OFFICIAL STATEMENT DATED MAY 31, 2006

NEW ISSUE

RATINGS: FITCH: AAA/F1+
MOODY'S: Aaa/VMIG1
S&P: AAA/A-1+

BOOK-ENTRY ONLY

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

$50,000,000

MONTGOMERY COUNTY, MARYLAND
CONSOLIDATED PUBLIC IMPROVEMENT BOND ANTICIPATION NOTES, 2006 SERIES A

Dated: Date of Issuance | Due: June 1, 2026

Price: 100% | CUSIP No. 613340 E7 9

The Notes will be issued by Montgomery County, Maryland (the "County") to provide funds to finance and refinance the acquisition, construction and equipping of certain public facilities of the County. The Notes are general obligations of the County to the payment of which the County's full faith and credit and unlimited taxing power is pledged. The County and

Dexia Credit Local

acting through its New York Branch (the "Bank"), will enter into a Standby Note Purchase Agreement with respect to the Notes. Under the Standby Note Purchase Agreement, the Bank is obligated, subject to certain terms and conditions as described herein, to purchase Notes, or portions thereof in Authorized Denominations, tendered, or deemed tendered, by the Owners thereof to the Registrar and Paying Agent for purchase and not remarketed, as described herein. The Standby Note Purchase Agreement will expire on June 7, 2011, or earlier, as described herein, and may be replaced by an Alternate Liquidity Facility, without the consent of the Owners of the Notes, as described herein.

The Notes shall initially bear interest at a Daily Rate established by Lehman Brothers Inc. as Remarketing Agent, as described herein, payable on the first Business Day of each month, on each Mode Change Date, and on the maturity date of the Notes.

The Notes, or portions thereof in Authorized Denominations, will be subject to optional tender and purchase on the demand of the Owners thereof on any Business Day, upon the terms and as described herein. The Notes will be subject to mandatory tender and purchase on each Mode Change Date and upon the expiration of the Standby Note Purchase Agreement or substitution of an Alternate Credit Facility.

The Notes will be subject to mandatory sinking fund redemption and optional redemption prior to maturity as more fully described herein.

The Notes will be issuable in the denomination of $100,000 and any integral multiple of $5,000 in excess thereof. The Notes will be issuable only as registered Notes. When issued, the Notes will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchasers of ownership interests in the Notes ("Beneficial Owners") will not receive physical delivery of Note certificates. Ownership by Beneficial Owners of ownership interests in the Notes will be evidenced by book-entry only. As long as Cede & Co., as nominee for DTC, is the registered owner of the Notes, payments of principal and purchase price of and interest on the Notes will be made directly to DTC, through Cede & Co. as its nominee, which will in turn remit such payments to the DTC Participants, as herein described, for subsequent disbursement to the Beneficial Owners. See "The Notes - Book-Entry System" herein.

The Notes are offered, subject to prior sale, when, as and if issued, subject to the approval of Venable LLP, Baltimore, Maryland, Bond Counsel, and approval of certain matters by McGuireWoods LLP, Baltimore, Maryland, counsel to the Underwriter and the Remarketing Agent, by Chapman and Cutler LLP, Chicago, Illinois, special U. S. counsel to the Bank,and by JEANTETAssociés, special French counsel to the Bank, and certain other conditions. It is expected that the Notes will be available for delivery in New York, New York through the facilities of DTC on or about June 7, 2006.

LEHMAN BROTHERS

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

$50,000,000

MONTGOMERY COUNTY, MARYLAND
CONSOLIDATED PUBLIC IMPROVEMENT BOND ANTICIPATION NOTES, 2006 SERIES A

No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the County, the Bank, the Underwriter or the Remarketing Agent (each as defined or described in this Official Statement). The information contained in this Official Statement has been obtained from the County, the Bank and other sources believed by the Underwriter to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter, or, as to information from sources other than the County, by the County, or as to information from sources other than the Bank, by the Bank.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as an agreement or contract between the County and the purchasers or owners of any of the Notes.

All quotations from and summaries and explanations of provisions of law and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Notes shall under any circumstances create any implication that there has been no change in the affairs of the County or the Bank since the date hereof.

MONTGOMERY COUNTY, MARYLAND
OFFICIAL ROSTER OF COUNTY OFFICIALS

COUNTY EXECUTIVE

Douglas M. Duncan

COUNTY COUNCIL

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

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

APPOINTED OFFICIALS

Bruce Romer	*Chief Administrative Officer*
Timothy L. Firestine	*Director, Department of Finance*
Beverley Swaim-Staley	*Director, Office of Management and Budget*
Charles W. Thompson, Jr.	*County Attorney*
Linda M. Lauer	*Clerk of the Council*

BOND COUNSEL

Venable LLP
Baltimore, Maryland

FINANCIAL ADVISOR

Public Financial Management, Inc.
Philadelphia, Pennsylvania

REMARKETING AGENT

Lehman Brothers Inc.
New York, New York

REGISTRAR AND PAYING AGENT

U.S. Bank Trust National Association
New York, New York

INDEPENDENT PUBLIC ACCOUNTANTS

KPMG, LLP
Washington, DC

DEBT MANAGEMENT AND DISCLOSURE INFORMATION

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

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IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE OR BELOW THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SUMMARY OF OFFICIAL STATEMENT

This Summary is provided for the convenience of the reader and does not purport to be complete. Potential investors should read the entire Official Statement before considering an investment in the Notes. Capitalized terms used in this Official Statement are defined in Appendix C - Definitions of Terms and Summary of the Note Order.

Issuer:	Montgomery County, Maryland
Issue:	Montgomery County, Maryland Consolidated Public Improvement Bond Anticipation Notes, 2006 Series A – CUSIP No. 613340 E7 9
Security:	Unlimited tax general obligations
Registrar and Paying Agent:	U.S. Bank Trust National Association, New York, New York
Bank:	Dexia Credit Local, New York Branch
Liquidity Facility:	Standby Note Purchase Agreement, expiring June 7, 2011
Remarketing Agent:	Lehman Brothers Inc.
Maturity Date:	June 1, 2026
Initial Interest Rate Mode:	Daily
Other Interest Rate Modes:	Commercial Paper Mode, Weekly Mode, Term Rate Mode and Fixed Rate Mode
Interest Payment Date:	First Business Day of each month, any Mode Change Date and each Maturity Date
Redemption:	Subject to optional redemption at par in whole on any date or in part on any Interest Payment Date upon 15 days notice to the Owners of Notes Subject to mandatory sinking fund redemption on June 1 in each of the years 2017 through 2026, inclusive
Optional Purchase:	Owners may elect to have their Notes purchased on any Business Day at a price equal to the Purchase Price, upon delivery of an irrevocable telephonic notice of tender to the Remarketing Agent, promptly confirmed in writing to the Registrar and Paying Agent, not later than 11:00 A.M. on the Purchase Date specified by the Owner in such notice.
Mandatory Purchase:	Notes are subject to mandatory tender and purchase on any Mode Change Date, upon expiration or termination of the Liquidity Facility or upon substitution of an Alternate Liquidity Facility. The Registrar and Paying Agent shall give notice of such mandatory purchase by mail to the Owners of the Notes subject to mandatory purchase no less than thirty (30) days prior to the Mandatory Purchase Date.
Tax status:	Generally exempt from federal and Maryland income taxation

$50,000,000

MONTGOMERY COUNTY, MARYLAND
CONSOLIDATED PUBLIC IMPROVEMENT BOND ANTICIPATION NOTES, 2006 SERIES A

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and appendices, is provided to furnish certain information with respect to the issuance by Montgomery County, Maryland (the "County") of $50,000,000 aggregate principal amount of Montgomery County Consolidated Public Improvement Bond Anticipation Notes, 2006 Series A (the "Notes"). The Notes will be issued pursuant to a Resolution adopted by the County and a Note Order (the "Note Order") executed pursuant thereto. The Notes are being issued to provide funds to finance and refinance the acquisition, construction and equipping of certain public facilities of the County, more particularly described under the caption "USE OF PROCEEDS."

The County has appointed U.S. Bank Trust National Association as Registrar and Paying Agent under the Note Order. The Registrar and Paying Agent has its principal office at 100 Wall Street - Suite 1600, New York, New York 10005. The Registrar and Paying Agent may be removed or replaced by the County, pursuant to the terms of the Note Order.

Certain terms used in this Official Statement are defined in "Appendix C - Definitions of Terms and Summary of the Note Order." Any capitalized term used in this Official Statement and not defined herein shall have the meaning given such term by the Note Order, except where otherwise indicated or the context clearly indicates otherwise.

The Notes are multi-modal instruments that may bear interest in a Daily Mode, a Weekly Mode, a Commercial Paper Mode, a Term Rate Mode or a Fixed Rate Mode. The Notes will be issued initially in the Daily Mode. Subject to certain terms and conditions in the Note Order, the County may effect a change in Mode with respect to a Note. See the caption "THE NOTES – Change in Mode." In connection with a change in Mode (if any), the County will provide a new Official Statement describing the terms and conditions of the Notes in such Mode.

For so long as the Notes are in the Daily Mode, the Notes will bear interest at the interest rate determined by the Remarketing Agent on each Business Day. The Interest Payment Dates will be (a) the first Business Day of each month, commencing July 3, 2006, and (b) without duplication as to any Interest Payment Date described in (a), any Mode Change Date and each Maturity Date. See the caption "THE NOTES - Interest Rate on the Notes."

The Owners of Notes may elect to have their Notes, or portions thereof in Authorized Denominations, purchased on any Business Day, at a purchase price equal to the principal amount thereof plus accrued interest (if any) thereon to the date of purchase, all as described under the caption "THE NOTES - Purchase of Notes on Purchase Dates."

The Notes will be unlimited tax general obligations of the County, as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES."

Concurrently with the issuance of the Notes, in order to provide liquidity support for the purchase price of the Notes, the County will enter into a Standby Note Purchase Agreement (the "Standby Note Purchase Agreement") with Dexia Credit Local, acting through its New York Branch (the "Bank"). Under the Standby Note Purchase Agreement, the Bank agrees, on the terms and conditions contained in the Standby Note Purchase Agreement, to purchase for its own account, at the Purchase Price (a) all Eligible Notes tendered or deemed tendered from time to time during the Commitment Period pursuant to optional tenders by Owners in accordance with the terms of the Notes and (b) all Eligible Notes required to be purchased on a Mandatory Purchase Date during the Commitment Period in accordance with the terms of the Notes, in each case to the extent such Eligible Notes are not remarketed in accordance with the Remarketing Agreement. Under certain circumstances, the Bank is not required to purchase Notes. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES - Standby Note Purchase Agreement."

The Standby Note Purchase Agreement, unless it is terminated earlier as provided therein, will expire at 5:00 P.M., New York City time, on June 7, 2011. Prior to the expiration of the Standby Note Purchase Agreement or any other Liquidity Facility then in effect, the County, upon the conditions specified in the Note Order, may, but is not obligated to, provide for the delivery to the Registrar and Paying Agent of an Alternate Liquidity Facility, without the consent of the Owners of the Notes, in substitution for the Standby Note Purchase Agreement, or for such other Liquidity Facility then in effect. The Registrar and Paying Agent shall accept an Alternate Liquidity Facility, without the consent of the Owners of the Notes, if there are delivered to the Registrar and Paying Agent, among other things, (i) a Favorable Opinion of Bond Counsel and (ii) a Rating Confirmation Notice from Moody's, if the Notes are rated by Moody's, from S&P, if the Notes are rated by S&P, and from Fitch, if the Notes are rated by Fitch, together with a written statement of Moody's, S&P and Fitch, as applicable, indicating that the substitution of the Alternate Liquidity Facility will not result in a lowering of their ratings on the Notes to be covered by the Alternate Liquidity Facility as a result of its substitution for the current Liquidity Facility. See the caption "THE NOTES – Liquidity Facility; Alternate Liquidity Facility." In the event that on or prior to the forty-fifth (45th) day next preceding the Expiration Date or the Substitution Date, the County has failed to deliver to the Registrar and Paying Agent a Rating Confirmation Notice in connection with the delivery of an Alternate Liquidity Facility, together with a written statement of Moody's, S&P and Fitch, as applicable, indicating that the provision or substitution of the Alternate Liquidity Facility will not result in a lowering of their ratings on the Notes to be covered by the Alternate Liquidity Facility as a result of its provision or substitution for the current Liquidity Facility, the Notes having the benefit of the Liquidity Facility shall be subject to mandatory purchase on the Expiration Tender Date or the Substitution Tender Date, as the case may be. See the caption "THE NOTES - Purchase of Notes on Tender Dates--Purchase of Notes on Mandatory Tender Dates."

The Standby Note Purchase Agreement and any Alternate Liquidity Facility are herein referred to collectively as the "Liquidity Facility"; the Bank and the issuer of any Liquidity Facility other than the Standby Note Purchase Agreement are herein referred to collectively as the "Liquidity Facility Provider"; and the Standby Note Purchase Agreement and the agreement pursuant to which any other Liquidity Facility is issued are herein referred to collectively as the "Liquidity Facility Agreement."

If certain events of default occur under the Standby Note Purchase Agreement, the Bank, at its option, in addition to other remedies available to it, may terminate its obligations under the Standby Note Purchase Agreement including (without limitation) the obligation to provide liquidity support for the purchase price of the Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES - Standby Note Purchase Agreement."

On the date of issuance of the Notes, the County expects to issue $50,000,000 aggregate principal amount of its Consolidated Public Improvement Bond Anticipation Notes, 2006 Series B (the "Series B Notes"). See "THE COUNTY – Selected Debt and Financial Information -- Proposed Bond Issuances" below.

THE COUNTY

The Notes have been authorized and will be issued by Montgomery County, Maryland (the "County"), a body politic and corporate and a political subdivision of the State of Maryland, under the provisions of the Constitution and laws of the State of Maryland, in particular certain of the Laws of Montgomery County (the "Authorizing Legislation") and Section 12 of Article 31 of the Annotated Code of Maryland, as amended (the "Bond Anticipation Note Act") and pursuant to the Resolution adopted by the County, the Note Order executed by the County Executive of the County and other proceedings of the County.

The County does not directly or indirectly control the Bank.

For more detailed information respecting the County, see Appendix A hereto.

Selected Debt and Financial Information

The information (including Tables 1 through 7) presented on the following pages has been updated to reflect the effect of the issuance of the Notes and the issuances described under "Proposed Bond Issuances" below, and to provide current information on Montgomery County's financial position. For more information on the County, and a complete overview of the County's debt, please see Appendix A, "INFORMATION ABOUT THE COUNTY AS OF JANUARY 17, 2006" and Appendix B, "BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDING JUNE 30, 2005."

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Table 1
Statement of Direct and Overlapping Debt As of April 30, 2006
and Including Proposed Bond Issuances*

Direct Debt:		
General Obligation Bonds Outstanding	$1,329,138,054	
Proposed General Obligation Bonds*	100,000,000	
Proposed Variable Rate Demand Notes*	100,000,000	
Short-Term BANS/Commercial Paper Outstanding**	100,000,000	
Revenue Bonds Outstanding	62,655,000	
Total Direct Debt		$1,691,793,054
Overlapping Debt (as of June 30, 2005):		
Gross Debt:		
Washington Suburban Sanitary Commission		
Applicable to Montgomery County	1,008,216,728	
Housing Opportunities Commission	649,747,538	
Montgomery County Revenue Authority	68,780,082	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County	51,344,940	
Kingsview Village Center Development District	2,305,000	
West Germantown Development District	15,730,000	
Towns, Cities and Villages within Montgomery County	70,911,502	
Total Overlapping Debt		1,867,035,790
Total Direct and Overlapping Debt		3,558,828,844
Less Self-Supporting Debt:		
County Government Revenue Bonds	62,655,000	
Washington Suburban Sanitary Commission		
Applicable to Montgomery County (as of June 30, 2005)	1,008,216,728	
Housing Opportunities Commission (as of June 30, 2005)	649,747,538	
Montgomery County Revenue Authority (as of June 30, 2005)	68,780,082	
Maryland-National Capital Park and Planning Commission		
Applicable to Montgomery County (as of June 30, 2005)	14,194,940	
Total Self-Supporting Debt		(1,803,594,288)
Net Direct and Overlapping Debt		$1,755,234,556
Ratio of Debt to June 30, 2005 Assessed Valuation of (100% Assessment):		$102,184,336,833
Direct Debt		1.66%
Net Direct Debt ***		1.59%
Direct and Overlapping Debt		3.48%
Net Direct and Overlapping Debt		1.72%
Ratio of Debt to June 30, 2005 Market Value of:		$109,242,081,266
Direct Debt		1.55%
Net Direct Debt ***		1.49%
Direct and Overlapping Debt		3.26%
Net Direct and Overlapping Debt		1.61%

* The County issued $100,000,000 aggregate principal amount of fixed-rate general obligation bonds on May 23, 2006 and intends to issue $50,000,000 aggregate principal amount of Series B Notes on or about June 7, 2006. See "Proposed Bond Issuances" below.

** Net of $200,000,000 refunded with the proceeds of the Notes, the 2006 Bonds and the proposed Series B Notes.

*** Net Direct Debt of $1,629,138,054 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

Table 2
Statement of Legal Debt Margin
As of April 30, 2006
and Including Proposed Bond Issuances*

June 30, 2005 Assessed Valuation – Real Property		$98,281,724,723
Debt Limit (% of Assessed Valuation)		6%
Subtotal Limitation – Real Property		5,896,903,483
June 30, 2005 Assessed Valuation – Personal Property		$3,902,612,110
Debt Limit (% of Assessed Valuation)		15%
Subtotal Limitation – Personal Property		585,391,817
Total Assessed Valuation – Real and Personal Property		$102,184,336,833
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds		$6,482,295,300
Less Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds Outstanding	$1,329,138,054	
Proposed General Obligation Bonds	100,000,000	
Proposed Variable Rate Demand Notes*	100,000,000	
Short-Term BANS/Commercial Paper Outstanding	100,000,000	
Net Direct Debt		1,629,138,054
Legal Debt Margin		$4,853,157,246
Net Direct Debt as a Percentage of Assessed Valuation		1.59%

* The County issued $100,000,000 aggregate principal amount of fixed-rate general obligation bonds on May 23, 2006 and intends to issue $50,000,000 aggregate principal amount of Series B Notes on or about June 7, 2006. See “Proposed Bond Issuances” below.

(The remainder of this page has been left blank intentionally.)

Table 3
General Obligation Debt of the County
As of June 30, 2005
and April 30, 2006 and Including Proposed Bond Issuances*

Issue	Dated Date	Original Issue Size	Original Interest Rates	True Interest Cost	Maturity	Principal Outstanding June 30, 2005	Principal Outstanding April 30, 2006 and Including Proposed Bonds and Notes
GO Bonds	04/01/86	$ 50,000,000	5.80-6.30%	6.0956%	1987-06	$ 2,500,000	$ --
GO Refunding Bonds	07/01/92	273,038,054	2.75-5.80	5.7431	1993-10	94,518,054	67,148,054
GO Bonds	10/01/94	100,000,000	5.20-6.125	5.7958	1995-08	5,000,000	--
GO Bonds	03/15/96	120,000,000	5.10-5.50	5.2946	1997-08	12,000,000	6,000,000
GO Bonds	04/15/97	115,000,000	5.00-5.375	5.3226	1998-08	17,250,000	17,250,000
GO Refunding Bonds	01/01/98	69,510,000	3.90-5.25	4.6400	2003-15	68,275,000	67,795,000
GO Bonds	04/01/98	115,000,000	4.875	4.7607	1999-18	23,000,000	23,000,000
GO Bonds	04/01/99	120,000,000	4.00-5.00	4.4764	2000-19	36,000,000	36,000,000
GO Bonds	01/01/00	130,000,000	5.00-6.00	5.4853	2001-13	39,000,000	32,500,000
GO Bonds	02/01/01	140,000,000	4.00-5.00	4.5447	2002-21	56,000,000	49,000,000
GO Refunding Bonds	11/15/01	146,375,000	3.60-5.25	4.5107	2003-19	138,595,000	132,705,000
GO Bonds	02/01/02	160,000,000	3.00-5.00	4.4619	2003-22	80,000,000	72,000,000
GO Refunding Bonds	11/15/02	93,595,000	2.75-5.25	3.2799	2005-13	93,595,000	91,250,000
GO Bonds	05/01/03	155,000,000	1.50-4.00	3.6304	2004-23	139,500,000	139,500,000
GO Refunding Bonds	05/01/03	49,505,000	2.00-5.00	2.2900	2004-11	45,060,000	37,805,000
GO Bonds	03/15/04	154,600,000	3.00-5.00	3.8290	2005-24	146,870,000	139,140,000
GO Refunding Bonds	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	97,690,000	97,690,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	200,000,000	200,000,000
GO Refunding Bonds	06/01/05	120,355,000	5.00	3.7817	2011-21	120,355,000	120,355,000
GO Bonds*	05/01/06	100,000,000	N.A.	N.A.	2007-16	--	100,000,000
GO Notes*	06/07/06	100,000,000	variable	variable	2017-26	--	100,000,000
Total						$1,415,208,054	$1,529,138,054

* The County issued $100,000,000 aggregate principal amount of fixed-rate general obligation bonds on May 23, 2006 and intends to issue $50,000,000 aggregate principal amount of Series B Notes on or about June 7, 2006. See "Proposed Bond Issuances" below.

(The remainder of this page has been left blank intentionally.)

Table 4
General Obligation Bonds Authorized – Unissued
As of April 30, 2006 and Including Proposed Bond Issuances*

Purpose	Chapter	Act	Amount	Amount Unissued	Proposed Bonds
General County, Parks, and	22	2000	$ 78,300,000	$ 1,690,000	$ --
Consolidated Fire Tax District	17	2001	35,200,000	35,200,000	--
	21	2002	4,700,000	4,700,000	--
	17	2003	63,600,000	63,600,000	--
	18	2004	31,200,000	31,200,000	--
	19	2005	44,100,000	44,100,000	--
			257,100,000	180,490,000	24,000,000
Road & Storm Drainage	21	2002	34,800,000	33,240,000	--
	17	2003	1,700,000	1,700,000	--
	18	2004	97,500,000	97,500,000	--
	19	2005	53,500,000	53,500,000	--
			187,500,000	185,940,000	20,000,000
Public Schools and	21	2002	104,800,000	26,768,000	--
Community College	17	2003	52,400,000	52,400,000	--
	18	2004	145,000,000	145,000,000	--
	19	2005	131,100,000	131,100,000	--
			433,300,000	355,268,000	56,000,000
Mass Transit	17	2001	6,700,000	5,605,000	--
	21	2002	1,600,000	1,600,000	--
	17	2003	900,000	900,000	--
			9,200,000	8,105,000	--
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	855,000	855,000	--
			5,630,000	5,570,000	--
Parking Districts:					
Silver Spring	9	1983	2,945,000	2,045,000	--
	6	1984	1,220,000	1,220,000	--
			4,165,000	3,265,000	--
Bethesda	19	1981	7,325,000	3,040,000	--
	14	1982	775,000	775,000	--
	10	1983	1,050,000	1,050,000	--
			9,150,000	4,865,000	--
Total Parking Districts			13,315,000	8,130,000	--
Total General Obligation Bonds			$906,045,000	$743,503,000	$ 100,000,000

* The County issued $100,000,000 aggregate principal amount of general obligation bonds on May 23, 2006. See “Proposed Bond Issuances” below.

In addition to the above noted authority, the County has authority under the provisions of Section 56-13 of the Montgomery County Code 1994, as amended, to issue County bonds, within statutory debt limits, to finance approved urban renewal projects.

Table 5
Bond Anticipation Notes Outstanding
As of April 30, 2006 and
After Effect of Proposed Bond Issuances*

Issue	Balance July 1, 2005	BANs Issued	Balance April 30, 2006	BANs to be Retired	Balance After Effect of Proposed Bonds and Notes
BAN Series 2002-G	$ --	$150,000,000	$150,000,000	$150,000,000	$ --
BAN Series 2002-H	--	50,000,000	50,000,000	50,000,000	--
BAN Series 2002-I	--	100,000,000	100,000,000	--	100,000,000
Total	$ --	$300,000,000	$300,000,000	$200,000,000	$100,000,000

* The County issued $100,000,000 aggregate principal amount of fixed-rate general obligation bonds on May 23, 2006 and intends to issue $50,000,000 aggregate principal amount of Series B Notes on or about June 7, 2006. The proceeds of such bonds and notes have been and will be applied to the retirement of BANs. See “Proposed Bond Issuances” below.

(The remainder of this page has been left blank intentionally.)

Table 6
Montgomery County, Maryland
Schedule Of General Fund Revenues, Expenditures, & Transfers In (Out)
(Budgetary, Non-GAAP Basis)

	Fiscal Year Actual[1] 2003	2004	2005	Fiscal Year Budget 2006[2]	Actual July 1, 2005 to December 31, 2005 (Unaudited)
Revenues:					
Taxes:					
Property, including interest & penalty	$ 695,354,478	$ 736,961,478	$ 792,149,705	$ 782,485,000	$ 752,190,319
Transfer tax and recordation tax	169,583,507	219,080,729	260,955,053	184,020,000	139,039,690
County income tax	787,997,740	869,667,887	940,858,931	948,720,000	406,935,490
Other taxes	47,630,238	116,892,853	162,073,381	162,458,000	82,539,300
Total Taxes	1,700,565,963	1,942,602,947	2,156,037,070	2,077,683,000	1,380,704,799
Licenses and permits	8,728,837	9,201,123	9,476,136	10,017,270	5,514,380
Intergovernmental revenue	111,611,635	117,131,716	118,353,371	138,416,608	66,031,446
Charges for services	10,389,923	14,141,153	15,600,267	13,997,560	5,178,310
Fines and forfeitures	7,383,288	7,404,248	7,726,337	10,059,430	4,108,576
Investment income	3,310,147	416,588	3,722,932	5,070,000	3,896,832
Miscellaneous	8,929,585	8,945,982	9,603,137	8,266,630	2,758,468
Total Revenues	1,850,919,378	2,099,843,757	2,320,519,250	2,263,510,498	1,468,192,811
Expenditures (including encumbrances):					
General County:					
General government	166,156,273	168,549,554	179,009,067	203,227,534	116,429,884
Public safety	212,829,090	225,634,585	251,608,042	278,289,485	142,852,994
Public works and transportation	41,130,164	45,659,148	44,628,602	41,031,681	24,916,009
Health and human services	157,251,684	163,006,801	173,813,810	199,693,824	120,401,923
Culture and recreation	43,455,404	41,611,491	44,333,319	47,246,826	28,486,099
Housing and community development	6,305,950	6,363,507	6,889,713	7,469,989	3,543,573
Environment	3,557,247	3,235,236	3,280,633	3,972,045	1,648,820
Total Expenditures	630,685,812	654,060,322	703,563,186	780,931,384	438,279,302
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	12,555,270	13,203,740	12,538,500	12,448,820	6,224,410
Enterprise Funds	29,877,080	26,442,710	27,102,810	25,534,770	12,767,385
Trust Funds	--	--	--	50,000	
Component Units	626,360	328,420	1,010,826	328,420	277,630
Total Transfers In	43,058,710	39,974,870	40,652,136	38,362,010	19,269,425
Transfers Out:					
Special Revenue Funds	(22,374,913)	(31,243,064)	(23,733,932)	(11,549,488)	(5,749,677)
Debt Service Fund	(168,474,195)	(177,932,595)	(186,529,027)	(198,736,870)	(81,616,150)
Capital Projects Fund	(15,012,594)	(29,506,722)	(19,027,068)	(34,844,312)	(5,048,485)
Enterprise Funds	(2,368,780)	(2,721,418)	(2,700,331)	(2,799,077)	(1,423,786)
Internal Service Funds	(79,734)	(116,423)	(605,796)	(1,052,400)	--
Component Units	(1,163,343,950)	(1,222,246,998)	(1,350,046,288)	(1,390,785,087)	(741,009,611)
Total Transfers Out	(1,371,654,166)	(1,463,767,220)	(1,582,642,442)	(1,639,767,234)	(834,847,709)
Net Transfers In (Out)	(1,328,595,456)	(1,423,792,350)	(1,541,990,306)	(1,601,405,224)	(815,578,284)
Excess of revenues and transfers in over (under) expenditures, encumbrances and transfers out	(108,361,890)	21,991,085	74,965,758	(118,826,110)	214,335,225
Fund Balances, July 1 as previously stated	195,161,927	109,601,952	146,804,572	234,440,615	234,440,615
Net Adjustment for previous year encumbrances	22,801,915	15,211,535	12,670,285	13,890,802	13,890,802
Fund Balances, July 1 restated	217,963,842	124,813,487	159,474,857	248,331,417	248,331,417
Equity transfers in (out)	--	--	--	--	--
Budgetary Fund Balance – Subtotal	$ 109,601,952	$ 146,804,572	$ 234,440,615	$ 129,505,307	$ 462,666,642
Projections through year end:					
Revenue/Transfers In Remaining				--	960,544,647
Expenditures/Transfers Out Remaining				--	(1,176,414,534)
Budgetary Fund Balance Projected to June 30				$ 129,505,307	$ 246,796,755

(1) Amounts for FY03-05 are audited.

(2) Updated for budget adjustments as of December 31, 2005.

Table 7
General Fund
Schedule Of Budgetary Fund Balance to
GAAP Fund Balance Reconciliation

	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Projected July 1, 2005 to June 30, 2006 (Unaudited)
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above	$109,601,952	$146,804,572	$234,440,615	$246,796,755
Plus encumbrances outstanding	16,783,091	13,840,682	13,899,185	13,000,000
Adjustment for prior year encumbrances	(2,555,941)	(1,567,518)	(1,170,407)	(3,000,000)
Unrealized investment gain (loss)	1,752,108	(1,740,797)	(2,338,309)	(2,338,309)
Net differences between beginning fund balances[1]	842,960	1,599,257	1,718,083	556,059
GAAP Fund Balance as Reported	$126,424,170	$158,936,196	$246,549,167	$255,014,505
Elements of GAAP Fund Balance:				
Reservations	$ 22,540,476	$ 19,830,438	$ 5,971,759	$ 6,000,000
Designated for CIP Transfers	51,936,828	82,361,052	72,478,053	35,656,363
Unreserved – Designated for Encumbrances	--	--	13,899,185	13,000,000
Designated for subsequent years expenditures	17,300,037	30,017,660	27,029,039	122,495,094
Unreserved / Undesignated	34,646,829	26,727,046	127,171,131	77,863,048
	$126,424,170	$158,936,196	$246,549,167	$255,014,505

(1) Amount restated to break out the impact of unrealized investment gains (losses).
Note: All amounts are for fiscal years ended June 30.

Proposed Bond Issuances

Series B Notes. The County intends to issue $50,000,000 aggregate principal amount of its Consolidated Public Improvement Bond Anticipation Notes, 2006 Series B (the "Series B Notes") on or about June 7, 2006. The Series B Notes will be issued on substantially the same terms as the Notes except for series designation, CUSIP number, underwriter and remarketing agent. The Series B Notes are *not* being offered pursuant to this Official Statement.

2006 Bonds. The County issued $100,000,000 aggregate principal amount of general obligation fixed rate bonds (the "2006 Bonds") on May 23, 2006, pursuant to the terms of a competitive sale conducted on May 9, 2006. The 2006 Bonds mature serially on May 1, 2007 through 2016, inclusive. The 2006 Bonds are general obligations of the County to which the full faith and credit and unlimited taxing power of the County are pledged. The 2006 Bonds are *not* being offered pursuant to this Official Statement.

Other Post Employment Benefits

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45 (GASB 45) which addresses how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits (OPEB). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 do not require governments to fund their OPEB plans. GASB 45 establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time.

In November 2003, the County obtained an actuarial report (the "OPEB Report") addressing the extent of the County's liability to its retirees for other post employment benefits as of July 1, 2003. The OPEB Report was prepared in accordance with the standards set forth in the then-exposure draft version of GASB Statement 45. The OPEB Report is subject to a number of actuarial and economic assumptions; these assumptions were generally similar to the assumptions used in evaluating the County's pension fund liabilities.

Based on the assumptions and qualifications stated therein, the OPEB Report concluded that the County's 2003 annual required contribution (ARC) for its retirees for other post employment benefits would have ranged from a low of approximately $190.5 million (assuming pre-funding and an 8% return on invested assets) to a high of approximately $325.2 million (assuming no pre-funding and a 4% return on invested assets). As of July 1, 2003, the total actuarial accrued liability ranged from a low of approximately $1.833 billion (assuming pre-funding) to a high of approximately $3.599 billion (assuming no pre-funding). The County is in the early stages of obtaining an updated OPEB actuarial valuation. See also Note IV(E)(4) to the audited basic financial statements of the County in Appendix B.

USE OF PROCEEDS

The proceeds of the Notes will be used to finance and refinance the acquisition, construction and equipping of certain public facilities (the "Consolidated Public Improvement Projects"). Substantially all of the proceeds of the Notes will be used to pay at maturity a portion of the County's Consolidated Commercial Paper Bond Anticipation Notes, 2002 Series. The proceeds of the Notes will be used to finance and refinance the Consolidated Public Improvement Projects as follows: General County, to construct, renovate or replace public libraries, fire, police, and other public safety facilities, County-owned office space, parks, and County-owned recreation facilities, to include site preparation; Road and Storm Drainage, to construct, reconstruct and widen state and county roads and bridges and storm drainage facilities; Public Schools and Community College, to construct new elementary and secondary public schools or additions to existing public school buildings, to perform scheduled renovations of existing schools, and to renovate existing community college campus buildings and facilities to include modification for energy efficiency and handicapped access; and Mass Transit Facilities, to construct equipment maintenance and operation facilities, certain commuter parking facilities and stations, and to pay contributions under agreements with the Washington Suburban Transit District.

