State's total tourism employment. Average local tax receipts in 1998 were in excess of \$30 million; state tax receipts generated were nearly \$50 million.

The Conference and Visitors Bureau of Montgomery County is a public-private non-profit membership organization dedicated to the promotion of travel and tourism to the County. On behalf of its membership, the Bureau participates in travel industry trade shows across the country, sponsors familiarization tours for tour operators, travel agents and travel writers, implements a \$200,000 advertising campaign annually, and manages a Visitors Information Center minutes off the I-270 corridor. The Bureau has been instrumental in helping to establish the Montgomery County Conference Center, an executive-level, state-of-the-art meeting facility to be located adjacent to the White Flint Metro station.

Utilities

Potomac Electric Power Company (PEPCO) serves the major portion of the County, with additional service from the Baltimore Gas and Electric Company (BGE), and Allegheny Power Company. Three natural gas transmission pipeline companies (Columbia Gas Transmission, CNG Transmission, and Transcontinental Gas Pipeline Corporation) traverse the County, supplying it with Appalachian and Southwest natural gas. Washington Gas distributes this natural gas.

In early 1999 the Maryland General Assembly enacted The Electric Customer Choice and Competition Act of 1999 that effectively deregulates the market for electric power generation. Under a companion act (Senate Bill 344 / House Bill 366), the General Assembly restructured the tax laws affecting the electric industry to ensure that Maryland companies are not put at a competitive disadvantage in relation to out-of-state electric generators. The tax law restructuring accounted for potential revenue losses at both the State and local level, and effectively mitigated any adverse tax impact to county and municipal governments.

County Employees

The County government work force consists of approximately 7,778 full- and part-time employees. Of this number, 5,531 employees are included in designated bargaining units under the County's collective bargaining laws. The County negotiates with three unions, which have representation rights for four bargaining units. The County bargains with all three unions over wages, fringe benefits, and working conditions. The table below summarizes the current status of County labor agreements.

**Table 2
County Bargaining Units**

<u>Bargaining Unit</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Service, Labor & Trades	1,041	June 30, 2001
Office, Professional & Technical	2,785	June 30, 2001
Non-supervisory police officers	892	June 30, 2001
Non-supervisory fire/rescue workers	613	June 30, 2002

The County will commence bargaining with the following unions in the fall of 2000 for new agreements to be effective July 1, 2001: Police; Office, Professional & Technical; and Service, Labor & Trades.

Public school teachers in the County are not County government employees, but are employed by the Montgomery County Board of Education (the "Board"). The Board employs approximately 18,850 full and part-time employees. This number includes 575 executive and administrative, 10,040 instructional, 327 other professional, and 7,908 supporting services personnel. The Board bargains collectively with employees on matters concerning wages, hours and other conditions of employment. There are three bargaining units, which are comprised of teachers, professional/administrative and support/maintenance employees, as presented in the table below.

**Table 3
Board of Education Bargaining Units**

<u>Bargaining Unit</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Teachers	9,756	June 30, 2001
Professional/Administrative	494	June 30, 2003
Support Services	7,788	June 30, 2003

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DEBT SUMMARY

Overview

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

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

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

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

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

The County's Net Direct and Overlapping Debt is derived by subtracting Self-Supporting Debt from the Total Direct and Overlapping Debt.

A summary statement of direct and overlapping debt for Montgomery County is provided in Table 4 on the following page. For additional discussion of particular elements of the County's debt, see the sections that follow.

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Table 4
Statement of Direct and Overlapping Debt
As of June 30, 2000

Direct Debt:		
General Obligation Bonds Outstanding	\$1,131,833,054	
Short-Term BANs/Commercial Paper Outstanding	160,000,000	
Long-Term Notes Payable	1,689,553	
Revenue Bonds Outstanding	<u>70,840,000</u>	
Total Direct Debt		\$1,364,362,607
Overlapping Debt:		
Gross Debt:		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,064,577,882	
Housing Opportunities Commission	681,976,871	
Montgomery County Revenue Authority	43,717,175	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	47,784,828	
Kingsview Village Center Development District	2,410,000	
Towns, Cities and Villages within Montgomery County	<u>33,270,484</u>	
Total Overlapping Debt		<u>1,873,737,240</u>
Total Direct and Overlapping Debt		3,238,099,847
Less Self-Supporting Debt:		
County Government Revenue Bonds	70,840,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,064,577,882	
Housing Opportunities Commission	681,976,871	
Montgomery County Revenue Authority	43,717,175	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	<u>15,404,828</u>	
Total Self-Supporting Debt		<u>(1,876,516,756)</u>
Net Direct and Overlapping Debt		<u>\$1,361,583,091</u>
Ratio of Debt to FY01 Assessed Valuation of:		\$32,553,856,811
Direct Debt		4.19%
Net Direct Debt *		3.97%
Direct and Overlapping Debt		9.95%
Net Direct and Overlapping Debt		4.18%
Ratio of Debt to FY01 Market Value of:		\$78,786,706,000
Direct Debt		1.73%
Net Direct Debt *		1.64%
Direct and Overlapping Debt		4.11%
Net Direct and Overlapping Debt		1.73%

* Net Direct Debt of \$1,293,522,607 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

Debt Affordability

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

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

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

Table 5
Statement of Legal Debt Margin
As of June 30, 2000

FY00 Assessed Valuation		\$32,553,856,811
Debt Limit (% of Assessed Valuation)		<u>15%</u>
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds		4,883,078,522
Less Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds Outstanding	\$1,131,833,054	
Short-Term BANs/Commercial Paper	160,000,000	
Long Term Notes Payable	<u>1,689,553</u>	
Net Direct Debt		<u>1,293,522,607</u>
Legal Debt Margin		<u>\$3,589,555,915</u>
Net Direct Debt as a Percentage of Assessed Valuation		<u>3.97%</u>

Direct Debt

General Obligation Bonds

County general obligation bonds are secured by the full faith, credit and taxing powers of the County. Bonds are normally issued with a 20-year term, with five percent of the principal retired each year. This practice produces equal annual payments of principal over the life of the bond issue and declining annual payments of interest on the outstanding bonds. The Charter limits the term of any bond to 30 years.

Over the past three decades the composition of County general obligation debt has changed. As more general County bonding was shifted towards schools and roads, a related shift occurred away from general County facilities, parks, and mass transit. In addition, in recent years, general obligation debt has not been issued to finance parking lot district or solid waste projects. Such projects have been financed with revenue bonds or current revenues.

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

Table 6
General Obligation Bonded Debt Ratios
1991 – 2000

<u>Fiscal Year</u>	<u>Net Direct Debt to Market Value</u>	<u>GO Bond Debt Service to General Fund Expenditures</u>	<u>Net Direct Debt Per Capita</u>	<u>Net Direct Debt Per Capita to Per Capita Income*</u>	<u>GO Bond Payout Ratio</u>
1991	1.33%	9.41%	\$ 1,029	3.08%	65.49%
1992	1.48	10.57	1,165	3.37	66.14
1993	1.43	9.43	1,242	3.42	68.06
1994	1.46	9.74	1,273	3.40	69.00
1995	1.34	9.96	1,164	3.02	70.00
1996	1.62	10.04	1,391	3.50	70.52
1997	1.47	10.22	1,279	3.17	71.39
1998	1.66	9.71	1,443	3.39	72.58
1999	1.56	9.66	1,387	3.11	72.33
2000	1.64	9.17	1,513	3.26	72.06

* Figures restated due to restatement of Actual Income in June 2000.

The County's general obligation indebtedness by issue is presented in Table 7. Annual debt service payments for the County's debt is displayed in Table 8. Table 9 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2000.

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Table 7
General Obligation Debt of the County
As of June 30, 2000

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Interest Rates</u>	<u>TIC*</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2000</u>
GO Bonds	02/01/71	\$ 30,000,000	0.10-6.50%	4.8651%	1972-01	\$ 440,000
GO Bonds	11/01/71	30,000,000	0.10-6.50	4.3163	1972-01	1,180,000
GO Bonds	05/01/83	50,000,000	7.00-9.00	7.8999	1984-03	7,500,000
GO Bonds	06/01/84	55,000,000	9.00-9.75	9.3989	1985-04	11,000,000
GO Bonds	05/01/85	65,000,000	7.60-8.60	8.2205	1986-05	16,250,000
GO Bonds	04/01/86	50,000,000	5.80-6.30	6.0956	1987-06	15,000,000
GO Bonds	10/01/90	75,000,000	6.80-7.10	6.9842	1991-00	3,750,000
GO Bonds	04/01/91	60,000,000	6.30-6.75	6.5230	1992-11	9,000,000
GO Bonds	10/01/91	70,000,000	5.75-6.125	5.9747	1992-11	14,000,000
GO Refunding Bonds	07/01/92	273,038,054	2.75-5.80	5.7431	1993-10	230,363,054
GO Bonds	10/01/92	115,000,000	5.00-5.75	5.4740	1993-06	40,250,000
GO Refunding Bonds	08/15/93	60,005,000	2.50-5.00	4.9908	1994-11	57,340,000
GO Bonds	10/01/93	100,000,000	4.40-4.90	4.6899	1994-13	70,000,000
GO Bonds	10/01/94	100,000,000	5.20-6.125	5.7958	1995-08	45,000,000
GO Bonds	03/15/96	120,000,000	5.10-5.50	5.2946	1997-16	96,000,000
GO Bonds	04/15/97	115,000,000	5.00-5.375	5.3226	1998-17	97,750,000
GO Refunding Bonds	01/01/98	69,510,000	3.90-5.25	4.6400	2003-15	69,510,000
GO Bonds	04/01/98	115,000,000	4.875	4.7607	1999-18	103,500,000
GO Bonds	04/01/99	120,000,000	4.00-5.00	4.4764	2000-19	114,000,000
GO Bonds	01/01/00	130,000,000	5.00-6.00	5.4853	2001-20	<u>130,000,000</u>
Total						<u>\$1,131,833,054</u>

* True Interest Cost.

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Table 8
Summary of General Obligation Bond
Debt Service Requirements by Fiscal Year
As of June 30, 2000

Fiscal Year	General Obligation Bonds		
	Principal	Interest	Total
2001	\$ 93,125,000	\$ 57,899,294	\$ 151,024,294
2002	92,530,000	52,857,315	145,387,315
2003	92,105,000	47,825,157	139,930,157
2004	89,620,000	42,665,440	132,285,440
2005	86,650,000	37,780,983	124,430,983
2006	83,170,000	33,145,672	116,315,672
2007	80,445,000	28,703,154	109,148,154
2008	80,220,000	24,554,420	104,774,420
2009	60,471,683	33,156,732	93,628,415
2010	57,272,086	26,336,079	83,608,165
2011	54,159,285	18,475,005	72,634,290
2012	49,635,000	13,282,540	62,917,540
2013	45,995,000	10,892,520	56,887,520
2014	40,125,000	8,581,880	48,706,880
2015	35,060,000	6,654,068	41,714,068
2016	30,000,000	4,849,312	34,849,312
2017	24,000,000	3,280,938	27,280,938
2018	18,250,000	2,017,812	20,267,812
2019	12,500,000	1,063,750	13,563,750
2020	<u>6,500,000</u>	<u>390,000</u>	<u>6,890,000</u>
Total	<u>\$1,131,833,054</u>	<u>\$454,412,071</u>	<u>\$1,586,245,125</u>

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Table 9
General Obligation Bonds Authorized – Unissued
As of June 30, 2000

<u>Purpose</u>	<u>Chapter</u>	<u>Act</u>	<u>Amount</u>	<u>Amount Unissued</u>
General County, Parks, and Consolidated Fire Tax District	19	1998	\$113,400,000	\$102,285,000
	18	1999	<u>33,500,000</u>	<u>33,500,000</u>
			<u>146,900,000</u>	<u>135,785,000</u>
Road & Storm Drainage	19	1998	77,000,000	70,915,000
	18	1999	<u>30,000,000</u>	<u>30,000,000</u>
			<u>107,000,000</u>	<u>100,915,000</u>
Public Schools and Community College	32	1997	80,800,000	20,763,000
	19	1998	3,800,000	3,800,000
	18	1999	<u>57,800,000</u>	<u>57,800,000</u>
			<u>142,400,000</u>	<u>82,363,000</u>
Mass Transit	34	1991	2,160,000	55,000
	19	1998	500,000	500,000
	18	1999	<u>400,000</u>	<u>400,000</u>
			<u>3,060,000</u>	<u>955,000</u>
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	<u>855,000</u>	<u>855,000</u>
			<u>5,630,000</u>	<u>5,570,000</u>
Parking Districts: Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	<u>1,220,000</u>	<u>1,220,000</u>
			<u>4,165,000</u>	<u>3,265,000</u>
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	<u>1,050,000</u>	<u>1,050,000</u>
			<u>9,150,000</u>	<u>4,865,000</u>
Total Parking Districts			<u>13,315,000</u>	<u>8,130,000</u>
Total General Obligation Bonds			<u>\$418,305,000</u>	<u>\$333,718,000</u>

In addition to the above noted authority, the County has authority under the provisions of section 56-13 of the Montgomery County Code 1984, as amended, to issue County bonds, within statutory debt limits, to finance approved urban renewal projects.