THE NOTES

General

The Notes will be dated the date of issuance thereof, will mature on June 1, 2026, and will be subject to optional redemption and mandatory sinking fund redemption and optional and mandatory tender and purchase prior to maturity as described below. While the Notes are in the Daily Mode, the Notes will be issuable in the denomination of $100,000 or any integral multiple of $5,000 in excess thereof, only as registered notes.

Each Note shall bear interest from (and including) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid, from the date of original authentication and delivery of such Note, or the Mode Change Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid.

The principal of the Notes shall be payable on the Principal Payment Date upon surrender thereof at the office of the Registrar and Paying Agent. The interest on the Notes shall be paid by the Registrar and Paying Agent on the Interest Payment Dates by wire transfer of immediately available funds to an account specified by the Owner of record thereof on the applicable Record Date. While the Notes are in the Daily

Mode, the Interest Payment Dates shall be the first Business Day of each month, any Mode Change Date and each Maturity Date.

While the Notes are in the Daily Mode, the Record Date will be the last day of each month (whether or not a Business Day).

By the acceptance of its Note, the Owner thereof shall be deemed to have agreed to all the terms and provisions of such Note as specified in such Note and the Note Order including, without limitation, the applicable Interest Periods, interest rates (including any applicable Alternate Rate), Purchase Dates, Mandatory Purchase Dates, Purchase Prices, mandatory and optional purchase and redemption provisions applicable to such Note, method and timing of purchase, redemption, payment, etc. Such Owner further agrees that if, on any date upon which one of its Notes is to be purchased, redeemed or paid at maturity or earlier due date, funds are on deposit with the Registrar and Paying Agent to pay the full amount due on such Note, then such Owner shall have no rights under the Note Order other than to receive such full amount due with respect to such Note and that interest on such Note shall cease to accrue as of such date.

Authentication and Delivery of the Notes

The Notes shall be executed by the County for issuance and delivered to the Registrar and Paying Agent, and thereupon shall be authenticated by the Registrar and Paying Agent and delivered to the County or upon its order, but only upon the receipt by the Registrar and Paying Agent of:

- a copy of the Note Order;

- an Opinion of Counsel to the effect that (i) the County is a duly organized and validly existing body politic and corporate and a political subdivision of the State of Maryland, empowered to issue the Notes under the Note Order, (ii) the Note Order has been duly adopted by the County and constitutes the valid and legally binding obligation of the County and (iii) the Note Order and the Notes are enforceable in accordance with their terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, or other laws or equitable principles relating to or limiting creditor's rights generally, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases;

- an opinion of Bond Counsel to the effect that (i) the Notes constitute the valid and binding general obligations of the County, to the payment of which the County's full faith and credit and unlimited taxing power is pledged, and (ii) the Note Order has been duly adopted and constitutes the valid and binding obligation of the County. Such opinion may provide that the rights and obligations under the Notes, the Note Order and the Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases;

- a written order as to the delivery of such Notes and application of any proceeds to be deposited with the Registrar and Paying Agent upon such delivery, signed by a County Representative;

- a Liquidity Facility with a principal component equal to the principal amount of the Notes being delivered, and with an interest component equal to or greater than the Liquidity Facility Interest Amount for the applicable Mode for such Notes;

- an executed counterpart of the Remarketing Agreement; and

- a certified copy of the Resolution, together with all amendments thereto (if any).

Interest Rate on the Notes

Rates Established by Remarketing Agent. The Notes shall initially bear interest in the Daily Mode. For so long as the Notes are in the Daily Mode, the interest rate for any Note shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of such Note on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued and unpaid interest, if any.

The Remarketing Agent shall establish the Daily Rate by 10:00 A.M. on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The Remarketing Agent shall make the Daily Rate available by telephone to any Owner or Notice Party requesting such rate, and on the last Business Day of each month, shall give notice to the Registrar and Paying Agent of the Daily Rates that were in effect for each day of such month by Electronic Means.

Interest shall be calculated on the basis of a 365/366 day year for the actual number of days elapsed. Payment of interest on each Note shall be made on each Interest Payment Date for such Note for unpaid interest accrued during the Interest Accrual Period to the Owner of record of such Note on the applicable Record Date.

Absent manifest error, the interest rates contained in the records of the Registrar and Paying Agent shall be conclusive and binding upon the County, the Remarketing Agent, the Registrar and Paying Agent, the Bank and the Owners.

No Notes shall bear interest at an interest rate higher than the Maximum Rate, which shall be ten percent (10%) per annum unless changed pursuant to the terms of the Note Order.

In the absence of manifest error, the determination of interest rates and Interest Periods by the Remarketing Agent shall be conclusive and binding, upon the Remarketing Agent, the Registrar and Paying Agent, the Bank, the County and the Owners.

Alternate Rates. In the event that (i) the Remarketing Agent fails or is unable to determine the interest rate or Interest Period for any Note or (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to a Note shall be held to be unenforceable by a court of law of competent jurisdiction, then, for so long as such Note is in the Daily Mode, such Note shall bear interest during each subsequent Interest Period at the last lawful interest rate for such Note set by the Remarketing Agent. These provisions shall continue to apply until such time as the Remarketing Agent again makes such determinations.

Change in Mode

Subject to the provisions of the Note Order, the County may effect a change in Mode with respect to a Note.

Changes to a Mode Other Than the Fixed Rate Mode.

At the option of the County, a Note (other than a Note in the Fixed Rate Mode) may be changed from one Mode to another Mode (other than the Fixed Rate Mode) as follows:

> ***Mode Change Notice; Notice to Owners***. No later than the forty-fifth (45th) day (or such shorter time as may be agreed to by the County, the Registrar and Paying Agent and the Remarketing Agent) preceding the proposed Mode Change Date, the County shall give written notice to the Notice Parties of its intention to effect a change in the Mode from the Mode then

prevailing (for purposes of this Section, the "Current Mode") to another Mode (for purposes of this Section, the "New Mode") specified in such written notice, and, if the change is to a Term Rate Mode, the length of the initial Interest Period as set by the County and whether or not the Notes to be converted to the Term Rate Mode will be covered by the Liquidity Facility (if they will be covered, then the initial Interest Rate Period for such Notes selected by the County cannot extend beyond the Expiration Tender Date). The Registrar and Paying Agent shall give notice of the proposed change in Mode to the Owners as described below under "Notice to Owners."

Determination of Interest Rates. The New Mode for a Note shall commence on the Mode Change Date for such Note and the interest rate (together, in the case of a change to the Commercial Paper Mode or the Term Rate Mode, with the Interest Period for such Note) shall be determined by the Remarketing Agent (or the County in the case of the Interest Period for a Note converted to the Term Rate Mode) in the manner provided in the Note Order.

Conditions Precedent. The Mode Change Date shall be a Business Day. Additionally, the Mode Change Date in the case of a change:

- from the Commercial Paper Mode, shall be the next Purchase Date for the Note to be changed to the New Mode; and

- from a Term Rate Mode, shall be the last day of the current Interest Period for the Note being converted.

The following items shall have been delivered to the Registrar and Paying Agent and the Remarketing Agent on the Mode Change Date:

- a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Registrar and Paying Agent and the Remarketing Agent;

- a Rating Confirmation Notice; and

- a Liquidity Facility with a principal component equal to the principal amount of the Notes being converted, and with an interest component equal to or greater than the Liquidity Facility Interest Amount for the applicable Mode and with an Expiration Date not earlier than 5 days prior to the end of the initial Interest Rate Period for such Note; provided, however, that in the case of a conversion of a Note to the Term Rate Mode, no Liquidity Facility need be applicable to such Note while in the Term Rate Mode if the County so elects by the time it gives the notice to the Notice Parties described in "Mode Change Notice; Notice to Owners" above.

If the Notes to be changed are in the Commercial Paper Mode, no Interest Period set after delivery by the County to the Remarketing Agent of the notice of the intention to effect a change in Mode with respect to such Notes shall extend beyond the proposed Mode Change Date.

All Notes being converted to a Term Rate Mode shall have been successfully remarketed prior to the effectiveness of such conversion.

Change to Fixed Rate Mode.

At the option of the County, a Note may be changed to the Fixed Rate Mode. Not less than forty-five (45) days (or such shorter time as may be agreed to by the County, the Registrar and Paying Agent and the Remarketing Agent) before the proposed Mode Change Date for such Note, the County shall give written notice to the Notice Parties stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Mode Change Date and whether or not the Notes to be converted to the Fixed

Rate Mode will be covered by the Liquidity Facility (and, if so, for how long). Such Notice shall also state whether or not some or all of the Notes to be converted shall be converted to Serial Notes and, if so, the applicable Serial Maturity Dates and Serial Payments. Any such change in Mode shall be made as follows:

Conditions Precedent. The Mode Change Date shall be:

- a Business Day;

- in the case of a change from the Commercial Paper Mode, the Purchase Date for the Note to be changed to the Fixed Rate Mode; and

- in the case of a change from the Term Rate Mode, the last day of the current Interest Period for the Note being converted.

All Notes being converted to a Fixed Rate Mode shall have been successfully remarketed prior to the effectiveness of such conversion.

Notice to Owners. Not sooner than the thirtieth (30th) day next preceding the Mode Change Date, the Registrar and Paying Agent shall mail, in the name of the County, a notice of such proposed change to the Owners of the Notes being converted stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date and that such Owner is required to tender such Owner's Notes for purchase on such proposed Mode Change Date.

General Provisions Applying to Change to Fixed Rate Mode. The change to the Fixed Rate Mode shall not occur unless the following items shall have been delivered to the Registrar and Paying Agent and the Remarketing Agent on the Mode Change Date:

- a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Registrar and Paying Agent and the Remarketing Agent;

- a Rating Confirmation Notice; and

- a Liquidity Facility with a principal component equal to the principal amount of the Notes being converted and an interest component equal to the Liquidity Facility Interest Amount for the Fixed Rate Mode, unless the County has elected by the time it gives the notice to the Notice Parties described above not to have the Liquidity Facility apply to the Notes to be converted to the Fixed Rate Mode.

Determination of Interest Rate. The Fixed Rate for a Note to be converted to the Fixed Rate Mode shall be established by the Remarketing Agent.

Serialization. Upon the conversion of Notes to the Fixed Rate Mode, the County may elect to serialize such Notes upon such terms as it may then determine.

Failure to Satisfy Conditions Precedent to a Mode Change. In the event the conditions described above have not been satisfied by the applicable Mode Change Date, then the New Mode or Fixed Rate Mode, as the case may be, shall not take effect. If the failed change in Mode was from the Commercial Paper Mode, the applicable Note shall remain in the Commercial Paper Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the failed Mode Change Date. If the failed change in Mode was from the Daily Mode, the applicable Note shall remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the applicable Note shall remain in the Weekly Mode, in each case with interest rates established by the Remarketing Agent on and as of the failed Mode Change Date. If the failed change in Mode was from the Term Rate Mode and for which the Liquidity Facility was in effect for the Note to be changed, the applicable Note shall be changed to the

Commercial Paper Mode with an Interest Period and Commercial Paper Rate to be determined by the Remarketing Agent on the failed Mode Change Date. If, however, there was no Liquidity Facility in effect for such Note to have been changed from the Term Rate Mode, then such Note shall stay in the Term Rate Mode for an Interest Period ending on the next Stated Interest Payment Date and shall bear interest at the applicable Alternate Rate.

Optional and Mandatory Tenders of Notes

Optional Tenders of Notes. For so long as the Notes are in the Daily Mode, Owners may elect to have their Notes (or portions of those Notes in amounts equal to an Authorized Denominations) purchased on any Business Day at a price equal to the Purchase Price, upon delivery of an irrevocable telephonic notice of tender to the Remarketing Agent, promptly confirmed in writing to the Registrar and Paying Agent, not later than 11:00 A.M. on the Purchase Date specified by the Owner in such notice. Such notices of tender shall state the CUSIP number, Note number and the principal amount of such Note and that such Note shall be purchased on the Purchase Date specified above. The Note shall be delivered (with all necessary endorsements) at or before 12:00 noon on the Purchase Date at the office of the Registrar and Paying Agent in New York, New York; provided, however, that payment of the Purchase Price shall be made as described in this paragraph only if the Note so delivered to the Registrar and Paying Agent conforms in all respects to the description thereof in the notice. Payment of the Purchase Price with respect to purchases shall be made to the Owners of tendered Notes by wire transfer in immediately available funds by the Registrar and Paying Agent by the close of business on the Purchase Date. An Owner who gives the notice of tender as set forth above may repurchase the Notes so tendered on such Purchase Dates if the Remarketing Agent agrees to sell the Notes so tendered to such Owner. If such Owner decides to repurchase such Notes and the Remarketing Agent agrees to sell the specified Notes to such Owner, the delivery requirements set forth above shall be waived.

Mandatory Purchase on Mode Change Date. Notes to be changed from one Mode to another Mode (other than a change to the Fixed Rate Mode) are subject to mandatory purchase on the Mode Change Date at the Purchase Price as described in this paragraph. Notes purchased shall be delivered by the Owners (with all necessary endorsements) to the office of the Registrar and Paying Agent in New York, New York, at or before 12:00 noon on the Mode Change Date and payment of the Purchase Price shall be made by wire transfer in immediately available funds by the close of business on the Mode Change Date. The Registrar and Paying Agent shall give notice of such mandatory purchase by mail to the Owners of the Notes subject to mandatory purchase no less than thirty (30) days prior to the Mandatory Purchase Date. The notice shall state the Mandatory Purchase Date, the Purchase Price, the numbers of the Notes to be purchased if less than all of the Notes owned by such Owner are to be purchased and that interest on Notes subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any Note shall not affect the validity of the mandatory purchase of any other Note with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner.

Notes to be changed to the Fixed Rate Mode are subject to mandatory purchase on the Mode Change Date at the Purchase Price as described in this paragraph. Notes purchased shall be delivered by the Owners (with all necessary endorsements) to the office of the Registrar and Paying Agent in New York, New York, at or before 12:00 noon on the Mode Change Date and payment of the Purchase Price shall be made by wire transfer of immediately available funds by the close of business on the Mode Change Date. The Registrar and Paying Agent shall give notice of such mandatory purchase as part of the notice of change of Mode to be sent to the Owners as described under the caption "Notice to Owners."

Mandatory Purchase Upon Expiration or Termination of Liquidity Facility or Substitution of Alternate Liquidity Facility. In the event that on or prior to the forty-fifth (45th) day next preceding the Expiration Date or the Substitution Date, the County has failed to deliver to the Registrar and Paying Agent a Rating Confirmation Notice in connection with the delivery of an Alternate Liquidity Facility, together with a written statement of Moody's, S&P and Fitch, as applicable, indicating that the substitution of the Alternate Liquidity Facility will not result in a lowering of their ratings on the Notes to be covered by the

Alternate Liquidity Facility as a result of its substitution for the current Liquidity Facility, the Notes having the benefit of the Liquidity Facility shall be subject to mandatory purchase on the Expiration Tender Date or the Substitution Tender Date, as the case may be. The Registrar and Paying Agent shall give notice of such mandatory purchase by mail to the Owners of the Notes subject to mandatory purchase no less than thirty (30) days prior to the Mandatory Purchase Date. The notice shall state the Mandatory Purchase Date, the Purchase Price and that interest on Notes subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any Note shall not affect the validity of the mandatory purchase of any other Note with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner. Notes purchased as described in this paragraph shall be delivered by the Owners (with all necessary endorsements) to the office of the Registrar and Paying Agent in New York, New York, at or before 12:00 noon on the Mandatory Purchase Date, and payment of the Purchase Price of such Notes shall be made by wire transfer in immediately available funds by the Registrar and Paying Agent by the close of business on such Mandatory Purchase Date.

Transfer of Funds; Draw on Liquidity Facility. On each Purchase Date or Mandatory Purchase Date, as the case may be, the Registrar and Paying Agent shall draw on the Liquidity Facility by 12:30 P.M. in an amount equal to the Purchase Price of all Notes tendered or deemed tendered less the sum of (i) the aggregate amount of remarketing proceeds received from the remarketing of Notes and (ii) the sum on deposit in the County Funds Account.

Source of Funds for Purchase of Notes. By the close of business on the Purchase Date or the Mandatory Purchase Date, as the case may be, the Registrar and Paying Agent shall purchase tendered Notes from the tendering Owners at the Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and neither the Registrar and Paying Agent nor the Remarketing Agent shall be obligated to provide funds from any other source:

- immediately available funds on deposit in the Remarketing Proceeds Account;
- immediately available funds on deposit in the County Funds Account; and
- immediately available funds on deposit in the Liquidity Facility Purchase Account.

Delivery of Notes. On each Purchase Date or Mandatory Purchase Date, as the case may be, the Notes shall be delivered as follows:

- Notes remarketed and sold by the Remarketing Agent shall be delivered by the Remarketing Agent to the purchasers of those Notes by 3:00 P.M.
- Notes purchased by the Registrar and Paying Agent with moneys provided by the County shall, upon the written direction of an County Representative, be either (i) registered in the name of the Registrar and Paying Agent as agent for the County and held upon the direction of the County or (ii) cancelled.
- Notes purchased by the Registrar and Paying Agent with moneys from draws on the Liquidity Facility shall be registered immediately in the name of the Bank or its nominee on or before 1:30 P.M.

Undelivered Notes. If Notes to be purchased are not delivered by the Owners to the Registrar and Paying Agent by 12:00 noon on the Purchase Date or the Mandatory Purchase Date, as the case may be, the Registrar and Paying Agent shall hold any funds received for the purchase of those Notes in trust in a separate account and shall pay such funds to the former Owners of the Notes upon presentation of the Notes. Such undelivered Notes shall cease to accrue interest as to the former Owners on the Purchase Date or the Mandatory Purchase Date, as the case may be, and moneys representing the Purchase Price shall be available against delivery of those Notes at the Principal Office of the Registrar and Paying Agent; provided, however, that any funds which shall be so held by the Registrar and Paying Agent and which remain unclaimed by the former Owner of a Note not presented for purchase for a period of five years after delivery of such funds to the Registrar and Paying Agent, shall, to the extent permitted by law, upon request in writing by the County and the furnishing of security or indemnity to the Registrar and Paying Agent's satisfaction, be paid to the County free of any trust or lien and thereafter the former Owner of such Note shall look only to the County and then only to the extent of the amounts so received by the County without any interest thereon and the Registrar and Paying Agent shall have no further responsibility with respect to such moneys or payment of the purchase price of such Notes. The Registrar and Paying Agent shall authenticate a replacement Note for any undelivered Note which may then be remarketed by the Remarketing Agent.

No Purchases or Sales After Payment Default. If there shall have occurred and be continuing a default in the due and punctual payment of the principal of or interest or premium (if any) on any Note, the Remarketing Agent shall not remarket any Notes.

Liquidity Facility; Alternate Liquidity Facility. On each Purchase Date or Mandatory Purchase Date, as the case may be, the Registrar and Paying Agent, by telex, telecopy or telegraphic demand given before 12:30 P.M., shall draw on the Liquidity Facility in accordance with the terms thereof so as to receive thereunder by 3:30 P.M. on such date an amount, in immediately available funds, sufficient, together with the proceeds of the remarketing of Notes on such date and funds on deposit in the County Funds Account, to enable the Registrar and Paying Agent to pay the Purchase Price in connection therewith.

Notwithstanding the provisions described in foregoing paragraph, the Registrar and Paying Agent shall not draw on the Liquidity Facility with respect to any payments due or made in connection with Bank-Owned Notes, Notes the Owner of which is the County, or Notes in the Commercial Paper Mode, the Term Rate Mode or the Fixed Rate Mode not covered by the Liquidity Facility.

If at any time there shall have been delivered to the Registrar and Paying Agent (i) an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect, (ii) a Favorable Opinion of Bond Counsel, (iii) a Rating Confirmation Notice from Moody's, if the Notes are rated by Moody's, from S&P, if the Notes are rated by S&P, and from Fitch, if the Notes are rated by Fitch, together with a written statement of Moody's, S&P and Fitch, as applicable, indicating that the substitution of the Alternate Liquidity Facility will not result in a lowering of their ratings on the Notes to be covered by the Alternate Liquidity Facility as a result of its substitution for the current Liquidity Facility and (iv) written evidence satisfactory to the Liquidity Facility Provider of the provision for purchase from the Liquidity Facility Provider of all Bank-Owned Notes, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due it under the Liquidity Facility Agreement on or before the effective date of such Alternate Liquidity Facility, then the Registrar and Paying Agent shall accept such Alternate Liquidity Facility on the Substitution Tender Date and shall surrender the Liquidity Facility then in effect to the Liquidity Facility Provider on the Substitution Date. The County shall give the Registrar and Paying Agent, the Remarketing Agent and the Liquidity Facility Provider written notice of the proposed substitution of an Alternate Liquidity Facility for the Liquidity Facility then in effect no less than forty-five (45) days prior to the proposed Substitution Date. The Registrar and Paying Agent shall give notice of such proposed substitution by mail to the Owners of the Notes no less than thirty (30) days prior to the proposed Substitution Date.

The effectiveness of any Alternate Liquidity Facility shall be conditioned upon the payment to the Liquidity Facility Provider of all amounts owing under the Liquidity Facility Agreement and an amount equal to the principal of and interest on any Bank-Owned Bonds.

Redemption

In the manner and with the effect provided in the Note Order, the Notes will be subject to redemption prior to maturity as described below.

Optional Redemption. For so long as the Notes are in the Daily Mode, the Notes shall be subject to optional redemption by the County, in whole on any date or in part on any Interest Payment Date, in Authorized Denominations, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest, if any.

Mandatory Sinking Fund Redemption. The Notes shall be subject to mandatory sinking fund redemption by the County in part, at a redemption price equal to the principal amount redeemed, plus accrued and unpaid interest, on June 1 in each of the following years and respective principal amounts:

Date of Redemption	Redemption Amount
June 1, 2017	$5,000,000
June 1, 2018	5,000,000
June 1, 2019	5,000,000
June 1, 2020	5,000,000
June 1, 2021	5,000,000
June 1, 2022	5,000,000
June 1, 2023	5,000,000
June 1, 2024	5,000,000
June 1, 2025	5,000,000
June 1, 2026*	5,000,000

* Date of Maturity

Selection of Notes for Redemption. Whenever less than all the Outstanding Notes of a maturity are to be redeemed on any one date, the Registrar and Paying Agent shall select the Notes to be redeemed from the Outstanding Notes of such maturity by lot, or in such other manner as the Registrar and Paying Agent deems fair; provided, that (i) Bank-Owned Notes shall be redeemed first; (ii) if Notes are then Outstanding as Serial Notes, the Registrar and Paying Agent shall select for redemption Serial Notes stated to mature in the years selected by the County in its discretion; and (iii) if Notes are then Outstanding in more than one Mode, the Registrar and Paying Agent shall select for redemption Notes in the respective Modes as directed by the County in its discretion.

Notice of Redemption. Except as otherwise provided in the Note Order, the Registrar and Paying Agent shall give notice of redemption of any Notes to be redeemed, as provided herein, upon receipt of notice from the County, which notice shall be given to the Registrar and Paying Agent at least forty-five (45) calendar days prior to the Redemption Date (unless the Registrar and Paying Agent shall agree to a shorter period).

Except as otherwise provided in the Note Order, notice of redemption shall be given by mail by the Registrar and Paying Agent to the Remarketing Agent, the Bank, the Owners of any Notes designated for redemption in whole or in part and to the Information Services and to the Securities Depositories no less than fifteen (15) nor more than sixty (60) days prior to the Redemption Date. Each notice of redemption shall state the Redemption Date, the redemption place and the redemption price, the maturity dates of the Notes to be redeemed and shall designate the numbers of the Notes to be redeemed if less than all of the Outstanding Notes of a maturity are to be redeemed, shall (in the case of any Note called for redemption in part only) state the portion of the principal amount thereof which is to be redeemed, and shall state that the interest thereon or portions thereof designated for redemption shall cease to accrue from and after such Redemption Date and that on such Redemption Date there will become due and payable on each of the Notes or portions thereof designated for redemption the redemption price thereon. The failure to mail such notice with respect to any Note shall not affect the validity of the proceedings for the redemption of any other Note with respect to which notice was so mailed.

Any notice mailed as described herein will be conclusively presumed to have been given, whether or not actually received by any Owner. Failure by the Registrar and Paying Agent to give notice to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice, shall not affect the validity of the proceedings for redemption.

Effect of Redemption. If notice of redemption has been duly given as described above and money for the payment of the redemption price of the Notes or portions thereof to be redeemed is held by the Registrar and Paying Agent, then on the Redemption Date designated in such notice the Notes or portions thereof so called for redemption shall become payable at the redemption price as specified in such notice; and from and after the Redemption Date so designated, interest thereon or portions thereof so called for redemption shall cease to accrue, such Notes or portions thereof shall cease to be entitled to any benefit, protection or security under the Note Order and the Owners of such Notes or portions thereof shall have no rights in respect thereof except to receive payment of the redemption price. Notwithstanding the foregoing, any Bank-Owned Notes shall remain Outstanding until the Bank is paid all amounts due under such of the Notes or portions thereof to be redeemed on their redemption dates. After payment to the Bank of all amounts due on Bank-Owned Notes the Bank shall surrender such Notes to the Registrar and Paying Agent for cancellation.

Redemptions - Book-Entry. During any period in which the Notes are maintained pursuant to a book-entry system, redemption of the Notes shall occur in accordance with the Securities Depository's standard procedures for redemption of obligations such as the Notes.

Book-Entry System

The information under this caption concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from sources believed to be reliable, but the County, the Registrar and Paying Agent, the Remarketing Agent and the Underwriter take no responsibility for the accuracy or completeness thereof.

DTC will act as Securities Depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Note certificate will be issued for each maturity of the Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

Neither DTC nor Cede & Co. will consent or vote with respect to the Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

The information contained herein concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

Neither the Registrar and Paying Agent, the County, the Remarketing Agent nor the Underwriter will have any responsibility or obligation to such DTC Participants or the persons for whom they act as nominees with respect to the payments to the DTC Participants, the Indirect Participants or Beneficial Owners.

For so long as the Notes are registered in the name of the Securities Depository or the Securities Depository Nominee, the County and the Registrar and Paying Agent will recognize the Securities Depository or the Securities Depository Nominee as the registered owner of the Notes for all purposes, *including notices and voting. Conveyance of notices and other communications by DTC or DTC Participants and DTC Indirect Participants to Beneficial Owners of the Notes will be governed by arrangements among DTC, DTC Participants, DTC Indirect Participants and Beneficial Owners, subject to any statutory and regulatory requirements as may be in effect from time to time.*

So long as the Securities Depository or the Securities Depository Nominee is the registered owner of the Notes, all notices otherwise required to be given by Owners of Notes, including optional tender notices, will be given by the Beneficial Owners to the Remarketing Agent at the times and in the manner described herein.

Remarketing Agent

The County and Lehman Brothers Inc., as Remarketing Agent, have entered into a Remarketing Agreement dated as of June 1, 2006 (the "Remarketing Agreement"), pursuant to which Lehman Brothers Inc. has agreed to serve as Remarketing Agent for the Notes. The principal office of Lehman Brothers is located at 745 7th Avenue, 3rd Floor, New York, NewYork 10019 (212-528-1011).

The Remarketing Agent will determine the interest rates from time to time borne by the Notes as described above under "Interest Rate on the Notes." In addition, the Remarketing Agent will use its best efforts to remarket Notes, or portions thereof in Authorized Denominations, subject to tender and purchase pursuant to the Note Order from time to time. The Remarketing Agent is not required to remarket any Notes or portions thereof under certain circumstances specified in the Remarketing Agreement. Subject to the provisions of the Remarketing Agreement, the Remarketing Agent, in its individual capacity, may become the owner of, or may in good faith buy, sell, own, hold and deal in, the Notes or portions thereof with the same rights as if it were not the Remarketing Agent.

The Remarketing Agent may resign or may be removed by the County at any time or from time to time upon giving notice as required under the Remarketing Agreement. Following any resignation or removal of the Remarketing Agent, the County is required under the Note Order to appoint a successor Remarketing Agent.

Unclaimed Money

Under certain circumstances set forth in the Note Order, moneys held by the Registrar and Paying Agent for the payment of Notes and which remain unclaimed for a period of five years after the date on which such payments have become payable, may be paid by the Registrar and Paying Agent to the County.

Form of the Notes

The definitive Notes shall be in substantially the form attached hereto as Appendix F, with appropriate or necessary insertions, omissions and variations as permitted or required by the Note Order, Upon any change in Mode, if and to the extent necessary, a new form of Notes shall be prepared which contains the terms of the Notes applicable in the new Mode.

SECURITY AND SOURCES OF PAYMENT FOR THE NOTES

General Obligations

The Notes are general obligations of the County to the payment of which the County's full faith and credit and unlimited taxing power is pledged.

Standby Note Purchase Agreement

General. Concurrently with the issuance of the Notes, in order to provide liquidity support for the purchase price of the Notes, the County will enter into the Standby Note Purchase Agreement with the Bank. Under the Standby Note Purchase Agreement, the Bank agrees, subject to the terms and conditions contained in the Standby Note Purchase Agreement, to purchase, at the Purchase Price (as defined in the Standby Note Purchse Agreement) with immediately available funds all Eligible Notes which are tendered pursuant to an optional tender or a mandatory purchase which, in each case, the Remarketing Agent has been unable to remarket in accordance with the Remarketing Agreement. The aggregate principal amount of any Eligible Notes purchased on any Purchase Date shall not exceed the Available Principal Commitment on such date. The aggregate amount of the Purchase Price (as defined in the Standby Note Purchse Agreement) comprising interest with respect to the Eligible Notes (the *"Interest Component"*) purchased on any Purchase Date shall not exceed the lesser of (i) the Available Interest Commitment (as defined in the Standby Note Purchase Agreement) on such date and (ii) the actual aggregate amount of interest accrued with respect to each such Eligible Note to but not including such Purchase Date; *provided* that if the applicable Purchase Date is an Interest Payment Date the amount described in this clause (ii) shall be reduced by the amount of interest payable with respect to each such Eligible Note on such Interest Payment Date; *provided, further* that in no event shall the Bank be obligated to extend credit for the payment of the portion of the Purchase Price representing accrued interest on the Notes in excess of the Available Interest Commitment as such amount may be reduced pursuant to the terms of the Standby Note Purchase Agreement.

Method of Purchasing; Conditions to Each Purchase. Subject to the terms and conditions of the Standby Note Purchase Agreement, the Bank will transfer to the Registrar and Paying Agent not later than 3:30 p.m. (New York time) on a Purchase Date, in immediately available funds, an amount equal to the aggregate Purchase Price of all or such portion of such Eligible Notes as have not been remarketed by the Remarketing Agent as of 2:00 p.m. (New York time) on the Business Day prior to the proposed tender. The obligation of the Bank to purchase Notes under the Standby Note Purchase Agreement is subject to the satisfaction of the following conditions:

- no Special Event of Default (defined below) or any Suspension Event (defined below) shall have occurred; and

- The Bank shall have timely received the notices required by the Standby Note Purchase Agreement; *provided* that if such notice is received by the Bank but is not received in a timely manner, the Bank will be obligated to purchase Eligible Notes on the Business Day following receipt thereof.

Special Event of Default. The occurrence of any of the following events shall constitute a Special Event of Default under the Standby Note Purchase Agreement:

- Any principal of, or interest on, any Note or Bank-Owned Note shall not be paid when due; or

- The County shall fail to pay when due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any general obligation indebtedness or any interest or premium thereon, and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument providing for the creation of or concerning such indebtedness, or pursuant to the provisions of any such resolution, indenture, contract or instrument, the maturity of any such indebtedness, as a result of the occurrence of a payment default of any nature, may be accelerated or may be required to be prepaid prior to the stated maturity thereof; or

- (i) The County shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its Debt, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the County shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the County any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the County, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the County shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the County shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its Debts; or

- any provision of the Standby Note Purchase Agreement or any other Bond Document relating to the County's ability to make payments of principal or interest on the Notes (including Bank-Owned Notes) as provided therein shall at any time for any reason cease to be valid and binding on the County as a result of a ruling, finding, decree, order, legislative act or similar action by a Governmental Authority having jurisdiction over the County, or shall be declared in a final non-appealable judgment by any court having jurisdiction over the County to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be publicly contested by the County; or

- The long-term unenhanced rating by Moody's, Fitch and S&P on any general obligation bonded indebtedness of the County shall be withdrawn or suspended (but excluding any withdrawals or suspensions if the Rating Agency stipulates in writing that the rating action is being taken for non-credit related reasons) or reduced below "Baa3" (or its equivalent), "BBB-" (or its equivalent) and "BBB-" (or its equivalent), respectively; or

- (i) a final, nonappealable judgment or order for the payment of money in excess of $5,000,000 or (ii) two or more final, nonappealable judgments or orders for the payment of money in excess of $10,000,000 in the aggregate, in either case, which shall be rendered against the County with respect to which, in the opinion of the Bank, adequate cash reserves have not been established, or other means of satisfying or otherwise funding the judgment have not been undertaken, satisfactory to the Bank and such judgment or order shall continue unsatisfied and unstayed for a period of sixty (60) days; or

- the County shall impose, or any Governmental Authority having appropriate jurisdiction over the County shall make a finding or ruling or shall enact or adopt legislation or issue an executive order or enter a judgment or a decree which results in, a debt moratorium, debt restructuring, debt adjustment or comparable restriction on the repayment when due and payable or the principal of or interest on any general obligation indebtedness of the County.