Current Revenue Substitution for General Obligation Bonds (PAYGO)

The County follows a practice of budgeting significant current revenue substitution for general obligation bonds over the six-year Capital Improvements Program. This “pay-as-you-go” approach to funding debt-eligible capital improvement projects, known as PAYGO, helps manage the County’s debt burden and retain funding flexibility. The significant amounts of PAYGO substitutions over the past six years, and planned for substitution over the six years beginning July 1, 2000, are displayed below.

**Table 10
PAYGO Substitutions
(Actual FY95-00, Budgeted FY01-06)**

Fiscal Year	PAYGO Amount	Fiscal Year	PAYGO Amount
1995	\$ 13,253,439	2001	\$ 82,500,000
1996	7,000,000	2002	65,000,000
1997	3,925,000	2003	46,000,000
1998	13,000,000	2004	30,000,000
1999	13,400,000	2005	30,000,000
2000	24,600,000	2006	30,000,000

Short-Term Bond Anticipation Notes/Commercial Paper

The County utilizes Bond Anticipation Notes/commercial paper (BANs) for short-term capital financing of capital expenditures with the expectation that the principal amount will be refunded with the proceeds of long-term general obligation bonds. Interest costs incurred are usually at lower rates than with longer term financing. The County has BANs/commercial paper authorized, issued, and outstanding as financing sources for capital construction and improvements. BANs/commercial paper are issued at varying maturities to a maximum of 270 days, under a program that matures on June 30, 2002. The County reissues the notes upon maturity until they are refinanced with long-term bonds. Changes in BANs/commercial paper during the period July 1, 1999 through June 30, 2000 are presented in Table 11 below.

**Table 11
Bond Anticipation Notes Outstanding
As of June 30, 2000**

Issue	Balance		BANs Retired	Balance	
	July 1, 1999	BANs Issued		June 30, 2000	
BAN Series 1995-C	\$ 4,000,000	\$ --	\$ 4,000,000	\$ --	
BAN Series 1995-D	26,000,000	--	26,000,000	--	
BAN Series 1995-E	50,000,000	--	50,000,000	--	
BAN Series 1995-F	--	80,000,000	48,000,000	32,000,000	
BAN Series 1995-G	--	40,000,000	2,000,000	38,000,000	
BAN Series 1995-H	--	90,000,000	--	90,000,000	
Total	<u>\$80,000,000</u>	<u>\$210,000,000</u>	<u>\$130,000,000</u>	<u>\$160,000,000</u>	

Long-Term Notes

In September 1998, the County entered into a \$1,800,000 long-term loan agreement with the Maryland Industrial and Commercial Redevelopment Fund (MICRF) pursuant to the provisions of Sections 5-501 through 5-507 of Article 83A of the Annotated Code of Maryland. The loan was approved by the Maryland State Department of Business and Economic Development. In accordance with the terms of the loan, the proceeds of the loan have been reloaned to a private corporation, for purposes of relocation to and renovation of facilities in the County. If certain conditions are met, \$150,000 of the loan may be converted to a State grant. Although it is expected that the loan will be repaid by payments made by the private user, the loan is a full faith and credit obligation of the County.

Revenue Bonds

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

County revenue bonds have been used in the Bethesda and Silver Spring Parking Districts, supported by parking fees and fines, together with parking district property taxes. County revenue bonds have also been issued for County Solid Waste Management facilities, supported with the revenues of the Solid Waste Disposal System. County revenue bond indebtedness by issue is presented in Table 12. Annual debt service payments for the County’s revenue bond debt is displayed in Table 13. Table 14 sets forth the amount of revenue bonds authorized to be issued by the County as of June 30, 2000.

**Table 12
Revenue Bond Debt of the County
As of June 30, 2000**

<u>Issue</u>	<u>Dated Date</u>	<u>Original Issue Size</u>	<u>Interest Rates</u>	<u>TIC*</u>	<u>Maturity</u>	<u>Principal Outstanding June 30, 2000</u>
Parking Refunding Revenue Bonds	04/15/92	\$ 52,730,000	2.75%-6.25%	6.0966%	1992-09	\$ 32,395,000
Solid Waste System Revenue Bonds	03/15/93	50,680,000	3.50%-5.875%	5.7836%	1994-13	<u>38,445,000</u>
Total						<u>\$ 70,840,000</u>

* True Interest Cost.

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Table 13
Summary of Revenue Bond Debt Service Charges by Fiscal Year
As of June 30, 2000

<u>Fiscal Year</u>	<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 5,335,000	\$ 4,172,756	\$ 9,507,756
2002	5,640,000	3,875,896	9,515,896
2003	5,975,000	3,556,366	9,531,366
2004	6,340,000	3,211,786	9,551,786
2005	6,730,000	2,843,611	9,573,611
2006	7,150,000	2,445,981	9,595,981
2007	7,605,000	2,014,094	9,619,094
2008	5,395,000	1,549,581	6,944,581
2009	5,750,000	1,223,831	6,973,831
2010	3,415,000	876,550	4,291,550
2011	3,620,000	675,919	4,295,919
2012	3,830,000	463,244	4,293,244
2013	<u>4,055,000</u>	<u>238,232</u>	<u>4,293,232</u>
Total	<u>\$ 70,840,000</u>	<u>\$ 27,147,847</u>	<u>\$97,987,847</u>

Table 14
Revenue Bonds Authorized - Unissued
As of June 30, 2000

<u>Purpose</u>	<u>Resolution No.</u>	<u>Year</u>	<u>Amount</u>	<u>Amount Unissued</u>
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$ 42,088,000
Solid Waste Disposal	12-1010	1993	<u>56,935,000</u>	<u>6,255,000</u>
Total Revenue Bonds			<u>\$108,098,000</u>	<u>\$ 48,343,000</u>

Overlapping Debt

In addition to the direct debt described above, certain portions of the debt of other governmental entities in the County are payable in whole or in part by the taxpayers of the County. The debt includes general obligation bonds, revenue bonds, mortgages payable, notes payable, commercial paper/bond anticipation notes, certificates of participation, and bank loans.

Washington Suburban Sanitary Commission

The Washington Suburban Sanitary Commission (WSSC) issues general construction bonds to finance construction of small diameter water distribution and sewage collection lines, and required support facilities in Montgomery and Prince George's Counties. Generally, these are considered general obligation bonds because they are payable from unlimited ad valorem taxes upon all the assessable property in the WSSC district. They are actually paid through assessments on properties being provided service, and are considered to be overlapping debt rather than direct debt of the County. WSSC Water Supply and Sewage Disposal Bonds, which finance major system improvements, including large diameter water distribution and sewage collection lines, are paid from non-tax sources including user charges collected through water and sewer rates, which also cover all system operating

costs. They are backed by unlimited ad valorem taxes upon all the assessable property within the WSSC district in addition to mandated rates, fees, and charges sufficient to cover debt service. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland (1997 Replacement Volume and 2000 Cumulative Supplement), the County must guarantee payment of principal and interest on WSSC bonds, unless the WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to all outstanding WSSC bonds.

Housing Opportunities Commission

The Montgomery County Housing Opportunities Commission (HOC) issues revenue bonds for its Multi-Family Mortgage Purchase Program and its Single-Family Mortgage Purchase Program which are paid through mortgages and rents. A portion of this revenue bond debt is guaranteed by Montgomery County pursuant to Section 2-103 of Article 44A of the Annotated Code of Maryland. The County may by local law provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee.

Montgomery County Revenue Authority

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

Maryland-National Capital Park and Planning Commission

The Maryland-National Capital Park and Planning Commission (M-NCPPC) issues general obligation debt for the acquisition and development of local parks and certain special parks and advance land acquisition, with debt limited to that supportable within mandatory tax rates. The Commission also issues revenue bonds funded by its enterprise operations. Pursuant to Section 6-101 of Article 28 of the Annotated Code of Maryland (1997 Replacement Volume and 2000 Supplement), the County must guarantee payment of principal and interest on the debt of M-NCPPC that is not self-supporting.

Towns, Cities, and Villages

The Towns of Brookeville, Poolesville, and Washington Grove, the Cities of Rockville and Takoma Park, and the Village of Chevy Chase are located wholly within Montgomery County and have issued long-term obligations to fund various public amenities such as road and sewer improvements.

Special Taxing Districts

Two development districts have been created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The West Germantown Development District was created by Council Resolution 13-1135 during FY98 and the Kingsview Village Center Development District was created by Council Resolution 13-1377 in FY99. The creation of the development districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County with high priority for new development or redevelopment.

Pursuant to the Development District Act, special taxes and/or special assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective district. The County is authorized to issue \$4.5 million in special obligation bonds for the Kingsview Village Center Development District and \$20 million in special obligation bonds for the West Germantown Development District. See also “NEW CONSTRUCTION – Development Districts” below.

Bonds for the Kingsview Village Center Development District were issued in December 1999. The County and developers are currently engaged in discussions associated with the issuance of special obligation bonds for the West Germantown Development District.

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County Facility Lease Obligations

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately \$9,958,000 for FY00. Long-term leases with the Montgomery County Revenue Authority are subject to annual appropriations, but are related to the debt service on bonds that the Revenue Authority issued on the County's behalf.

Following is a listing of significant lease agreements for FY01:

<u>Payee</u>	<u>Location</u>	<u>Use</u>	<u>Total Rent For FY01</u>
Rockville Center, Inc.	255 Rockville Pike, Rockville	Various Agencies	\$2,091,622
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	1,396,017
Crimson Partners	7300 Calhoun Place, Derwood	Juvenile Assessment Center	948,039
ARE – 20/22/1300 Firstfield Quince Orchard LLC	1300 Quince Orchard Blvd., Gaithersburg	Emergency Communications Center	927,000
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	610,440
Rockville Business Center	110 N. Washington Street, Rockville	Various Agencies	515,003
SBI Management	1335 Piccard Drive, Rockville	Health Center	469,804
Montgomery County Revenue Authority	Rockville Pike at White Flint Metro	Conference Center (Land)	426,403
12500 Ardennes Avenue L.P.	12500 Ardennes Avenue, Rockville	Corrections	402,000
The Gudelsky Co.	8630 Fenton Street, Silver Spring	Health Center	389,486
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	260,168
Town of Chevy Chase	4301 Willow Lane, Chevy Chase	Leland Community Center	227,330
McShea Gaither Road Limited Partnership	9125 Gaither Road, Rockville	Police/S.O.D.	219,345
Beall Avenue Limited Partnership	255 N. Washington Street, Rockville	Commission for Women, False Alarm Reduction Unit	212,838
Shady Grove Associates II	9210 Corporate Boulevard, Rockville	Police/S.I.D.	211,684
Betty B. Casey Trust	8536 Anniversary Circle, Rockville	Records Center	178,249
Sidney & B.M. Kramer	13434 New Hampshire Avenue, Colesville	East County Regional Services Center	149,102
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public Facilities	138,000
Milford Mill Limited Partnership	19627 Fisher Avenue, Poolesville	Poolesville Library	130,679
Betty B. Casey Trust	8516 Anniversary Circle, Rockville	Warehouse	127,000
Spring Street Associates, L.P.	1109 Spring St., Silver Spring	Various Agencies	122,610
TrizecHahn Silver Spring Metro Plaza	8401 Colesville Rd., Silver Spring	Commuter Services	103,515
4848 Cordell Avenue Partnership	4848 Cordell Avenue, Bethesda	Crisis Center	102,633

State Assumption - Certain Mass Transit Capital Costs

The regional Metro Rapid Rail System, operated by the Washington Metropolitan Area Transit Authority (WMATA), is a planned 103 mile system of subway, surface and elevated tracks embracing Washington, D.C. and the Maryland and Virginia suburbs. The system includes 18.4 miles and 12 stations within Montgomery County, all of which are now in service.

The most recently approved (November 1990) Federal authorization of \$1.3 billion over eight years for the Federal share of Metro rail construction is sufficient to construct the final segment of the regional system to Branch Avenue in Prince George's County, Maryland. This segment is scheduled to be completed in January 2001. A Fifth Interim Capital Contribution Agreement was executed in January 1992 to commit the amounts and time tables for \$780 million in non-Federal funds to match the latest and final \$1.3 billion Federal authorization on a 62.5 percent Federal / 37.5 percent local match basis. Of this amount, \$143 million has been provided by Maryland DOT on behalf of the County, between FY92 and FY00.