Upon the occurrence of a Special Event of Default, the obligations of the Bank under the Standby Note Purchase Agreement shall immediately terminate and expire without the requirement of notice by the Bank.

Suspension Event. If the County shall publicly contest any provision of the Standby Note Purchase Agreement or other Bond Document relating to the County's ability to make payments of principal or interest on the Notes (including Bank-Owned Notes) as provided therein, or the County shall publicly deny that it has any obligation to make payments on the Notes (including Bank-Owned Notes), then the obligations of the Bank under the Standby Note Purchase Agreement shall be suspended from the time of the occurrence of such contest or denial, and in the event any provision of the Standby Note Purchase Agreement or any other Bond Document related to the County's ability to make payments on the Notes (including Bank-Owned Notes) as provided in the the Standby Note Purchase Agreement shall at any time for any reason cease to be valid and binding on the County as a result of a ruling, finding, decree, order, legislative act or similar action by a Governmental Authority having jurisdiction over the County, or it is determined that the County has no liability under the Standby Note Purchase Agreement or any other Bond Document, in either case by a court or other Governmental Authority with competent jurisdiction, then the obligations of the Bank under the Standby Note Purchase Agreement shall immediately terminate and expire without the requirement of notice by the Bank; *provided, however,* that if such provisions are upheld in their entirety, then the Bank's obligations under the Standby Note Purchase Agreement shall be automatically reinstated and the terms of the Standby Note Purchase Agreement will continue in full force and effect (unless the Standby Note Purchase Agreement shall have otherwise expired or been terminated in accordance with its terms) as if there had been no such suspension. If the Event of Default which gave rise to the suspension of the obligations of the Bank under the Standby Note Purchase Agreement has not been cured or does not cease to exist prior to the three year anniversary of such occurrence, the obligations of the Bank under the the Standby Note Purchase Agreement shall be terminated upon written notice from the Bank, to the County, and thereafter the Bank shall have no further obligations under the Standby Note Purchase Agreement.

Upon the occurrence of a Default (as defined in the Standby Note Purchase Agreement) described in clause (ii) or (iii) of the third bullet-point paragraph under "Special Event of Default" above, the obligation of the Bank to purchase Notes under the Standby Note Purchase Agreement shall be immediately suspended until the proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, the obligations of the Bank to purchase Notes under the Standby Note Purchase Agreement shall be reinstated and the terms of the Standby Note Purchase Agreement will continue in full force and effect (unless the obligations of the Bank to purchase Notes under the Standby Note Purchase Agreement shall have otherwise terminated in accordance with the terms thereof) as if there had been no such suspension.

Other Events of Default; Remedies. The occurrence of any of the following events shall constitute an Event of Default (but not a Special Event of Default) under the Standby Note Purchase Agreement:

- the County shall fail to pay any amount payable by it under the Standby Note Purchase Agreement (not otherwise constituting a Special Event of Default) within three (3) days of such amount becoming due and payable under the Standby Note Purchase Agreement; or

- any representation or warranty made by or on behalf of the County to the Bank in the Standby Note Purchase Agreement or by the County in any Related Document or in any certificate or statement delivered under the Standby Note Purchase Agreement shall be incorrect or untrue in any material respect when made or deemed to have been made; or

- the County shall default in the due performance or observance of certain covenants under the Standby Note Purchase Agreement respecting modification of the Related Documents, the tax status of the Notes, appointment or removal of the Registrar and Paying Agent and the Remarketing Agent, violation of laws, use of disclosure materials not approved by the Bank, performance of covenants in the Related Documents, the Bank-Owned Notes, and governmental immunities; or

- the County shall default in the due performance or observance of any term, covenant or agreement contained or incorporated by reference in the Standby Note Purchase Agreement (other than those constituting a Special Event of Default and those described in the three immediately preceding paragraphs) and such default shall remain unremedied for a period of thirty (30) days or more; or

- the County shall fail to pay when due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any Debt of the County, other than general obligation indebtedness, with an outstanding principal amount of $1,000,000 or more, and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument providing for the creation or concerning such Debt, or any other default under any resolution, indenture, contract or instrument providing for the creation of or concerning such Debt, or any other event, shall occur and shall continue after the applicable grace period, if any, specified in such resolution, indenture, contract or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Debt; or pursuant to the provisions of any such resolution, indenture, contract or instrument the maturity of any Debt, other than general obligation indebtedness, in a principal amount in excess of $1,000,000 shall have been or may be accelerated or shall have been or may be required to be prepaid prior to the stated maturity thereof; or

- any "Event of Default" under the Note Order or the note order pertaining to the Series B Notes, or any "Event of Default" which is not cured within any applicable cure period under any of the other Related Documents shall occur; or

- any material provision of the Standby Note Purchase Agreement or any other Bond Document (other than a provision the invalidity of which would constitute a Special Event of Default) shall at any time for any reason cease to be valid and binding on the County as a result of a ruling, finding, decree, order, legislative act or similar action by a Governmental Authority having jurisdiction over the County, or shall be declared in a final non-appealable judgment by any court having jurisdiction over the County to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be publicly contested by the County; or

- The long-term unenhanced rating by Moody's, Fitch or S&P on any general obligation bonded indebtedness of the County shall be reduced below "Aa3" (or its equivalent), "AA-" (or its equivalent) or "AA- (or its equivalent), respectively.

Upon the occurrence of an Event of Default (other than a Special Event of Default or a Suspension Event), the Bank shall have all other remedies provided at law or equity, including, without limitation, specific performance; and in addition, the Bank, may do one or more of the following:

(i) declare all Obligations of the County to the Bank under the Standby Note Purchase Agreement and under the Bank-Owned Notes to be immediately due and payable, and the same shall thereupon become due and payable without demand, presentment, protest, notice of intent to accelerate, notice of acceleration or further notice of any kind; (ii) deliver to the County and the Registrar and Paying Agent written notice that an Event of Default has occurred under the Standby Note Purchase Agreement (a *"Notice of Termination of Commitment to Purchase"*), whereupon the remarketing of Notes shall cease immediately and at the close of business on the 35th day following the date such Notice of Termination of Commitment to Purchase is received by the Registrar and Paying Agent, the Available Commitment shall be reduced to zero and the obligations of the Bank to purchase Notes under the Standby Note Purchase Agreement shall terminate; *provided*, *however*, that prior to such termination, the Bank shall remain obligated to purchase Eligible Notes in accordance with the terms of the Standby Note Purchase Agreement so long as no Special Event of Default and no Suspension Event has occurred; (iii) require immediate purchase of Bank-Owned Notes by the County; (iv) exercise any right or remedy available to it under any other provision of the Standby Note Purchase Agreement; or (v) exercise any other rights or remedies available under any Related Document, any other agreement or at law or in equity; *provided, however,* that the Bank shall not have the right to terminate its obligation to purchase Notes except as expressly provided in the Standby Note Purchase Agreement.

Scheduled Termination Date. The Standby Note Purchase Agreement, unless it is terminated earlier as provided therein, will expire at 5:00 P.M., New York City time, on June 7, 2011. Prior to the expiration of any Liquidity Facility then in effect, the County, upon the conditions specified in the Note Order, may, but is not obligated to, provide for the delivery to the Registrar and Paying Agent of an Alternate Liquidity Facility in substitution for the Standby Note Purchase Agreement, or for such other

Liquidity Facility then in effect. See the caption "THE NOTES - Purchase of Notes on Tender Dates--Purchase of Notes on Mandatory Tender Dates" and "-Liquidity Facility; Alternate Liquidity Facility."

TAX EXEMPTIONS

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

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

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

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

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

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

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete; holders of Notes should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

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

Interest on the Notes may be subject to state and local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Prospective purchasers of the Notes should consult their own tax advisors regarding the taxable status of the Notes in a particular state or local jurisdiction other than the State of Maryland.

LEGAL MATTERS

The validity of the Notes will be passed upon by Venable LLP, Baltimore, Maryland, Bond Counsel. The form of Bond Counsel's opinion is set forth in Appendix D to this Official Statement.

Certain legal matters will be passed upon for the Remarketing Agent and the Underwriter by McGuireWoods LLP, Baltimore, Maryland; and for the Bank by Chapman and Cutler, LLP, Chicago, Illinois, and by JEANTETAssociés, New York, New York.

LITIGATION

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Notes or questioning or affecting the validity of the Notes, the Note Order or the proceedings and authority under which the Notes are to be issued.

There are miscellaneous claims now pending against the County, including claims currently in litigation. In the opinion of the General Counsel to the County, none of such claims will materially adversely affect the ability of the County to perform its obligations to the holders of the Notes.

RELATIONSHIPS

McGuireWoods LLP, counsel to the Underwriter and the Remarketing Agent, serves as counsel to the County from time to time in matters unrelated to the issuance of the Notes.

UNDERWRITING

The Notes are being purchased by Lehman Brothers Inc. (the "Underwriter"). As consideration for its purchase of the Notes and its efforts expended in connection with the initial offering of the Notes, the Underwriter will be paid fees and expenses of approximately $59,041.25. The purchase contract between the County and the Underwriter provides that the Underwriter will purchase all of the Notes, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract, the approval of certain legal matters by counsel and certain other conditions.

FINANCIAL ADVISOR

Public Financial Management of Philadelphia, Pennsylvania, has acted as financial advisor to the County in connection with the issuance of the Bonds. Public Financial Management is not obligated to undertake, and has neither undertaken an independent verification of, nor assumed responsibility for the accuracy of the information contained in this Official Statement. Public Financial Management is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

RATINGS

Fitch, Inc., Moody's Investor's Service, Inc. and Standard & Poor's Ratings Services, Inc. have given the Notes the ratings of AAA/F1+, Aaa/VMIG1and AAA/A-1+, respectively. No application was made to any other rating agency for the purpose of obtaining a rating on the Notes. A rating reflects only the view of the rating organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Notes.

CONTINUING DISCLOSURE

Counsel to the Underwriter has determined that the issuance and sale of the Notes are not subject to Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"). Consequently, the County has not covenanted to comply with the disclosure provisions of the Rule with respect to the Notes. However, the County has previously covenanted to comply with the provisions of the Rule in connection with previous issuances of fixed-rate bonds, and expects to provide annual financial information with respect to such bonds. The County expects that the annual financial information provided with respect to such bonds will be substantially similar in scope and format to that contained in this Official Statement. In addition, the County anticipates preparing official statements in connection with its future issuances of fixed-rate general obligation bonds, with an average frequency of once a year. Copies of such official statements will be available on request from the Remarketing Agent, the Financial Advisor or the County. The Note Order provides that, if a change in Mode will make a Note subject to the Rule, a continuing disclosure undertaking shall be entered into by the County and the Registrar and Paying Agent satisfying the requirements of the Rule.

INDEPENDENT PUBLIC ACCOUNTANTS

The audited basic financial statements of the County included in Appendix B to this Official Statement have been audited by KPMG LLP (KPMG), independent public accountants, as indicated in their report with respect thereto. In that report, KPMG states that with respect to certain of the County's component units, its opinion is based on the reports of other independent public accountants. The report of KPMG also contains an explanatory paragraph which states that KPMG did not audit certain identified supplementary information and expressed no opinion thereon. Such audited basic financial statements have been included in reliance upon the qualification of said firm to issue said report.

MISCELLANEOUS

This Official Statement includes descriptions of the terms of certain of the Note Documents, certain of the Standby Note Purchase Agreement Documents and the Standby Note Purchase Agreement. Such descriptions do not purport to be complete and all such descriptions and references thereto are qualified in their entirety by references to each such document, copies of which may be obtained from the Registrar and Paying Agent.

Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are set forth as such and not as representations of fact.

The attached Appendices A through F are integral parts of this Official Statement and should be read in their entirety together with the foregoing information.

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

MONTGOMERY COUNTY, MARYLAND

By: /s/ Douglas M. Duncan
County Executive

APPENDIX A

INFORMATION ABOUT THE COUNTY AS OF JANUARY 17, 2006

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TABLE OF CONTENTS

LIST OF TABLES

STATISTICAL HIGHLIGHTS

Debt

General Obligations Bonds Outstanding	$1,415,208,054
Total Assessed Value	$102,184,336,833
Direct Debt (incl. Revenue Bonds)	$1,479,061,439
Ratio of Direct Debt to Assessed Value	1.45%
Net Direct Debt	$1,416,406,439
Ratio of Net Direct Debt to Assessed Value	1.39%

Budgets

Approved FY06 Operating Budget	$3.562 billion
Approved FY06 General Fund Undesignated Surplus	$73.9 million
FY05 General Fund Unreserved Undesignated Balance	$127.2 million
FY05 Revenue Stabilization Fund Balance	$101.2 million
FY05-10 Capital Budget and Amendments	$2.388 billion

FY05 Major Revenues

Income Tax	$940.9 million
Property Tax	$792.1 million
Transfer and Recordation Tax	$261.0 million
Other Taxes	$162.1 million

Demographics

Population 2005 (est.)	942,000
Households 2005 (est.)	347,000
Median Age 2000	36.8 years

Employment	
Private Sector 2004	370,958
Public Sector 2004	78,438
Unemployment Rate (Jan - Nov 2005)	3.2%
Personal Income 2005 (est.)	$54.2 billion
Per Capita Income 2005 (est.)	$57,500
Average Household Income 2005 (est.)	$156,200
MCPS K-12 Enrollment	139,477
MCPS Per Pupil Operating Expenditures (FY06)	$12,287
Montgomery College Enrollment	22,254

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 1 on the following page. For additional discussion of particular elements of the County's debt, see the sections that follow.

(The remainder of this page has been left blank intentionally.)

Table 1
Statement of Direct and Overlapping Debt
As of June 30, 2005

Direct Debt:		
General Obligation Bonds Outstanding	$1,415,208,054	
Short-Term BANs/Commercial Paper Outstanding	--	
Long-Term Notes Payable	1,198,385	
Revenue Bonds Outstanding	62,655,000	
Total Direct Debt		$1,479,061,439
Overlapping Debt:		
Gross Debt:		
Washington Suburban Sanitary Commission Applicable to Montgomery County	1,008,216,728	
Housing Opportunities Commission	649,747,538	
Montgomery County Revenue Authority	68,780,082	
Maryland-National Capital Park and Planning Commission Applicable to Montgomery County	51,344,940	
Kingsview Village Center Development District	2,305,000	
West Germantown Development District	15,730,000	
Towns, Cities and Villages within Montgomery County	70,911,502	
Total Overlapping Debt		1,867,035,790
Total Direct and Overlapping Debt		3,346,097,229
Less Self-Supporting Debt:		
County Government Revenue Bonds	62,655,000	
Washington Suburban Sanitary Commission Applicable to Montgomery County	1,008,216,728	
Housing Opportunities Commission	649,747,538	
Montgomery County Revenue Authority	68,780,082	
Maryland-National Capital Park and Planning Commission Applicable to Montgomery County	14,194,940	
Total Self-Supporting Debt		(1,803,594,288)
Net Direct and Overlapping Debt		$1,542,502,941
Ratio of Debt to June 30, 2005 Assessed Valuation of (100% Assessment):		$102,184,336,833
Direct Debt		1.45%
Net Direct Debt *		1.39%
Direct and Overlapping Debt		3.27%
Net Direct and Overlapping Debt		1.51%
Ratio of Debt to June 30, 2005 Market Value of:		$109,242,081,266
Direct Debt		1.35%
Net Direct Debt *		1.30%
Direct and Overlapping Debt		3.06%
Net Direct and Overlapping Debt		1.41%

*Net Direct Debt of $1,416,406,439 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 the sum of six percent of the assessed valuation of all real property and 15 percent of the assessed valuation of all personal property within the County. Article 25A, Section 5(P) provides that obligations having a maturity not in excess of 12 months shall not be subject to, or be included in, computing the County's legal debt limitation. However, the County includes 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 2 below.

Table 2
Statement of Legal Debt Margin
As of June 30, 2005

June 30, 2005 Assessed Valuation – Real Property		$98,281,724,723
Debt Limit (% of Assessed Valuation)		6%
Subtotal Limitation – Real Property		$ 5,896,903,483
June 30, 2005 Assessed Valuation – Personal Property		$3,902,612,110
Debt Limit (% of Assessed Valuation)		15%
Subtotal Limitation – Personal Property		$ 585,391,817
Total Assessed Valuation – Real and Personal Property		$102,184,336,833
Legal Limitation for the Borrowing of Funds and the Issuance of Bonds		$6,482,295,300
Less Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds Outstanding	$1,415,208,054	
Short-Term BANs/Commercial Paper	--	
Long Term Notes Payable	1,198,385	
Net Direct Debt		1,416,406,439
Legal Debt Margin		$5,065,888,861
Net Direct Debt as a Percentage of Assessed Valuation		1.39%

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 in serial maturities from one to 20 years, 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 are 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 3 below.

Table 3
General Obligation Bonded Debt Ratios
1996 – 2005

Fiscal Year	Net Direct Debt to Market Value	GO Bond Debt Service to General Fund Expenditures	Net Direct Debt Per Capita*	Net Direct Debt Per Capita to Per Capita Income**	GO Bond Payout Ratio
1996	1.62%	10.04%	$ 1,384	3.50%	70.52%
1997	1.47	10.22	1,277	3.14	71.39
1998	1.66	9.71	1,433	3.32	72.58
1999	1.56	9.66	1,374	3.02	72.33
2000	1.64	9.17	1,473	3.11	72.06
2001	1.57	8.72	1,473	2.97	71.83
2002	1.55	8.32	1,516	3.03	71.32
2003	1.45	8.47	1,541	2.90	71.10
2004	1.45	7.98	1,591	2.88	70.94
2005	1.30	7.74	1,504	2.61	70.20

* Amounts restated due to restatement of population data.
** Figures restated due to restatement of actual income in May 2001.

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The County's general obligation indebtedness by issue is presented in Table 4. Annual debt service payments for the County's debt is displayed in Table 5. Table 6 sets forth the amount of general obligation bonds authorized to be issued by the County as of June 30, 2005.

Table 4
General Obligation Debt of the County
As of June 30, 2005

Issue	Dated Date	Original Issue Size	Original Interest Rates	TIC*	Maturity	Principal Outstanding June 30, 2005
GO Bonds	04/01/86	$ 50,000,000	5.80-6.30%	6.0956%	1987-06	$ 2,500,000
GO Refunding Bonds	07/01/92	273,038,054	2.75-5.80	5.7431	1993-10	94,518,054
GO Bonds	10/01/94	100,000,000	5.20-6.125	5.7958	1995-08	5,000,000
GO Bonds	03/15/96	120,000,000	5.10-5.50	5.2946	1997-08	12,000,000
GO Bonds	04/15/97	115,000,000	5.00-5.375	5.3226	1998-17	17,250,000
GO Refunding Bonds	01/01/98	69,510,000	3.90-5.25	4.6400	2003-15	68,275,000
GO Bonds	04/01/98	115,000,000	4.875	4.7607	1999-18	23,000,000
GO Bonds	04/01/99	120,000,000	4.00-5.00	4.4764	2000-19	36,000,000
GO Bonds	01/01/00	130,000,000	5.00-6.00	5.4853	2001-13	39,000,000
GO Bonds	02/01/01	140,000,000	4.00-5.00	4.5447	2002-21	56,000,000
GO Refunding Bonds	11/15/01	146,375,000	3.60-5.25	4.5107	2003-19	138,595,000
GO Bonds	02/01/02	160,000,000	3.50-5.00	4.4619	2003-22	80,000,000
GO Refunding Bonds	11/15/02	93,595,000	2.75-5.25	3.2799	2005-13	93,595,000
GO Bonds	05/01/03	155,000,000	1.50-4.00	3.6304	2004-23	139,500,000
GO Refunding Bonds	05/01/03	49,505,000	2.00-5.00	2.2900	2004-11	45,060,000
GO Bonds	03/15/04	154,600,000	3.00-5.00	3.8290	2005-24	146,870,000
GO Refunding Bonds	08/15/04	97,690,000	3.00-5.25	3.7208	2008-17	97,690,000
GO Bonds	05/15/05	200,000,000	4.00-5.00	3.8806	2006-25	200,000,000
GO Refunding Bonds	06/01/05	120,355,000	5.00	3.7817	2011-21	120,355,000
Total						$1,415,208,054

* True Interest Cost.

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Table 5
Summary of General Obligation Bond
Debt Service Requirements by Fiscal Year
As of June 30, 2005

Fiscal	General Obligation Bonds		
Year	Principal	Interest	Total
2006	$ 121,320,000	$ 62,996,099	$ 184,316,099
2007	121,210,000	59,445,627	180,655,627
2008	120,940,000	53,663,590	174,603,590
2009	99,786,683	60,498,882	160,285,565
2010	98,387,086	51,784,454	150,171,540
2011	95,244,285	42,109,205	137,353,490
2012	90,525,000	34,786,509	125,311,509
2013	87,385,000	30,618,757	118,003,757
2014	81,240,000	26,285,824	107,525,824
2015	76,230,000	22,425,392	98,655,392
2016	71,425,000	18,480,169	89,905,169
2017	65,220,000	15,284,737	80,504,737
2018	59,205,000	12,456,512	71,661,512
2019	53,255,000	9,917,600	63,172,600
2020	47,080,000	7,647,225	54,727,225
2021	40,365,000	5,568,863	45,933,863
2022	33,180,000	3,846,388	37,026,388
2023	25,480,000	2,476,713	27,956,713
2024	17,730,000	1,338,188	19,068,188
2025	10,000,000	500,000	10,500,000
Total	$1,415,208,054	$522,130,734	$1,937,338,788

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Table 6
General Obligation Bonds Authorized – Unissued
As of June 30, 2005

Purpose	Chapter	Act	Amount	Amount Unissued
General County, Parks, and	22	2000	$ 78,300,000	$ 1,690,000
Consolidated Fire Tax District	17	2001	35,200,000	35,200,000
	21	2002	4,700,000	4,700,000
	17	2003	63,600,000	63,600,000
	18	2004	31,200,000	31,200,000
			213,000,000	136,390,000
Road & Storm Drainage	21	2002	34,800,000	33,240,000
	17	2003	1,700,000	1,700,000
	18	2004	97,500,000	97,500,000
			134,000,000	132,440,000
Public Schools and	21	2002	104,800,000	26,768,000
Community College	17	2003	52,400,000	52,400,000
	18	2004	145,000,000	145,000,000
			302,200,000	224,168,000
Mass Transit	17	2001	6,700,000	5,605,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
			9,200,000	8,105,000
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	855,000	855,000
			5,630,000	5,570,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$677,345,000	$514,803,000

In addition to the above noted authority, the County has authority under the provisions of section 56-13 of the Montgomery County Code 1994, 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 ten years, and planned for substitution over the five years beginning FY06, are displayed below.

Table 7
PAYGO Substitutions
(Actual FY96-05, Budgeted FY06-10)

Fiscal Year	PAYGO Amount	Fiscal Year	PAYGO Amount
1996	$ 7,000,000	2004	$ 6,240,000
1997	3,925,000	2005	7,275,000
1998	13,000,000	2006	11,737,000
1999	13,400,000	2007	36,000,000
2000	24,600,000	2008	38,000,000
2001	40,705,000	2009	38,000,000
2002	40,155,000	2010	39,600,000
2003	17,374,000		

Short-Term Bond Anticipation Notes/Commercial Paper

The County utilizes Bond Anticipation Notes (BANs)/commercial paper for short-term capital financing of capital expenditures with the expectation that the principal amount will be refinanced with the proceeds of long-term general obligation bonds. Interest costs incurred are usually at lower rates than with long-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 note program that matures on June 30, 2022. 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, 2004 through June 30, 2005 are presented in Table 8 below.

Table 8
Bond Anticipation Notes Outstanding
As of June 30, 2005

Issue	Balance July 1, 2004	BANs Issued	BANs Retired	Balance June 30, 2005
BAN Series 2002-D	$ 35,000,000	$ --	$ 35,000,000	$ --
BAN Series 2002-E	115,000,000	--	115,000,000	--
BAN Series 2002-F	--	50,000,000	50,000,000	--
Total	$150,000,000	$50,000,000	$200,000,000	$ --

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 were reloaned to a private corporation, for purposes of relocation to and renovation of facilities in the County. As a result of certain conditions having been met, $150,000 of the loan was 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 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 are used in the Bethesda and Silver Spring Parking Districts, supported by parking fees and fines, together with parking district property taxes. County revenue bonds were also 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 9. Annual debt service payments for the County's revenue bond debt are displayed in Table 10. Table 11 sets forth the amount of revenue bonds authorized to be issued by the County as of June 30, 2005.

Table 9
Revenue Bond Debt of the County
As of June 30, 2005

Issue	Dated Date	Original Issue Size	Original Interest Rates	TIC*	Maturity	Principal Outstanding June 30, 2004
Parking Refunding Revenue Bonds (Bethesda PLD)	05/01/02	$ 14,560,000	3.00%-5.00%	3.1941%	2003-09	$ 7,925,000
Parking Refunding Revenue Bonds (Silver Spring PLD)	05/01/02	12,130,000	3.00%-5.00%	3.1398%	2003-09	6,050,000
Parking Revenue Bonds (Bethesda PLD)	06/01/02	26,000,000	3.00%-4.75%	4.4231%	2003-21	22,995,000
Solid Waste Refunding Revenue Bonds	04/03/03	31,075,000	3.00%-5.00%	3.5982%	2004-13	25,685,000
Total						$ 62,655,000

* True Interest Cost.

Table 10
Summary of Revenue Bond Debt Service Requirements by Fiscal Year
As of June 30, 2005

	Revenue Bonds		
Fiscal Year	Principal	Interest	Total
2006	$ 8,530,000	$ 2,618,690	$ 11,148,690
2007	8,820,000	2,346,165	11,166,165
2008	6,535,000	1,958,415	8,493,415
2009	6,810,000	1,713,365	8,523,365
2010	4,620,000	1,410,478	6,030,478
2011	4,800,000	1,234,228	6,034,228
2012	4,995,000	1,042,228	6,037,228
2013	4,045,000	805,528	4,850,528
2014	1,425,000	615,518	2,040,518
2015	1,490,000	554,955	2,044,955
2016	1,560,000	489,767	2,049,767
2017	1,635,000	421,127	2,056,127
2018	1,715,000	347,552	2,062,552
2019	1,800,000	268,662	2,068,662
2020	1,890,000	184,062	2,074,062
2021	1,985,000	94,288	2,079,288
Total	$ 62,655,000	$ 16,105,028	$ 78,760,028

Table 11
Revenue Bonds Authorized – Unissued
As of June 30, 2005

Purpose	Resolution No.	Year	Amount	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 42,088,000
	14-921	2001	35,000,000	9,000,000
	15-931	2005	18,000,000	18,000,000
			104,163,000	69,088,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Total Revenue Bonds			$161,098,000	$ 75,343,000

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, BANs/commercial paper, 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 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 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 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 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 issued long-term obligations to fund various public amenities such as road and sewer improvements.

Special Taxing Districts

The County created three development districts: Kingsview Village Center, West Germantown, and Clarksburg Town Center. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The creation of these 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 Chapter 14, 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. Any bond issued under Chapter 14 is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County, and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements.

In December 1999, the County issued $2.41 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessments were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds for the West Germantown Development District. The County issued $11,600,000 of Senior Series 2002A bonds and $4,315,000 of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt. Bonds have not yet been issued for the Clarksburg Town Center development district.

Pursuant to Section 2.07 (g) of the West Germantown bond indenture, upon the satisfaction of certain assessed value requirements which were met, the holders of the Junior Series 2002B bonds requested that the County issue Additional Bonds in exchange for the Junior Series 2002B bonds. The Additional Bonds are on a parity with the Series 2002A bonds (i.e., they are senior lien bonds) and will otherwise have the same terms and conditions as the Series 2002B bonds.

The County was petitioned by property owners to form two additional development districts in the Clarksburg area, Clarksburg Village and Clarksburg Skylark. These districts are in the evaluation phase.

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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 $10,852,000 for FY05. Long-term leases with the Maryland Economic Development Corporation (MEDCO) and the Montgomery County Revenue Authority are subject to annual appropriations, but are related to the debt service on bonds that MEDCO and the Revenue Authority issued on the County's behalf.

Following is a listing of significant lease agreements for FY06:

Payee	Location	Use	Total Rent For FY06
Maryland Economic Development Corp.	921 Wayne Avenue, Silver Spring	Parking Garage	$3,406,981
Eldrige, Inc.	255 Rockville Pike, Rockville	Various Agencies	3,310,935
Montgomery County Revenue Authority	Indoor Swim Centers	Recreation	3,100,172
Maryland Economic Development Corp.	801 Ellsworth Drive, Silver Spring	Parking Garage	2,512,351
Montgomery County Revenue Authority	5701 Marinelli Drive, Rockville	Conference Center	1,901,051
FP Gude LLC	7300 Calhoun Drive, Derwood	Juvenile Assessment Center	1,196,106
Argo Orchard Ridge, LC	101 Orchard Ridge Dr., Gaithersburg	DPWT	1,041,460
Alexandria Real Estate	1300 Quince Orchard Blvd., Gaithersburg	Emergency Communications Center	873,553
Montgomery County Revenue Authority	1301 Piccard Drive, Rockville	Health & Human Services	631,830
1335 Piccard LLC, c/o Wellstone Corp.	1335 Piccard Drive, Rockville	Health Center	559,187
The Gudelsky Comp.	8630 Fenton Street, Silver Spring	Health Center	453,324
Scott Group, Inc.	110 N. Washington Street, Rockville	Various Agencies	431,340
Washington Real Estate Investment Trust	51 Monroe Street, Rockville	Various Agencies	420,509
Williamson, Harry E. and Helga R.	12500 Ardennes Avenue, Rockville	Corrections	405,975
Transwestern Gateway LLC	401 N. Washington Street, Rockville	Commission for Women	378,865
McShea Gaither Road Ltd. Partnership	9125 Gaither Road, Rockville	Police/S.O.D.	303,232
IGPF Shady Grove LLC	9210 Corporate Boulevard, Rockville	Police/S.I.D.	262,496
Betty B. Casey Trust	8536 Anniversary Circle, Rockville	Records Center/Warehouse	247,612
Washington Real Estate Investment Trust	600 East Jefferson St., Rockville	Community Use of Public Facilities	234,243
Tri Peaks Investors, LLC	18749 Frederick Road, Gaithersburg	Police/District 6	218,638
Various	Rockville Core	Parking	186,300
Milford Mill Limited Partnership	19627 Fisher Avenue, Poolesville	Poolesville Library	182,201
First Campus Ltd Ptnshp	20400 Observation Drive	PS 2000 Training	177,300
VMO Rockville, LLC	199 E. Montgomery Ave., Rockville	Sheriff's Office	160,680
Robert Sugar & Helen Rea	8435 Georgia Ave., Silver Spring	Regional Services Center	137,200
Jemal's Colemont, LLC	8715 Colesville Rd., Silver Spring	Police/Silver Spring Station	134,158
Spring Street Assoc. Limited Partnership	1109 Spring Street, Silver Spring	Various Agencies	126,896

Other Operating Payment Agreements

Lease Revenue Bonds – Metrorail Garage Projects

The County entered into a Trust Agreement dated June 1, 2002 with Wachovia Bank, N.A. related to the issuance of $37,880,000 in Lease Revenue Bonds to finance the costs of parking structures and related facilities at the Shady Grove Metrorail Station and the Grosvenor Metrorail Station in Montgomery County. The County leased the garages to the Washington Metropolitan Area Transit Authority ("WMATA"), an interstate compact agency and instrumentality of the District of Columbia, the State of Maryland and the Commonwealth of Virginia.

Pursuant to the Trust Agreement, and a First Supplemental Trust Agreement dated September 1, 2004, additional bonds in the amount of $4,745,000 were issued by the County on September 28, 2004 to complete construction of the Shady Grove and Grosvenor parking structures and related facilities. The final maturity of the Series 2002 and Series 2004 bonds is in 2024.

The Bonds are limited obligations of the County payable solely from and secured by a pledge of (1) the revenues and receipts to be derived from the lease of the garages to WMATA and (2) certain funds and accounts established pursuant to the Trust Agreement, including a debt service reserve. The County covenanted to budget, appropriate and pay to the Trustee for deposit in the debt service reserve, at any time in any fiscal year when the amount to the credit thereof is less than required by the Trust Agreement, an amount equal to the deficiency; however, the obligation of the County to make any such payment in any fiscal year is contingent upon the appropriation for such fiscal year by the Montgomery County Council of funds from which such payment can be made. The obligation of the County under the agreement does not constitute a pledge of the full faith and credit or of the taxing powers of the County.

Certificates of Participation – Equipment Acquisition Program

The County entered into a conditional purchase agreement dated June 1, 2001 with Wachovia Bank (formerly First Union National Bank of Maryland) for the purpose of borrowing $54,660,000 to purchase radio and mobile data equipment for use in the County's public safety programs and buses for use in the County's Ride-On Bus System. The County's obligation to make purchase installments under the agreement in any fiscal year is contingent upon the County Council making an appropriation for such purpose in such year. In the event that the Council does not appropriate moneys to make such purchase installments in any fiscal year, the County is required to return the equipment to the seller without any additional financial liability. The obligation of the County under the agreement does not constitute a pledge of the full faith and credit or of the taxing powers of the County. The certificates of participation mature on June 1, 2006.

State Assumption – Certain Mass Transit Capital Costs

The regional Metro Rapid Rail System, operated by the Washington Metropolitan Area Transit Authority (WMATA) and recently completed, is a 106-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.

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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GENERAL FINANCIAL INFORMATION

Accounting System

The accounts of the County are organized on the basis of funds, 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/net assets, 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.

Montgomery County received the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report (CAFR) more times than any other county in the nation – thirty-five times – as early as 1951 and consecutively for thirty-three years, since 1972. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. 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 FY05 CAFR continues to meet the Certificate of Achievement Programs requirements and 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 Basic Financial Statements (refer to Appendix A for statements as of June 30, 2005).

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and certain fiduciary fund (pension and other employee benefit trusts, investment trust, and private-purpose trusts) financial statements. The agency funds also use the accrual basis of accounting to recognize assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements.

Governmental fund (i.e., General, Debt Service, Capital Projects, Special Revenue, and Permanent) financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and judgments, and compensated absences, are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

ANNUAL BUDGETS

Operating Budget and Tax Rates

On May 27, 2005 the County Council approved the FY06 operating budget comprising the County Government, MCPS, the College, and M-NCPPC aggregating $3.562 billion. This budgetary level represents an increase of 7.7 percent over the adopted budget for FY05.

The FY06 operating budget provides the greatest share (51.4 percent) of total resources to Montgomery County Public Schools, including funding necessary for an estimated 140 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, and transit are funded for important improvements in FY06, as well as compensation improvements.

The approved FY06 budget provided for an undesignated surplus of $73.9 million in the General Fund and $91.7 million across all tax supported funds. For FY06, the estimated effective real property tax rate for the County declined to $0.953 per $100 of assessed valuation from the actual effective real property tax rate of $0.995 per $100 of assessed valuation in FY05.

Capital Budget/Capital Improvements Program

The County Council approved the FY06 Capital Budget and Amendments to the FY05-10 Capital Improvements Program for the County government and the required agencies, except for WSSC, aggregating $2.388 billion for FY05-10. This approved program provided for County bond funding aggregating $1.393 billion over the amended six-year period FY05-10. The Council approved a Capital Improvements Program for WSSC totaling $548.1 million for FY06-11.

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 FY06 Capital Budget and the amended FY05-10 CIP is $12.2 million. 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.

GENERAL FUND AND MAJOR SOURCES OF REVENUE

Status of the General Fund

Montgomery County concluded the fiscal year ending June 30, 2005, with an unreserved undesignated balance for the General Fund of $127.2 million. The County's governmental funds reported combined ending fund balances of $454.4 million, an increase of $8.8 million over the prior year's ending fund balances. The Revenue Stabilization Fund (RSF), including related investment income, was $95.9 million at the close of FY04. Following the mandatory contribution requirement, half of actual General Fund receipts from the (i) income tax, (ii) transfer tax, (iii) recordation tax, and (iv) investment income above the budget estimate must be transferred to the RSF. Since actual revenues exceeded estimated revenues in FY04, there was a mandatory contribution made to the RSF of $5.2 million. Therefore, the amount in the fund increased to $101.2 million at the end of FY05.

General Fund Revenues

Actual revenues for the General Fund totaled $2,320.5 million and were 6.4 percent above the budget estimate for the fiscal year and 10.5 percent above actual revenues for FY04. The three largest contributors to the variance between the budget estimate and actual revenues were the income tax (↑ $47.9 million above the budget estimate), followed by the recordation tax (↑ $67.2 million above the budget estimate), and finally, the transfer tax (↑ $39.7 million above the estimate). Revenues from excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $162.1 million in FY05. That amount was $2.7 million or 1.7 percent below the budget estimate. Investment income was approximately $140,000 above the budget estimate. Some non-tax sources of revenue came in above the budget estimate. Such sources included licenses and permits (↑ 2.6%); charges for services (↑ 1.4%), and miscellaneous sources (↑ 11.7%). Intergovernmental revenues were 7.1 percent below the budget estimate. Such decrease was attributed to the state reimbursements which came in 8.4 percent below the budget estimate, federal reimbursements (1.3 percent above the budget estimate), and other intergovernmental revenues (24.1 percent below the budget estimate).

Major Sources of General Fund 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 FY05, the General County property tax levies were based on full cash value for all assessable property in the County at the rate of $1.835 per $100 of assessed personal property, and $0.734 per $100 of assessed real property valuation. The levies generated $792.1 million, or approximately 34.1 percent, of the total County General Fund operating requirements.

For FY05, 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 $940.9 million in FY05, or 40.5 percent of the total County General Fund operating revenue.

Income Tax

The largest revenue source for the General Fund is the County income tax. Revenues from the income tax were $940.9 million and represented 43.6 percent of total tax revenues and 40.5 percent of total revenues in FY05. Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expanding employment base in the County during fiscal years 1999 through 2001, and growth in capital gains during that same period. Even with a sluggish stock market and meager growth in the County's payroll employment during the FY02-05 period, revenues increased 6.7 percent in FY02, 10.4 percent in FY04, and 8.2 percent in FY05. Such steady increases in the income tax revenues were interrupted in FY03, which experienced a decline of 9.1 percent, attributed partly to the nearly 2 percent drop in withholdings and estimated payments. There are a number of factors that contributed to the increase in income tax revenues in FY04 and FY05. In FY04, the County Council increased the local income tax rate from 2.95% to 3.20%. Also, the Maryland State Comptroller (Comptroller) implemented three administrative changes to the distribution of revenue collections to the County. The first was a procedural change to expedite the submittal of withholding by employers. Previous to the change, the Comptroller received employers' withholdings on the fifteenth day of the subsequent month. The new procedure requires employers to submit their withholdings within three business days. As a result, the Comptroller accelerated the August distribution to the month of July, and therefore, the distribution was included in FY04 instead of the subsequent fiscal year. The second administrative change accelerated fifty percent of three years of unclaimed withholdings (tax years 2001, 2002, and 2003). The third administrative change modified the unallocated percentage with a three percentage point reduction resulting in an increase in quarterly distributions of withholdings and estimated payments. Partly because of the acceleration of the three years of unclaimed withholdings and the increase in the tax rate, revenues collected in FY04 reached nearly $870 million, which presented an increase of $81 million over FY03 and the largest one year increase since FY99.

With modest improvement in employment and the stock market during calendar year 2004 and with the Comptroller introducing an administrative change effective FY05 that accelerated the distribution of interest and penalties, income tax revenues were up nearly $71.2 million in FY05 over FY04. Additionally, the first adjustment by the Comptroller to the acceleration of the three-year unclaimed withholdings in FY04 yielded a higher than expected distribution at the end of FY05. Total quarterly distributions for withholding and estimated payments increased 12.7 percent (FY05), compared to +10.6 percent (FY04), -1.8 percent (FY03), +1.8 percent (FY02), +3.6 percent (FY01), +10.6 percent (FY00), +8.8 percent (FY99), and +12.1 percent (FY98).

Property Tax

Property tax collections in the General Fund amounted to $792.1 million in FY05, which were $1.5 million higher than the budget estimate and 7.5 percent above actual revenues in FY04. Property taxes, excluding penalty and interest and other items, were $790.4 million in FY05 – an increase of 7.6 percent over last year**.** However, collections from penalty and interest were $1.8 million, a decrease of 22 percent compared to FY04 actual revenues. The increase in property tax collections was the result of a 10.1 percent increase in the assessable base for real property from FY04 to FY05. This was the largest increase in over nine years. New construction, which added $1.7

billion to the base in FY05, was 1.0 percent higher than FY04. The continued strong real estate market is fueling the dramatic increase in the reassessment rate, from 13.5 percent to 51.8 percent for Cycle One reassessments of the County's real property, which followed an increase in the rate from 2.7 percent to 21.8 percent for Cycle Two reassessments in FY03, and from 6.4 percent to 36.3 percent for Cycle Three in FY04. Because of these dramatic increases in the reassessment rates, nearly $9.8 billion was added to the assessable base in FY05. As a result, the 8.2 percent increase in tax-supported property tax revenues in FY05 was one of the highest increases during the last eight fiscal years.

After their decline in FY98, assessments of personal property increased 2.8 percent in FY99, 3.2 percent in FY00, 5.1 percent in FY01, 3.0 percent in FY02, and 0.6 percent in FY03. In FY04 the base declined 6.2 percent due to decreases in all three categories (individual, public utility, and corporate), and declined again (1.5 percent) in FY05 due to the adjustment to individual personal property by the State Department of Assessments and Taxation, and a decrease in public utility personal property. Despite the weaker personal property trend, the total assessable base grew 5.9 percent in FY03, 7.6 percent in FY04, and 9.6 percent in FY05.

Transfer / Recordation Tax

The third major category of General Fund revenues in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources were $261 million (including revenues earmarked for CIP funding of school construction), 69.4 percent above the budget estimate and 19.1 percent above FY04 receipts. The amount collected from these taxes increased from $83 million in FY98 to $261 million in FY05.

Following a two-year decline in tax collections, transfer and recordation taxes increased 40.1 percent in FY98 followed by a 12.1 percent increase in FY99, moderated in FY00 and FY01, then accelerated another 22.7 percent per year, on average, from FY02 through FY05. Collections from transfer tax revenues exhibited the larger increase in FY05, 23.4 percent, compared to recordation tax revenues, which increased 14.9 percent.

Revenues from the transfer tax were exceptionally strong in FY05 with total collections at $133.7 million. Revenues from the residential sector were $112.4 million, an increase of 18.4 percent over FY04, and revenues from the non-residential sector were $21.3 million, an increase of 59.5 percent. The continued surge of real estate activity in FY05, attributed to low mortgage interest rates and accelerating home prices, was the primary factor contributing to the underestimates of projected transfer and recordation tax revenues for FY05.

A closer examination of the trend in the transfer tax from FY98 to FY05 provides two different growth patterns between residential and non-residential transfer tax receipts. Except for FY01, transfer taxes from the residential real estate market exhibited exceptional growth rates over this period. Tax collections increased at an average annual rate of 15.3 percent between FY98 and FY05. In FY01 and FY03, the growth rates were below double-digit rates for the first time since FY97 but still remained positive (FY01: ↑1.6%; FY03 ↑7.8%). Because of such exceptional increases over these fiscal years, the amount collected in FY05, $112.4 million, was an all-time high. The average transfer tax nearly doubled during this period from $2,254 in FY98 to $4,390 in FY05, representing an average annual growth rate of 9.5 percent and indicative of the jump in housing prices and a shift towards larger and more expensive homes in the County.

Similar to the residential sector, the commercial or non-residential sector experienced a stellar performance in FY05. Revenues from that sector increased 59.5 percent compared to 18.4 percent for the residential sector. Over the previous six fiscal years, non-residential transfer tax revenues exhibited two distinct three-year cyclical patterns. For example, from FY98 to FY01, revenues decreased at an average annual rate of 14.5 percent, whereas from FY01 to FY04, revenues increased at an average annual rate of 11.9 percent. While the amount of collections from the commercial sector doubled in FY98, the decline during each of the next three fiscal years was attributed to a greater decline in the number of transfers from FY98 to FY01 (↓ 15.9% at an average annual rate) as opposed to the increase in the average tax (↑ 0.9 percent at an average annual rate).

Other Taxes

The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled $162.1 million and were approximately $2.7 million, or 1.7 percent, below the budget estimate. The opening of the Conference Center in North Bethesda in late calendar year 2004 had a positive effect on revenues from the hotel/motel industry (↑ 3.5% percent above the budget estimate) during FY05. Fuel and energy taxes were at the budget estimate. The decline in revenues from the admissions tax and the telephone tax contributed to the overall loss of revenues from the excise taxes. Collections from the admissions tax declined 5.2 percent in FY05, attributed to a reduction in attendance at movie theaters (↓ 14.6%) and facilities providing video arcades and games (↓ 15.2%). Revenues from the telephone tax were 7.5 percent below the budget estimate and the decline was attributed to a continued reduction in landlines.

Investment Income

In the General Fund, investment income increased from less than one-half million dollars ($417,000) in FY04 to $3.7 million in FY05. Investment income was 3.9 percent above the budget estimate. The dramatic increase in investment income follows declines in Fiscal Years 2001 through 2004, which were the results of the accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that began in January 2001. Since June 2004, the FOMC raised the target interest rate for federal funds eight times from 1.25 percent to 3.25 percent by June 2005. Because of this 200 basis point increase within a year, short-term or money market rates increased as well, hence the average yield on cash equity for the County increased from 1.13 percent in FY04 to 2.19 percent in FY05. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $15.6 million or 143.9 percent above last fiscal year. That increase in revenues with a lesser rate of increase in spending is reflected in the daily portfolio balance, which increased from $566 million in FY04 to $710 million in FY05.

General Fund Appropriations and Transfers

Expenditure savings in FY05 amounted to $5.2 million. Savings occurred predominantly in departmental expenditures ($3.8 million) compared to non-departmental expenditures ($1.4 million). Even though all departmental and most non-departmental units recognized some savings this year, the majority of the savings occurred in lower than projected operating costs for the Department of Human Services ($1.0 million), Board of Elections ($0.5 million), and the Department of Public Works and Transportation ($0.4 million).

County law requires that 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. Because of greater than expected receipts, there was a mandatory contribution to the Revenue Stabilization Fund in FY05 of $5.2 million.

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Table 12
Montgomery County, Maryland
Schedule of General Fund Revenues, Expenditures, & Transfers In (Out)
(Budgetary, Non-GAAP Basis)

	Fiscal Year Actual(1)				Fiscal Year Budget
	2002	2003	2004	2005	2006
Revenues:					
Taxes:					
Property, including interest & penalty	$ 644,523,032	$ 695,354,478	$ 736,961,478	$ 792,149,705	$ 782,485,000
Transfer tax and recordation tax	132,085,074	169,583,507	219,080,729	260,955,053	184,020,000
County income tax	866,996,269	787,997,740	869,667,887	940,858,931	948,720,000
Other taxes	43,704,476	47,630,238	116,892,853	162,073,381	162,458,000
Total Taxes	1,687,308,851	1,700,565,963	1,942,602,947	2,156,037,070	2,077,683,000
Licenses and permits	4,857,707	8,728,837	9,201,123	9,476,136	10,017,270
Intergovernmental revenue	115,791,737	111,611,635	117,131,716	118,353,371	138,416,608
Charges for services	7,262,727	10,389,923	14,141,153	15,600,267	13,997,560
Fines and forfeitures	7,143,920	7,383,288	7,404,248	7,726,337	10,059,430
Investment income	8,270,355	3,310,147	416,588	3,722,932	5,070,000
Miscellaneous	10,598,490	8,929,585	8,945,982	9,603,137	8,266,630
Total Revenues	1,841,233,787	1,850,919,378	2,099,843,757	2,320,519,250	2,263,510,498
Expenditures (including encumbrances):					
General County:					
General government	161,204,882	166,156,273	168,549,554	179,009,067	203,227,534
Public safety	188,059,119	212,829,090	225,634,585	251,608,042	278,289,485
Transportation and public works	32,518,389	41,130,164	45,659,148	44,628,602	41,031,681
Health and human services	149,134,783	157,251,684	163,006,801	173,813,810	197,935,164
Culture and recreation	44,090,316	43,455,404	41,611,491	44,333,319	47,246,826
Housing and community development	3,632,055	6,305,950	6,363,507	6,889,713	7,469,989
Environment	4,349,786	3,557,247	3,235,236	3,280,633	3,972,045
Total Expenditures	582,989,330	630,685,812	654,060,322	703,563,186	779,172,724
Transfers In (Out):					
Transfers In:					
Special Revenue Funds	12,850,550	12,555,270	13,203,740	12,538,500	12,448,820
Enterprise Funds	33,378,200	29,877,080	26,442,710	27,102,810	25,534,770
Trust Funds	--	--	--	--	50,000
Internal Service Funds	500,000	--	--	--	--
Component Units	612,754	626,360	328,420	1,010,826	328,420
Total Transfers In	47,341,504	43,058,710	39,974,870	40,652,136	38,362,010
Transfers Out:					
Special Revenue Funds	(28,275,375)	(22,374,913)	(31,243,064)	(23,733,932)	(11,549,488)
Debt Service Fund	(157,010,129)	(168,474,195)	(177,932,595)	(186,529,027)	(198,736,870)
Capital Projects Fund	(61,368,324)	(15,012,594)	(29,506,722)	(19,027,068)	(34,942,772)
Enterprise Funds	(3,143,120)	(2,368,780)	(2,721,418)	(2,700,331)	(2,609,110)
Internal Service Funds	(471,622)	(79,734)	(116,423)	(605,796)	(1,052,400)
Component Units	(1,117,630,064)	(1,163,343,950)	(1,222,246,998)	(1,350,046,288)	(1,365,414,733)
Total Transfers Out	(1,367,898,634)	(1,371,654,166)	(1,463,767,220)	(1,582,642,442)	(1,614,305,373)
Net Transfers In (Out)	(1,320,557,130)	(1,328,595,456)	(1,423,792,350)	(1,541,990,306)	(1,575,943,363)
Excess of revenues and operating transfers in over (under) expenditures, encumbrances and operating transfers out	(62,312,673)	(108,361,890)	21,991,085	74,965,758	(91,605,589)
Fund Balances, July 1 as previously stated	230,423,758	195,161,927	109,601,952	146,804,572	234,440,615
Adjustment for previous year encumbrances(2)	27,050,842	22,801,915	15,211,535	12,670,285	13,890,802
Fund Balances, July 1 restated	257,474,600	217,963,842	124,813,487	159,474,857	248,331,417
Equity transfers in (out)	--	--	--	--	--
Budgetary Fund Balance, June 30	$ 195,161,927	$ 109,601,952	$ 146,804,572	$ 234,440,615	$ 156,725,828

(1) Audited amounts.
(2) Prior year encumbrances are net of write-offs.
Note: Actual and budget amounts are for fiscal years ended June 30.

Table 13
General Fund
Schedule of Budgetary Fund Balance to
GAAP Fund Balance Reconciliation

	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005
Budgetary to GAAP Reconciliation:				
Budgetary Fund Balance as noted above	$195,161,927	$109,601,952	$146,804,572	$234,440,615
Plus encumbrances outstanding	25,357,214	16,783,091	13,840,682	13,899,185
Adjustment for prior year encumbrances	(2,261,938)	(2,555,941)	(1,571,556)	(1,170,407)
Unrealized investment gain (loss)	(1,973,055)	1,752,108	(1,740,797)	(2,338,309)
Net differences between beginning fund balances	2,973,976	842,960	1,603,295	1,718,083
GAAP Fund Balance as Reported	$219,258,124	$126,424,170	$158,936,196	$246,549,167
Elements of GAAP Fund Balance:				
Reservations	$ 29,201,708	$ 22,540,476	$ 19,830,438	$ 5,971,759
Designated for CIP Transfers	55,822,587	51,936,828	82,361,052	72,478,053
Unreserved - Designated for Encumbrances	--	--	--	13,899,185
Designated for subsequent years expenditures	61,325,631	17,300,037	30,017,660	27,029,039
Unreserved / Undesignated	72,908,198	34,646,829	26,727,046	127,171,131
	$219,258,124	$126,424,170	$158,936,196	$246,549,167

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

Revenue Stabilization Fund

The State of Maryland in 1992, 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 10 percent of the aggregate revenue from certain sources in the preceding three fiscal years. 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: l) 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.

As the result of higher than estimated income, transfer, and recordation tax revenues and investment income, a mandatory transfer of $5.2 million was made to the Fund at the end of FY05. There was a mandatory contribution of $8.8 million made to the Fund at the end of FY04, but there was no mandatory contribution in FY03. Prior to FY03, mandatory transfers were made in FY97 ($18.7 million), FY98 ($21.4 million), FY99 ($5.5 million), FY00 ($8.4 million), FY01 ($8.9 million), and FY02 ($7.7 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 size of $101.2 million at the close of FY05. Since the Fund reached more than half of its maximum size, according to the County law that established the Fund, interest earned from the fund must be transferred to PAYGO. The interest transfer in FY05 was $2.4 million.

DEMOGRAPHICS

Population

The population of the County, according to the 2000 Census, was 873,341, an increase of 15.0 percent since the 1990 Census. The Maryland-National Capital Park and Planning Commission (M-NCPPC) revised population estimate shows 1,000,000 for the County by July 1, 2010.

Table 14
Households and Population

	Households	Population	Population Percent Change from Prior Census
2010 (M-NCPPC est.)	370,000	1,000,000	14.5%
2005 (M-NCPPC est.)	347,000	942,000	7.9
2004 (M-NCPPC est.)	342,000	931,000	6.6
2003 (M-NCPPC est.)	338,000	918,000	5.1
2002 (M-NCPPC est.)	334,000	903,000	3.4
2001 (M-NCPPC est.)	329,000	887,000	1.6
2000 (U.S. Census)	324,565	873,341	15.0
1990 (U.S. Census)	283,400	759,600	31.2
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 for households and population in 2010 derived from the Demographic Forecast Model from M-NCPPC (Round 7.0).

Table 15
Median Age

	1950	1960	1970	1980	1990	2000
Median Age	29.5	28.1	27.9	32.1	33.9	36.8

Sources: U.S. Bureau of the Census and M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center, revised May 2001.

Employment

The County's economic structure reveals a diversified economy with a strong service sector and an increasing reliance on the private sector. For example, the share of public-sector employment declined from 18.8 percent in 1990 to 17.5 percent in 2004. The service sector (services, finance, insurance, real estate and retail trade) employed 72.5 percent of the total workforce in 2004, the latest annual data. The following tables present the County's employment by industrial sector.

Table 16
Payroll Employment

	1990	2000	2004
TOTAL PRIVATE SECTOR	307,490	365,022	370,958
PUBLIC SECTOR EMPLOYMENT:			
Federal	42,713	39,615	40,656
State	1,634	1,100	1,061
Local	27,011	33,084	36,721
TOTAL PUBLIC SECTOR	71,358	73,799	78,438
GRAND TOTAL	378,848	438,821	449,396

Notes: The following groups are excluded from the payroll count: federal military, self-employed, railroad workers, and domestic employees.

Payroll employment represents the total number of jobs covered by the Maryland unemployment insurance program.

The Bureau of Labor Statistics, U.S. Department of Labor converted the industrial classification schedule from the Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS) in 2001. As a result, there is no breakout of the private sector because such data are not comparable for 2000 and 2004.

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

Table 17
Payroll Employment Shares by Industry

	1990	2000	2004
TOTAL PRIVATE SECTOR	81.2	83.2	82.5
PUBLIC SECTOR EMPLOYMENT:			
Federal	11.3	9.0	9.1
State	0.4	0.3	0.2
Local	7.1	7.5	8.2
TOTAL PUBLIC SECTOR	18.8	16.6	17.5
GRAND TOTAL	100.0%	100.0%	100.0%

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

Due to reclassification by the Bureau of Labor Statistics, U.S. Department of Commerce, of private-sector industrial categories from the U.S. Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS) beginning with the 2001 employment statistics, there is no longer a historical comparison available within the private sector employment categories for years prior to 2001. The table below provides a comparison of the payroll employment data for 2003 and 2004 based on the new classification system.

Table 18
Payroll Employment
(NAICS Series)*

	2003**	2004	Difference	Percent Change
TOTAL PRIVATE SECTOR	365,955	370,958	5,003	1.4%
GOODS-PRODUCING	45,045	45,254	209	0.5%
Natural Resources and Mining	602	684	82	13.6%
Construction	28,443	29,116	673	2.4%
Manufacturing	16,000	15,454	(546)	-3.4%
SERVICE PROVIDING	320,910	325,704	4,794	1.5%
Trade, Transportation, and Utilities	64,100	64,381	281	0.4%
Information	14,804	14,831	27	0.2%
Financial Activities	34,936	34,591	(345)	-1.0%
Professional and Business Services	94,563	96,426	1,863	2.0%
Education and Health Services	52,517	55,193	2,676	5.1%
Leisure and Hospitality	37,904	38,329	425	1.1%
Other Services	21,561	21,308	(253)	-1.2%
UNCLASSIFIED	525	645	120	22.9%
PUBLIC SECTOR EMPLOYMENT	78,635	78,438	(197)	-0.2%
Federal Government	41,189	40,656	(533)	-1.3%
State Government	1,118	1,061	(57)	-5.1%
Local Government	36,328	36,721	393	1.1%
GRAND TOTAL	444,590	449,396	4,806	1.1%

* North American Industrial Classification System.
** 2003 data series have been revised by the Maryland Department of Labor, Licensing and Regulation (DLLR).

During first eleven months of 2005, the County's unemployment rate averaged 3.2 percent. The following table presents the County's labor force, employment and unemployment for the calendar years 1997 through 2004, and for the first eleven months of 2005.

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Table 19
Montgomery County's Resident Labor Force
Employment & Unemployment*

	Labor Force	Employment	Unemployment	Unemployment Rate
2005**	506,000	490,000	16,000	3.2%
2004	497,217	481,555	15,662	3.1
2003	497,513	480,980	16,533	3.3
2002	495,062	477,812	17,250	3.5
2001	489,015	473,928	15,087	3.1
2000	487,251	474,484	12,767	2.6
1999	478,946	470,018	8,928	1.9
1998	472,944	462,620	10,324	2.2
1997	466,600	455,285	11,315	2.4

Source: State of Maryland, Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics (BLS).
* All data were revised by DLLR and BLS to incorporate intercensal population controls for 2000.
** Based on the average of the first eleven months of 2005.

Federal Government Employment

The County is home to 23 Federal agencies in which nearly 64,000 civilians are employed, including a significant number of non-Federal employees working as consultants or researchers. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation's centers of medical research. The following is a partial list of Federal agencies in the County and their estimated employment in 2005.

Department of Health and Human Services	39,000
National Institutes of Health	
Food and Drug Administration	
Other	
Department of Defense	13,670
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	6,678
National Institute of Standards & Technology	
National Oceanic & Atmospheric Administration	
Department of Energy	2,200
Nuclear Regulatory Commission	2,100
Consumer Product Safety Commission	329

Source: M-NCPPC Montgomery County Department of Park and Planning, Research and Technology Center (2005 data).

Private Sector Employment

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

Name of Firm	Est. No. of Employees
Adventist Healthcare*	6,951
Giant Food Corporation	4,900
Chevy Chase Bank	4,700
Lockheed Martin	3,900
Marriott International, Inc. (Headquarters)	3,500
Hughes Network Systems	3,200
IBM	3,400
Sodexho Marriott Services	3,000
Holy Cross Health	2,900
Red Coats, Inc.	2,700
Westat	2,170
Discovery Communications, Inc.	2,000
BAE Systems	1,820
Montgomery General Hospital	1,750
Safeway Stores, Inc.	1,700
Government Employees Insurance Company (GEICO)	1,650
Kaiser Foundation Health Plan	1,622
Aspen Systems	1,600
Bureau of National Affairs	1,600
Suburban Hospital	1,550
National Association of Securities Dealers	1,330
Mid-Atlantic Medical Services, Inc.	1,200
MedImmune	1,000
Miller & Long	1,000
Human Genome Sciences	1,000

*Includes Shady Grove and Washington Adventist Hospitals

Note: The employee numbers listed are best estimates taken during the 4th quarter of 2005 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.

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Personal Income

Actual personal income of County residents approached $48.4 billion in calendar year 2003 and is estimated to total approximately $54.2 billion in 2005. Income in 2003 experienced modest growth of 3.3 percent, in line with the nation's growth rate of 3.2 percent but below the State's rate at 3.9 percent. By contrast, growth in 2004 is estimated to accelerate to 6.3 percent, which is significantly above the eight-year annual average growth rate of 5.6 percent, and then moderate to 5.4 percent in 2005. Strong private-sector employment during 2004 and the first nine months of 2005, the latest date for which data are available, is the primary reason for the pickup in personal income growth.

The County, which accounts for just over 16 percent of the State's population, accounts for slightly over 23 percent of the State's total personal income, a share that has remained virtually unchanged during this decade.

Table 20
Total Personal Income
($ millions)

Calendar Year	Montgomery County	Maryland	U.S.	Montgomery County as Percent of Maryland
2005 (est.)	$54,200	$232,816	$10,294,570	23.3%
2004 (est.)	51,400	218,138	9,702,525	23.6
2003	48,365	206,515	9,156,108	23.4
2002	46,839	198,785	8,872,521	23.6
2001	45,538	191,657	8,718,165	23.8
2000	43,575	181,957	8,422,074	23.9
1999	39,050	167,075	7,796,137	23.4
1998	36,587	157,784	7,415,709	23.2
1997	33,418	147,843	6,907,332	22.6
1996	32,395	140,035	6,512,485	23.1
1995	30,919	133,814	6,144,741	23.1

Notes: Actual data from U.S. Department of Commerce, Bureau of Economic Analysis, revised May 2005 (County).
Estimates for Montgomery County (2004-2005) by Montgomery County Department of Finance.
Estimates for Maryland and United States (2005) by State of Maryland, Bureau of Revenue Estimates and Montgomery Department of Finance.

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Average Household and Per Capita Personal Income

The County's total personal income is estimated to reach \$54.2 billion in calendar year 2005, up from \$48.4 billion in 2003, and per capita income is expected to reach \$57,500, up from \$52,854 in 2003. Average household income is estimated to increase from \$143,283 in 2003 to \$156,200 in 2005.

Table 21
Per Capita and Average Household Income, 2003

County	Per Capita Income	County	Average Household Income
Marin, CA	\$65,642	Fairfield, CT	\$164,769
Fairfield, CT	60,803	Marin, CA	157,486
Arlington, VA	56,888	Westchester, NY	153,194
Morris, NJ	55,796	Morris, NJ	152,591
Westchester, NY	55,557	Somerset, NJ	150,973
Somerset, NJ	55,443	Nassau, NY	149,364
Fairfax, VA	53,984	Fairfax, VA	146,236
Montgomery, MD	**52,854**	San Mateo, CA	143,572
San Mateo, CA	52,841	**Montgomery, MD**	**143,283**
Bergen, NJ	51,758	Bergen, NJ	137,770
Nassau, NY	50,242	Lake, IL	136,511
Montgomery, PA	49,429	Santa Clara, CA	134,861
Oakland, MI	49,048	Chester, PA	130,859
Norfolk, MA	48,238	Montgomery, PA	129,491
Chester, PA	47,480	Howard, MD	125,035
Middlesex, MA	47,451	Norfolk, MA	124,062
Santa Clara, CA	46,640	DuPage, IL	123,240
Howard, MD	46,281	Contra Costa, CA	123,154
Lake, IL	45,486	Oakland, MI	122,047
Arapahoe, CO	45,103	Middlesex, MA	121,321

Notes: A major affluent suburban county is defined as a county in either a Metropolitan Statistical Area (MSA) or a Primary Metropolitan Statistical Area (PMSA) with a population of at least 175,000 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.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business", May 2005, for total personal income and per capita data; Sales and Marketing Management, "2003 Survey of Buying Power" for number of households.

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ECONOMY

Agriculture

Agriculture in Montgomery County is a diverse industry that occupies about one-third, or 93,000 acres of the County land area. The County's agriculture industry contributes nearly $251 million to the local economy. Over $84 million comes from the County's thriving equine industry, about $125 million from horticulture, and $42 million from traditional agriculture. There are more than 577 farms and 350 horticultural enterprises in the County. The majority of 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.

Preservation of rural land for agricultural use is a high priority in the County. Farmland preservation efforts consist of a variety of strategic programs offered by the County and State. The County received a total of $16.9 million in Rural Legacy Program grant awards over the past five years.

Since its creation in 1980, the 93,000 acre Agricultural Reserve controlled farmland development in the County. 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). Over 65,000 acres of farmland, more acreage than in any other county in the nation, are protected through easements.

Farmers and landowners can choose from seven separate agricultural land preservation programs. Each of these programs places an easement on the property that prevents future commercial, residential or industrial development of the land. These programs include:

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)
Montgomery County Rural Legacy Program (RLP)
Montgomery County Legacy Open Space (LOS)
Conservation Reserve Enhancement Program (CREP)

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

Federal Spending

Federal spending remains an important contributor to the Washington area's economy. According to a George Mason University study, total Federal spending accounts for over a third of the metropolitan Washington gross regional product. 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.