As a result of a succession of State legislative actions between 1972 and 1998, all County obligations for allocable costs of WMATA's capital construction, debt service, and capital equipment replacement programs are now met by the State of Maryland, relieving the County of all such obligations.

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FINANCIAL INFORMATION

Accounting System

The accounts of the County are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues, and expenditures/expenses, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Montgomery County Comprehensive Annual Financial Reports (“CAFR”) for all fiscal years since 1972, and as early as 1951, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (“GFOA”). 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. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The County believes the Fiscal Year 2000 CAFR continues to meet the Certificate of Achievement Programs requirements, and has submitted it to the GFOA to determine its eligibility for another certificate.

Reporting Entity

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

Basis of Accounting

The financial operations of the Governmental Funds (i.e., General, Special Revenue, Debt Service, and Capital Projects) and the Expendable Trust and Agency funds are maintained on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liabilities are incurred, except for principal and interest on long-term debt which are recorded when due. In addition, an encumbrance system is employed in the Governmental Funds to account for expenditure commitments resulting from approved purchase orders and contracts.

The financial operations of the Proprietary Funds (i.e., Enterprise Funds and the Internal Service Funds) and Pension and Non-Expendable Trust Funds are maintained on the accrual basis of accounting, in which all revenues are recorded when earned, expenses are recorded at the time liabilities are incurred, and allocations of interest and depreciation/amortization are recorded for the fiscal period.

ANNUAL BUDGETS

Operating Budget and Tax Rates

On May 25, 2000 the County Council approved the FY01 operating budget comprising the County Government, MCPS, the College, M-NCPPC and the various fire departments aggregating \$2.316 billion. This budgetary level represents an increase of 11.5 percent over the adopted budget for FY00. It provides the greatest share (47.8 percent) of total resources to Montgomery County Public Schools, including funding necessary for an estimated 3,937 new students in grades K-12. Funds for Montgomery College are included for an increase greater than enrollment growth. In addition, public safety and criminal justice, health and human services, public works, recreation, parks, arts, and library programs are funded for important improvements in FY01, as well as technology and compensation improvements.

The approved FY01 budget provided for an undesignated surplus of \$58.3 million in the General Fund and \$75.8 million across all tax supported funds. For FY01, the Council approved a \$0.001 rate increase in the County-wide property tax rate to \$2.552 per \$100 of assessed valuation. Personal property is assessed at 100 percent of full market value; real property in Maryland has been assessed at 40 percent of full market value since FY92, but effective FY01 real property will be assessed at 100 percent, with a corresponding decrease in the appropriate tax rate. The County income tax rate in tax year 2000 is 2.90 percent of Maryland taxable income.

Capital Budget/Capital Improvements Program

The County Council approved Amendments to the Capital Budget/Capital Improvements Program for the County Government and the required agencies, except for WSSC, aggregating \$1.85 billion for FY01-06. This approved program provided for County bond funding aggregating \$930.5 million over the amended six-year period FY01-06. The Council approved a Capital Improvements Program for WSSC totaling \$609 million for FY01-06, after adjustment for inflation.

Legal Framework for Budgeting

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

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

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

As part of the six-year CIP and PSP programs, the County Executive includes the proposed capital and operating budgets containing recommended levels of expenditures and sources of revenue for the ensuing fiscal year. In addition, a summary is submitted containing an analysis of the fiscal implications for the County of all available budgets of all agencies for which the County Council sets tax rates, makes levies, and approves programs or budgets. These other agencies include the Montgomery County Public Schools, Montgomery College, the

Maryland-National Capital Park and Planning Commission, the Housing Opportunities Commission of Montgomery County, the Montgomery County Revenue Authority, the Washington Suburban Sanitary Commission (a bi-county agency), the Washington Suburban Transit Commission (a bi-county agency), and the 19 independent Fire and Rescue Corporations.

The County Council must hold public hearings on the proposed budgets and six-year programs commencing not earlier than 21 days following their receipt. The County Council may add to, delete from, increase or decrease any appropriation item in the operating or capital budget. The Council also approves the budget, as amended, and appropriates the funds not later than June 1 of the year in which it is submitted. By June 30th of each year the County Council makes the tax levies deemed necessary to finance the budgets for the ensuing fiscal year beginning July 1. Pursuant to a Charter amendment adopted in the November 1990 general election, the County Council may not levy an ad valorem tax on real property to finance the budgets that will produce total revenue that exceeds the total revenue produced by the tax on real property in the preceding fiscal year plus a percentage of the previous year's real property tax revenues that equals any increase in the Consumer Price Index unless approved by the affirmative vote of seven council members. This limit does not apply to revenue from 1) newly constructed property, 2) newly rezoned property, 3) property that, because of a change in State law, is assessed differently than it was assessed in the previous tax year, 4) property that has undergone a change in use, and 5) any development district tax used to fund capital improvement projects.

The Charter requires that County capital improvement projects which are estimated to cost in excess of an amount established by law, or which the County Council determines to possess unusual characteristics or to be of sufficient public importance, must be individually authorized by local law, which would be subject to referendum upon timely petition of five percent of the County's registered voters. The cost criterion for projects in the FY01-06 CIP is \$9,313,761. The Charter also requires approval of the aggregate operating budget by the affirmative vote of six council members, as opposed to a simple majority, when it exceeds the budget for the preceding year by a percentage which is greater than the percentage increase in the Consumer Price Index for all urban consumers for the Washington-Baltimore combined metropolitan statistical area (CMSA) for the 12 months preceding December 1 of each year, as published by the U.S. Department of Labor. In addition, a Charter amendment adopted at the November 1990 general election requires the County Council to annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and operating budgets. Any aggregate capital budget or aggregate operating budget that exceeds the guidelines then in effect requires the affirmative vote of seven of the nine council members for approval.

Major Sources of Revenue

The local property tax remains the largest revenue source when measured by all Funds, and is the second largest source of revenue when measured by General Fund revenues. For FY00, the general County property tax, levied on all assessable property in the County at the rate of \$1.863 per \$100 of assessed valuation, generated \$610.4 million, or approximately 37 percent of the total County General Fund operating revenue requirements – down from a 47 percent share four years ago.

For FY00, the largest revenue source in the General Fund was the local income tax. This tax, which is levied by the County Council and administered by the State, generated \$761.1 million in FY00 or close to 46 percent of the total County General Fund operating revenue requirements – up from a 38 percent share four years ago. This increase is due to strong economic growth, employment expansion, and strong equity market returns.

Prior to 1998, the County income tax was computed as a simple percentage of the State income tax, and was therefore known as the “piggyback” tax. Starting in tax year 1998, the State reduced the income tax rate and increased the exemption amount. However, local jurisdictions were held harmless from this change in the State tax law, by a requirement that the piggyback computation be based upon the State rate prior to the law change. Due to the complexity of this system, which effectively required taxpayers to compute their 1998 taxable income twice, effective with tax year 1999 local income tax is based on taxable income, using an income tax rate equivalent to

what the “old” piggyback system would have derived. Hence, instead of using 60 percent of the State’s 5 percent rate, the new rate became 3 percent of taxable income in tax year 1999. Additionally, the Montgomery County rate was reduced to 2.9 percent (i.e., equivalent to a 58 percent piggyback tax) in tax year 2000.

Status of the General Fund

Montgomery County concluded the fiscal year ended June 30, 2000 with an undesignated General Fund fund balance of \$75.4 million, a decrease of \$15.0 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. Also due to higher than expected tax revenues, the Revenue Stabilization Fund (RSF) grew to \$70.6 million – the maximum allowable fund size for that fiscal year.

General Fund Revenues

General Fund 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 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. 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 FY00, 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 FY00. 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, stronger than expected 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 experiences in FY97 through FY99, 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 FY99. As a result of these trends, collections were \$761.1 million, or \$82.5 million above the original budget estimate.

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 can be 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 FY00. 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 (which comprises 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.

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 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. However, even though the overall 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 homes 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 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 FY98, however, the market experienced a dramatic improvement and has remained on this upward trend for the past three fiscal years. 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. Burdened by credit tightening and higher financing costs, the commercial sector is especially susceptible to changes in financial conditions. As a result, the more than doubling in revenues in FY98 was partially reversed in FY99 when revenues declined 29 percent. In FY00, the number of commercial transfers declined 17 percent, pushing revenues down another 1.5 percent from the prior year. 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. Reflecting strong revenue growth and a significant jump in the yield on cash equity, investment income in FY00 increased 20 percent from the prior fiscal year.

General Fund Appropriations and Transfers

FY00 expenditure savings amounted to \$5.6 million. Savings occurred in both departmental expenditures (\$2.5 million) and non-departmental expenditures (\$3.1 million). Even though all departmental and most non-departmental units recognized savings this year, the majority of the savings occurred in lower than projected operating cost for the Department of Health and Human Services (\$0.8 million), Circuit Court (\$0.5 million), Closing Cost Assistance program (\$0.9 million), and the Year 2000 Project (\$1.9 million).

Offsetting the increased General Fund revenue and expenditure savings was a mandatory transfer to the Revenue Stabilization Fund of \$8.4 million at the close of FY00. Generally, half of General Fund receipts from the income tax, transfer and recordation taxes, and investment income above the budget estimate must be transferred to the Revenue Stabilization Fund. Stronger than projected receipts in all categories contributed to this mandatory transfer.

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Table 15
Montgomery County, Maryland
Schedule Of General Fund Revenues, Expenditures, & Transfers In (Out)
(Budgetary, Non-GAAP Basis)

	Fiscal Year Actual ⁽¹⁾				Fiscal Year
	1997	1998	1999	2000	Budget 2001
Revenues:					
Taxes:					
Property, including interest & penalty	\$ 600,935,772	\$ 607,196,112	\$ 593,103,639	\$ 610,403,414	\$ 606,104,570
Transfer tax and recordation tax	59,215,610	82,969,763	93,009,575	99,771,486	90,840,000
County income tax	544,258,411	602,825,620	689,203,638	761,148,755	769,250,000
Other taxes	<u>41,279,872</u>	<u>42,751,420</u>	<u>45,183,618</u>	<u>43,312,655</u>	<u>44,020,000</u>
Total Taxes	1,245,689,665	1,335,742,915	1,420,500,470	1,514,636,310	1,510,214,570
Licenses and permits	4,181,237	4,284,392	4,338,599	4,508,738	4,403,060
Intergovernmental revenue ⁽²⁾	74,642,772	87,994,220	93,255,279	98,051,154	103,735,660
Charges for services ⁽²⁾	7,810,748	8,319,726	7,337,927	7,904,754	8,374,750
Fines and forfeitures	3,263,302	3,042,264	3,188,275	4,550,638	4,855,860
Investment income	12,582,267	15,735,564	18,155,871	21,831,424	22,010,000
Miscellaneous	<u>5,946,647</u>	<u>7,071,441</u>	<u>8,061,519</u>	<u>8,300,775</u>	<u>9,195,480</u>
Total Revenues	<u>1,354,116,638</u>	<u>1,462,190,522</u>	<u>1,554,837,940</u>	<u>1,659,783,793</u>	<u>1,662,789,380</u>
Expenditures (including encumbrances):					
General County:					
General government	112,378,368	130,541,248	139,868,204	152,711,792	157,736,511
Public safety	136,433,359	145,807,258	149,815,388	163,575,547	172,209,997
Transportation and public works	31,312,287	29,303,085	36,671,572	35,155,518	34,961,713
Health and human services ⁽³⁾	94,760,788	106,850,279	115,372,553	130,598,688	150,225,596
Culture and recreation	25,626,419	27,699,078	34,407,208	37,032,110	39,056,958
Housing and community development	2,294,894	2,484,460	2,883,758	4,104,510	4,315,969
Environment	<u>2,194,314</u>	<u>2,365,887</u>	<u>3,197,837</u>	<u>3,549,047</u>	<u>4,732,905</u>
Total Expenditures	<u>405,000,429</u>	<u>445,051,295</u>	<u>482,216,520</u>	<u>526,727,212</u>	<u>563,239,649</u>
Operating Transfers In (Out)⁽⁴⁾:					
Operating Transfers In:					
Special Revenue Funds	8,017,031	9,139,096	9,091,019	10,117,342	10,283,760
Enterprise Funds	13,349,780	16,864,000	17,042,960	17,248,580	20,224,600
Trust Funds	--	--	--	--	--
Internal Service Funds	8,700,000	--	--	--	--
Component Units	<u>149,705</u>	<u>100,295</u>	<u>110,000</u>	<u>192,696</u>	<u>--</u>
Total Operating Transfers In	<u>30,216,516</u>	<u>26,103,391</u>	<u>26,243,979</u>	<u>27,558,618</u>	<u>30,508,360</u>
Operating Transfers Out:					
Special Revenue Funds	(22,384,306)	(25,908,256)	(11,590,135)	(15,719,842)	(8,342,701)
Debt Service Fund	(124,574,439)	(127,342,718)	(136,484,729)	(134,767,348)	(149,659,980)
Capital Projects Fund	(13,669,207)	(14,501,913)	(14,189,353)	(38,907,827)	(86,523,847)
Enterprise Funds	(1,459,644)	(4,736,579)	(3,903,074)	(5,988,835)	(3,617,420)
Internal Service Funds	(1,798,050)	(1,031,750)	(1,410,500)	(615,290)	(1,552,200)
Component Units	<u>(788,678,833)</u>	<u>(833,422,826)</u>	<u>(883,972,417)</u>	<u>(950,305,484)</u>	<u>(1,073,388,198)</u>
Total Transfers Out	<u>(952,564,479)</u>	<u>(1,006,944,042)</u>	<u>(1,051,550,208)</u>	<u>(1,146,304,626)</u>	<u>(1,323,084,346)</u>
Net Operating Transfers In (Out)	<u>(922,347,963)</u>	<u>(980,840,651)</u>	<u>(1,025,306,229)</u>	<u>(1,118,746,008)</u>	<u>(1,292,575,986)</u>
Excess of revenues and operating transfers in over (under) expenditures, encumbrances and operating transfers out					
	<u>26,768,246</u>	<u>36,298,576</u>	<u>47,315,191</u>	<u>14,310,573</u>	<u>(193,026,255)</u>
Fund Balances, July 1 as previously stated	63,860,831	101,680,857	148,530,451	211,266,962	243,822,148
Adjustment for previous year encumbrances ⁽⁵⁾	<u>9,733,700</u>	<u>10,565,018</u>	<u>15,211,912</u>	<u>18,244,613</u>	<u>33,029,310</u>
Fund Balances, July 1 restated	73,594,531	112,245,875	163,742,363	229,511,575	276,851,458
Equity transfers in (out)	<u>1,318,080</u>	<u>(14,000)</u>	<u>209,408</u>	<u>--</u>	<u>--</u>
Budgetary Fund Balance, June 30	<u>\$ 101,680,857</u>	<u>\$ 148,530,451</u>	<u>\$ 211,266,962</u>	<u>\$ 243,822,148</u>	<u>\$ 83,825,203</u>