The importance of Federal spending in the Washington metropolitan region and in Montgomery County in particular is exhibited in the percent of total Federal spending targeted to the Washington MSA. While total Federal spending in Federal fiscal year (FFY) 2003 amounted to $2,061.5 billion nationwide, the Washington MSA received $97.1 billion, a 4.7 percent share. Montgomery County received $13.3 billion, a 0.7 percent share, or $14,400 per person. Even though the overall share of regional compared to national spending has grown modestly to nearly 5 percent, some categories of spending growth are far more significant. For example, the region receives over 13 percent of total Federal spending on salaries and wages, and 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. As the table below shows, this category grew 8.8 percent annually nationwide since 1997, but 11.6 percent for the Washington MSA and 9.6 percent for the County. These data also show that Federal procurement spending in Montgomery County achieved significant gains in that period, closely tracking growth in the region as a whole. The more than $13.3 billion in total Federal spending in Montgomery County is estimated to represent approximately 30 percent of the gross county product as the Federal government boosts economic activity through salaries and wages, transfer payments, and purchases of goods and services with the County's private sector industries. Federal procurement for the County reached $5.7 billion in FFY03, an increase of 13.4 percent, which was the highest level for the County in recent history.

Table 22
Federal Procurement Trends
1997 – 2003*
($ billions)**

Fiscal Year	Montgomery County	Washington MSA	U.S.
2003	$5.7	$44.2	$327.4
2002	5.0	37.3	271.0
2001	3.9	32.3	246.2
2000	3.8	29.2	223.3
1999	3.4	26.2	208.1
1998	3.5	24.4	209.3
1997	3.2	22.0	193.0
Average Annual Percent Change 1997-2003	9.6%	11.6%	8.8%

* Federal fiscal year (October 1 through September 30)
** Amounts shown in current dollars (not adjusted for inflation).
Source: U.S. Bureau of the Census, Consolidated Federal Funds Report, FY 1997-2003.

New Construction

Between FY98 and FY02, the number of new construction projects increased each year at an average annual rate of 14.7 percent. At the same time the value of new construction added to the real property tax base increased at an average of 6.7 percent per year. However, such increases in new construction were not sustained from FY02 to FY05. In fact, two entirely different patterns occurred. The number of projects declined at an annual average decline of 22 percent. Conversely, the value of new construction increased from $1.5 billion in FY02 to nearly $1.7 billion in FY05 ─ an annual average increase of 3.4 percent. While each category within the tax base exhibited volatility from year to year, such volatility did not affect the overall value of new construction, which increased each year although at a lower annual rate than the one experienced during the FY98-FY02 period.

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Table 23
New Construction Added to Real Property Tax Base
Montgomery County
($ millions)

Fiscal Year	Construction Starts	Residential	Apartments	Condominiums	Commercial/ Industrial	All Other	Total
2005	2,278	$874.2	$82.5	$121.2	$588.4	$1.7	$1,668.0
2004	2,758	892.4	21.0	176.4	559.1	3.0	1,651.9
2003	4,062	1,023.5	49.9	133.2	426.9	1.2	1,634.7
2002	4,807	896.1	19.4	70.8	520.7	1.3	1,508.3
2001	4,555	878.5	53.7	88.2	276.0	4.4	1,300.8
2000	4,038	843.4	93.8	108.4	233.6	7.5	1,286.7
1999	3,329	787.4	11.0	55.9	287.1	24.5	1,165.9
1998	2,675	743.1	1.9	48.9	330.8	27.6	1,152.3
1997	2,826	725.9	7.9	56.0	182.9	6.0	978.7
1996	2,658	764.5	25.2	51.6	116.2	53.9	1,011.4
10-Year Summary		$8,429.0	$366.3	$910.6	$3,521.7	$131.1	$13,358.7
Categories as Percent of Total		63.1%	2.7%	6.8%	26.4%	1.0%	100.0%

Note: Property assessed at full cash value effective in FY2002 with prior years adjusted to full cash value.

Source: Dodge Analytics, McGraw-Hill Construction, 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 1,291 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.

In separate actions in September 2000 and October 2001, the County Council approved resolutions initiating evaluation of three proposed new development districts located in Clarksburg: Clarksburg Town Center, Clarksburg Village and Clarksburg Skylark. The Clarksburg Town Center development district was created on March 4, 2003. Bonds have not yet been issued for Town Center. Upon completion of the three districts in Clarksburg, the proposed developments will consist of approximately 5,200 residential units, 100,000 square feet of commercial office space, and 260,000 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 an internationally recognized life sciences and advanced technology center. It is home to over 500 biotechnology and information technology companies, including Celera Genomics, Human Genome Sciences, Lockheed Martin, MedImmune, IBM, and Hughes Network Systems. The corridor continues to grow with over 30 million square feet of additional commercial and industrial development in the pipeline.

The U.S. Route 29 Corridor in eastern Montgomery County continues its steady transformation into the County's other major technology and business center, with more than 100 major employers and counting. The $900 million FDA Headquarters Consolidation project is well underway, occupying 130 acres of the 660-acre Federal Research Center in White Oak. The new FDA campus will ultimately include over 2.1 million square feet of office, lab and support facilities. There are already over 1,800 FDA employees located on the campus, which will ultimately house some 7,700 total employees by project completion in 2010.

Recognizing the economic importance of such a large Federal user like the FDA, the County chose a 115-acre site just northeast of the FDA campus to build its next Science and Technology Center. The East County Center for Science and Technology will feature 800,000 square feet of development, including laboratory and biotech manufacturing facilities, a technology business incubator, a higher education facility, a telecommuter facility, and several build-to-suit sites. The County hopes to break ground in early to mid 2006.

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.

Downtown Silver Spring

Since 1998, the State and Montgomery County invested a total of over $186 million for the redevelopment of downtown Silver Spring. Downtown Silver Spring has transformed into a vibrant business, retail and entertainment hub – with the American Film Institute (AFI) and Discovery Communication leading the way.

The redevelopment project includes 500,000 square feet of retail, restaurant and entertainment space, some 240,000 square feet of office space, a hotel, a community facility, and two new parking garages. The first phase was completed in 2000, and features some 100,000 square feet of retail space, including Fresh Fields Whole Foods Market, Strosniders Hardware, and a Sprint PCS Store. In 2001, the project was expanded to include Baja Fresh, Hollywood Video, Next Day Blinds, MotoPhoto and Family Dry Cleaners.

Since the beginning of 2004, an array of new restaurants and shops were added, including Red Lobster, Panera Bread, Austin Grill, Macaroni Grill, Lebanese Taverna, Pier 1, Men's Wearhouse, Ann Taylor Loft, Cold Stone Creamery, Gymboree, and Borders Books and Music. The Majestic 20 movie theater with its 20 screens and 4,500 seats is, along with AFI, making downtown Silver Spring a significant entertainment destination.

A new 150,000 square foot office building opened in 2004, and the American Nurses Association and Worldspace, an international satellite radio network, are the anchor tenants. The first floor contributed to the retail base in downtown with a Storehouse Furniture, Red Rock Canyon Grill, Bank of America, and Office Depot.

Elsewhere in downtown Silver Spring, the Takoma Park campus of Montgomery College is in the midst of an $88 million expansion that will extend the campus into the heart of south Silver Spring. The project marks the single largest capital venture for the College since the creation of the Germantown campus in the 1970s, and is widely seen as a vital component of the revitalization of downtown Silver Spring. The expansion will proceed in three phases over the next few years. Construction on Phase I, the 98,000 square foot Health Sciences Center, began in the fall of 2002 and was completed in 2004. Phase II, the Student Life Center and Pedestrian Bridge, began construction in 2004, with an anticipated completion date of early 2006. Phase III, the Cultural Arts Center, is in design and will begin construction in 2006, with completion expected by 2008. The 180,000 square foot Giant bakery building was acquired in 2002 for future expansion. Construction started in 2005 to house an expanded Art department and art studios.

A new $193.6 million Transit Center mixed-use development project, including retail, residential, hotel, and restaurants alongside an inter-modal transportation hub linking bus, rail, and other transportation services is currently in design. This expanded gateway to downtown Silver Spring should start construction in the fall of 2006.

New investment in downtown Silver Spring will top over $1.8 billion with more than 50 percent of the projects already completed or under construction. More than 75 percent of this new investment is privately funded. About 1,250 new units of residential development were recently completed or are under construction, adding to the existing base of 5,000 existing residential units in downtown. An additional 3,000 residential units are in various stages of planning.

Wheaton

Wheaton continued its redevelopment in 2005. Macy's arrived in the spring with the opening of its first department store in Montgomery County. In addition to Macy's, Westfield's completed the majority of its 50 new retail shops and restaurants on the lower level of the mall. Several other smaller commercial projects were completed this past year: Hollywood East, a Wheaton restaurant for more than eight years, opened its second location this spring - Hollywood East Café on the Boulevard. Also, Bally's Total Fitness Center opened its new center in late 2004. Three additional projects are scheduled to begin construction in early 2006: the HOC/Bozzuto WMATA Air Rights residential project, the new "freestanding" CVS store at Westfield's and the Wheaton Rescue Squad's new operations and community center.

Several other Wheaton sites are being considered for redevelopment including the BB&T Bank Building, the Anchor Inn Block, the Safeway site, and the Nguyen property on University Boulevard, which Commerce Bank has under contract to purchase.

Last year, Wheaton saw its first new housing in many years with the completion of two townhouse projects. This year, The Montgomery at Wheaton Metro added 243 new apartments. Five (5) of the units are Live/Work Studios. This is the first space designated specifically as Live/Work Studio space in Wheaton. There are now 361 new residential dwelling units in downtown Wheaton, and this number will grow to 736 over the next five years.

Private developer investment of over $400 million in nearly three million square feet of new residential, retail, and office space is expected in downtown Wheaton over the next 5-6 years. Supporting this substantial private investment are a number of major public initiatives, including pedestrian and safety improvements, special small business retention programs, a Clean and Safe Program that is providing a safer, more attractive and business friendly environment in the downtown, and proposed zoning legislation to amend the Wheaton Retail Preservation Overlay Zone.

The proposed amendment to the Retail Preservation Overlay Zone is being developed to broaden development and investment opportunities in the downtown while maintaining Wheaton's "sense of place and community." Special small and minority business retention and outreach programs are also being developed to help empower Wheaton's small and ethnic businesses with up-to-date technological and service capabilities so that these businesses can better compete in the changing Wheaton marketplace.

Bethesda

Downtown Bethesda has become a major urban business and entertainment center due to the presence of nearly 200 restaurants along with the density of both high-rise office and residential buildings. Downtown Bethesda has grown into a 24-hour, 7-days-a-week downtown that welcomes residents, visitors and its workforce to enjoy multi-cultural dining, live theater, cinema, unique shops and numerous special events and festivals.

Since 2002, Bethesda has welcomed Round House Theatre, Imagination Stage and Bethesda Row Landmark Theatre as marquee entertainment organizations that highlight classical plays, children's theatre, and independent and foreign films. Additionally, several new luxury apartment buildings such as The Palisades, The Whitney, and the Residence at Rosedale Park opened, creating 1,500 new housing units in downtown Bethesda. Several new luxury condominium projects are also in the works, including Adagio on Wisconsin Avenue, and Lions Gate on Woodmont Avenue.

Downtown Bethesda has a workforce of over 44,000, and includes employees who work for some of the region's largest and most notable employers, including Chevy Chase Bank, Clark Construction Group, CoStar Group, and U.S. Bureau of Primary Health Care. Employers and employees alike are drawn to Bethesda for its restaurants and shops, after-work destinations and close proximity to Metro and major highways.

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 area saw the beginning of two major developments projects in 2004. One project is the New England Development Corporation's Wisconsin Place development, which will be located at the former Hecht Company site on the corner of Wisconsin and Western Avenues. This project will include 305,000 square feet of Class A office space, a 265,000 square foot retail center (including a new Bloomingdale's building and supermarket), a 20,500 square foot Community Center, 433 moderately-priced housing units, 1,749 new parking spaces, and two parks, all of which will be connected by a system of pedestrian walkways. Also, in February 2004, The Mills Corporation announced it would be relocating its headquarters from Arlington, Virginia to Friendship Heights. Mills will bring over 300 jobs to the County and lease approximately 200,000 square feet in the new Chevy Chase Center. Mills is expected to move into its new facility by the end of 2006.

The approval of Wisconsin Place will account for a significant portion of the development allowed in Friendship Heights under the Friendship Heights Sector Plan. This Plan concentrates new growth in the Metro-served area while preserving the surrounding neighborhoods. The Plan originally allowed for a total of over 1.4 million additional square feet of office and retail space and housing opportunities for an estimated 635 dwelling units on the former Hecht's and adjacent Geico properties. One of the first major projects constructed in this Plan was the Chase Tower, a 240,000 square foot retail and office building that delivered in November 2001. This luxury Class A tower is now home to the new corporate headquarters for Ritz Carlton. Other tenants in this building include Capital Trust, Capital Source, and the JBG Companies.

Existing Office/R&D/Commercial Space

As of November 1, 2005, Montgomery County has just over 109 million square feet of commercial real estate space (office, flex, R&D, industrial, retail). The weighted vacancy rate for the County dropped since November 2004 from 8.01% to 6.7%.

Most of Montgomery County's office space is located along two "Technology Corridors", the I-270 corridor and the Route 29 corridor. The I-270 corridor includes the Bethesda, Rockville, Gaithersburg, and Germantown markets and features over 85 million square feet of commercial space. Notable buildings along the I-270 corridor include the 700,000 square foot Chevy Chase Bank headquarters in Bethesda, and the 260,000 square foot Tower Building in Rockville. The Route 29 corridor connects Silver Spring to Burtonsville and includes over 16 million square feet of commercial space. Discovery Communications' 550,000 square foot corporate headquarters in downtown Silver Spring is the signature building in the corridor. Also featured along Route 29 is the Westech Business Park, which includes over three million square feet of office, R&D, light industrial, and retail development.

Table 24
Office/Flex/Industrial/Commercial Space Availability by Submarket
As of November 1, 2005

Montgomery County Office Market	Total Inventory (Square Feet)	Total Vacant (Square Feet)	Vacancy Rate w/Sublet	Vacancy Rate w/o Sublet
Bethesda/Chevy Chase	12,602,449	966,184	7.67%	9.51%
Gaithersburg	17,805,873	946,646	5.32%	6.53%
Germantown	7,476,140	645,227	8.63%	10.63%
Kensington/Wheaton	5,109,707	165,119	3.23%	3.29%
North Bethesda/Potomac	15,040,983	1,083,239	7.20%	8.40%
North Rockville	19,736,425	1,386,349	7.02%	8.27%
North Silver Spring/Rt 29	7,485,768	435,730	5.82%	6.12%
Rockville	14,674,001	1,214,822	8.28%	5.80%
Silver Spring	9,565,482	496,388	5.19%	5.80%
Total County	109,496,828	7,339,704	6.70%	7.75%

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

Office/Industrial Projects

Summary

In 2005, Montgomery County made significant progress in developing two strategic Science and Technology Centers in the County. In addition, the County had continued success with its Incubator program, resulting in the development of new facilities in Wheaton and Rockville. Additionally, the County made significant progress on new "Town Center" projects in downtown Rockville and Silver Spring, and several private new office buildings and development projects were constructed or expanded. Details on all of these projects appear below.

Public/Private Projects

East County Center for Science and Technology (ECCST)

The East County Center for Science and Technology (ECCST) is a public-private partnership among Montgomery County, the Washington Suburban Sanitary Commission (WSSC) and Republic Properties Corporation. Under the proposed arrangement, a 115-acre site owned by WSSC and located off Route 29 in eastern Montgomery County will be conveyed to the County, with the goal of developing and constructing a science and technology park modeled after the County-owned Shady Grove Life Sciences Center in Rockville. Republic Properties of Washington, D.C. was selected by the County to serve as the County's private development partner in the project. Republic is charged with developing a plan that focuses on eastern Montgomery County's needs for biotechnology and high technology development, along with public amenity needs in the area. Republic's preliminary plan calls for 800,000 square feet of development, including laboratory and biotech manufacturing facilities, a technology business incubator, a higher education facility, a telecommuter building, built-to-suit sites, and a daycare center. The County is currently finalizing the land transfer and development agreements with both WSSC and Republic. While these agreements are being finalized, Republic started on a number of pre-development tasks such as traffic studies and environmental assessments of the ECCST site. Once the final development agreements are in place, it is estimated that groundbreaking on the Site will take place in mid 2006. The entire project is likely to take 10 years to reach full build-out.

Montgomery College-Germantown Science and Technology Park

In early 2003, Montgomery College settled on the purchase of a 20-acre site adjacent to the College's Germantown campus. This property will be combined with 20 acres of existing undeveloped land on the campus to form a 40-acre site on which a one million square foot science and technology center will be constructed. The purchase of the 20-acre site was made possible by a total of $6.1 million in funding appropriations to the College from the State and County. The preliminary plan for the science and technology center calls for primarily high technology research and development space, with a focus on the life sciences, which will complement the biotechnology programs and curriculum already offered at the Germantown campus. As part of the County's investment in the purchase of the land, the County will be granted a five-acre site on the property to construct and manage a high technology incubator for start-up companies. The plan also calls for facilities for incubator "graduates" as well as space for mature biotech and high technology companies. Once built out, the center could be home to nearly 4,000 employees. In early 2004, the College received several proposals for development plans, and ultimately selected Foulger Pratt as its development partner. The College hopes to begin construction on the project in 2006.

Downtown Silver Spring/Silver Triangle

The 22-acre downtown Silver Spring redevelopment is nearing completion as of the end of 2005. Discovery Communications' 550,000 square foot corporate headquarters, which houses over 2,000 employees, opened in late 2002. New restaurants and stores recently opening include Borders Books, Ann Taylor Loft, Fresh Fields, Strosniders Hardware, Austin Grill, and Panera Bread. Downtown Silver Spring is also home to the AFI Silver Theater, and a new Loews Multiplex movie theater. New office construction continues in the area as well, including the 150,000 square foot building at 8515 Georgia Avenue, which opened in 2005 and is home to the American Nurses Association and Worldspace.

Rockville Town Center

The first phase of the $352 million redevelopment of downtown Rockville broke ground in 2004. The 15-acre site will become a mix of retail, restaurant, cultural, entertainment, residential and office uses when it opens in the fall of 2006. Specifically, the project will consist of approximately 630 total premiere residences, 175,000 square feet of retail and restaurants, three public parking garages, the new Rockville library, and several new office buildings. The City of Rockville, State of Maryland, and Montgomery County are the primary investors in this project.

Montgomery County Incubator Program

The Montgomery Incubator program has successfully assisted start-up technology companies grow and expand in the County since the first facility – The Maryland Technology Development Center (MTDC) -- opened its doors in 1998. To date nearly 30 companies graduated from the County's incubators to lease nearly 300,000 square feet of private office space and create over 1,000 jobs in the County. The County opened a second Incubator in 2004 in downtown Silver Spring called the Silver Spring Innovation Center (SSIC). The SSIC is fully leased to start-up information technology facilities. The success and demand for the Incubator program spurred the County to develop five additional incubators by 2007. Two incubators will open in 2006 (described below) and two others are proposed for the ECCST and Montgomery College – Germantown projects described above. The location and specific details for the fifth new incubator are currently being discussed by County officials.

Wheaton Incubator

The County will be opening its third business incubator in the first quarter of 2006. The facility will be located in 9,600 square feet of leased office space in Wheaton. The project is expected to support the growth and development of 12-25 small businesses in the region. In addition to rental proceeds received from the tenants (at market rates) the County has provided a $300,000 subsidy.

Rockville Incubator

The County will be opening an additional business incubator in first quarter of 2007 in the newly re-developed Downtown Rockville. The facility will be approximately 27,000 square feet of office condominium space that is to be purchased by Montgomery County. The purchase is to be subsidized by a $1 million grant from the Maryland Technology Development Corporation. The project will provide office space for businesses in the medical information technology sector as well as international companies seeking to establish a U.S. subsidiary in the region.

Private Real Estate Projects – Mixed Use Developments

Irvington Center (King Farm)

Office and commercial activity continues to be strong in the 430-acre King Farm urban village in Rockville. The newest office building, Four Irvington Center, is under construction and will feature 200,000 square feet of space and a 120 person conference room when it delivers in 2006. Three Irvington Center broke ground in August 2000, and delivered in April 2002. The 217,000 square foot building experienced significant leasing activity, most notably a 75,000 square foot lease by Dental Benefit Provider, a 24,000 square foot lease by Hilb, Rogal, and Hamilton Company, and an 11,000 square foot lease by Mason Dixon Funding. Federal Medical and Health Extras also signed new leases in this building in 2004. The 165,000 square foot building at Two Irvington Center delivered in December 2000, and includes as tenants Wolpoff and Abramson, Avendra, and Client Network Services Inc. One Irvington Center, the first office building completed on the campus, is almost completely leased to companies such as Aronson and Company, Artesia Technologies, and Quest Software, Inc. This building also includes the upscale restaurant Nick's Chophouse. Additional amenities were also added and proposed for the Irvington Center site in 2005, including the approval to build a 175,000 square foot Sheraton hotel. The entire Irvington Center campus is comprised of over 90 acres and will ultimately include over three million square feet of office commercial, retail, and hotel space.

Rock Spring Centre

Construction began in 2003 on Rock Spring Centre, a 53-acre mixed-use development in Bethesda at the intersection of Interstate 270 and Old Georgetown Road. This project will create a "town-center" feel in North Bethesda's prominent Rock Spring Office Park, which features almost 20,000 employees in nearly five million square feet of office space, and includes the corporate headquarters for Marriott International and Lockheed Martin. Rock Spring Centre will contain up to one million square feet of Class A office space, 225,000 square feet of upscale retail space, and 1,200 luxury apartment units. The Canyon Ranch Spa and Hotel announced the building of a facility in Rock Spring Centre. The Spa and Hotel, along with the other retail and restaurant components of the Centre, is expected to open in late 2006.

Washingtonian Center

Washingtonian Center continued to grow and expand in 2005. This 210-acre mixed-use development project in Gaithersburg has a "Town Center" feel with a mix of office, retail, restaurant, residential, and entertainment centers, all located within walking distance. Office development continued to prosper in Washingtonian Center with the 2005 delivery of a 150,000 square foot building at Washingtonian South, which is home to Marriott International offices. In addition, a 105,000 square foot building at the Washingtonian Lakefront broke ground in 2005 and is scheduled for delivery in 2006. This building will also feature first floor retail. Additional office space proposed includes nearly one million square feet of space at Washingtonian North and 320,000 square feet of space at Washingtonian South. A number of mixed-use projects at the Washingtonian Lakefront made significant progress in 2004. A 1,000 space parking garage that opened in the summer of 2004 will serve a new Courtyard by Marriott hotel, which broke ground in the fall of 2004 and should be complete by early 2006. In addition to the new hotel and garage, the Lakefront area has continued to grow as several retailers and restaurants opened their doors in 2005, including Red Rock Canyon Grill, California Pizza Kitchen, and Jos. A. Bank clothiers.

New Individual Office Projects

Chevy Chase Center (5425 Wisconsin Avenue, Chevy Chase)

This 412,000 square foot building in the upscale Friendship Heights section of Chevy Chase broke ground in early 2005 and is slated for completion in May 2006. The office component of this building is fully leased to the Mills Corporation who will be relocating their corporate headquarters from Arlington, Virginia. This building will also feature 30,000 square feet of high-end retail space.

Market Square at Shady Grove (1 Choke Cherry Road, Rockville)

Market Square at Shady Grove consists of a 228,020 square foot Class A office building just off I-270 in North Rockville. The building was delivered in early 2005 and is fully leased and occupied by the Department of Health and Human Services.

9605 Medical Center Drive, Rockville

9605 Medical Center Drive is the third building on the Johns Hopkins University (JHU) Rockville campus within the County-owned Shady Grove Life Sciences Center. Half of the 115,000 square foot building is occupied by JHU and is used for both administrative and classroom/laboratory space by the University. The other half of the building is being leased to private firms that have agreed to collaborate with JHU and various research projects and other initiatives. Three tenants have signed leases in the building – The Center for Behavioral Health, Gilbank, and Vanda Pharmaceuticals.

1405 Research Boulevard, Rockville

Alexandria Real Estate Equities developed, constructed, and owns this 72,170 square foot biotech/lab facility located in the heart of I-270's Technology Corridor, not far from the Shady Grove Life Sciences Center. The facility delivered in February 2005 and features three floors of Class A lab space. Aeras Global TB Vaccine foundation is the first tenant in the building.

1108 Spring Street (United Therapeutics), Silver Spring

This $15 million facility was delivered in November 2005 to support the rapid growth of United Therapeutics in downtown Silver Spring. United Therapeutics is using their expanded space to advance their research and development of drugs to fight ovarian cancer.

New Business Additions and Expansions

Montgomery County's Department of Economic Development worked with over 300 companies in 2005 that were looking to expand in or relocate to the County. These companies are projected to create over 3,000 jobs, lease or construct over one million square feet of office space, and generate over $200 million in capital investment over the next three to five years. Some highlights of the Department's efforts in 2005 include:

Worldspace

Downtown Silver Spring continued to be a magnet for new business in 2005 as Worldspace announced in June 2005 that it would be relocating its headquarters facility from Washington, DC. Worldspace, a satellite radio provider that broadcasts to markets in Asia and Africa, leased 50,000 square feet at 8515 Georgia Avenue, in the heart of downtown Silver Spring's revitalization area. The company opened its doors in September 2005 and committed to bring over 100 new high-paying jobs to downtown Silver Spring, with further expansion promised.

MacroGenics

MacroGenics, Inc. is developing immune-based products including monoclonal antibodies to treat patients with cancer, autoimmune disorders, allergy, or infectious diseases and vaccines to prevent infections in healthy individuals. In August 2005, the company finalized plans to expand in Rockville by leasing 15,180 square feet of lab and R&D space. Currently, 52 employees are located in this facility and the company plans to add an additional 64 employees in the next 2-3 years.

Viasat

The Carlsbad, CA based satellite communications manufacturer increased its regional presence in the County in 2005. The company relocated from its Clarksburg facility on the Lockheed Martin/Comsat campus into 44,500 square feet of expanded space in Germantown in August 2005. This expanded location will be home to over 130 employees. Viasat produces innovative satellite and other wireless communication products that enable fast, secure, and efficient communications to any location.

Startec

Startec signed a lease in 2005 for 28,000 square feet of space in North Rockville. The company is relocating and expanding from another office in Rockville and plans to take occupancy its new location in early 2006. Startec employs over 160 people and has a mission to become a leading provider of Internet Protocol ("IP") communication services, including voice, data and Internet services, to their targeted markets, comprised of ethnic communities from the Asia Pacific Rim, the Middle East and North Africa, Russia and Central Europe, and Latin and South America.

Kierkegaard & Perry Laboratories (KPL)

KPL, a leading supplier of protein detection reagents and systems for biological research, announced in August 2005 that it will be moving its headquarters to a new expanded facility in Gaithersburg. The new facility will consolidate KPL's operations into one location with 30,000 square feet of space, a 35% increase in floor space over the previous location (also in Gaithersburg). More than 50 employees will be housed in the new facility when the relocation is complete in early 2006.

Biocon

BIOCON, a company that has provided custom small animal research services to the regions leading biomedical investigators since 1978, announced in July 2005 that it leased an additional 10,000 square feet of lab space on Lofstrand Lane in Rockville. This additional facility is intended to support BIOCON's existing research efforts in Rockville and to provide added convenience for bioscience researchers at the NIH campus as well as private companies located in Maryland.

Canon USA

In May 2005, Canon U.S. Life Sciences officially decided to locate in the County in leased space in Rockville. Canon U.S. Life Sciences, a subsidiary of Canon U.S.A, currently leases 7,500 square feet at 9800 Medical Center Drive. Canon U.S. Life Sciences, Inc. is dedicated to exploring potential applications of Canon's core technologies to the field of life sciences. The company plans to identify and commercially develop life sciences solutions with potential applications in diagnostics and medical instrumentation.

Intelsat General

Intelsat General Corporation moved its offices from Washington, D.C. to Bethesda in June 2005. Intelsat General Corporation (IGC) now occupies 18,000 square feet at 6550 Rock Spring Drive. IGC is one of the largest wholesalers of commercial satellite services in the world, and brings 30 to 40 new jobs to Montgomery County. IGC was created in 2003 by Intelsat, Ltd as a subsidiary focused on the communications needs of key prime contractors serving US and NATO government users with satellite and managed satellite-based services.

The Federation of American Societies for Experimental Biology

The Federation of American Societies for Experimental Biology (FASEB) advances biological science through collaborative advocacy for research policies that promote scientific progress and education, and lead to improvements in human health. In January 2005, FASEB expanded their Bethesda campus by 17,500 square feet; the campus will be home to over 70 new employees. FASEB will continue to expand in the near future, with over 100,000 square feet of additional office space programmed for the campus.

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. Semi-annual payments are the standard in Maryland for residential property owners only, with payments due September 30 and December 31. 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 that 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 was assessed at 40 percent of its full cash value. Legislation adopted by the State Legislature in 2000 changed the taxable assessment methodology from 40 percent to 100 percent of the assessed value of real property during FY01. Effective FY02, all real property in Maryland is 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 reassessed each year. 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.

Because of growth in new construction and improved value of properties, the real property taxable base increased 28 percent in the last five years, measured through 2005. Due to a sluggish business investment in personal property the past two fiscal years and an adjustment by the Maryland State Department of Assessments and Taxation to assessments of individual personal property, the personal property base decreased at an average annual rate of 4 percent in the last two years. However, because of the dramatic growth in the real property assessable base attributed to real estate price appreciation from the strong housing market, the overall aggregate property base increased at an average annual rate of 8.3 percent during this period.

Table 25
Assessed Value of All Taxable Property
By Class and Fiscal Year

Fiscal Year	Real Property	Personal Property	Total Assessed Value	Percent Change From Prior Year	Ratio of Assessment to Full Market Value
2005	$98,281,724,723	$3,902,612,110	$102,184,336,833	9.61%	93.54%
2004	89,263,005,267	3,963,801,610	93,226,806,877	7.61	91.35
2003	82,407,337,831	4,227,854,400	86,635,192,231	5.94	88.71
2002	77,574,947,550	4,201,344,590	81,776,292,140	4.57	92.48
2001	74,122,532,195	4,077,848,090	78,200,380,285	3.49	94.10

Note: During FY01 the taxable assessment method for real property changed from 40 percent to 100 percent of the assessed property value. Fiscal Year 2000 has been restated at 100% of assessed value on this schedule for comparison purposes.

Sources: Montgomery County Department of Finance, Comprehensive Annual Financial Reports.

Tax-exempt properties are excluded from the above figures. In FY05, such exemptions for real property owned by Federal, State, County, and other governmental units, religious institutions, schools, fraternal organizations, cemeteries, disabled veterans, and the blind totaled $10.8 billion. Tax-exempt real property constitutes 10.6 percent of the total gross real property base, with 74.8 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.

Table 26
Tax Levies and Revenue

Fiscal Year	General County Tax Levy (including Education)	Revenue From Current Year Assessment	Ratio of Current Yr. Revenue to Tax Levy	Revenue From Prior Year Assessment	Total Revenue	Ratio of Total Revenue to Tax Levy	Accumulated Delinquent Taxes	Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy
2005	$793,578,688	$797,622,605	100.51%	$(2,576,941)	$795,045,664	100.18%	$31,022,367	3.91%
2004	738,731,341	738,902,755	100.02	(4,201,792)	734,700,963	99.45	32,220,479	4.36
2003	697,317,162	695,293,144	99.71	(3,999,325)	691,293,819	99.14	29,698,063	4.26
2002	650,352,383	646,920,262	99.47	2,843,239	649,763,501	99.91	21,377,781	3.29
2001	621,488,986	616,106,377	99.13	(83,736)	616,022,641	99.12	20,788,899	3.34

Table 27
Tax Rates and Tax Levies, By Purpose

Fiscal	General County (including Education)		Transit		State		Total	
Year	Rate	Levy	Rate	Levy	Rate	Levy	Rate	Levy
2005	$0.734	$793,578,688	$.044	$47,407,995	$.132	$130,281,662	$0.910	$971,268,345
2004	0.751	738,731,341	.044	43,265,229	.132	117,987,242	0.927	899,983,812
2003	0.754	697,317,162	.038	35,124,792	.084	69,531,736	0.876	801,973,690
2002	0.741	650,352,383	.050	43,984,425	.084	65,703,036	0.875	760,039,844
2001	1.857	621,488,986	.100	33,566,329	.210	62,605,672	2.167	717,660,983

Note: Rates are per $100 of assessed value. For FY02-05, tax rates shown are for real property only, and tax levies are based upon a 100% of full cash value assessment. The personal property rate for General County was $1.835 in FY05, $1.878 in FY04, $1.885 in FY03, and $1.852 in FY02; the personal property rate for Transit was $.110 in FY05, $.110 in FY04, $.095 in FY03, and $.125 in FY02 (the State does not tax personal property). For Fiscal Year 2001, real property was assessed at 40% of full cash value, and for that fiscal year the real property and personal property rates were the same.