(1) Audited amounts.

(2) FY97 revenues restated for reclassification of certain items from intergovernmental to charges for services.

(3) Includes increased amounts related to the transfer of Department of Social Services functions from the State to the County, effective October 1, 1996.

(4) FY97 transfers restated from net to gross basis.

(5) Actual amounts (FY97-00) are net of write-offs; budget amount (FY01) is gross outstanding encumbrances.

Note: Actual and budget amounts are for fiscal years ended June 30.

Table 16
General Fund
Schedule Of Budgetary Fund Balance to
GAAP Fund Balance Reconciliation

	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above	\$101,680,857	\$148,530,451	\$211,266,962	\$243,822,148
Plus encumbrances outstanding	11,764,967	17,704,489	20,625,655	33,029,310
Adjustment for prior year encumbrances	(1,119,264)	(1,199,949)	(2,492,577)	(2,381,042)
Net differences between beginning fund balances	<u>1,069,173</u>	<u>854,683</u>	<u>857,295</u>	<u>1,915,428</u>
GAAP Fund Balance as Reported	<u>\$113,395,733</u>	<u>\$165,889,674</u>	<u>\$230,257,335</u>	<u>\$276,385,844</u>
Elements of GAAP Fund Balance:				
Reservations	\$ 14,054,407	\$ 19,915,257	\$ 22,947,323	\$ 36,225,684
Designated for CIP Transfers	17,961,237	14,842,202	31,294,410	36,001,151
Designated for subsequent years expenditures	21,095,763	57,916,816	85,527,972	128,713,265
Unreserved / Undesignated	<u>60,284,326</u>	<u>73,215,399</u>	<u>90,487,630</u>	<u>75,445,744</u>
	<u>\$113,395,733</u>	<u>\$165,889,674</u>	<u>\$230,257,335</u>	<u>\$276,385,844</u>

Note: All amounts are audited, and are for fiscal years ended June 30.

REVENUE STABILIZATION FUND

The State of Maryland, during the 1992 State legislative session, enacted legislation authorizing political subdivisions in Maryland to establish “rainy day” or reserve funds to accommodate future funding shortfalls. Pursuant to this State law, the County established a Revenue Stabilization Fund effective July 1, 1994.

The Revenue Stabilization Fund (the “Fund”) supplements the reserve or operating margin the County annually sets aside. The County’s Charter, Section 310, sets a five percent annual limit on General Fund surplus. The State law authorizing counties to set up rainy day funds expressly prevails over any contrary County charter provision. Revenues in the Fund are allowed to go as high as ten percent of the aggregate revenue from certain sources in the preceding three fiscal years. This equates to four percent of General Fund revenues in FY00 above the five percent maximum in the Charter (a total of nine percent of General Fund revenues). The Revenue Stabilization Fund provides a mechanism to level out the revenue stream and adjusts for year-to-year fluctuations beyond a certain baseline level. County law requires that 50 percent of the growth above the average of the six preceding fiscal years in certain taxes (income, property transfer, recordation, but not the property tax) and General Fund investment income, be set aside in a restricted fund. Also, 50 percent of the annual revenue from these sources in excess of the Council’s original projection in the budget resolution go to the Fund.

The Council, acting on the Executive’s recommendation, may release up to half the balance in the Fund only if certain recessionary economic conditions occur. Two of the following three conditions must be met: 1) the Director of Finance estimates that total General Fund revenues will fall more than 2 percent below the original projected revenues; 2) resident employment in the County has declined for six consecutive months compared to the same period in the previous year; and 3) a local index of leading economic indicators has declined for three consecutive months. Amounts released from the Fund can only be used for appropriations that have become unfunded.

Primarily as the result of higher than estimated income tax and transfer and recordation tax revenues, a mandatory transfer of \$8.4 million was made to this fund at the end of FY00. This fourth consecutive mandatory transfer is combined with the mandatory contributions in FY97 (\$18.7 million), FY98 (\$21.4 million), and FY99 (\$5.5 million), as well as the discretionary transfers made in FY95 (\$10 million) and FY96 (\$4.5 million). With earned interest, the Revenue Stabilization Fund reached its maximum allowable fund size of \$70.6 million at the closing of FY00. Since the fund reached more than half of its maximum size in FY00, according to the County law that established the Fund, interest earned from the fund must be transferred to PAYGO. The interest transfer in FY00 was \$3.4 million; similar transfers were made in FY98 (\$1.9 million) and FY99 (\$3.0 million).

CASH AND INVESTMENT MANAGEMENT

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

Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's short-term investment policy, as approved by the County Council. The County is authorized to invest in obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, in obligations that a federal agency issues in accordance with an act of Congress, or in repurchase agreements that any of the foregoing listed obligations secure. 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 Securities and Exchange Commission Rule 2a-7. The County requires that these money market funds invest only in obligations of a federal agency or instrumentality issued 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 working capital portfolio is generally less than six months.

At June 30, 2000, the investment balance of the County's portfolio was \$791.8 million. During FY00 the County earned investment income of \$50.9 million.

RISK MANAGEMENT

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

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

The County Finance Department, Division of Risk Management operates the Self-Insurance Program for the County and other participating agencies: Montgomery County Public Schools, Montgomery College, M-NCPPC, various independent fire Corporations, City of Rockville, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, Housing Authority of the City of Rockville, Town of Somerset, Village of Martin's Additions, City of Gaithersburg, Village of Drummond, and the Bethesda Urban Partnership.

In addition to the self-insured coverage, Risk Management coordinates the purchase of commercial insurance for such coverage as All Risk Property Insurance, Boiler and Machinery, Public Official and Employee Bonds, Electronic Data Processing, and others. Beginning August 1, 1997, Risk Management purchased commercial excess liability coverage with limits of \$10 million above a \$2 million retention.

A summary of FY00 operations of the program is outlined below:

	(\$000's)
Revenues:	
Contributions from participating agencies	\$16,682
Interest on investments	3,598
Recovered losses	<u>274</u>
Total Revenues	<u>20,554</u>
Expenses:	
Claims expense	17,407
Claims administration, loss control, external insurance, and other administrative expenses	<u>8,452</u>
Total Expenses	<u>25,859</u>
Net income (loss)	(5,305)
Retained earnings, July 1, 1999	16,175
Contributed capital, June 30, 2000	<u>271</u>
Equity balance, June 30, 2000	<u>\$11,141</u>

By State law effective July 1, 1987, local government employees are protected by the Local Government Tort Claims Act. Under this legislation, the liability of the employees of local governments for common law torts, such as negligence, is limited to \$200,000 for an individual claim, and \$500,000 for all claims arising from one occurrence. This act, combined with the law limiting the public school system's liability to \$100,000, significantly decreases the exposure of the program to large losses.

The County is also self-insured for unemployment benefits and maintains a minimum premium funding arrangement for employee health insurance. The FY00 operations for these two elements of the insurance program are not reflected above.

EMPLOYEES' RETIREMENT SYSTEMS

The Employees' Retirement Systems (Systems) consist of two pension programs sponsored by the County: a single-employer defined benefit plan and a defined contribution plan (initiated in FY94). Other agencies or political subdivisions have the right to elect participation. Substantially all employees of the Montgomery County Government, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., the Washington Suburban Transit Commission, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the Systems. The Systems, established under Chapter 33 of the County Code, are contributory plans with employees contributing a percentage of their base annual salary depending on their group classification, which determines retirement eligibility. The payroll for employees covered by the Systems for the year ended June 30, 2000 was approximately \$299.6 million. The total payroll for Montgomery County Government was \$364.3 million.

All covered full-time employees of the County and participating agencies must become members of the Systems as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis. Non-public safety employees hired on or after October 1, 1994 enroll in the defined contribution plan. All other employees enroll in the defined benefit plan. At FY00 year-end, the defined benefit plan covered approximately 6,094 active participants and 4,171 retirees and inactive participants, with total liabilities amounting to approximately \$1.93 billion. At FY00 year-end, the defined contribution plan had 2,544 participants with liabilities totaling \$20.4 million.

Legislation enacted by the County Council in November 1999 requires the Chief Administrative Officer to establish Deferred Retirement Option Plans, or DROP plans, that allow any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff. These DROP plans became effective March 1, 2000.

The Board of Investment Trustees is responsible for investing the Systems' assets, which amounted to approximately \$2.02 billion as of June 30, 2000. The defined benefit plan assets are invested in a diversified portfolio of equities, bonds, real estate and short-term instruments. The defined contribution plan assets are invested in a diversified group of mutual funds pursuant to participant direction.

For additional information concerning the County's retirement plan, see Appendix A, "Notes to Financial Statements" Note 16, Pension Plan Obligations.

PROPERTY TAX INFORMATION

The County levies real and personal property taxes on all taxable property within its boundaries. Annual payments of taxes are due in full on July 1 and become delinquent on the following October 1. The semi-annual property tax payment system allows for partial payments of real property taxes (currently due September 30 and January 31) for certain residents of owner-occupied residential real estate. While this system was optional for eligible residents through FY00, recently adopted legislation in Maryland makes semi-annual payments the standard in FY01, unless taxpayers opt out of the system and remain in the annual payment cycle. Additionally, effective FY01, the second payment will be due December 31 instead of January 31 as required under the previous semi-annual system. Finally, also effective FY01, the service charge for handling the semi-annual payment schedule, which included interest and an administrative fee, has been eliminated. Property tax bills issued after September 30 may be paid within 30 days without interest or penalty. Tax sales to recover delinquent real property taxes are held on the second Monday in June in the fiscal year taxes are due and payable. Legal action may be taken to enforce payment of both real and personal property taxes.

Property Tax Assessments

The assessment of all real and tangible personal property for purposes of property taxation by State and local governmental units is the responsibility of the State Department of Assessments and Taxation. Assessment records and tax rolls are maintained in each county seat and in Baltimore City. Real property is valued at market value (full cash value) and assessed in each year at a percentage of market value. Since July 1, 1991, real property has been assessed at 40 percent of its full cash value. Effective FY01, all real property in Maryland will be assessed at the full 100 percent, with a concomitant decrease in the appropriate tax rate. One-third of the real property base is physically inspected and revalued once every three years. Any increase in full cash value arising from such reassessment is phased in over the ensuing three taxable years in equal annual installments, although a decline in assessed valuation becomes fully effective in the first year.

The assessable base in the County is skewed towards properties at the high-end of the real estate market, with more than half of the assessments coming from properties with an estimated market value of more than \$450,000. Based on recent data (July 2000) from 218,133 residential properties, the overall average County assessment per improved residential account of \$101,652 equates to an estimated market value of \$254,130.

Because of growth in new construction and improved value of properties, the real property taxable base increased ten percent in the last five years, measured through 2000. Due to an expanding economy and growing number of taxable accounts, and despite the negative impact of several tax law changes, growth in the personal property base also increased ten percent in the last five years, bringing the overall increase in the aggregate property base to ten percent during this period.

Table 17
Assessed Value of All Taxable Property
By Class and Fiscal Year

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Assessed Value</u>	<u>Ratio of Assessment to Full Market Value</u>
2000	\$28,674,553,821	\$3,879,302,990	\$32,553,856,811	41.32%
1999	27,906,079,996	3,758,546,555	31,664,626,551	42.09
1998	27,274,641,135	3,654,450,970	30,929,092,105	42.40
1997	26,603,652,341	3,789,223,680	30,392,876,021	42.17
1996	26,057,528,520	3,517,475,970	29,575,004,490	42.13

Tax-exempt properties are excluded from the above figures. In FY00, such exemptions for real property owned by Federal, State, County, and other governmental units, churches, schools, fraternal organizations, cemeteries, disabled veterans, and the blind totaled \$3,516,770,880. Tax-exempt real property constitutes approximately ten percent of the total gross real property base, with almost 78 percent of the tax-exempt property in the combined Federal, State, Local government sectors. The State Department of Assessments and Taxation grants exemptions from property taxes, pursuant to State law.

The ratio of total assessed value to total full market value is based on studies conducted by the State Department of Assessments and Taxation. The ratio in the above table typically exceeds 40 percent, due to the assessment of personal property at 100 percent of full cash value, in contrast to the 40 percent assessment rate for real property in the years shown.

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Table 18
Assessable Base Data Improved Residential Property Accounts
by Assessment Class

<u>Assessment Class</u>	<u>Total Assessments</u>	<u>Number of Accounts</u>	<u>Percent of Total Assessments</u>	<u>Percent of Total Accounts</u>
\$0-5,000	\$ 64,110	121	0.0%	0.1%
\$5,001-15,000	308,370	33	0.0	0.0
\$15,001-25,000	5,263,960	255	0.0	0.1
\$25,001-50,000	1,370,016,320	32,432	6.2	14.8
\$50,001-75,000	4,494,702,290	72,591	20.3	33.3
\$75,001-100,000	3,804,890,880	44,028	17.1	20.2
Over \$100,000	<u>12,498,431,570</u>	<u>68,673</u>	<u>56.4</u>	<u>31.5</u>
Total	<u>\$22,173,677,500</u>	<u>218,133</u>	<u>100.0%</u>	<u>100.0%</u>

Source: State Department of Assessments and Taxation, Assessment Data Base Distribution Reports as of July 8, 2000.

Table 19
Tax Levies and Revenue

<u>Fiscal Year</u>	<u>General County Tax Levy (including Education)</u>	<u>Revenue From Current Year Assessment</u>	<u>Ratio of Current Yr. Revenue to Tax Levy</u>	<u>Revenue From Prior Year Assessment</u>	<u>Total Revenue</u>	<u>Ratio of Total Revenue to Tax Levy</u>	<u>Accumulated Delinquent Taxes</u>	<u>Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy</u>
2000	\$606,243,611	\$600,716,466	99.09%	\$6,119,221	\$606,835,687	100.10%	\$20,077,125	3.31%
1999	596,405,657	587,029,606	98.43	3,949,630	590,979,236	99.09	20,219,046	3.39
1998	606,876,834	599,169,683	98.73	6,006,098	605,175,781	99.72	19,944,748	3.29
1997	604,170,465	598,155,989	99.00	445,968	598,601,957	99.08	17,398,035	2.88
1996	590,169,499	583,764,469	98.91	3,735,457	587,499,926	99.55	16,134,360	2.73

Table 20
Tax Rates and Tax Levies, By Purpose

<u>Fiscal Year</u>	<u>General County (including Education)</u>		<u>Transit</u>		<u>State</u>		<u>Total</u>	
	<u>Rate</u>	<u>Levy</u>	<u>Rate</u>	<u>Levy</u>	<u>Rate</u>	<u>Levy</u>	<u>Rate</u>	<u>Levy</u>
2000	1.863	\$606,243,611	.102	\$33,074,129	.210	\$61,359,955	2.175	\$700,677,695
1999	1.923	596,405,657	.102	32,297,945	.210	60,227,585	2.235	688,931,187
1998	1.962	606,876,834	.091	28,155,852	.210	59,093,497	2.263	694,126,183
1997	1.990	604,170,465	.078	23,704,917	.210	57,564,804	2.278	685,440,186
1996	1.998	590,169,499	.077	22,765,618	.210	56,326,281	2.285	669,261,398

Notes: In addition to the tax rates shown above, other special area rates are applicable in certain geographic areas of the County. In FY00, such rates included: municipalities (ranging from \$.08 to \$1.58); M-NCPPC (\$.219); fire districts (\$.29); recreation (\$.067); storm drainage (\$.01); noise abatement (\$.40 to \$.45); and the urban districts (ranging from \$.04 to \$.075). Commercial property without adequate parking facilities located within the four central business districts is subject to a parking lot district tax ranging from \$.30 to \$.70. Rates per \$100 of assessed value.

Table 21
FY00 Ten Highest Commercial Property Taxpayers' Assessable Base

<u>Taxpayer</u>	<u>Total</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Ratio: Taxpayer Base to Total Assessable Base</u>
Potomac Electric Power Co.	\$ 1,009,659,880	\$ 23,517,200	\$ 986,142,680	3.10%
Verizon	636,666,050	24,577,370	612,088,680	1.96
Washington Gas Light Co.	171,956,400	6,531,360	165,425,040	0.53
International Business Machines	85,389,180	16,649,680	68,739,500	0.26
May Department Stores	83,324,130	29,595,600	53,728,530	0.26
Montgomery Mall	82,043,360	81,392,900	650,460	0.25
Bryant F. Foulger, Trustee	57,116,210	57,116,210	--	0.17
Albert & R. Abramson, et al	50,844,300	50,844,300	--	0.16
Lake Forest Associates	50,115,600	50,115,600	--	0.15
Asbury Methodist Home, Inc.	<u>45,774,450</u>	<u>45,774,450</u>	<u>--</u>	<u>0.14</u>
Total	<u>\$ 2,272,889,560</u>	<u>\$386,114,670</u>	<u>\$1,886,774,890</u>	<u>6.98%</u>
Assessable Base (June 30, 2000)	<u>\$32,553,856,811</u>			

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

Impact Tax

Significant development has occurred in outlying areas placing great demands on the County for provision of major highways, public schools and other public facilities. Pursuant to Sections 52-47 through 52-59 of Chapter 49A, "Development Impact Taxes for Major Highways" of the Montgomery County Code, two impact fee areas were established in Germantown and Eastern Montgomery County. These impact fee (now impact tax) areas are a means of transferring a share of the costs of additional major highway improvements to the new development that is primarily responsible for creating this need. Presently unprogrammed major highways (not in the Capital Improvements Program or in the State Consolidated Transportation Program) are to be funded through a combination of County general obligation bonds and development impact taxes in these areas. The tax is imposed prior to the issuance of a building permit. Impact taxes in the two areas yielded \$1.47 million in FY94, \$1.20 million in FY95, \$0.84 million in FY96, \$1.28 million in FY97, \$1.02 million in FY98, \$1.40 million in FY99, and \$0.99 million in FY00.

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DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

The population of the County, according to the 1990 Census, was 757,027. The Maryland-National Capital Park and Planning Commission (M-NCPPC) revised population estimate shows 855,000 for the County on January 1, 2000. This includes approximately 5,000 from the Takoma Park section in Prince George's County, which transferred to Montgomery County on July 1, 1997.

Table 22
Population of Montgomery County

	<u>Households</u>	<u>Population</u>	<u>Population Percent Change from Prior Census</u>
1/1/2000 (M-NCPPC est.)	317,500	855,000	12.9%
1/1/1999 (M-NCPPC est.)	314,000	846,000	11.8
1/1/1994 (M-NCPPC est.)	296,200	798,000	5.4
1990 (U.S. Census)	282,228	757,027	30.7
1980 (U.S. Census)	207,195	579,053	10.8
1970 (U.S. Census)	156,674	522,809	53.3
1960 (U.S. Census)	92,433	340,928	107.4
1950 (U.S. Census)	45,264	164,401	--

Note: Data are for total population, with forecasts in 1994, 1999 and 2000 derived from the Demographic Forecast Model from M-NCPPC (Round 6.2). The 2000 U.S. Census data will be released in 2001.

Table 23
Median Age

	<u>1970</u>	<u>1977</u>	<u>1980</u>	<u>1987</u>	<u>1990</u>	<u>1997</u>
Median Age	27.9	30.3	32.1	34.5	34.1	36.0

Source: M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center.

Employment

The County's economic structure reveals a diversified economy with a strong service sector and an increasingly greater reliance on the private sector. For example, the share of federal employment declined from 11 percent to 9 percent during the past decade. The service sector (service, finance, insurance, real estate and retail trade) employs 65 percent of the workforce. The following tables present the County's employment by sector.

Table 24
Payroll Employment in Montgomery County

				Difference 1999/1990	
	<u>1980</u>	<u>1990</u>	<u>1999</u>	<u>Number</u>	<u>Percent</u>
PRIVATE SECTOR EMPLOYMENT:					
Construction	18,117	26,910	23,568	(3,342)	-12.4
Manufacturing	12,380	17,953	18,706	753	4.2
Retail Trade	54,447	72,630	70,783	(1,847)	-2.5
Wholesale Trade	11,537	14,184	13,323	(861)	-6.1
Finance, Insurance, and Real Estate	17,176	28,020	30,673	2,653	9.5
Services	83,388	132,861	174,732	41,871	31.5
Transportation, Communication, and Public Utilities	5,387	11,132	12,793	1,661	14.9
Other	<u>3,300</u>	<u>3,800</u>	<u>5,636</u>	<u>1,836</u>	48.3
TOTAL PRIVATE SECTOR	205,732	307,490	350,214	42,724	13.9%
PUBLIC SECTOR EMPLOYMENT:					
Federal	40,876	42,713	39,086	(3,627)	-8.5
State	1,310	1,634	1,082	(552)	-33.8
Local	<u>28,774</u>	<u>30,134</u>	<u>36,462</u>	<u>6,328</u>	21.0
TOTAL PUBLIC SECTOR	<u>70,960</u>	<u>74,481</u>	<u>76,630</u>	<u>2,149</u>	2.9%
GRAND TOTAL	<u>276,692</u>	<u>381,971</u>	<u>426,844</u>	<u>44,873</u>	<u>11.7%</u>

Notes: Payroll employment represents the total number of jobs covered by the Maryland unemployment insurance program. The following groups are excluded from the payroll count: federal military, self-employed, railroad workers, and domestic employees.

Based on prior year data, payroll employment represents approximately 82 percent of at-place employment.

Because at-place employment data, shown in the previous Annual Information Statement, are no longer available, effective with this Statement payroll employment data are used.

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

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Table 25
Payroll Employment Shares by Industry in Montgomery County

	<u>1990</u>	<u>1999</u>
PRIVATE SECTOR EMPLOYMENT:		
Construction	7.0%	5.5%
Manufacturing	4.7	4.4
Retail Trade	19.0	16.6
Wholesale Trade	3.7	3.1
Finance, Insurance, and Real Estate	7.3	7.2
Services	34.8	40.9
Transportation, Communication and Public Utilities	2.9	3.0
Other	<u>1.1</u>	<u>1.3</u>
TOTAL PRIVATE SECTOR	80.5	82.0
PUBLIC SECTOR EMPLOYMENT:		
Federal	11.2	9.2
State	0.4	0.3
Local	<u>7.9</u>	<u>8.5</u>
TOTAL PUBLIC SECTOR	<u>19.5</u>	<u>18.0</u>
GRAND TOTAL	<u>100.0%</u>	<u>100.0%</u>

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

During the first eight months of 2000, the County's unemployment rate averaged 1.6 percent. This average rate is the lowest in the County's recent history. The following table presents the County's labor force, employment and unemployment for the years 1995 through 1999.

Table 26
Montgomery County's Resident Labor Force
Employment & Unemployment

	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
1999	474,003	465,269	8,734	1.8%
1998	467,639	456,753	10,886	2.3
1997	466,500	454,375	12,125	2.6
1996	474,872	462,338	12,534	2.6
1995	463,112	449,487	13,625	2.9

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

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Federal Government Employment

The County is home to 23 Federal agencies in which nearly 60,000 civilians are employed, including a significant number of non-Federal employees working as consultants or researchers. These agencies comprise a virtual “Who’s Who” list of prestigious Federal research facilities. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation’s great centers of medical research. The following is a partial list of Federal agencies in the County and their estimated employment in 2000.