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Table 28
Ten Highest Commercial Property Taxpayers' Assessable Base
As of June 30, 2005

Taxpayer	Total	Real Property	Personal Property	Ratio: Taxpayer Base to Total Assessable Base
Potomac Electric Power Co.	$ 729,757,190	$ 6,494,600	$ 723,262,590	0.71%
Verizon/Bell Atlantic	624,939,880	27,035,000	597,904,880	0.61
Westfield Shoppingtown Montgomery	227,088,280	226,747,100	341,180	0.22
Mirant Mid-Atlantic LLC	222,288,330	69,374,800	152,913,530	0.22
Washington Gas Light Co.	215,907,220	--	215,907,220	0.21
Bryant F. Foulger, Trustee	161,269,999	161,269,999	--	0.16
7501 Wisconsin Ave. LLC	155,000,000	155,000,000	--	0.15
Camalier, Anne D et al, Trustee	141,546,032	141,546,032	--	0.14
Democracy Associates	137,200,000	137,200,000	--	0.13
Bethesda ARC LLC	130,405,710	130,345,900	59,810	0.13
Total	$ 2,745,402,641	$1,055,013,431	$1,690,389,210	2.69%
Assessable Base (June 30, 2005)	$102,184,336,833			

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

Impact Tax

Significant development is occurring throughout Montgomery County, placing great demands on the County to provide for transportation improvements, public schools and other public facilities. Effective March 1, 2004, and pursuant to Articles VII and XII of Chapter 52 of the Montgomery County Code ("Development Impact Tax for Transportation Improvements," and "Development Impact Tax for Public School Improvements," respectively), nearly all new residential development within Montgomery County is required to pay impact taxes. These impact taxes are a means of transferring a share of the costs of additional transportation improvements and additional classrooms in public schools to the new development that is primarily responsible for creating these needs. The tax is imposed prior to the issuance of a building permit.

The original impact tax law was enacted in 1990, was applied for transportation improvements only, and affected two outlying geographic areas of the County—Germantown, in the northern section of the County, and "Eastern Montgomery County." The law was amended in 2001 to add another northern section of the County (Clarksburg), and again in 2002 to extend the impact tax for transportation improvements to the remainder of the County. Amendments in 2004 added the schools impact tax.

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The following table illustrates impact tax collections over the last 10 years.

Table 29
Impact Tax Collections

Fiscal Year	Transportation Impact Tax	Schools Impact Tax
2005	$8,471,000	$7,695,000
2004 (1)	5,245,000	435,000
2003 (2)	1,790,000	--
2002 (3)	1,990,000	--
2001	3,100,000	--
2000	990,000	--
1999	1,400,000	--
1998	1,020,000	--
1997	1,280,000	--
1996	840,000	--

(1) added Schools Impact tax
(2) added County area
(3) added Clarksburg area

Retail Sales

Retail sales measured by sales tax data collected for the first nine months of 2005, show strong growth in Maryland and a modest increase in Montgomery County. Compared to the prior year, when retail sales in the County grew 6.7 percent, sales growth increased 4.9 percent during the first nine months of 2005 compared to the first nine months of 2004, showing the effect of significantly higher gasoline prices. With consumer confidence significantly lower in the region compared to 2004, retail sales are traditionally one of the first indicators to reflect changes in consumer behavior.

Retail sales in Montgomery County reflect a slightly different spending pattern compared to the State. After retail sales in the County improved at a solid pace in the past few years, growing 6 percent (1999) and 7 percent (2000), with growth in 2000 reaching a six-year high, the growth rate declined to 3.8 percent in 2001, increased a modest 0.9 percent in 2002, grew 4.0 percent in 2003, and a robust 6.7 percent in 2004. The growth during 2004 was attributed to an increase in purchases of building and industrial supplies, furniture and appliances, and hardware and machinery products. Retail sales through September 2005 were attributed to sales of nondurable goods, particularly food and beverages and general merchandise. Sales of building and industrial supplies, reflecting the strong housing market, increased at a double-digit rate, albeit at a slightly lower rate compared to all of 2004.

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Table 30
Sales & Use Tax Receipts
By Principal Business Activity

	Montgomery County						Maryland	
	2003		2004		Jan.-Sept. 2005		Jan.-Sept. 2005	
	Growth(1)	Share of Total	Growth(2)	Share of Total	Growth(3)	Share of Total	Growth(3)	Share of Total
Food and Beverages	4.2%	23.6%	6.7%	23.7%	7.7%	24.7%	5.5%	20.0%
Apparel	1.6	6.7	0.8	6.3	0.0	5.9	1.7	4.5
General Merchandise	4.6	17.7	5.4	17.5	6.9	16.3	6.8	16.6
Automotive	2.8	8.2	4.8	8.1	0.6	8.1	3.4	7.2
Furniture & Appliances	4.7	12.5	6.1	12.3	-0.8	11.4	4.7	11.0
Building & Industrial Supplies	2.5	9.9	18.4	11.0	12.3	12.2	11.5	15.7
Utilities & Transportation	11.7	7.2	8.8	7.4	1.7	7.6	9.6	8.4
Hardware, Machinery & Equipment	6.6	1.7	8.1	1.7	-13.2	1.5	5.7	2.7
Miscellaneous	0.7	11.9	2.2	11.4	6.9	11.8	7.6	13.4
Other	0.7	0.6	16.9	0.6	-9.4	0.5	-48.9	0.5
Total Retail Sales Tax	4.0%	100.0%	6.7%	100.0%	4.9%	100.0%	6.2%	100.0%

(1) Growth between 2002 and 2003.
(2) Growth between 2003 and 2004.
(3) Growth between the period January through September 2004, and the same period in 2005.

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

Major Retail Centers

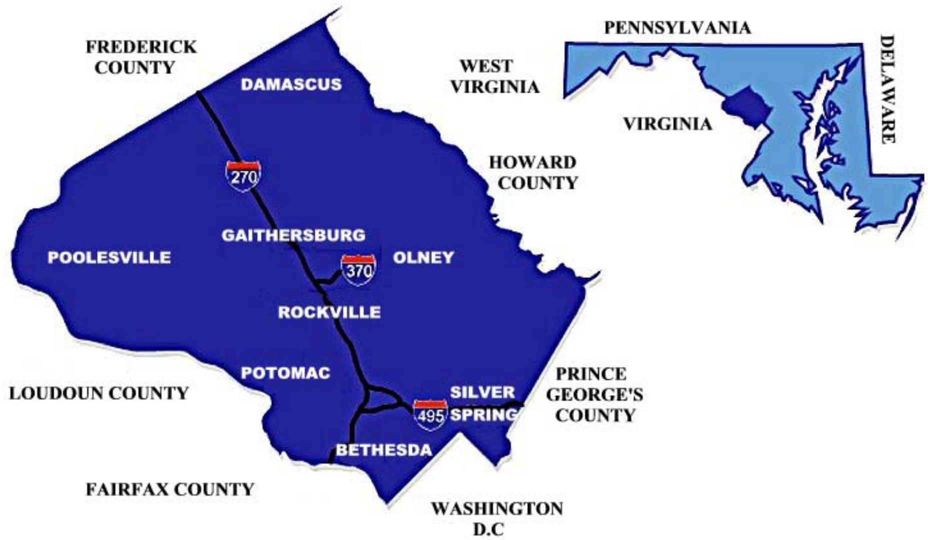
Montgomery County is served by four regional shopping malls. They are Lakeforest Mall in Gaithersburg, Westfield Shoppingtown Montgomery in Bethesda, Westfield Shoppingtown Wheaton in Silver Spring, and White Flint Mall in North Bethesda.

Lakeforest Mall, located along Maryland Route 355 and Montgomery Village Avenue near I-270, opened in 1978. This 1.1 million square foot mall features 160 stores, including four major department stores: Hecht Company, JC Penney, Lord & Taylor, and Sears Roebuck & Co.

Westfield Shoppingtown Montgomery, formerly known as Montgomery Mall, opened in 1968, and covers 1.6 million square feet of space. It features Nordstrom, Hecht Company, and Sears Roebuck & Co. department stores, 191 other stores, three parking garages, and is served by a Montgomery County Transit Center.

Westfield Shoppingtown Wheaton, formerly known as Wheaton Plaza, is 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, Macy's, and Target, along with 146 other stores. On May 25, 2005, Macy's opened a 180,000 square foot, $30 million store in the mall. With the addition of Macy's, and the addition of a second level, the mall now has 1.4 million square feet of retail space. With the addition of the recently opened 800 space parking garage, the mall now has two parking garages to ease parking congestion.

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, luxury department stores such as Lord & Taylor and Bloomingdale's, plus 130 other stores. The 900,672 square foot mall also features a five-auditorium cinema and a Border's Bookstore.



MONTGOMERY COUNTY - 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 comprised 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 be 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 third term on November 5, 2002, and sworn in on December 2, 2002. 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 elected post of Montgomery County Executive in 1994. He will complete his third four-year term as County Executive in December 2006.

President, County Council – George Leventhal

George Leventhal was elected to an at-large seat on the Montgomery County Council on November 5, 2002, and was recently named Council president by his colleagues. Mr. Leventhal chairs the Council's Health and Human Services Committee, and is a member of the Transportation and Environment Committee and the Homeland Security Committee.

From 1995 to 2002, Mr. Leventhal was employed as Senior Federal Relations Officer for the Association of American Universities. For eight years before joining the AAU staff, he served on the staff of the United States Senate. Mr. Leventhal was legislative director for U.S. Senator Barbara A. Mikulski of Maryland from 1993 to 1995 and earlier served three years as Senator Mikulski's legislative assistant for appropriations, budget, tax, and transportation issues.

From 1996 to 2001, Mr. Leventhal served as chairman of the Montgomery County Democratic Central Committee. He played a leading role in many other political and community activities in the Takoma Park-Silver Spring area and throughout Montgomery County.

Mr. Leventhal received a Master's degree in public administration from the Johns Hopkins University and a Bachelor of Arts degree in English from the University of California at Berkeley.

Chief Administrative Officer - Bruce Romer

Bruce Romer has served as Chief Administrative Officer since 1995. Prior to Mr. Romer's appointment, he served for six years as City Manager for Rockville, Maryland. His 38 years in professional local government management include 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 Wittenberg University, and a Master of Government Administration Degree from The Wharton Graduate School, University of Pennsylvania. He is a past president of the International City/County Management Association (ICMA), and is a past president and a member of the Board of Directors of the Metropolitan Washington Council of Governments. Mr. Romer serves on the Board of Directors of the District of Columbia Water and Sewer Authority and is a member of the Board of Directors of Public Technology, Inc.

Director, Department of Finance - Timothy L. Firestine

Timothy L. Firestine was appointed Director, Department of Finance on July 24, 1991 and confirmed on August 6, 1991. Prior to his appointment, Mr. Firestine served in various management positions in the County's 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 is vice chair of its Committee on Debt. Mr. Firestine is currently the past President of the Maryland Government Finance Officers Association and served on the Board of Trustees for Suburban Health Care System, Inc., in Bethesda, Maryland. Mr. Firestine is also an adjunct professor at the University of Maryland, Graduate School of Public Policy, where he teaches Public Finance.

Director, Office of Management and Budget – Beverley K. Swaim-Staley

Beverley K. Swaim-Staley was appointed Director of the Office of Management and Budget on May 27, 2003. Prior to her appointment, she served as the Deputy Secretary of the Maryland Department of Transportation for four years, and as the Chief Financial Officer for five years. From 1983 to 1993, Ms. Swaim-Staley was a budget analyst for the Maryland General Assembly.

Ms. Swaim-Staley holds Bachelor of Arts and Master of Arts Degrees from Hood College in Frederick, Maryland. She serves on 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.

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 currently serving as an adjunct professor at the National Law Center, George Washington University, teaching State and Local Government Law.

COUNTY GOVERNMENT SERVICES

Human Resources

The County government employs approximately 8,536 full- and part-time employees. Approximately 6,293 employees are in bargaining unit positions and are represented by one of the three labor organizations that are certified under County law to bargain over the wages, fringe benefits, and working conditions of bargaining unit employees. The table below summarizes the current status of County labor agreements.

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Table 31
County Bargaining Units

Bargaining Unit	Number of Employees	Contract Expiration Date
Service, Labor & Trades (MCGEO)	1,114	June 30, 2007
Office, Professional & Technical (MCGEO)	3,195	June 30, 2007
Police officers (FOP)	1,075	June 30, 2007
Firefighters/Rescuers (IAFF)	909	June 30, 2008

The County reached a three-year term agreement with the Montgomery County Career Fire Fighters Association, IAFF, Local 1664, which went in to effect on July 1, 2005. All other contracts remain in effect until June 30, 2007.

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 20,132 full-time equivalent (FTE) employees. This number includes 176 non-represented employees and 19,956 employees in bargaining units. 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 32
Board of Education Bargaining Units

Bargaining Unit	Number of FTE Employees	Contract Expiration Date
Teachers (MCEA)	11,513	June 30, 2007
Professional/Administrative (MCAASP)	638	June 30, 2007
Support Services (MCCSSE)	7,805	June 30, 2007

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 FY95). 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, 2005 was approximately $473.8 million. The total payroll for Montgomery County Government in FY05 was $530.7 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 FY05 year-end, the defined benefit plan covered approximately 5,628 active participants and 5,046 retirees and inactive participants, with total liabilities amounting to approximately $2.78 billion. At FY05 year-end, the defined contribution plan had 3,941 participants with liabilities totaling $71.2 million.

Legislation enacted by the County Council in November 1999 required 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 during FY00.

The Board of Investment Trustees is responsible for managing the investment programs of the Montgomery County Employees' Retirement Systems. Investments in the defined benefit plan amounted to $2.414 billion as of June 30, 2005. 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.

Employees of the County may participate in the Montgomery County Deferred Compensation Plan, which was established pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. Under the Plan, contributions are sent to contracted investment vendors for different types of investments as selected by participants. Legislation enacted in December 2004 allows the County to sponsor one or more additional deferred compensation plans for employees covered by a collective bargaining agreement.

For additional information concerning the County's retirement plan, see Appendix B, "Notes to Financial Statements" Note IV-F, Pension Plan Obligations.

Arts and Leisure

The County Department of Recreation provides a wide range of programs including: aquatics, camps, classes, youth and adult sports, summer fun centers, special events, teen, senior citizen and therapeutic programs. The Department operates 18 community centers that facilitate leisure activity, social interaction, family participation, and neighborhood civic involvement. An additional 12 program sites serve select senior populations, offering adults aged 55 and above classes, sports and fitness, trips, neighborhood programs, and special programs for frail and isolated seniors. Three new community centers are proposed for development within the next six years. The Department operates the Charles W. Gilchrist Center for Cultural Diversity, a unique facility that serves as a cultural and community focal point. The Department also funds the Gaithersburg Senior Center and the Takoma Park Community Center through significant grants.

There are presently seven large public outdoor swimming pools and four regional indoor aquatic complexes that provide for a variety of instructional, recreational, and competitive aquatic programs. The Germantown Indoor Aquatic Center, the newest of the four indoor aquatic complexes, opened in January 2006.

The Strathmore Hall Arts Center was originally located in the historic Corby Mansion, which also housed the Strathmore Hall Foundation. The Center's original structure underwent a $3 million addition and renovation, and is used for art shows and dramatic readings. Significant improvements were made at the Center with the construction of a multi-disciplinary education and performance center on a five-acre site adjacent to the Center. The new Strathmore Hall Arts Center facility houses a full range of complementary arts education classes for children and adults. It combines studio, classroom, rehearsal, and performance space for students. The performance hall is capable of supporting large-scale (2,000-seat) musical presentations including major choral, orchestral, and popular entertainments.

As part of the Silver Spring Redevelopment project, the historic Silver Theatre, operated by the American Film Institute, was restored. Two additional theatres were constructed on the same site. Located on an adjacent site is the Round House Theatre School, which provides both theatrical and educational programs. Round House also operates a 400-seat theatre in Bethesda. 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 strategies and implement programs that will maintain and expand the County's economic base, promote business growth, generate employment opportunities, and increase tax revenues.

To achieve this mission, DED provides services to help existing businesses expand, new businesses to locate in the County, small and minority-owned businesses grow, promote high technology development, attract foreign investments, expand the County's export base, preserve farmland, and enhance the viability of the agricultural industry. DED's responsibilities also include initiatives to enhance the presence of higher education in the County, to oversee the continued development of public/private science and technology parks (including the County-owned Shady Grove Life Sciences Center), and to operate and expand the County technology business incubator program, including the existing Maryland Technology Development Center and Silver Spring Innovation Center, as well as five additional incubators in the pipeline. In addition, DED oversees the County training and employment programs through its Division of Workforce Investment Services, tourism promotion programs operated by the Montgomery County Conference and Visitor's Bureau, and the small business services offered by Montgomery County's Business Resource Center.

Economic Development Services and Programs

Existing and prospective new businesses receive an array of professional assistance from DED. This assistance can take the form of site searches (DED maintains an inventory listing of available office, R&D and industrial space in the County), information on zoning, comparative tax data, socioeconomic statistics, and permit expediting.

Economic Development Fund and Other Financial Incentives

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. The Economic Development Fund is administered by the Department of Finance.

As of October 15, 2005, 131 offers for grants and loans totaling $20.8 million were accepted under the Economic Development Fund Grant/Loan Program. The economic impact of these transactions is estimated to include: 31,743 jobs retained or gained; over $1.369 billion in private investment; and an annual net revenue return of over $37.9 million.

In addition to the original Economic Development Fund program, four other financial incentive programs have been added. The Technology Growth Program (TGP) was developed to facilitate the growth of early-stage 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. Since the beginning of the TGP in 1999, 31 companies received funding for a total of $1.87 million. The Small Business Revolving Loan Program was created to help small business concerns in the County and to finance economic development projects that cannot be financed through traditional private and public sources. Since the beginning of this Program, 17 small businesses received loans totaling $1.12 million. 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. In FY 05, the Impact Assistance Program was created to help mitigate any adverse impacts small businesses might experience due to County initiated and funded development, redevelopment, or renovation projects. Nine companies received funding totaling $75,900 from this program since its inception. Through all of these programs, DED works to develop offers of assistance, frequently in close cooperation and coordination with the State of Maryland, as well as frequently leveraging additional offers of assistance from other State sources.

Economic Advisory Council (EAC)

This 30-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 expansion of businesses. This past year the EAC developed a strategic plan for economic development, a visionary blueprint for the future.

Shady Grove Life Sciences Center

The Shady Grove Life Sciences Center (the "Center") is a 300-acre advanced research and technology park exclusively oriented to the needs of the biotechnology and healthcare industries. The Center is owned, developed, and operated by the County, with the Department of Economic Development taking the lead responsibility for the Center's promotion and management.

The Center was developed in the early-to-mid 1980's in response to the cancer research and gene therapy advances developed in County-based Federal agencies such as the National Institutes of Health. Many of the government scientists most responsible for this research would use their skills and knowledge to form their own private biotechnology companies. Montgomery County recognized the growth potential of the biotechnology industry and quickly developed the concept of the Life Sciences Center to provide these new entrepreneurs with the facilities and resources necessary to stimulate the rapid growth of their new companies.

In addition to the core of biotechnology companies, the Center also features university campuses for both Johns Hopkins University and the Universities at Shady Grove, a part of the University of Maryland system. Both of these universities' curricula feature a wide range of biotechnology and life sciences courses and programs. Also present in the Center is the 120,000 square foot Center for Advanced Research in Biotechnology (CARB). CARB, created by a joint effort among the National Institute of Standards and Technology (NIST), the University of Maryland Biotechnology Institute (UMBI), and Montgomery County, provides a unique forum for collaborative biotechnology research among academic, government, and industry scientists.

Education

The 2003 Census Update Survey indicated that County residents, on average, continue to be highly educated. The proportion of County residents 25 years old or over completing four or more years of college continued to increase, from 33.2 percent in 1970 to 66.8 percent in 2003. Advanced degrees are held by 34.0 percent of the adult population. High school graduates account for 91.4 percent of the County population aged 25 and over, above the 79.5 percent proportion in 1970, the 87.3 percent in 1980, and the 90.3 percent in 2000.

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, medicine, 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.

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Table 33
Secondary Education

School	Student Enrollment	Types of Degrees Offered
American University, Washington, DC	11,366	4-year, professional
Catholic University, Washington, DC	5,740	4-year, professional
Hood College, Frederick, MD	2,121	4-year, professional
Howard University, Washington, DC	10,866	4-year, professional
Johns Hopkins University, Baltimore, MD	20,166	4-year, professional
Montgomery College, Rockville, MD	22,254*	2-year**
University of Maryland, College Park, MD	56,415	4-year, professional

* Excludes enrollment in workforce development and continuing education classes.
** 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. The system operates 194 elementary and secondary schools. The operating budget is $1.714 billion for FY06, a 6.5 percent increase over the prior year, and the FY05-10 capital improvements budget is $933.5 million. The emphasis that County residents place on education is reflected in per pupil operating expenditures of $12,287 in FY06, and in the high percentage of high school graduates who continue formal education. In FY06, projected enrollment is 139,477 students.

Finance

The Department of Finance is responsible for the financial administration of the County government, including accounting, debt and cash management, revenue collection, and risk management. The Controller's Division is responsible for the analysis, interpretation, and presentation of the County's financial position and results of operations through timely, accurate, and professional financial reports, and for timely and accurate payments to vendors for goods and services provided to the County. The Treasury Division is responsible for the collection of property taxes and for the processing of transfer and recordation taxes.

The 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 average maturity of the working capital portfolio is generally less than six months.

At June 30, 2005, the County managed $654.7 million in its pooled consolidated investment portfolio. During FY05 the County earned investment income of $15.6 million, with an average rate of return of 2.19%.

Risk Management

On July 1, 1978, County Code Section 20-37 was enacted to establish the Montgomery County Self-Insurance Program. The County self-insures 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, Rockville Housing Enterprises, Town of Somerset, Village of Martin's Additions, Village of Drummond, Village of Friendship Heights, and the Bethesda Urban Partnership. The City of Takoma Park and the City of Gaithersburg also participate, for workers' compensation coverage only.

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, Fiduciary Liability, and others. From time to time, commercial excess liability insurance was purchased. However, beginning October 16, 2002, as a result of the volatile insurance market, it was determined that this coverage could not be purchased at affordable rates.

A summary of FY05 operations of the program is outlined below:

	($000's)
Revenues:	
Contributions from participating agencies	$44,052
Interest on investments	2,042
Recovered losses	1,855
Other income	0
Total Revenues	47,949
Expenses:	
Claims expense	27,776
Claims administration, loss control, external insurance, and other administrative expenses	9,225
Total Expenses	37,001
Net income	10,948
Retained earnings, July 1, 2004	(11,844)
Equity balance, June 30, 2005	($ 896)

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 FY05 operations for these two elements of the insurance program are not reflected above.

Libraries

There are 23 libraries located throughout the County. In addition, a bookmobile provides limited book selections to numerous small communities, and a library is also operated at the County Detention Center. During FY05 the collection was nearly 3 million volumes, and total circulation was approximately 11.2 million. Per capita circulation of 11.9 books is among the highest in Maryland and nationally.

Liquor Control

State legislation established a Liquor Control Board in Montgomery County on December 5, 1933, shortly after the end of nationwide prohibition, giving the board monopoly power for the issuance of liquor, wine, and beer licenses in the County; the distribution of beverage alcohol at the wholesale level to County licensees; and the retail sale of liquor package goods for off-premise consumption. The Department of Liquor Control was created by Article 2B of the Annotated Code of Maryland, effective July 1, 1951. This newly-created Department assumed wholesale and retail control powers, and the Montgomery County Board of License Commissioners retained the authority to issue licenses for the retail sale of liquor, wine, and beer within the County. In 1997, the unification of Takoma Park gained Montgomery County four additional establishments, with one that is allowed to sell liquor package goods for off-premise consumption.

Today, the Department of Liquor Control's responsibilities include the operation of 25 County retail stores, and a warehouse that distributes beverage alcohol to the County stores and to over 900 licensed establishments, including beer and wine stores, restaurants, and clubs. The Department is a self-supporting business enterprise, with all operating requirements included in the Department's annual budget. Income in excess of departmental needs is transferred to the General Fund to pay for general governmental services. In the period of 1/1/2000 through 6/30/2005 the Department transferred over $100 million to the General Fund.

Parks

The Maryland-National Capital Park and Planning Commission administers more than 32,600 acres of parkland in the County. This includes 12 developed and four 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 379 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, Takoma Park, Kensington, Gaithersburg, Poolesville, and Washington Grove, among others, maintain local parks.

Public Safety

Fire and Rescue Service

The Montgomery County Fire and Rescue Service (MCFRS) manages all components of the County's emergency medical services and fire suppression systems, including training, planning, field emergency medical services, fire suppression, apparatus, emergency communications, fire code enforcement, community outreach and administration. The Department is served by 982 uniformed career employees, 96 civilian employees, and approximately 900 volunteers, operates 34 fire and rescue stations, and has 11 worksites. MCFRS is a combination system which includes 19 local volunteer departments and County career firefighters.

The Fire and Rescue Service is an active partner in the Public Safety Communication System (PSCS), a multi-departmental effort to create a mobile and wireless architecture and framework system to gather, process, analyze, synthesize and disseminate "real time" information for operational and management functions. The simultaneous integration of computer-aided dispatch, mapping, automatic vehicle locators and route planning systems, pre-incident location planning, computer accessibility in the apparatus, and access to the Department of Homeland Security's Office of Emergency Management's hazardous materials database are cornerstones of this project. MCFRS is actively planning for additional resources based on population growth, call demand and demographic changes in the County. This proactive support and commitment to the future of fire and rescue services in Montgomery County is intended to provide the infrastructure where and when it is needed, with staffing by trained career and volunteer staff.

An extensive Capital Improvements Program (CIP) is in place to ensure that the MCFRS operates and maintains a sufficient complement of facilities to provide response capability and an appropriate level of readiness. In response to increasing calls for service and population growth, MCFRS is adding four additional stations to serve the UpCounty area: East Germantown Fire Station, West Germantown Fire Station, Travilah Fire Station and Clarksburg Fire Station. An interim fire station to serve the Clarksburg area was opened in November 2005. Construction on the Germantown-West station and the Travilah station is scheduled to begin in the summer of 2006. Existing stations in Silver Spring, Takoma Park and Wheaton are being replaced. The new Silver Spring station is almost complete and is due to open in early 2006. Designs for the Takoma Park and Wheaton stations are completed. Stations in Rockville, Cabin John, and Burtonsville are planned to be renovated. In addition, there are several ongoing projects to replace and/or update major building systems (roof, HVAC, exterior resurfacing) at other fire/rescue facilities to ensure that these facilities are properly maintained and meet current standards.

Police Department

The Montgomery County Police Department (MCPD) is a highly-trained merit-system force of 1,140 sworn officers and 556 civilian staff for a total complement of 1,696 personnel. MCPD operates over 30 facilities, including six district police stations, and is accredited by the Commission for the Accreditation of Law Enforcement Agencies (ALEA). In coordination with other County agencies, the Department is a major participant in the County's Public Safety Communication System (PSCS) project. This $148 million effort is aimed at developing a complete mobile data system for the participating agencies, and includes laptop computers in public safety vehicles, an upgraded computer-aided dispatch system, in-car report writing, and a new 800 MHz radio system. The project also includes a record management system, an automated vehicle location system, and mapping features. This system became operational in the summer of 2003. A new Emergency Communications Center was established to house the major components of the PSCS system at that time.

A major capital project involving the renovation of the Public Safety Training Academy is currently in the design phase. This project involves the re-construction of the entire facility. It is scheduled for completion in the summer of 2009. In addition, several other facilities are planned for the department, including a replacement for the Vehicle Recovery Facility at the abandoned vehicle lot. This facility includes a forensics garage for the examination of vehicles used in a crime and/or vehicles involved in fatal collisions. In addition, there are approved projects for two district stations, the 3rd and 6th districts, to replace the existing stations, a new police sub-station (part of a larger Fire Station facility) in downtown Silver Spring scheduled for completion in early 2006. There is also a replacement planned for the County Animal Shelter. The Wheaton District Station renovation project was completed the summer of 2005. Proposed future capital projects include renovations of other District Police Stations, the renovations and expansion of the Outdoor Firing Range and a new Command Bus facility.

In 2003, the Department initiated the Educational Facilities Officer (EFO) program with 12 officers. The program now includes 24 police officers assigned to the school clusters throughout the County. These officers perform a variety of safety-related duties as described in a Memorandum of Understanding with the Montgomery County Public Schools (MCPS). The final eight officers will be deployed by January 2006, for 32 total EFOs, as originally designed.

The Montgomery County Gang Task Force is a pro-active unit designed to target gangs and gang members who engage in criminal acts. The Task Force was established to comprehensively address the increased concerns about gang related criminal activity, gang members and their associates. The Gang Task Force mission is two-fold: to combat street level gang activity and associated crimes through the identification, arrest, and prosecution of gang members; and to gather, document and disseminate intelligence on gangs and their members to the MCPD and other regional law enforcement partners. This Task Force became operational on April 4, 2004, and has gone beyond the one-year pilot initiative and is now an integral part of the department's overall crime reduction efforts. The Gang Task Force is comprised of members from MCPD, the Maryland National Capital Park Police, and the Montgomery County Sheriff's Office. A full-time Sergeant was approved in FY06 to direct this effort and that position operates from the MCPD Special Investigation Division.

In 2004, the Police Department embarked on a new deployment strategy to reduce the span of supervision for Police beat teams. This was accomplished by deploying additional sergeants and assigning beat officers to permanent shifts. In addition, the department expanded the number of officers available during peak call times and expanded staff overlap-time to increase the exchange of information. This re-deployment plan has been initiated in three of the six districts. Depending on the outcomes identified in an evaluation due to be completed in 2006, the Department may expand this re-deployment effort to all districts.

Department of Correction and Rehabilitation

The Department of Correction and Rehabilitation (DOCR) consists of 534 correctional officers, program staff, and other professionals who provide progressive and comprehensive correctional services through a wide variety of detention and community supervision programs. The Department operates three facilities for incarceration and intensive community reentry planning: the Montgomery County Detention Center (MCDC), the Montgomery County Correctional Facility (MCCF), and the Pre-Release Center. The Department also operates Pre-trial and Diversion Programs that supervise over 1,500 defendants in the community on a daily basis. The Detention Center, located in Rockville, is a 200-bed, 72-hour holding facility for detainees who are subject to an initial court appearance, and handles all arrest booking, initial assessment of arrestees, maintenance of all inmate records, and release of all inmates. The Circuit Court Commissioners who handle bail and bond hearings are also housed in this facility. The Montgomery County Correctional Facility, a 1,029-bed facility located in Clarksburg, houses and provides programs for adult men and women serving sentences up to 18 months, or awaiting trial or sentencing.

In FY05, the local inmate average daily population was approximately 144 at the Detention Center and 633 at MCCF. A combined average population of approximately 59 Federal inmates was being held as well. The average population was 137 residents at the Pre-Release Center and 35 in the non-residential, pre-release home confinement program. The average local inmate population is projected to grow to over 1,000 by the year 2020.

The County is engaged to renovate the MCDC to improve the criminal justice process. The MCDC Reuse capital project provides for the planning, design, and renovation of the MCDC for use primarily as a short-term holding and central processing facility. Other proposed uses for MCDC include: DOCR training; District Court Commissioners' area; Department of Health and Human Services - Mental Health Assessment and Placement Unit; Pre-trial Services Assessment Unit; Public Defenders Unit; and the Police Warrants and Fugitive Unit.

Public Works

The Division of Operations, in the Department of Public Works and Transportation, ensures the safe and convenient movement of pedestrians and vehicles on County roads, operates the traffic system in a safe and efficient manner, and maintains the County's road system, bridges, storm drains, sidewalks, curbs, gutters, alleys, bikeways, streetlights, traffic signals, facilities and related equipment. The Division's services include bridge maintenance, road resurfacing, roadway and related maintenance, snow removal and storm services, trail maintenance, tree maintenance, urban streetscaping, facility engineering, facility maintenance and operations, parking, street lighting, traffic planning, traffic and pedestrian safety, traffic signs and marking, traffic signals and the Advanced Transportation Management System, and transportation management and operations. Administrative services include document duplication, archiving and mail operations, recycling, warehousing, food services, and moving services. For FY06 the Division has a General Fund operating budget of $52.8 million and staff of 419; an Internal Services Fund budget of $4.5 million and staff of 30; and a Parking Activities budget of $22.4 million and staff of 43.

Solid Waste Management

The County maintains a comprehensive program to manage solid waste generated within the County. The elements of the program include an integrated system of methods and technologies, including source reduction, recycling, waste-to-energy, contractual out-of-County landfilling, maintenance of closed landfills, and a reserve permitted landfill within its borders.

The County continues to strive to meet its aggressive goal of achieving a source reduction and recycling rate of 50 percent. As of July 1, 2005, the program included County-provided separate curbside collection from 205,861 single-family households of yard trim, glass bottles and jars, metal and plastic containers, and all types of clean, unsoiled paper. Under a contract with the County, the Maryland Environmental Service (MES) constructed and operates two facilities for the processing and marketing of the materials. The first is 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. The second is a Materials Recovery Facility (MRF), located mid-County and capable of processing 100 tons of recyclable containers per eight-hour shift (current operations require only one shift). The County continues to reap the benefits of a $1.7 million investment in MRF capital equipment improvements enabling process enhancements, including plastics separation. During FY05, the County booked $3,146,213 in MRF material sales revenue, an increase of $866,175 over FY04 and $2,084,725 over FY03, the year that the improvements were completed. To assure the processing and marketing of all County residential mixed paper collected, the County utilizes a long-term agreement with Office Paper Systems (OPS), which began in July 2002. The County also enacted mandatory multi-family and commercial recycling regulations, and conducts technical outreach and enforcement in this connection.