Department of Health and Human Services	28,429
National Institutes of Health	
Food and Drug Administration	
Other	
Department of Defense	14,521
David Taylor Research Center	
Naval Medical Command	
Defense Mapping Agency	
Army Laboratory Center	
Walter Reed Army Medical Center/Institute of Research	
Other	
Department of Commerce	7,300
National Institute of Standards & Technology	
National Oceanic & Atmospheric Administration	
Nuclear Regulatory Commission	2,150
Department of Energy	1,460
Department of Treasury	662
Consumer Product Safety Commission	437
Department of Justice	271
Other Federal employees in leased space	228

Source: M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center (2000 data).

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Private Sector Employment

There are several thousand private sector employers in Montgomery County. Below is a listing of the County's largest employers.

<u>Name of Firm</u>	<u>Est. No. of Employees</u>
Adventist Healthcare*	6,000
Giant Food Corp.	4,700
Chevy Chase Bank	4,500
Verizon	4,400
Marriott International, Inc. (headquarters)	3,500
Hughes Network Systems	3,200
Comsat Corporation/Lockheed Martin	3,100
IBM	3,000
Sodexo Marriott Services	2,500
Holy Cross Hospital	2,300
Claims Administration Corporation	2,100
Sears Roebuck & Co.	2,100
Discovery Communications, Inc.	2,000
Bureau of National Affairs	1,600
Safeway Stores Inc.	1,575
ACS Government Solutions, Inc. (CDSI)	1,500
Aspen Systems	1,500
CSC Professional Services	1,500
Government Employees Insurance Company	1,500
Kaiser Foundation Health Plan	1,430
AT&T/Lucent Technologies	1,400
Suburban Hospital	1,400
National Association of Securities Dealers	1,330
CTA, Inc.	1,250
Mid-Atlantic Medical Services, Inc.	1,200
Montgomery General Hospital	1,200
Phillips Publishing International	1,200
Orbital Sciences/Fairfield Defense Corporation	1,100
GE Global Exchange	1,100
BAE Systems (Marconi)	1,000
Hangar Orthopedics	1,000
Miller & Long	1,000
YMCA	1,000

* Includes Shady Grove and Washington Adventist Hospitals

Note: The employee numbers listed are best estimates taken during the 4th quarter of 2000 from various sources, including first-hand research by the County's Department of Economic Development, the Montgomery County Department of Park and Planning Research and Technology Center, CoStar Tenant, and company Internet websites.

PERSONAL INCOME

Revised personal income of County residents approached \$36 billion in 1998, and is projected to total almost \$40 billion in 2000. Income in calendar years 1999 and 2000 is estimated to have experienced strong growth resulting from the excellent performance of the national and regional economies. Strong economic growth resulted in additional new businesses and higher proprietors' income, while the tight labor market continues to boost wage earnings. Growth in 2000 is projected at 6.5 percent.

The County, which accounts for just over 16 percent of the State's population, accounts for over 22 percent of the State's total personal income. As data in the following table show, personal income in the County, as a share of the State, has remained relatively constant in this decade, reflecting improved regional and statewide economic conditions.

Table 27
Total Personal Income
(\$ millions)

<u>Calendar Year</u>	<u>Montgomery County</u>	<u>Maryland</u>	<u>U.S.</u>	<u>Montgomery County as Percent of Maryland</u>
2000 (est.)	\$39,715	\$178,674	\$8,293,727	22.2%
1999 (est.)	37,730	167,895	7,783,152	22.5
1998	35,575	158,264	7,383,687	22.5
1997	33,466	148,826	6,928,762	22.5
1996	32,543	140,809	6,538,103	23.1
1995	31,221	135,115	6,192,235	23.1
1994	29,867	129,849	5,873,362	23.0
1993	28,497	124,076	5,598,446	23.0

- Notes: (1) Actual data from U.S. Department of Commerce, Bureau of Economic Analysis ("Survey of Current Business"), revised in June 2000.
 (2) Estimates for Montgomery County (1999-2000) by Montgomery County Department of Finance.
 (3) Estimates for Maryland and United States (1999-2000) by State of Maryland, Bureau of Revenue Estimates.

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Average Household and Per Capita Personal Income

The County's estimated average household income ranks thirteenth nationwide in 2000 – and second in the Washington metropolitan area -- measured among similar major suburban counties. The County's estimated 2000 household income of \$125,090 ranks first in the State and exceeds the Washington MSA estimated average (\$107,450) by 16 percent, the Maryland metropolitan average (\$93,650) by 34 percent, and the U.S. average (\$86,490) by 45 percent.

Table 28
Comparison of Estimated Per Capita and Average Household Income, 2000
Montgomery County and 19 Other Major Affluent Counties

<u>County</u>	<u>Per Capita Income</u>	<u>County</u>	<u>Average Household Income</u>
Marin, Calif.	\$58,500	Fairfield, Conn.	\$155,050
Fairfield, Conn.	57,640	Morris, N.J.	152,130
Bergen, N.J.	55,590	Bergen, N.J.	147,670
Morris, N.J.	54,390	Marin, Calif.	146,510
Arlington, Va.	52,950	Westchester, N.Y.	142,010
Westchester, N.Y.	52,320	Lake, Ill.	140,790
Oakland, Mich.	50,490	Nassau, N.Y.	137,940
Fairfax, Va.	50,190	Fairfax, Va.	137,280
Lake, Ill.	48,830	DuPage, Ill.	131,020
San Mateo, Calif.	47,630	Rockland, N.Y.	130,200
DuPage, Ill.	47,370	Oakland, Mich.	130,190
Montgomery, Pa.	46,620	San Mateo, Calif.	129,760
MONTGOMERY, MD.	46,450	MONTGOMERY, MD.	125,090
Nassau, N.Y.	46,450	Middlesex, Mass.	120,990
Middlesex, Mass.	45,840	Montgomery, Pa.	120,060
Norfolk, Mass.	45,390	Norfolk, Mass.	119,510
Johnson, Kan.	45,390	Hamilton, Ind.	119,480
Palm Beach, Fla.	44,360	Johnson, Kan.	116,050
Hamilton, Ind.	44,290	Arlington, Va.	115,560
Rockland, N.Y.	42,160	Waukesha, Wis.	114,700

(1) A major affluent suburban county is defined as a county in either a Metropolitan Statistical Area or a Primary Metropolitan Statistical Area with a population of at least 115,000 where income levels are considerably higher than in the central city and other jurisdictions in the area. These counties are primarily suburban in nature; no city or town accounts for 40 percent or more of the total population.

(2) Estimates of 2000 per capita income were based on trending forward experience during 1996-98.

(3) Estimated average 2000 household income was derived by multiplying the estimated 2000 per capita income by the average number of persons per household.

Source: U.S. Department of Commerce, Bureau of Economic Analysis ("Survey of Current Business", July 2000) for Personal Income data; Sales and Marketing Management "2000 Survey of Buying Power" for household data.

NEW CONSTRUCTION

Following a low point in FY94, new construction in FY95 improved for the first time in seven years with a modest five percent increase. The trend continued in subsequent years, reaching a growth rate of close to 39 percent in FY00. New construction in FY00 was broad-based in both residential and non-residential sectors. Single and multifamily new residential construction in FY00 jumped to the highest level since FY90, while the combined commercial and industrial sector experienced the most activity since FY92. Data for the subsequent fiscal year, however, shows some weakening in the non-residential sector. Residential new construction, on the other hand, remains robust – buoyed by a strong local economy, solid earnings, high consumer confidence, and stable mortgage interest rates. The outlook for out years indicate a return to a more historical growth trend in line with projected modest growth in new household formation and property replacement or improvement.

The near 60 percent growth in building permits over the past five years confirms the dramatic growth in new construction in Montgomery County in that period. It also highlights the extent to which the local economy rebounded in the latter part of the 1990s, compared to the depressed level of new construction activity following the 1991 recession. Over the past five years the total value of new construction jumped more than 71 percent, while the distribution of new construction reflects broad-based growth. The two largest categories – residential and commercial/industrial – increased 39 percent and 199 percent, respectively. Even though the multi-family category jumped an impressive 1200 percent, at \$37.5 million in FY00 it remains well below the more than \$88 million of new apartment construction a dozen years ago. The total amount of new construction in FY00 reached a record-high in the past decade, and reflects the complete recovery of the County’s construction market from the past recession.

Table 29
New Construction Added to Real Property Tax Base
Montgomery County
(\$ millions)

<u>Fiscal Year</u>	<u>Number*</u>	<u>Residential</u>	<u>Apartments</u>	<u>Condominiums</u>	<u>Commercial/ Industrial</u>	<u>All Other</u>	<u>Total</u>
2000	20,205	\$ 337.4	\$ 37.5	\$43.4	\$ 93.4	\$ 3.0	\$ 514.7
1999	15,130	263.9	3.5	22.6	76.9	4.1	371.0
1998	14,162	245.0	1.2	14.7	56.6	6.7	324.2
1997	13,837	258.9	2.4	19.2	34.6	5.4	320.5
1996	12,677	<u>242.0</u>	<u>2.9</u>	<u>15.9</u>	<u>31.2</u>	<u>8.4</u>	<u>300.4</u>
5-Year Summary		\$1,347.2	\$47.5	\$115.8	\$292.7	\$27.6	\$1,830.8
Categories as Percent of Total		73.6%	2.6%	6.3%	16.0%	1.5%	100.0%
Percent Change FY00/FY99		27.8%	978.3%	92.1%	21.5%	-25.5%	38.7%

* Indicates total number of all types of building permits.

Source: Montgomery County Department of Permitting Services (*), and Maryland State Department of Assessments and Taxation.

Development Districts

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

As a result of a petition by property owners and the subsequent review and analysis of the feasibility of the proposed development district, the County Council, in January 1998, created the County's first development district, West Germantown. Encompassing approximately 671 acres in an unincorporated area of Montgomery County, the district consists of two residential developments, which provide for the construction of 1,283 single-family and 102 multi-family units. A second district, Kingsview Village Center, was created on July 28, 1998. This district consists of a 112,000 square foot retail shopping center, and 236 multi-family housing units.

On September 18, 2000 the County Council approved a resolution initiating evaluation of a third development district for the Clarksburg Town Center. Upon completion, the proposed development will consist of 1,300 residential units, approximately 100,000 square feet of commercial office space, and approximately 750,000 square feet of retail space.

ECONOMIC DEVELOPMENT INITIATIVES

In an effort to stimulate employment growth and new investment, the County initiates programs and promotes the strengths of each of its local employment centers.

Technology Corridors

The I-270 Technology Corridor is a nationally known high technology center. It is home to over 500 high technology companies. Lockheed Martin, Life Technologies, COMSAT Corporation, Marriott International, Inc., Orbital Sciences Corporation, Hughes Network Systems, Pulse Electronics, and Hewlett-Packard are some of the well-known companies located on I-270. The corridor has more than 30 million square feet of commercial and industrial space approved and ready for new development. The U.S. Route 29 Corridor in Eastern Montgomery County is another high tech center, housing nearly 100 major employers, including Verizon (formerly Bell Atlantic), Gannett Communication, Silicon Graphics, and Kaiser Permanente.

Central Business Districts

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

Silver Spring

Downtown Silver Spring has become a new and vibrant focal point of Montgomery County. 2000 has been a year of major business activity, including numerous grand openings and relocations. The office vacancy rate has dropped to its lowest level in years. As of October 31, 2000, just over three percent of the nearly 3 million square feet of Class A office space in Silver Spring is vacant. Even older buildings, many of which went through significant renovations in the late 1990's, are being leased at record rates in the downtown area. Vacancy for Class B office buildings in Silver Spring is about 12 percent as of October 31, 2000, down from nearly 15 percent in October 1999.

The combined State of Maryland and County investment of \$164 million for the downtown redevelopment project was launched with the signing of a General Development Agreement with PFA Silver Spring LC on April 20, 1998. This project will ultimately comprise 500,000 square feet of retail, restaurant and entertainment space, 240,000 square feet of office space, a hotel, and a community facility. The first phase of 100,000 square feet of retail space was completed in 2000 and includes a 35,000 square foot Fresh Fields (Whole Foods) grocery store and a Stronsiders Hardware store. The second phase is scheduled for an early 2001 groundbreaking, with confirmed tenants to include a Borders Books superstore, TGI Friday's, Austin Grill, and Macaroni Grill. This phase will also include a 20-screen, 4,000 seat movie theater and a major hotel. Both the movie theater and hotel have attracted the interest of major national chains, and tenants should be announced in early 2001.