A large percentage of 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 Mirant Corporation power plant near Dickerson, Maryland. The RRF, with a permitted capacity of 657,000 tons per calendar year, is operated by Covanta Montgomery Inc., and began commercial operations in August 1995. The RRF generates electricity which is sold under a long term contract to Mirant. In October 1997, the County began the export of RRF residue and non-processible waste under a long-term disposal contract utilizing committed capacity at an out-of-County landfill. A new landfill, within the County (known as Site 2) and located approximately two miles from the RRF, was permitted (refuse disposal permit) with adequate capacity for the disposal of all ash, by-pass, and non-processible waste. Under a County Council resolution adopted in May 1996, the County will not develop the Site 2 landfill unless economic conditions or changes in law render out-of-County waste disposal infeasible. The Oaks Landfill discontinued accepting solid waste in October 1997, and all capping and closure activities are complete. The Solid Waste Enterprise Fund maintains restricted cash sufficient to complete 30-year post-closure requirements.

Transportation

Ride-On Bus System

The County Ride-On bus system, designed to complement the service provided by other transit operators in the County, operates on 82 routes. All of those routes serve one or more of the 12 Metrorail Red Line Stations in the County. In FY05, approximately 25 million passenger trips took place on the County system. The entire fleet consists of 257 buses owned and operated by the County, and 96 smaller buses owned by the County and operated by a contractor.

Parking Districts

There are four parking lot districts in the major urbanized 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 and residential 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 issued parking revenue bonds in the amount of $97.6 million for land acquisition, construction, repair and renovation of parking facilities. During FY05, the four districts collectively had in service 18 garages with a total of approximately 16,329 parking spaces, 23 surface lots with 1,999 spaces, and 2,282 on-street metered spaces.

OTHER SERVICES

Transportation

Airports

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

Ronald Reagan Washington National Airport is located in Arlington County, Virginia, across the Potomac River from Washington, D.C. Reagan National is accessible to Montgomery County by Metrorail. In 2004, the airport served approximately 15.9 million passengers on commercial, general aviation and commuter flights, a 12 percent increase from 2003.

Dulles International Airport is located in adjacent Fairfax/Loudoun counties, Virginia, and offers commercial, general aviation and commuter service. Dulles served nearly 23 million passengers in 2004, with over 4.6 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 Capital Beltway.

Baltimore-Washington International Airport (BWI) is located in Anne Arundel County, Maryland. Over 20.3 million passengers used the airport in 2004. BWI is nearing the end of an expansion program which has added a new terminal facility, increased parking capacity, multiple skywalks, and a new rental car facility. The airport is accessible from the County via the Beltway and either Interstate 95 or the Baltimore/Washington Parkway.

Metrorail Transit System

Metrorail is a 106-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, 38.3 miles in Maryland and 29.4 miles in Virginia.

Services of the Washington Metropolitan Area Transit Authority (Metro) are the backbone of the County transit system. Providing service to the County are twelve rapid rail stations with 13,368 parking spaces and additional service by 150 Metrobuses. With the opening of the final Metrorail station in the County (Glenmont) in July 1998, there are now 18.4 miles of rail service operating in the County. Each weekday approximately 160,000 trips are made on Metrorail in Montgomery County.

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, Viers Mill Road, 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 10 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 public water and sewer systems in the County (exclusive of the City of Rockville and the Town of Poolesville) are the responsibilities of a State-chartered agency, the Washington Suburban Sanitary Commission (WSSC), which serves both Montgomery and Prince George's Counties. 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 FY06 approved operating budget for WSSC totals $494.3 million; the approved capital budget totals $264.8 million.

The Potomac and Patuxent Rivers are WSSC's two major sources of raw water supply, with filtration plants located in Potomac and Laurel, respectively. WSSC has 14 billion gallons of water supply storage and an effective filtration capacity of 320 million gallons per day (MGD). The 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. These reservoirs can provide approximately 17 billion gallons of raw water, if needed during low flow periods. An approved expansion of the Patuxent Filtration Plant will increase normal capacity there from 56 MGD to 72 MGD, and emergency capacity from 72 MGD to 120 MGD.

Most of the sewage collected by WSSC's systems is conveyed for treatment at the Blue Plains Wastewater Treatment Plant ("Blue Plains") in Washington, D.C. Blue Plains, owned and operated by the District of Columbia Water and Sewer Authority (DC WASA), has a treatment capacity of 370 MGD, of which WSSC's allocated capacity totals approximately 170 MGD. The County maintains membership on the DC WASA Board. WSSC's Seneca Creek Wastewater Treatment Plant provides 20 MGD of treatment capacity in the Seneca basin, serving the communities of Gaithersburg, Germantown, and Clarksburg. The County's Water and Sewer Plan allows for an ultimate capacity of 26 MGD at the Seneca Plant, if needed. WSSC also operates two smaller treatment plants in the County which serve the communities of Damascus and Hyattstown.

WSSC maintains a contract program for annually cleaning, removing debris from, 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 Commission will expand its sewerage system rehabilitation and reconstruction program over the next several years, addressing rehabilitation needs through a series of sanitary sewer evaluation studies which will focus on each major sewershed in the two counties.

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 in Potomac draws raw water from the Potomac River. Rockville invested $15 million to upgrade its Water Treatment System to meet three objectives: rehabilitate major system components, including three storage tanks, and rehabilitate the 45-year old plant, including raw and finished water pumps, to reduce maintenance requirements; upgrade the treatment process to meet stricter environmental standards; and expand the production capability to meet future demand. The construction program began in the early 1990s and will be completed in 2006. In 2002 the Maryland Department of the Environment issued a Water Appropriation and Use Permit to Rockville to appropriate and use an annual average of 7.1 MGD of water and a maximum daily withdrawal of 12.1 MGD from the Potomac River. The City's sewage flows through the WSSC system for treatment at Blue Plains. The City's allotted capacity at Blue Plains is 9.3 MGD, which is included in WSSC's total allocation of 170 MGD. In FY03 Rockville initiated a sanitary sewer evaluation study program for the Cabin John basin. In FY06 Rockville rehabilitated 5,000 feet of its sewerage system in the Rock Creek basin. Rockville will expand its sewerage system rehabilitation and reconstruction program over the next several years, addressing rehabilitation needs through a series of sanitary sewer evaluation studies, in conjunction with expanding its sewer monitoring programs, which will focus on each major sewer shed: Cabin John, Rock Creek and Watts Branch.

The Town of Poolesville also operates its own water and wastewater systems, which serve the majority of the Town. Raw water for the Town's system is supplied by nine groundwater wells, with an average daily demand of approximately 0.6 MGD. The Town and potential developers drilled several new wells to supplement its supply for existing and future residents. The Town upgraded and expanded its wastewater treatment plant. The upgrade enhanced the level of treatment to meet the Biological Nutrient Removal limits of the State. The expansion increased the discharge capacity from 0.625 MGD to 0.750 MGD. The Town embarked on a $2.5 million project of relining the sewer pipes in one of its older subdivisions. The project includes relining of terra-cotta mains and laterals, which were identified as the primary contributor to the Town's inflow and infiltration flows.

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, Dominion Transmission, and Transcontinental Gas Pipeline Corporation) traverse the County, supplying it with Appalachian and Southwest natural gas. Washington Gas and Baltimore Gas and Electric distribute 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.

Through September 2005, only PEPCO had taken advantage of the Customer Choice and Competition Act regarding the disposition of its generation assets. PEPCO sold these assets in 2000 to the Mirant Corporation, which now runs the generating units in the Dickerson area of the County. PEPCO continues to own and operate its transmission and distribution system.

Financial Institutions

The State of Maryland oversees 144 FDIC insured financial institutions, which in turn operate 1,707 branch banking locations with an estimated $89 billion in deposits. Montgomery County houses 32 of these institutions and dominates the majority market share of these deposits with an estimated $23 billion in deposits. The County's financial institutions, comprised of 20 commercial and national banks with 207 branch locations and 12 Federal savings and loan banks with 87 branch locations, represent 17.2% of the total branch locations within the State of Maryland. In addition to these FDIC institutions, the County has 19 national credit unions with an estimated $1.85 billion in deposits and a membership base of over 287,000.

Table 34
Summary of Market Share
By County
As of June 30, 2005

City/County	Number of Branch Offices	Deposits (000)	Market Share
Montgomery	294	$23,082,844	26%
Baltimore City	115	14,536,569	16%
Baltimore	303	13,912,128	16%
Prince George's	162	7,154,274	8%
Anne Arundel	165	6,690,800	8%

Table 35
FDIC Institutions Market Share
As of June 30, 2005

Institution Name	Number of Branch Offices	Deposits (000)	Market Share
Chevy Chase	65	$5,882,446	25%
Bank of America	32	3,423,200	15%
Suntrust	40	2,944,410	13%
Wachovia	13	2,916,082	13%

Source: FDIC Summary of Market Share Report for the State of Maryland, NCUA Credit Union Data Report (customized).

Healthcare

There are five accredited hospitals 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; nine hospitals in the District of Columbia; and 10 hospitals in Northern Virginia.

Travel and Tourism

According to a new study released by the Research Department of the Travel Industry Association of America, travel and tourism in 2004 generated $1.2 billion in travel-related expenditures, $358.6 million in payroll and 15,500 jobs in the County. Average local tax receipts in 2004 were in excess of $47 million; state tax receipts generated were over $65 million.

The Conference and Visitors Bureau of Montgomery County, Maryland, Inc. (CVB) is a public-private non-profit membership organization dedicated to the promotion of travel and tourism to the County. The CVB serves as a subcontractor to the Montgomery County Department of Economic Development. 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, manages a direct sales initiative for the meetings, group tour and sports markets, and manages a Visitor Information Center minutes off the I-270 corridor.

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APPENDIX B

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2005

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Honorable County Council
of Montgomery County, Maryland:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County), as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery County Public Schools, the Housing Opportunities Commission, the Montgomery Community College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc., which represent 100% of total assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the County's aggregate discretely presented component units financial statements, insofar as it relates to the amounts included for those discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note I (D) (10), to the basic financial statements, the County has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures* and No. 46, *Net Assets Restricted by Enabling Legislation*.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 12, 2005

Management's Discussion and Analysis

INTRODUCTION

This discussion and analysis (MD&A) is designed to a) assist readers in understanding Montgomery County, Maryland's (the County's) basic financial statements, the relationship of different types of statements, and the significant differences in the information they provide; b) assist the reader in focusing on significant financial issues; c) provide an overview of the County's current financial activity; d) identify changes in the County's financial position, i.e., its ability to address the next and subsequent year's financial needs, based on currently known facts; e) identify any material deviations from the approved budget for the fiscal year, and f) identify individual fund issues or concerns. The MD&A is best understood if read in conjunction with the Transmittal Letter and the County's basic financial statements.

FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY05 by $1,809.8 million. That amount is net of a $405.3 million unrestricted deficit. The deficit occurs because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery Community College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to $786.8 million at June 30, 2005. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of $381.4 million.

- The County's total government-wide net assets increased by $171.9 million.

- As of the close of FY05, the County's governmental funds reported combined ending fund balances of $454.4 million, an increase of $8.8 million over the prior year's ending fund balances. Of the total ending fund balances, $325.1 million is available for spending at the County's discretion.

- At the end of FY05, unreserved fund balance for the General Fund was $240.6 million, or 11.7 percent of total General Fund expenditures.

- The County's government-wide long-term debt decreased by $50.2 million during FY05. The key factors in this decrease are:
  - The issuance of: $200 million in general obligation (GO) bonds, $50 million in bond anticipation notes (BANS), and $21.9 million in capital leases.
  - The retirement of: $114.6 million in GO bonds, $200 million in BANS, $8.3 million in revenue bonds, $9.4 million in certificates of participation, and $7.1 million in capital leases.
  - The refunding of $218 million in GO bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The structure of the financial statements is presented below. This MD&A is intended to be an introduction to Montgomery County's basic financial statements. Montgomery County's basic financial statements comprise three components, including government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information

Independent Auditors' Report
Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis
This supplementary information is required for state and local government financial statements, and is intended to provide a narrative introduction, overview, and analysis.
Pages 3 to 22.

Government-Wide Financial Statements
Provides information on governmental and business-type activities of the primary government.
Pages 24 to 27.

Fund Financial Statements
Provides information on the financial position of specific funds of the primary government.
Pages 28 to 40.

Component Units
Provides information on the County's component units.
Pages 41 to 42.

Notes to Financial Statements
Provides a summary of significant accounting policies and related disclosures.
Pages 43 to 108.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are reported in columns which add to a total for the primary government. The focus of the statement of net assets is designed to provide bottom line results for the County's governmental and business-type activities. This statement reports governmental funds' current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the County, and infrastructure dedicated by developers since 1970, are included in the accompanying government-wide financial statements. The difference between the County's assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Additionally, nonfinancial factors, such as a change in the County's property tax base or the condition of County facilities and infrastructure, should be considered to assess the overall health of the County.

The statement of activities is focused on both the gross and net cost of various functions, including governmental and business-type activities. This is intended to summarize and simplify the users' analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities included reflect the County's basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and permit fees, intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations, including: liquor control, solid waste activities, four parking lot districts, permitting services, and community use of public facilities, where fees for services or products are required or designed to recover the cost of operation, including depreciation.

The government-wide financial statements include not only the County itself (known as the Primary Government), but also legally separate entities known as Component Units. Component units, which are other governmental units over which the County Council can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as individual activities in the basic and fund financial statements. The County has five component units – Montgomery County Public Schools (MCPS), Housing Opportunities Commission (HOC), Montgomery Community College (MCC), Montgomery County Revenue Authority (MCRA), and Bethesda Urban Partnership, Inc. (BUPI).

Fund Financial Statements

Traditional users of governmental financial statements may find the fund financial statement presentation more familiar. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the fund financial statements, the focus is on major funds rather than the County as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The County has the following three types of funds:

Governmental Funds – Most of the County's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources, as well as capital expenditures and bond principal payments as expenditures. The reconciliation will reflect the elimination of these transactions and will incorporate the capital assets and long-term obligations (bonds and others) that are presented in the governmental activities column (in the government-wide statements). The County has three major governmental funds – General, Debt Service, and Capital Projects – and 17 nonmajor funds (16 special revenue funds and one permanent fund).

Proprietary Funds – Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County's enterprise funds. The County has three major enterprise funds – liquor control, solid waste activities, and parking lot districts – and two nonmajor funds. The internal service funds, which are presented in a single, aggregated column in the proprietary fund financial statements, are used to account for the provision of liability and property insurance coverage, employee health benefits, motor pool services, and central duplicating services, to County departments on a cost reimbursement basis. Although both the fund and government-wide financial statements provide a long-term and short-term focus, reconciliations between these two sets of statements are still required. This is due to the fact that the excess income/loss for the internal service funds has been redistributed to the customers, including business-type activities; such reconciliations are reflected on the bottom of the proprietary fund financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's programs. The County's fiduciary funds consist of pension and other employee benefit trusts, an investment trust, private purpose trusts, and agency funds.

FINANCIAL ANALYSIS OF MONTGOMERY COUNTY, MARYLAND: GOVERNMENT-WIDE FINANCIAL STATEMENTS

A comparative analysis of government-wide financial information is presented below.

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2005 and 2004:

Summary of Net Assets *
June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets:						
Current and other assets	$ 1,075,863,211	$ 986,468,128	$ 160,556,687	$ 172,997,180	$ 1,236,419,898	$ 1,159,465,308
Capital assets, net	2,457,984,150	2,363,793,826	220,863,626	208,555,761	2,678,847,776	2,572,349,587
Total Assets	3,533,847,361	3,350,261,954	381,420,313	381,552,941	3,915,267,674	3,731,814,895
Liabilities:						
Long-term liabilities outstanding	1,644,854,128	1,686,045,195	88,467,255	97,474,189	1,733,321,383	1,783,519,384
Other liabilities	334,802,038	278,678,649	37,365,374	31,734,846	372,167,412	310,413,495
Total Liabilities	1,979,656,166	1,964,723,844	125,832,629	129,209,035	2,105,488,795	2,093,932,879
Net assets:						
Invested in capital assets, net of related debt	1,747,572,143	1,597,253,419	158,430,251	137,937,194	1,859,401,883	1,735,190,613
Restricted	287,333,081	288,675,222	68,389,069	91,478,147	355,722,150	380,153,369
Unrestricted (deficit)	(480,714,029)	(500,390,531)	28,768,364	22,928,565	(405,345,154)	(477,461,966)
Total Net Assets	$ 1,554,191,195	$ 1,385,538,110	$ 255,587,684	$ 252,343,906	$ 1,809,778,879	$ 1,637,882,016

* Primary Government

The County's current and other assets increased by $77.1 million or 6.6 percent over FY04. The County's assets exceeded its liabilities at the close of FY05 by $1,809.8 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Governmental capital lease obligations of $46.6 million, related to business-type activity capital assets, are classified as a component of unrestricted net assets for governmental activities purposes, but reclassified to invested in capital, net of related debt, for total primary government purposes.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to $786.8 million at June 30, 2005. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of $381.4 million. An additional portion of the County's net assets ($355.7 million or 19.7 percent) represents resources that are subject to restrictions on how they may be used. This amount includes $101.2 million in net assets restricted for revenue stabilization for periods of economic downturn.

Statement of Activities

The following table summarizes the County's change in net assets for the years ended June 30, 2005 and 2004:

Summary of Changes in Net Assets *
For the Fiscal Years Ended June 30, 2005 and 2004

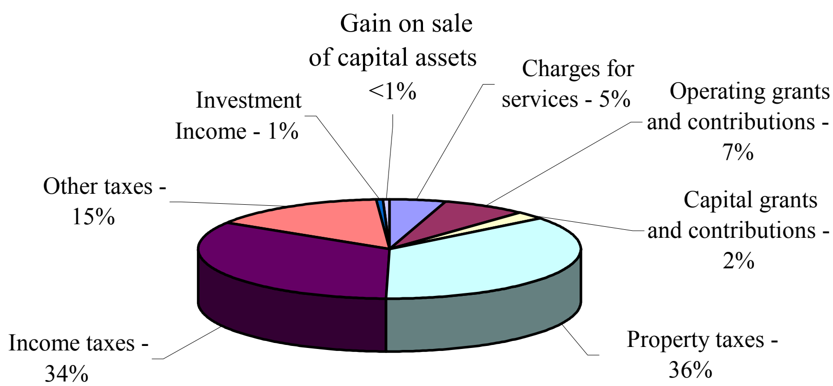
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
REVENUES						
Program Revenues:						
Charges for services	$ 130,930,994	$ 101,159,195	$ 328,047,302	$ 316,912,133	$ 458,978,296	$ 418,071,328
Operating grants and contributions	206,409,600	212,715,817	-	51,952	206,409,600	212,767,769
Capital grants and contributions	66,118,819	82,500,765	-	-	66,118,819	82,500,765
General revenues:						
Property taxes	1,010,964,428	919,320,985	8,412,877	7,591,413	1,019,377,305	926,912,398
Income taxes	940,274,273	812,975,046	-	-	940,274,273	812,975,046
Other taxes	423,349,041	349,045,891	-	-	423,349,041	349,045,891
Investment income	15,806,293	5,759,893	3,557,676	1,821,746	19,363,969	7,581,639
Gain on sale of capital assets	13,112,218	-	-	2,528,262	13,112,218	2,528,262
Total Revenues	2,806,965,666	2,483,477,592	340,017,855	328,905,506	3,146,983,521	2,812,383,098
EXPENSES						
Governmental Activities:						
General government	227,211,859	211,957,281	-	-	227,211,859	211,957,281
Public safety	418,990,301	373,518,674	-	-	418,990,301	373,518,674
Public works and transportation	178,010,395	175,276,975	-	-	178,010,395	175,276,975
Health and human services	213,988,337	210,481,464	-	-	213,988,337	210,481,464
Culture and recreation	84,339,831	79,110,368	-	-	84,339,831	79,110,368
Community development and housing	19,915,566	19,970,947	-	-	19,915,566	19,970,947
Environment	8,664,457	8,310,848	-	-	8,664,457	8,310,848
Education	1,446,592,632	1,322,003,030	-	-	1,446,592,632	1,322,003,030
Interest on long-term debt	70,401,131	69,895,441	-	-	70,401,131	69,895,441
Business-type Activities:						
Liquor control	-	-	152,098,599	144,912,612	152,098,599	144,912,612
Solid waste activities	-	-	104,106,630	97,987,992	104,106,630	97,987,992
Parking lot districts	-	-	24,063,575	19,370,927	24,063,575	19,370,927
Permitting services	-	-	20,744,660	19,970,101	20,744,660	19,970,101
Community use of public facilities	-	-	5,958,685	5,918,985	5,958,685	5,918,985
Total Expenses	2,668,114,509	2,470,525,028	306,972,149	288,160,617	2,975,086,658	2,758,685,645
Increase in Net Assets Before Transfers	138,851,157	12,952,564	33,045,706	40,744,889	171,896,863	53,697,453
Transfers	29,801,928	(2,987,331)	(29,801,928)	2,987,331	-	-
Increase in Net Assets	168,653,085	9,965,233	3,243,778	43,732,220	171,896,863	53,697,453
Net Assets, beginning of year	1,385,538,110	1,375,572,877	252,343,906	208,611,686	1,637,882,016	1,584,184,563
Net Assets, end of year	$ 1,554,191,195	$ 1,385,538,110	$ 255,587,684	$ 252,343,906	$ 1,809,778,879	$ 1,637,882,016

* Primary Government

Governmental Activities

Revenues for the County's governmental activities were $2,807.0 million for FY05. Sources of revenue are comprised of the following items:

Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2005



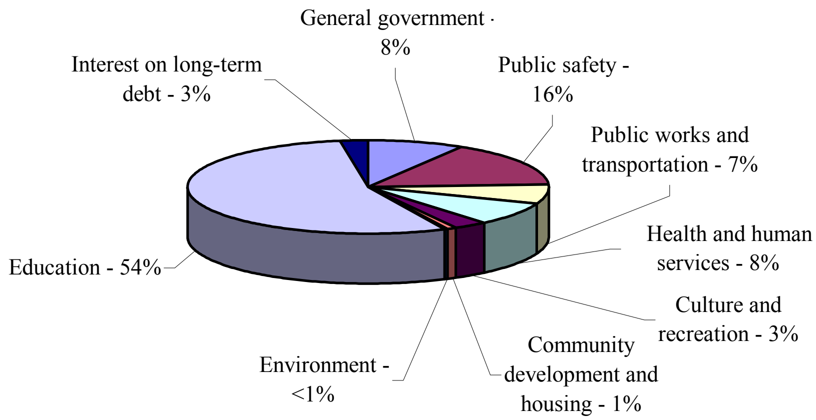
- Taxes constitute the largest source of County revenues, amounting to $2,374.6 million for FY05. Property and local income tax combined comprise 69.5 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2005 and 2004. There is no local sales tax in the State of Maryland.

- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: health and human services ($106.7 million or 52 percent), public works and transportation ($52.7 million or 26 percent) and public safety ($28.5 million or 14 percent).

A more detailed discussion of the County's revenue results for FY05 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY05 was $2,668.1 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled $1.4 billion. Public safety expenses totaled $419.0 million, general government services totaled $227.2 million, and health and human services, the fourth largest expense for the County, totaled $214.0 million.

Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2005



The following table presents the cost and program revenues of each of the County's six largest programs – education, public safety, general government, health and human services, public works and transportation, and culture and recreation – as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

Net Cost of County's Governmental Activities
For the Fiscal Years Ended June 30, 2005 and 2004

	Expenses		Revenues		Net Cost of Services	
	2005	2004	2005	2004	2005	2004
Education	$ 1,446,592,632	$ 1,322,003,030	$ -	$ -	$ 1,446,592,632	$ 1,322,003,030
Public safety	418,990,301	373,518,674	57,680,645	56,302,171	361,309,656	317,216,503
General government	227,211,859	211,957,281	94,408,747	50,439,718	132,803,112	161,517,563
Health and human services	213,988,337	210,481,464	116,628,462	116,265,854	97,359,875	94,215,610
Public works and transportation	178,010,395	175,276,975	87,286,300	83,645,717	90,724,095	91,631,258
Culture and recreation	84,339,831	79,110,368	37,761,559	55,869,027	46,578,272	23,241,341
Other	98,981,154	98,177,236	9,693,700	16,369,294	89,287,454	81,807,942
Total	$ 2,668,114,509	$ 2,470,525,028	$ 403,459,413	$ 378,891,781	$ 2,264,655,096	$ 2,091,633,247

Some of the cost of governmental activities was paid by those who directly benefited from the programs ($130.9 million) and other governments and organizations that subsidized certain programs with grants and contributions ($272.5 million). General government revenues in FY05 included $19.7 million in State funding towards construction of the Montgomery County Conference Center and $10.4 million from MCPS in the form of major renovations and improvements to a closed school, whose ownership was transferred from MCPS to the County. Culture and recreation revenues declined in FY05 from FY04, primarily due to $23.6 million in State funding in FY04 towards the construction of the Music Center at Strathmore Hall.

Of the $2,264.7 million net cost of services, the amount that our taxpayers paid for these activities through County taxes was $2,374.6 million; the remainder was funded by investment income and gain on sale of capital assets. Increases in education expenses, which represent transfers to MCPS and MCC, relate to maintaining MCPS initiatives for class size reduction, full-day kindergarten, staff development curriculum improvements and special education improvements, along with contractual wage and benefit increases. Increases in expenses for public safety relate to funding two Fire and Rescue Services and two Police Officer recruit classes, increased staffing at two fire stations, enhanced staffing for the Emergency Communications Center, and implementation of Bill 25-03 relating to Fire Code Enforcement Services.

Business-type Activities

Highlights of the County's business-type activities for FY05 are as follows:

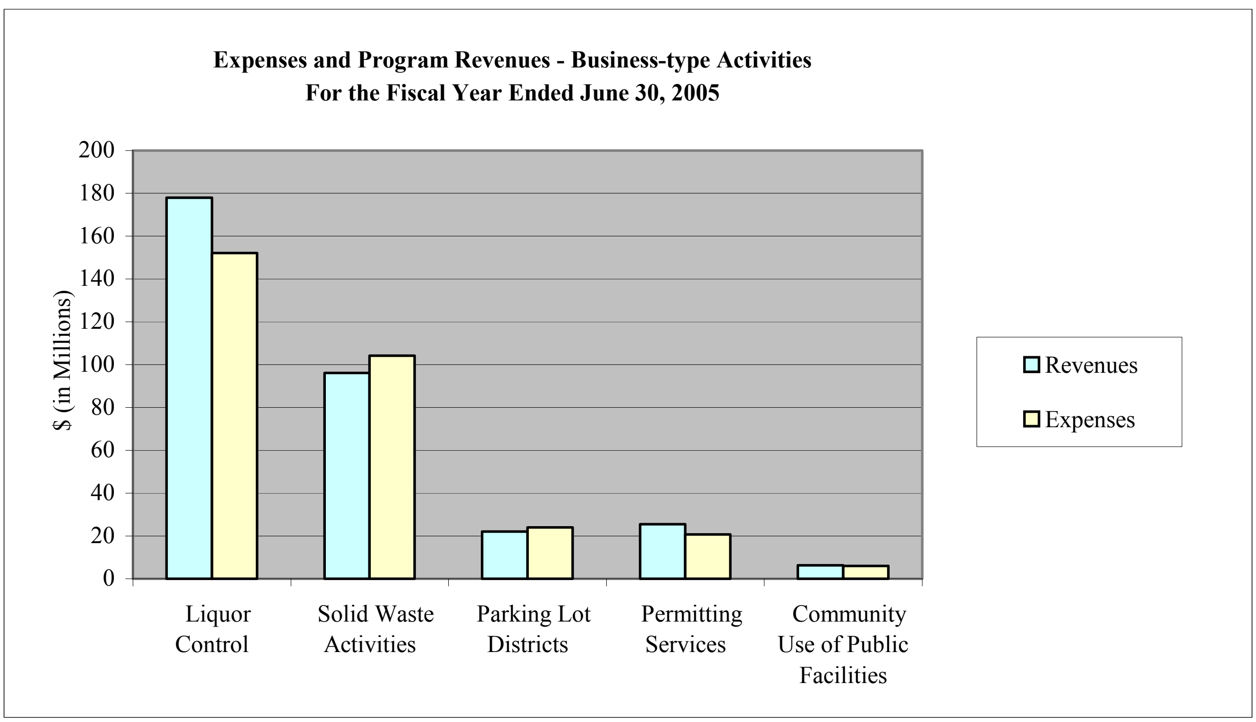
- Business-type activities experienced an increase in net assets of $3.2 million for FY05. However, this amount is reported after total net transfers out of $29.8 million. The most significant components of this amount include $5.9 million in transfers in from the General Fund to the Silver Spring Parking Lot District, representing the value of donated assets in the form of leased parking garages, netted against $20.5 million in FY05 Liquor Enterprise Fund profits transferred to the General Fund (see Note III-D). Under State law, the Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages within the County.

- Charges for services to users comprise 96 percent of revenues, with $177.9 million (52 percent of charges for services revenue) attributable to liquor control operations and $96.2 million (28 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.

- Parking lot district property taxes of $8.4 million is the second largest source of revenue at only 2 percent.

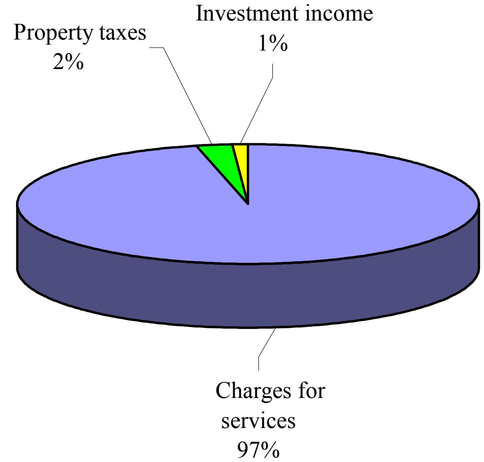
- Investment income of $3.6 million reflects an increase of $1.8 million (100 percent, after a 42 percent decrease in FY04), primarily because of the continuing increases in interest rates during the year.

Business-type activities are shown below comparing costs to revenues generated by related services:



Business-type revenues by source are comprised of the following:

Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2005



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the County's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of FY05, the County's governmental funds reported combined ending fund balances of $454.4 million, an increase of $8.8 million from the end of FY04. Of the total ending fund balances, $325.1 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $129.3 million is unavailable for new spending because it has been reserved for prior period commitments and legal restrictions.

The General Fund is the primary operating fund of the County. At the end of FY05, unreserved and undesignated fund balance of the General Fund was $127.2 million, while total fund balance was $246.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 5.6 percent of the total General Fund expenditures and transfers out, while total fund balance represents 10.8 percent of the same amount.

The fund balance of the County's General Fund increased by $87.6 million during FY05, primarily due to higher than originally estimated income taxes, and transfer and recordation taxes.

The Capital Projects Fund has a total deficit of $37.1 million, which represents the excess of expenditures incurred over proceeds of bonds issued, and reimbursements from federal, state, and other agencies. To help fund such expenditures, the General Fund advances funds to the Capital Projects Fund.

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain a fund balance.

A more detailed discussion of General Fund revenues can be found in the General Fund Budgetary Highlights section of MD&A. Other factors concerning the finances of the governmental funds are addressed in the discussion of the County's governmental activities.

Proprietary funds

The County's proprietary funds provide the same type of information found in the government-wide statements, but include more detail.

Unrestricted net assets of the Liquor Fund at the end of FY05 amounted to $26.2 million, and operating income was $25.7 million. After a subsidy transfer to the General Fund of $20.5 million, the fund ended FY05 with an increase in net assets of $5.2 million.

The Solid Waste Activities Fund total net assets amounted to $53.7 million, of which the unrestricted net assets were $15.1 million. Restricted net assets of $31.2 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund increase in net assets amounted to $2.7 million in FY05, resulting in total ending net assets of $164.2 million. Of this amount, $142.1 million (86.5 percent) is invested in capital net of related debt; $5.5 million (3.4 percent) is restricted for debt service on revenue bonds; and $16.6 million (10.1 percent) is unrestricted.

A discussion of enterprise fund long-term debt can be found in the Long-Term Debt section presented later in this MD&A. Other factors concerning the finances of the enterprise funds are addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to $16.5 million, which included County Council approved supplemental and special appropriations and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- $7.7 million for costs associated with storm cleanups;
- $5.6 million for overtime costs for corrections and police personnel; and
- $2.9 million for higher fuel costs.