Corporate announcements and relocation plans have spawned other initiatives in this CBD. Discovery Communications held a groundbreaking for their new 500,000 square foot, \$150 million corporate headquarters in November 2000. The decision to locate this facility in downtown Silver Spring was spurred by the relocation of the American Film Institute (AFI) to Silver Spring. AFI, based at the Kennedy Center in Washington, D.C., will operate and fully program the historic Silver Theater, capping off a \$21 million County renovation and expansion.

Discovery Communications has also completed the renovation of the 150,000 square foot Discovery Creativity and Technology Center in the south part of downtown Silver Spring; the Center will be occupied in early 2001 with 500 Discovery employees.

In addition, the Takoma Park campus of Montgomery College is proceeding with expansion plans, which includes purchasing land in South Silver Spring for more building space and a collaborative partnership with AFI to offer classes in film directing and related subjects. Also, Easter Seals plans to build a 46,000 square foot adult and child day care facility with its regional headquarters. New housing is also being constructed in downtown Silver Spring, including 57 executive townhouse units near the Metro station that are completely sold as of December 2000. The Metro station itself is in the final phase of expansion plans, providing a one-stop multi-level Transit Center for Metro, Metrobus, Ride-On, MARC rail, intercity bus, and the Georgetown Branch transitway, at an estimated cost of \$40 million.

The State of Maryland's designation of Silver Spring as an Enterprise Zone has provided special financial incentives for new investment and job creation in the CBD. As of December 2000, the Silver Spring Enterprise Zone has received 136 applications, representing 106 firms, 923 new jobs, and \$77.2 million of new capital investment.

Wheaton

The Wheaton CBD was designated an Enterprise Zone by the State of Maryland in 1998, and more than \$16 million of County, State and Federal funds have been committed for the Wheaton Commercial Revitalization Area. The final section of Metrorail's red line was completed and opened at the Glenmont station in Wheaton in July 1998. The National Trust for Historic Preservation's Main Street Program has finished an analysis of Wheaton and submitted recommendations to the County. The County Executive has identified the Wheaton CBD as the County's next focal point for urban redevelopment. The first phase of the Wheaton revitalization is the redevelopment of the Westfield Shoppingtown Wheaton retail center, at which a major national retailer is currently in negotiations to become the anchor tenant. A formal announcement regarding this tenant is expected in early 2001.

Bethesda

The major reinvestment program that is changing the skyline of the Bethesda CBD continues. A comprehensive planning program for the CBD was completed in 1984 with a focus on the Bethesda Metro Center station, and all of the development associated with that program has been constructed. The final major project completed in the plan was the 306,000 square foot Francis G. Newlands building, delivered in September 1999, and was quickly 100 percent leased. Additional projects underway in the Bethesda CBD include the 650,000 square foot Chevy Chase Bank headquarters facility, directly across from the Metro Center development on Wisconsin Avenue. This

facility, which includes a 400-seat Performing Arts Theater, is scheduled for a December 2001 delivery. Another major project is a 135,000 square foot office and retail building on Woodmont Avenue. This building, which sits directly across from the famous "Bethesda Row" retail strip, will be completely leased when it delivers in early 2001. A number of luxury high rise residential buildings and public parking garages are also in the design and approval stages for the Bethesda CBD.

Downtown Bethesda has become a major urban business and entertainment center in the Washington region, due to the presence of almost 200 restaurants along with the density of both high-rise office and residential buildings. Federal Realty Investment Trust has completely renovated and reconstructed the streetscape of an area that covers over two blocks, greatly increasing the mix of retail offerings in Bethesda. This area is adjacent to the Capital Crescent Trail, an abandoned railway right-of-way that was purchased by the County and turned into a popular recreational hiker-biker trail running from Silver Spring to the Georgetown area of Washington, D.C.

Friendship Heights

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

The Friendship Heights Sector Plan concentrates new growth in the Metro-served area while preserving the surrounding neighborhoods. The Plan provides opportunities for additional development on the Hecht's, Chevy Chase Land Company, and GEICO sites, totaling over 1.4 million net additional square feet of office and retail space. Additional housing opportunities for an estimated 635 dwelling units are provided on the Hecht's and GEICO sites. One of the first major projects in this plan, Chase Tower, a 260,000 square foot retail and office building, is scheduled to be completed in July 2001.

Existing Office/R&D Space

As of October 31, 2000, Montgomery County has over 75 million square feet of office and flex space (the total of Classes A, B, and C), an increase of nearly 13 million square feet from October 1999. Weighted vacancy rates over that same period dropped from 6.13 percent to 4.84 percent.

Most of this office space is located in three geographic areas: Bethesda (including North Bethesda), Rockville (including North Rockville), and Silver Spring. The Rockville market encompasses a wide geographic area including part of the I-270 Corridor (Research Boulevard, Piccard Drive, Irvington Centre at King Farm, West Gude Drive and Shady Grove Road). The total office market for the Rockville area has grown from 19 million square feet in October 1999 to nearly 25 million square feet in October 2000. This total includes more than one million square feet in the Parklawn building, the largest office building in the County, which is leased to the U.S. Department of Health and Human Services.

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Table 30
Office/Flex Space Availability by Submarket
As of October 31, 2000

<u>Montgomery County Office Market</u>	<u>Total Inventory (Square Feet)</u>	<u>Total Vacant (Square Feet)</u>	<u>Vacancy Rate w/Sublet</u>	<u>Vacancy Rate w/o Sublet</u>
Bethesda CBD/Chevy Chase	10,059,918	213,670	3.60%	2.12%
North Bethesda	10,809,567	361,803	3.85	3.35
Gaithersburg	12,024,646	798,829	7.50	6.64
Germantown	3,803,328	447,792	12.29	11.77
Rockville	14,521,979	446,974	3.40	3.08
North Rockville	10,470,400	328,619	3.43	3.14
Silver Spring (CBD)	6,954,068	835,983	12.51	12.02
N. Silver Spring/US 29	4,515,329	152,050	4.03	3.37
Kensington/Wheaton	<u>2,062,097</u>	<u>55,033</u>	2.67	2.67
Total County	<u>75,221,332</u>	<u>3,640,753</u>	5.46%	4.84%

Note: These figures are provided by CoStar Property, the County's source for commercial real estate information.

AGRICULTURE

Agriculture in Montgomery County is a diverse industry that occupies about one-third of the County land area and two-thirds of the remaining open space. There are more than 210 farms with sales of \$10,000 or more; their average size is 371 acres. Forty-seven farms smaller than 50 acres are also included in this category. The majority of Montgomery County farms are family-run operations, most having been in the same family for several generations. The industry as a whole employs more than 10,000 residents. In addition to traditional agriculture, the industry includes thriving horticultural and equine enterprises.

The Department of Economic Development supports retail agricultural marketing programs, such as the County-sponsored farmer's markets and annual farm tour, and promotion of wholesale and cooperative marketing.

Preservation of rural land for agricultural use is a high priority in Montgomery County. Development of farmland has been controlled within the 93,000 acre Agricultural Reserve since its creation by adoption in 1980. There are approximately 70,000 acres of farmland in the Reserve, and another 20,000 acres within the Reserve are publicly owned (parkland) or previously developed land (rural villages). Combined farmland preservation efforts in Montgomery County have achieved easements on 47,389 acres or 68% of the total 70,000 acres of farmland in the Agricultural Reserve.

Farmers and landowners can choose from four separate agricultural land preservation programs. Each of these programs places an assessment on the property which prevents future commercial, residential or industrial development of the land.

- Montgomery County Agricultural Easement Program (AEP)
- Maryland Agricultural Land Preservation Foundation (MALPF)
- Maryland Environmental Trust (MET), and other private trust organizations
- Montgomery County Transfer of Development Rights Program (TDR)

Farmland owners in Montgomery County have already responded to the preservation opportunities by placing over 50,000 acres under assessment.

OFFICE/INDUSTRIAL PROJECTS

Irvington Centre (King Farm)

One Irvington Centre, the first office building on the 430-acre King Farm urban village in Rockville, delivered in October 1999. The entire 155,000 square foot building is completely leased by major firms such as Aronson, Fetridge, & Weigle, Artesia Technologies, TPN Register, Spaceworks, Inc., and Sparks Personnel Services, Inc. The success of One Irvington Centre has resulted in the quick development of a second office building, with 165,000 square feet of space, and which is slated for delivery in January 2001. Construction on a third building, with over 200,000 square feet, will begin in September 2001. The entire Irvington Centre campus is comprised of over 90 acres and will ultimately include over 3 million square feet of office space.

Chase Tower

This 12-story, 240,000 square foot tower is located close to the Washington, D.C., border in Chevy Chase, and is scheduled for a July 2001 delivery. Tenants in Chase Tower will benefit from significant amenities in the area, including direct access to the Friendship Heights Metrorail station and the Chevy Chase retail strip along Wisconsin Avenue.

Seneca Meadows Corporate Center

Major activity is taking place on this 156-acre light industrial park in Germantown. Tellabs (Formerly Salix Technologies of Gaithersburg) leased 65,000 square feet in the park's first building, which delivered in July 2000. Tellabs will lease an additional 44,000 square feet in the park to accommodate nearly 200 new employees. Construction on two additional 55,000 square foot buildings commenced in August 2000, and the entire park will ultimately consist of over 1.6 million square feet of low rise, multi-function buildings.

Silver Triangle Office Center / Downtown Silver Spring

Discovery Communications has broken ground on their 500,000 square foot corporate headquarters facility in the Silver Triangle Office Center. The facility, which is spearheading the downtown Silver Spring revitalization, is scheduled for an April 2002 delivery. Other major developments in the downtown area include the opening of a Fresh Fields grocery store and Stronsider's Hardware store, both of which held grand opening ceremonies in 2000. Over 3.5 million square feet of development, including new office space, retail establishments, restaurants, and performing arts theaters, is planned for downtown Silver Spring. Nearly 10,000 new public parking spaces are also planned to accommodate this growth.

Rockville Metro Plaza / Rockville Center

Groundbreaking on the first of three Class A office buildings on 3.6 acres in downtown Rockville is scheduled for late 2000/early 2001. These buildings will include a total of 620,000 square feet of office space and over 3,000 structured parking spaces. The retail portion of the Rockville Center development thrived in 2000, with Ben & Jerry's and California Tortilla holding grand openings in the 120,000 square foot retail pavilion anchored by a Regal Cinemas movie theater. Both Tara Thai and Benito's restaurants are scheduled to open in the pavilion in 2001.

Tower Oaks Corporate Park

Major development took place in 2000 on this 200-acre site just off I-270 in Rockville. Construction commenced on two buildings: the 180,000 square foot Preserve at Tower Oaks, and the 260,000 square foot Tower Building. OTG Software of Bethesda leased the majority of the Preserve at Tower Oaks, and will take occupancy when the building delivers in April 2001. The Tower Building has experienced significant pre-leasing activity, and is

expected to attract a major tenant when it delivers in May 2001. Plans are already in the works for a third office building on the property, which is ultimately planned for over 2 million square feet of office, retail, restaurant, and hotel space.

Gateway 270 Business Center

The first phase of this 100-acre industrial park in upcounty Clarksburg was completed in mid-2000 with the delivery of four warehouse/industrial buildings totaling nearly 300,000 square feet. Daly Computers and Electronic System Services, Inc. have already leased most of the space in the 84,000 square foot Building Three. The second phase of the park's development is scheduled to commence in November 2000, and will consist of six Flex buildings with a total of over 250,000 square feet. Over one million square feet of development is ultimately planned for the property.

Washingtonian Center

The most prominent development in Gaithersburg features 210 acres and a mix of Class A office space, retail, restaurants, and entertainment centers. In 1999, Sodexo Marriott held its grand opening in Washingtonian Center, and many major retailers opened for business on the site, including Target, Galyans, Kohl's, and Barnes and Noble. Many restaurants opened on the property in 2000, including Rio Grande, Joe's Crab Shack, and Macaroni Grill. Over one million additional square feet of Class A office space is planned for Washingtonian Center over the next five years. Marriott is currently in negotiations to lease nearly 300,000 square feet in one of the new office buildings, an event which is expected to trigger a great deal of other development and leasing activity on the property.

Westech Business Park (Formerly Westfarm)

Located at U.S. Route 29 and Randolph Road in Eastern Montgomery County, this 247-acre site is capable of accommodating three million square feet of mixed-use development, including office, R&D, light industrial, and retail. The latest addition to the park is TechHill One, a 75,000 square foot Class A office building completed in late 2000. When complete, the capital investment in the project will total more than \$200 million, and more than 12,000 jobs will be based there. Current corporate tenants in the park include Nextel and Kaiser Permanente.

NEW BUSINESS ADDITIONS AND EXPANSIONS

Discovery Communications, Inc.

The Bethesda-based diversified media company, whose assets include the popular Discovery Channel, has committed to building a consolidated corporate headquarters in downtown Silver Spring. Construction has begun on the 650,000 square foot facility, which is the cornerstone project for the revitalization efforts in this important CBD. The new facility will employ nearly 1,200 and is scheduled for delivery in mid-2002. In addition, Discovery Communications has signed a lease to occupy a former Caldor building in South Silver Spring that will be known as the Discovery Creativity and Technology Center (DCTC).

Acterna (formerly TTC)

Acterna was formed in May 2000 with the merger of Germantown-based TTC and Wavetek Wandel Goltermann. The company, which develops products and services that allow their customers to optimize network performance, has major plans for expansion in Germantown. In November 2000, a groundbreaking ceremony was held for their new 600,000 square foot headquarters facility at the Milestone Business Park. The \$100 million office building will ultimately be the home for over 1,500 employees.

Gene Logic

Gene Logic, which specializes in the discovery and development of pharmaceutical, biotechnology, and life science products through the systematic and industrialized application of genomics, increased its presence in Gaithersburg by leasing an additional 58,000 square feet in 2000. The company plans to create 240 jobs by 2003. An additional 80,000 square foot expansion is also planned in Montgomery County in the near future.

Qiagen

In 2000, Montgomery County successfully attracted from the Netherlands this biotech company, which was also considering locations in North Carolina and Massachusetts. The company is constructing a \$40 million, 190,000 square foot headquarters and manufacturing facility in Germantown. Nearly 500 high tech jobs will be created in these facilities by the end of 2007.

OPNET Technologies

In June 2000, Washington, D.C.-based OPNET Technologies, which develops software solutions to test and improve network performance, decided to locate its new and expanded corporate headquarters in the County. In mid-2001 the company will be locating in 60,000 square feet of a new building in Bethesda, bringing nearly 150 employees to Montgomery County, with 200 additional jobs to be created by 2003.

Marriott International

In March 1999, Marriott International Inc. accepted a package of incentives from Montgomery County and the State of Maryland in exchange for a commitment by the company to remain and expand in Montgomery County. In July 2000 the company announced that it would enter into a nineteen-year lease for 263,000 square feet of space in a new building at Washingtonian Center in Gaithersburg. Leasing this building, on which construction is expected to begin in 2001, is in lieu of Marriott's original plan of constructing a 250,000 square foot building adjacent to its Bethesda headquarters. Currently over 3,500 people are employed at the headquarters site, and the company plans on adding 700 more jobs in the County by 2009. The new space in Gaithersburg, which will be constructed in two phases (spring 2002 and autumn 2004), will have capacity for almost 1,400 Marriott employees.

Marriott's expansion plans will result in approximately \$100 million in additional county revenues from the newly created jobs and direct capital investment by the company over the 19-year term of the agreement. Based on this positive economic impact, the company will receive a total incentive package from the State and the County of \$31.7 million over the same term. This total includes a combination of direct financial assistance, property tax credits, and highway improvements near the headquarters facility. The County portion of the incentive package consists of a \$3 million payment from its Economic Development Fund, and real and personal property tax credits valued at between \$3.6 and \$7.2 million over the term of the agreement.

OTG Software, Inc.

This developer of data storage management software led Montgomery County's information technology surge in 2000. To meet their rapid growth needs, Bethesda-based OTG signed a lease for nearly 90,000 square feet at the new Preserve at Tower Oaks office building in Rockville. OTG, which had an IPO in March 2000, plans on having 400 employees in Rockville by 2003.

Recovery Point Systems

This subsidiary of Gaithersburg-based First Federal Corporation plans to construct two new buildings at the Cloverleaf Center development in Germantown. The buildings, which are scheduled to break ground in early 2001, will total 110,000 square feet. The new facilities will house Recovery Point Systems' disaster recovery operations, which provide clients with complete back-up replacement facilities. The replicated technology and

redundant data storage provided by Recovery allows businesses to remain operational and with minimal disruption in the event of emergency situations. An Internet peering and web hosting center is also planned for one of the facilities, which would be the first of its kind in Montgomery County.

Tellabs

This Illinois-based global leader in optical networking, next-generation switching, broadband access, and service solutions acquired Salix Technologies of Gaithersburg in early 2000. Tellabs has since decided to expand its operations in Montgomery County by leasing nearly 110,000 square feet in the Seneca Meadows Corporate Center in Germantown. Tellabs plans on adding over 200 jobs at the Germantown facilities by 2003.

Ericsson

A leading telecommunications company, Ericsson relocated its headquarters for IP infrastructure from the Route 29 corridor in North Silver Spring to North Rockville in 2000. The new facility consists of 55,000 square feet. Over 90 employees were retained by this relocation, and the company plans to add nearly 150 new jobs in the County by 2003.

TPN Register

A joint venture between General Electric Information Services and Thomson Publishing, TPN Register expanded and relocated from North Bethesda to Rockville in 2000. On September 20, 2000, TPN held an open house at its new 50,000 square foot office at One Irvington Center at the King Farm development to celebrate this expansion. The company, which specializes in online catalogue management services, expects to grow from just over 60 employees in early 2000 to nearly 200 employees by the year 2003.

FEDERAL SPENDING

Federal spending remains an important contributor to the Washington area's economy. In fact, according to a George Washington University study, total federal spending accounts for over a third of the metropolitan Washington gross regional product. Hence, the success of the region's economy is closely linked to the federal economy, and the federal government remains, either directly as an employer or indirectly through federal spending, the primary source of regional economic growth.

While federal spending is important throughout the nation, its impact is even more significant in this region. For example, while total federal spending amounted to \$1.532 trillion nationwide, the Washington MSA received \$68.8 billion – a 4.5 percent share. This share has not materially changed in at least a dozen years. However, even though the overall share of regional compared to national spending remains constant over time at just over 4 percent, in some categories the region's share is far more significant. For example, the region receives 12 percent of all spending on salaries and wages, and 13 percent of all spending on services and goods in the private sector through the procurement process. While growth in total federal spending is robust for all categories, by far the strongest growth is in procurement. This category grew 10 percent nationwide, measured over the past ten years, but 134 percent in the Washington MSA. As the table below shows, even over the past five years, growth in the region was close to 38 percent, compared to less than 3 percent nationwide. These data also show that federal procurement spending in Montgomery County has moderated in that period. In fact, due to increased outlays for defense and high-technology goods and services, federal spending in Northern Virginia increased 50 percent over the past five years, compared to 5 percent in the Maryland suburban counties.

Table 31
Federal Procurement Trends
(in \$ billions)*

<u>Fiscal Year</u>	<u>Montgomery County</u>	<u>Washington MSA</u>	<u>U.S.</u>
1999	\$3.4	\$26.2	\$208.1
1998	3.5	24.4	209.3
1997	3.2	22.0	193.0
1996	3.1	21.1	200.5
1995	3.3	19.1	202.2
Percent Change 1995-99	3.5%	37.6%	2.9%

* Amounts shown in current dollars (not adjusted for inflation).

Source: U.S. Bureau of the Census, Consolidated Federal Funds Report, Federal FY 1995-1999.

RETAIL SALES

The State of Maryland continues to improve in retail sales, measured by sales tax data collected for the first eight months of 2000. Improved retail sales reflect the stronger regional economy, high consumer confidence, a robust real estate market, strong residential construction, low unemployment, and rising incomes. The net result is that statewide retail sales jumped 8.6 percent in 2000 to date. Compared to retail sales activity in prior years, final receipts for calendar year 1999 (up 8.1 percent) were well above 1996 (3.0 percent), 1997 (5.3 percent), and 1998 (3.9 percent). Retail sales in Montgomery County improved significantly between 1998 and 1999, but were nevertheless below the statewide growth numbers last year. The gap between statewide and countywide growth, however, widened in 2000 when retail sales increased 8.6 percent in Maryland compared to 4.9 percent in the County. Nationwide retail sales data indicate that growth is even more robust throughout the country, with seasonally unadjusted sales up 9.7 percent in the first eight months of 2000.

Even though total retail sales improved this year, there is considerable variation between the components. Statewide, the most significant categories, in terms of share of total retail sales, are (i) food and beverages, (ii) general merchandise, (iii) furniture and appliances, and (iv) building and industrial supplies. In fact, these four categories combined represent close to two-thirds of total retail sales. However, while most categories have healthy growth this year, above average growth occurred in four out of nine categories – notable the categories that represent the robust real estate and residential construction market (furniture & appliances, and building supplies) and automotive sales. In Montgomery County, retail sales follow the statewide trend in terms of categorical distribution. Recent trends, however, show that while retail sales growth in the County strengthened in such areas as automotive and hardware, machinery & equipment, the four largest categories in terms of their share of total retail sales weakened considerably. In fact, the largest category – food & beverages – declined 2 percent in 2000 to date, while the remaining three large categories barely improved. A good example of this lackluster growth is furniture & appliances, which despite strong housing sales in the County grew a mere 0.6 percent in 2000. This compares to close to 10 percent growth statewide and underscores the strong competition for this sector of the retail market among the surrounding jurisdictions in Maryland and Virginia.

Table 32
Sales & Use Tax Receipts
By Principal Business Activity

	Maryland		Montgomery County					
	Jan.-Aug. 2000		1998		1999		Jan.-Aug. 2000	
	Growth(3)	Share of Total	Growth(1)	Share of Total	Growth(2)	Share of Total	Growth(3)	Share of Total
Food and Beverages	2.5%	19.4%	3.2%	22.2%	3.0%	21.5%	-2.0%	21.5%
Apparel	5.6	4.5	12.4	7.2	7.9	7.3	0.6	6.6
General Merchandise	7.0	16.5	3.5	18.8	11.5	19.7	1.8	17.3
Automotive	25.4	7.6	-2.9	6.3	12.5	6.7	33.3	8.5
Furniture & Appliances	9.7	13.2	-3.0	15.8	-1.3	14.7	0.6	14.6
Building & Industrial Supplies	9.4	13.9	48.5	9.2	11.5	9.7	2.0	9.6
Utilities & Transportation	16.0	8.1	-6.4	5.4	6.3	5.4	14.7	6.2
Hardware, Machinery & Equipment	8.4	3.0	-23.8	1.8	2.8	1.8	39.0	2.3
Miscellaneous	5.5	13.1	2.4	12.7	6.4	12.7	6.2	12.6
Other	30.1	<u>0.7</u>	-36.2	<u>0.6</u>	-21.3	<u>0.5</u>	38.2	<u>0.8</u>
Total Retail Sales Tax	8.6%	<u>100.0%</u>	3.6%	<u>100.0%</u>	6.1%	<u>100.0%</u>	4.9%	<u>100.0%</u>

Notes: (1) Growth between 1997 and 1998.
(2) Growth between 1998 and 1999.
(3) Growth between the period January through August 2000, and the same period in 1999.

Source: Maryland Comptroller of the Treasury, Revenue Administration Division.

MAJOR RETAIL CENTERS

Montgomery County is served by four regional shopping centers. They are Lakeforest Mall in Gaithersburg, Montgomery Mall in Bethesda, Westfield Shoppingtown Wheaton in Silver Spring, and White Flint Mall in North Bethesda.

Lakeforest Mall, located along Maryland Route 355 and Montgomery Village Avenue near I-270, opened during 1978. This 1.1 million square foot mall features 162 stores including four major department stores: Hecht Company, JC Penney, Lord & Taylor, and Sears Roebuck & Co.

Montgomery Mall, which opened in 1968, covers 1.6 million square feet of space. It features Nordstrom, Hecht Company, JC Penney, and Sears Roebuck & Co. department stores, 119 other stores, and three parking garages, and is served by a Montgomery County Transit Center.

A third large retail center is Westfield Shoppingtown Wheaton, formerly known as Wheaton Plaza, and the surrounding area. Located adjacent to the Wheaton Metro Center at the intersection of Georgia Avenue and Veirs Mill Road in the Wheaton CBD, this was the County's first shopping mall (opened in 1960) and was enclosed and remodeled in 1987. Department stores include Hecht Company, JC Penney, and Montgomery Ward.

White Flint Mall, which is located east of Rockville Pike in North Bethesda close to the White Flint Metro Station, opened in 1977 and features three enclosed levels and luxury department stores such as Lord & Taylor and Bloomingdale's. The 900,672 square foot mall also features a five-auditorium cinema and Border's Bookstore.

APPENDIX A

GENERAL PURPOSE FINANCIAL STATEMENTS

To receive a copy of Montgomery County's General Purpose Financial Statements, please contact the County's Department of Finance at 240-777-8801 (fax: 240-777-8825).