Actual revenues were greater than budget amounts by $139.5 million, while actual expenditures and net transfers out were less than final budget by $5.2 million and $45.4 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2005, include the following:

- Actual expenditures of $703.6 million were $5.2 million less than the final budget, which represents .7 percent of the final budget, and is attributable to savings achieved across numerous departments.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by $46.3 million. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

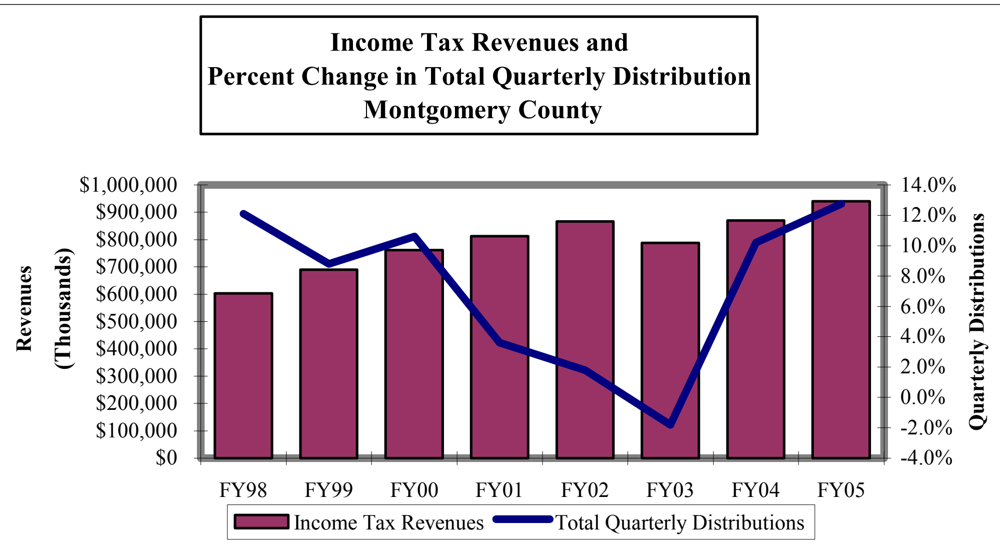
A more detailed comparison of final budget to actual figures for revenues is presented below:

Overview - Actual revenues for the General Fund totaled $2,320.5 million and were 6.4 percent above the budget estimate for the fiscal year and 10.5 percent above actual revenues for FY04. The three largest contributors to the variance between the budget estimate and actual revenues were the income tax (↑ $47.9 million above the budget estimate), the recordation tax (↑ $67.2 million above the budget estimate), and finally, the transfer tax (↑ $39.7 million above the estimate). Revenues from excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $162.1 million in FY05. That amount was $2.7 million or 1.7 percent below the budget estimate. Investment income was approximately $140,000 above the budget estimate. Some non-tax sources of revenue came in above the budget estimate. Such sources included licenses and permits (↑ 2.6%); charges for services (↑ 1.4%), and miscellaneous sources (↑ 11.7%). Intergovernmental revenues were 7.1 percent below the budget estimate. Such decrease was attributed to the state reimbursements of $97.2 million which came in 8.4 percent below the budget estimate, federal reimbursements of $19.8 million were 1.3 percent above the budget estimate, and other intergovernmental revenues of $1.3 million were 24.1 percent below the budget estimate.

Income Taxes - The largest revenue source for the General Fund is the County income tax. Revenues from the income tax were $940.9 million and represented 43.6 percent of total tax revenues and 40.5 percent of total revenues in FY05. Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The dramatic shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expanding employment base in the County during fiscal years 1999 through 2001 and growth in capital gains during that same period. Even with a sluggish stock market and meager growth in the County's payroll employment during the FY2002-2005 period, revenues increased 6.7 percent in FY02, 10.4 percent in FY04, and 8.2 percent in FY05. Such steady increases in the income tax revenues were interrupted in FY03, which experienced a decline of 9.1 percent attributed partly to the nearly 2 percent drop in withholdings and estimated payments. There are a number of factors that contributed to the increase in income tax revenues in FY04 and FY05. In FY04, the County Council increased the local income tax rate from 2.95% to 3.20%. Second, the

Maryland State Comptroller (Comptroller) implemented three administrative changes to the distribution of revenue collections to the County. First, a procedural change was implemented to expedite the submittal of withholding by employers. Previous to the change, the Comptroller received employers' withholdings on the fifteenth day of the subsequent month. The new procedure requires employers to submit their withholdings within three business days. As a result, the Comptroller accelerated the August distribution to the month of July, and therefore, the distribution was included in FY04 instead of the subsequent fiscal year. The second administrative change accelerated fifty percent of three years of unclaimed withholdings (tax years 2001, 2002, and 2003). The third and final administrative change modified the unallocated percentage with a three percentage point reduction resulting in an increase in quarterly distributions of withholdings and estimated payments. Partly because of the acceleration of the three years of unclaimed withholdings and the increase in the tax rate, revenues collected in FY04 reached nearly $870 million, which presented an increase of $81 million over FY03 and the largest one year increase since FY99.

With modest improvement in employment and the stock market during calendar year 2004 and with the Comptroller introducing an administrative change effective FY05 that accelerated the distribution of interest and penalties, income tax revenues were up nearly $71.2 million in FY05 over FY04. Secondly, the first adjustment by the Comptroller to the acceleration of the three-year unclaimed withholdings in FY04 yielded a higher than expected distribution at the end of FY05. As the chart below illustrates, total quarterly distributions for withholding and estimated payments increased 12.7 percent (FY05), compared to +10.6 percent (FY04), -1.8 percent (FY03), +1.8 percent (FY02), +3.6 percent (FY01), +10.6 percent (FY00), +8.8 percent (FY99), and +12.1 percent (FY98).

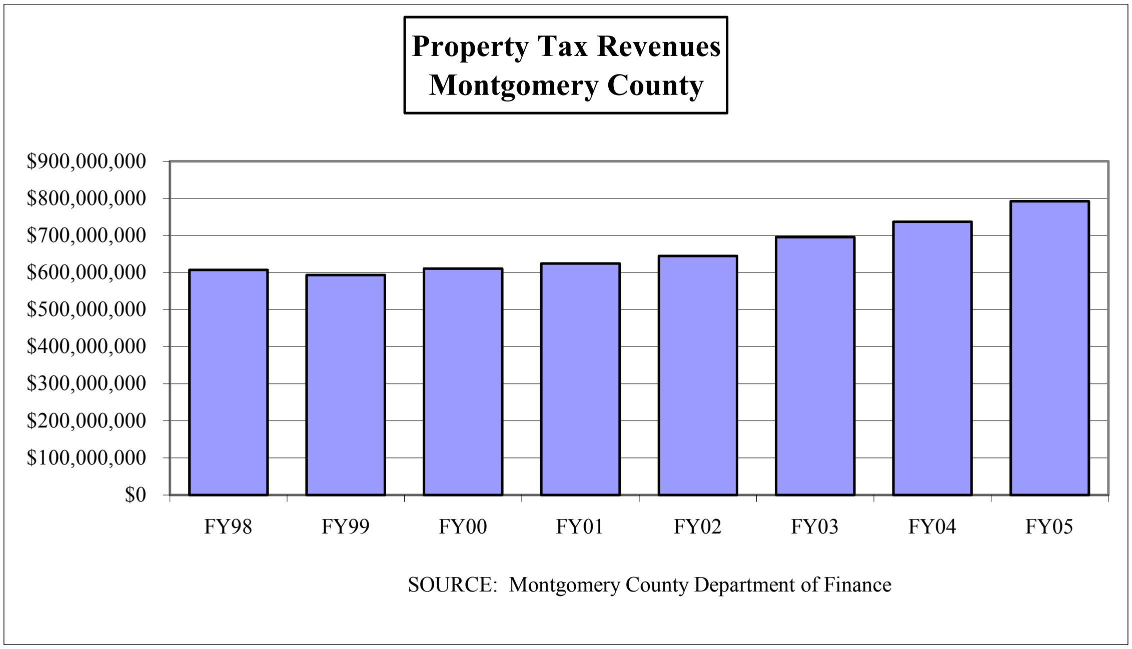


SOURCE: Montgomery County Department of Finance

Property Taxes - Property tax collections in the General Fund amounted to $792.1 million in FY05, which were $1.5 million higher than the budget estimate and 7.5 percent above actual revenues in FY04. Property taxes, excluding penalty and interest and other items, were $790.4 million in FY05 – an increase of 7.6 percent over last year. However, collections from penalty and interest were $1.8 million, a decrease of 22.0 percent compared to FY04 actual revenues.

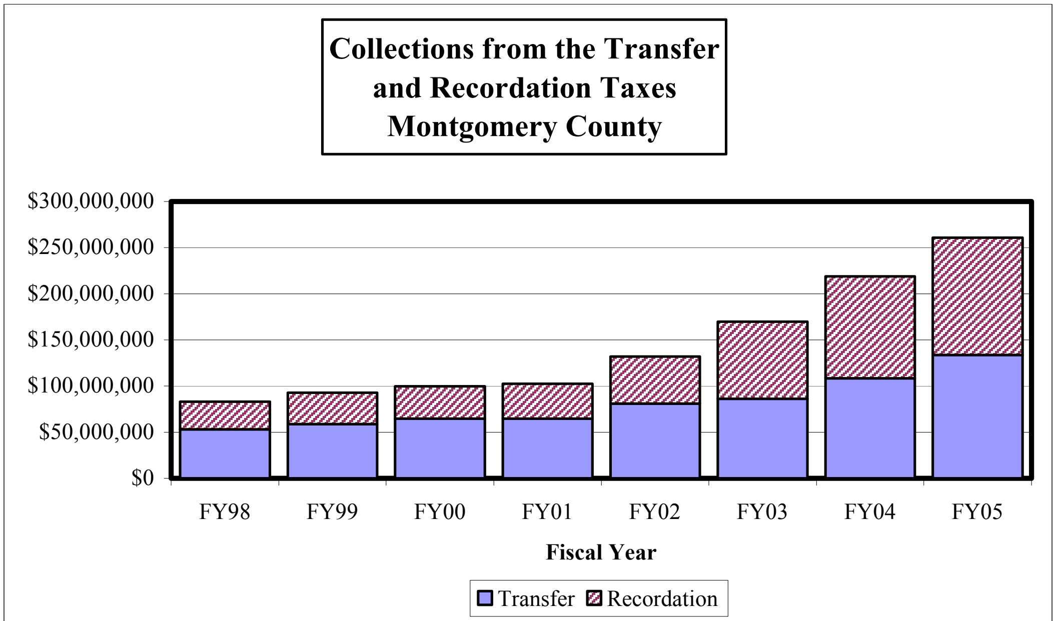
The increase in property tax collections was the result of a 10.1 percent increase in the assessable base for real property from FY04 to FY05. This was the largest increase in over nine years. New construction, which added $1.7 billion to the base in FY05, was 1.0 percent higher than FY04. The continued strong real estate market is fueling the dramatic increase in the reassessment rate from 13.5 percent to 51.8 percent for Cycle One reassessments of the

County's real property, which followed an increase in the rate from 2.7 percent to 21.8 percent for Cycle Two reassessments in FY03 and from 6.4 percent to 36.3 percent for Cycle Three in FY04. Because of the dramatic increases in the reassessment rates, such increases added nearly $9.8 billion to the assessable base in FY05. As a result, the 8.2 percent increase in tax-supported property tax revenues in FY05 was one of the highest increases during the last eight fiscal years.



After a decline in FY98, assessments of personal property increased 2.8 percent in FY99, 3.2 percent in FY00, 5.1 percent in FY01, 3.0 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to declines in all three categories: individual, public utility, and corporate, and another decline of 1.5 percent in FY05 attributed to the adjustment to individual personal property by the State Department of Assessments and Taxation and a decline in public utility personal property. Despite the weaker personal property trend, the total assessable base grew 5.9 percent in FY03, 7.6 percent in FY04, and 9.6 percent in FY05.

<u>Transfer and Recordation Taxes</u> - The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources were $261.0 million (including revenues earmarked for CIP funding of school construction), which was 69.4 percent above the budget estimate and 19.1 percent above FY04. Collections from transfer and recordation taxes continue to reach record highs. As the accompanying chart illustrates, the amount collected from these taxes increased from $83.0 million in FY98 to $261 million in FY05 ─ a threefold increase.

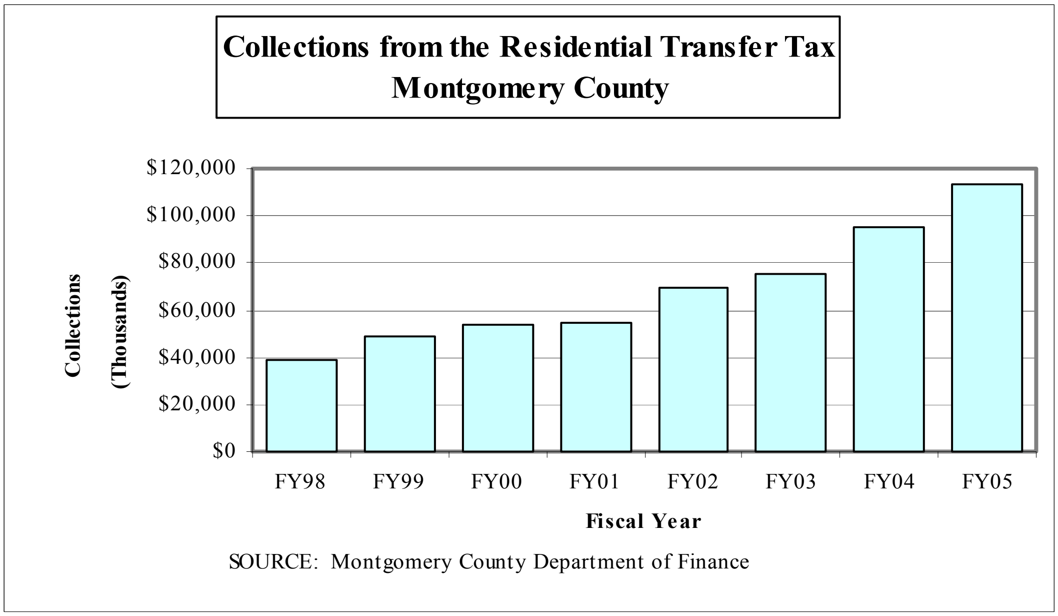


SOURCE: Montgomery County Department of Finance

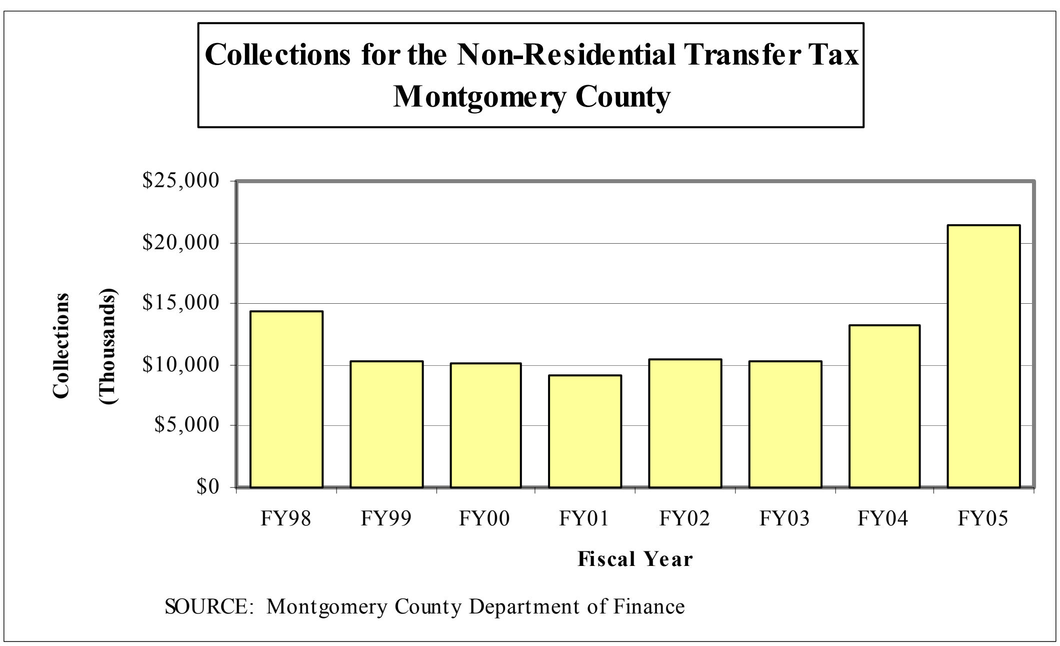
Following a two-year decline in tax collections, transfer and recordation taxes increased 40.1 percent in FY98 followed by a 12.1 percent increase in FY99, moderating in FY00 and FY01, then accelerating another 22.7 percent per year from FY02 through FY05. Collections from transfer tax revenues exhibited the larger increase in FY05, 23.4 percent, compared to recordation tax revenues, which increased 14.9 percent.

Revenues from the transfer tax were exceptionally strong in FY05 with total collections at $133.7 million for an all time record high. Revenues from the residential sector were $112.4 million, an increase of 18.4 percent over FY04, and revenues from the non-residential sector were $21.3 million, an increase of 59.5 percent. The continued surge of real estate activity in FY05, attributed to low mortgage interest rates and accelerating home prices, was the primary factor contributing to the underestimates of projected transfer and recordation tax revenues for FY05.

A closer examination of the trend in the transfer tax from FY98 to FY05 provides two different growth patterns between residential and non-residential transfer tax receipts. Except for FY01, transfer taxes from the residential real estate market exhibited exceptional growth rates over this period. Tax collections increased at an average annual rate of 15.3 percent between FY98 and FY05. In FY01 and FY03, the growth rates were below double-digit rates for the first time since FY97 but still remained positive (FY01 ↑1.6%; FY03 ↑7.8%). Because of such exceptional increases over these fiscal years, the amount collected in FY05, $112.4 million, was a record. The average transfer tax nearly doubled during this period from $2,254 in FY98 to $4,390 in FY05, representing an average annual growth rate of 9.5 percent and indicative of the jump in housing prices and a shift towards larger and more expensive homes in the County.



Similar to the residential sector, the commercial or non-residential sector experienced a stellar performance in FY05. Revenues from that sector increased 59.5 percent compared to 18.4 percent for the residential sector. Over the previous six fiscal years, non-residential transfer tax revenues exhibited two distinct three-year cyclical patterns. For example, from FY98 to FY01, revenues decreased at an average annual rate of 14.5 percent, whereas from FY01 to FY04, revenues increased at an average annual rate of 11.9 percent. While the amount of collections from the commercial sector doubled in FY98, the decline during each of the next three fiscal years was attributed to a greater decline in the number of transfers from FY98 to FY01 (↓ 15.9% at an average annual rate) as opposed to the increase in the average tax (↑ 0.9 percent at an average annual rate).



Other Taxes - The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled $162.1 million and were approximately $2.7 million, or 1.7 percent, below the budget estimate. The opening of the Conference Center in North Bethesda in late calendar year 2004 had a positive effect on revenues from the hotel/motel industry (↑ 3.5% above the budget estimate) during FY05. Fuel and energy taxes were at the budget estimate. The decline in revenues from the admissions tax and the telephone tax contributed to the overall loss of revenues from the excise taxes. Collections from the admissions tax declined 5.2 percent in FY05, attributed to a reduction in attendance at movie theaters (↓ 14.6%) and facilities providing video arcades and games (↓ 15.2%). Revenues from the telephone tax were 7.5 percent below the budget estimate and the decline was attributed to a continued reduction in landlines.

Investment Income - In the General Fund, investment income increased from less than one-half a million dollars ($417,000) in FY04 to $3.7 million in FY05. Investment income was 3.9 percent above the budget estimate. The dramatic increase in investment income follows declines in FY01, FY02, FY03, and FY04, which was the result of the accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that began in January 2001. Since June 2004, the FOMC raised the target rate interest rate for federal funds eight times from 1.25 percent to 3.25 percent by June 2005. Because of this 200 basis point increase within a year, short-term or money market rates increased as well, hence the average yield on cash equity for the County increased from 1.13 percent in FY04 to 2.19 percent in FY05. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $15.6 million or 143.90 percent above last fiscal year. That increase in revenues with a lesser rate of increase in spending is reflected in the daily portfolio balance which increased from $566.0 million in FY04 to $710 million in FY05.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The County's investment in capital assets as of June 30, 2005, amounted to $2,678.8 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation
June 30, 2005

	Governmental Activities	Business-type Activities	Total FY05	Total FY04 *
Land	$ 505,709,119	$ 52,777,663	$ 558,486,782	$ 538,679,046
Buildings	477,939,017	127,681,088	605,620,105	470,303,654
Improvements other than buildings	21,967,463	20,719,874	42,687,337	42,336,612
Furniture, fixtures, equipment and machinery	138,237,121	6,420,860	144,657,981	133,392,477
Leasehold improvements	7,874,792	-	7,874,792	6,906,354
Automobiles and trucks	79,264,552	983,825	80,248,377	83,220,623
Infrastructure	1,098,995,663	-	1,098,995,663	1,062,479,268
Other assets	1,004,099	-	1,004,099	1,212,072
Construction in progress	126,992,324	12,280,316	139,272,640	233,819,481
Total	$ 2,457,984,150	$ 220,863,626	$ 2,678,847,776	$ 2,572,349,587

*Certain amounts have been reclassified to conform with the current year presentation.

Changes in the County's capital assets for FY05 are summarized as follows:

Change in Capital Assets
For the Fiscal Year Ended June 30, 2005

	Governmental Activities	Business-type Activities	Total FY05	Total FY04
Beginning Balance	$ 2,363,793,826	$ 208,555,761	$ 2,572,349,587	$ 2,427,495,699
Additions*	175,373,096	24,662,533	200,035,629	235,270,467
Retirements, net*	2,149,584	1,745,079	3,894,663	9,486,056
Depreciation expense	79,033,188	10,609,589	89,642,777	80,930,523
Ending Balance	$ 2,457,984,150	$ 220,863,626	$ 2,678,847,776	$ 2,572,349,587

* Presented net of transfers from construction in progress; retirements are also net of related accumulated depreciation.

Major capital asset events during the current fiscal year include the following:

- In order to provide a multi-disciplinary education and performance center, the County invested an additional $11 million to complete construction of a Music Center, which was added to the existing Strathmore Hall and which was placed in service during FY05.
- Construction costs amounting to $10.3 million were incurred towards the construction of the Germantown Indoor Swim Center, which will meet the needs of the currently underserved Germantown area as well as serve the needs of 12 schools in this region.
- The Department of Liquor Control incurred $2.5 million, reported as construction-in-progress, related to the acquisition and development of a new warehouse management, accounting and point-of-sale system.
- Additional construction costs of $5.7 million were incurred to complete the Montgomery County Conference Center. In addition, a $19.7 million contribution from the Maryland Stadium Authority for its share of construction costs was capitalized during FY05 when the center was opened.
- Roads, including underlying land, valued at $11.8 million were transferred to the County by various developers.
- The County was the recipient of $10.4 million in major renovations and improvements to a closed school, whose ownership was transferred from MCPS to the County.
- The County incurred $8.5 million in construction costs towards restoration of the Bethesda Woodmont Corner garage.
- An additional $5.9 million in construction costs were incurred toward completion of the Town Square and Wayne Avenue garages in Silver Spring.

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements.

Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2005:

Long-Term Debt
June 30, 2005

	Governmental Activities	Business-type Activities	Total FY05	Total FY04
General obligation bonds	$1,415,151,542	$ 56,512	$1,415,208,054	$1,329,778,054
Bond anticipation notes	-	-	-	150,000,000
Revenue bonds	-	62,655,000	62,655,000	70,915,000
Lease revenue bonds	41,275,000	-	41,275,000	37,880,000
Notes payable *	12,773,529	-	12,773,529	11,696,091
Certificates of participation	9,780,000	-	9,780,000	19,215,000
Capital leases	83,969,583	-	83,969,583	69,173,538
Compensated absences	51,333,184	3,925,357	55,258,541	51,362,675
Claims and judgements	1,200,000	-	1,200,000	5,246,000
Landfill closure costs	-	22,108,523	22,108,523	22,458,523
Total	$1,615,482,838	$88,745,392	$1,704,228,230	$1,767,724,881

* Notes payable include equipment notes, State MICRF loan, taxable term loans, and HUD loan.

At June 30, 2005, the County had outstanding general obligation (GO) bonds of $1,415.2 million, with no outstanding bond anticipation notes (BANs). Over the last ten years, the County issued its GO bonds once a year. The County adopted a policy in 1988 of initially financing capital construction with BANs. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY95, the County sold general obligation bond issues, exclusive of refundings, of up to $200 million. Over the last ten fiscal years, the County's annual issues averaged $141 million.

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

As of June 30, 2005, Montgomery County is one of only seven 'Triple AAA' rated counties in the nation with a population greater than 800,000. According to Standard and Poor's, a deep, diverse, and growing economy; strong financial management; and a low debt burden are the hallmarks of counties rated 'AAA.' The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

Continuing Disclosure **-** For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 4, 8, 9, 11, 14-18.

Significant bond-related debt activities during FY05 were:

- General Obligation Bonds – This latest installment of the County's annual issue, for $200 million in May 2005, funds capital expenditures for roads, schools, and government facilities. The proceeds of this bond issue were used to pay off an equivalent amount of the County's BANs. Notable with this sale was that the true interest cost on these bonds was the third-lowest cost of funds in over 30 years.

  In September 2004, the County issued GO refunding bonds in the amount of $97.7 million. Proceeds were used to refund $95.8 million in GO bonds previously issued at higher rates. This refunding issue resulted in net present value savings to the County of $3.3 million.

  In June 2005, the County issued GO refunding bonds in the amount of $120.4 million. Proceeds were used to refund $122.3 million in GO bonds previously issued at higher rates. This refunding issue resulted in net present value savings to the County of $4.6 million.

- Lease Revenue Bonds – In September 2004, the County issued lease revenue bonds in the amount of $4.7 million to complete construction of the Shady Grove and Grosvenor parking structures and related facilities.

- Bond Anticipation Notes (BANs) - The County issued $50 million of BANs in December 2004. The County issues commercial paper to initially fund its capital program and uses GO bond proceeds to retire the commercial paper.

Significant debt activities relating to capital lease agreements during FY05 were:

- Montgomery County Revenue Authority (MCRA) Germantown Indoor Swim Center Project – This issue was sold in March 2004 to fund the Germantown Indoor Swim Center Project. MCRA bonds are lease revenue bonds and are secured by the County's lease payments to MCRA which are sufficient to pay the debt service on the bonds. During FY05, $10.3 million in construction expenditures on this project, and therefore related capital lease obligation, was incurred and is recorded as construction in progress.

- MCRA Conference Center Project – This issue was sold in January 2003 to fund, in part, the Conference Center Project in North Bethesda. MCRA bonds were sold on the same schedule as the bonds sold by the Maryland Stadium Authority (MSA) to fund its contribution to the project. During FY05, $5.7 million in expenditures on this project, and therefore related capital lease obligation, was incurred and has been capitalized. In addition, the $19.7 million contribution to the project from the MSA has also been capitalized.

- Maryland Economic Development Corp. (MEDCO) Silver Spring Garages – These two issues were sold in September and October of 2002, to fund the construction of the Town Square and Wayne Avenue garages in Silver Spring. The bonds were issued by MEDCO and the proceeds are being used to construct the garages. The County will make lease payments to MEDCO sufficient to pay the debt service on the bonds. During FY05, $5.9 million in expenditures for the garages, and therefore related capital lease obligations, was incurred and has been capitalized.

The County also managed a debt transaction during FY05 which was outside the County's typical bonding activity. Below is a brief description.

- Conduit Debt – The Department of Finance administers and manages the County's Economic Development Revenue Bond program. In June 2005, the County issued bonds in the amount of $35 million on behalf of Georgetown Preparatory School. The proceeds will be used to finance construction and renovation projects on the school's campus.

Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY06 budget:

- The County's economic projections in the FY06 budget assume a continued modest economic expansion in FY06 with the County experiencing low unemployment and a slight improvement in total payroll employment.

- On a calendar year basis, total payroll employment increased 1.1 percent in CY04, the latest year for which data are available. That rate followed an average annual increase of slightly more than 0.4 percent between CY01 and CY03 ─ the lowest three-year average during the last ten years. Following such weak growth in payroll employment, the County anticipates a modest improvement in payroll employment in CY06 with an estimated increase of 1.9 percent and moderating to 1.2 percent by CY11.

- The projection in the FY06 budget assumes that personal income will increase 5.0 percent in FY06. That rate is slightly above the estimated three-year annual average of 4.8 percent between FY03-FY05. Such an increase is attributed more to stronger growth in nominal wages and salaries rather than employment.

- On a calendar year basis, employment by Montgomery County residents, as opposed to payroll employment, is expected to increase 1.8 percent during CY06. The rate of growth in resident employment is estimated to steadily moderate to 1.4 percent by CY11. That estimate is consistent with the slower estimated growth in County population moderating to 0.8 percent annual growth by CY11.

- Inflation, as measured by the Consumer Price Index, is expected to increase 2.6 percent in FY06, which is the same rate as in FY05. Because of the recent policy directives by the Federal Open Market Committee of the Federal Reserve, the County's economic projections include an increase in the yield on its investments from 2.19 percent in FY05 to 3.00 percent for FY06.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Montgomery County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Montgomery County Government, Department of Finance, 101 Monroe Street, Rockville, Maryland, 20850. This report can also be found on the County's website, http://www.montgomerycountymd.gov (see Services (A-Z), Finance, Financial Reports).

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2005
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
ASSETS				
Equity in pooled cash and investments	$ 457,239,799	$ 85,081,270	$ 542,321,069	$ 44,976,858
Cash with fiscal agents	36,396,855	-	36,396,855	8,725,163
Cash	181,651	123,672	305,323	9,279,468
Investments-cash equivalents	-	-	-	86,349,487
Investments	5,331,177	-	5,331,177	40,535,186
Receivables (net of allowances for uncollectibles):				
Income taxes	225,150,291	-	225,150,291	-
Property taxes	38,445,380	1,593,854	40,039,234	-
Capital leases	41,275,000	-	41,275,000	36,785,490
Accounts	40,973,825	5,260,753	46,234,578	18,410,627
Special assessments	54,404	-	54,404	-
Notes	5,856,444	-	5,856,444	753,672
Parking violations	725,534	2,058,782	2,784,316	-
Mortgages receivable	96,046,270	-	96,046,270	251,187,408
Interest	60,110	-	60,110	3,528,066
Other	269,236	-	269,236	4,127,807
Net internal balance	2,199,825	(2,199,825)	-	-
Due from primary government	-	-	-	72,931,674
Due from component units	45,831,279	63,322	45,894,601	-
Due from other governments	66,259,059	338,076	66,597,135	18,601,440
Inventory of supplies	7,035,860	29,827,378	36,863,238	10,502,908
Prepaids	1,819,986	546,162	2,366,148	2,406,491
Deferred charges	4,711,226	1,032,501	5,743,727	858,454
Other assets	-	73,006	73,006	28,700,261
Restricted Assets:				
Equity in pooled cash and investments	-	33,542,530	33,542,530	-
Cash	-	-	-	505,221
Cash with fiscal agents	-	-	-	484,839
Investments - cash equivalents	-	-	-	101,852,033
Investments	-	3,215,206	3,215,206	218,645,758
Capital Assets:				
Nondepreciable assets	632,701,443	65,057,979	697,759,422	341,026,039
Depreciable assets, net	1,825,282,707	155,805,647	1,981,088,354	1,614,844,782
Total Assets	$ 3,533,847,361	$ 381,420,313	$ 3,915,267,674	$ 2,916,019,132

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS, CONCLUDED
JUNE 30, 2005
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
LIABILITIES				
Accounts payable	$ 52,966,844	$ 21,570,763	$ 74,537,607	$ 64,482,398
Interest payable	22,188,055	92,064	22,280,119	14,802,763
Retainage payable	11,026,328	1,094,423	12,120,751	10,905,396
Accrued liabilities	46,659,130	10,298,032	56,957,162	63,702,882
Claims payable	80,363,503	-	80,363,503	20,356,643
Deposits	172,839	386,731	559,570	8,681,305
Due to primary government	-	-	-	45,984,982
Due to component units	72,362,415	569,259	72,931,674	-
Due to other governments	15,147,533	2,056,437	17,203,970	-
Deferred revenue	33,915,391	1,071,311	34,986,702	32,178,380
Other liabilities	-	226,354	226,354	9,680,377
Noncurrent Liabilities:				
Due within one year	181,974,443	13,208,636	195,183,079	49,700,218
Due in more than one year	1,462,879,685	75,258,619	1,538,138,304	907,562,274
Total Liabilities	1,979,656,166	125,832,629	2,105,488,795	1,228,037,618
NET ASSETS				
Invested in capital, net of related debt	1,747,572,143	158,430,251	1,859,401,883	1,602,469,646
Restricted for:				
Capital projects	-	-	-	2,555,499
Nonexpendable permanent fund - housing	5,911,631	-	5,911,631	-
General government	121,505,624	-	121,505,624	-
Public safety	8,881,022	-	8,881,022	-
Public works and transportation	21,629	68,389,069	68,410,698	-
Recreation	5,450,302	-	5,450,302	-
Community development and housing	105,117,909	-	105,117,909	-
Environment	1,640,956	-	1,640,956	-
Education	38,804,008	-	38,804,008	-
Debt service	-	-	-	46,866,013
Other purposes	-	-	-	18,445,582
Unrestricted (deficit)	(480,714,029)	28,768,364	(405,345,154)	17,644,774
Total Net Assets	$ 1,554,191,195	$ 255,587,684	$ 1,809,778,879	$ 1,687,981,514

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-2

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Government Activites:				
General government	$ 227,211,859	$ 54,138,552	$ 10,043,510	$ 30,226,685
Public safety	418,990,301	24,345,320	28,464,670	4,870,655
Public works and transportation	178,010,395	17,091,962	52,716,808	17,477,530
Health and human services	213,988,337	9,928,204	106,700,258	-
Culture and recreation	84,339,831	22,226,891	3,874,050	11,660,618
Community development and housing	19,915,566	224,834	4,608,273	1,751,192
Environment	8,664,457	2,975,231	2,031	132,139
Education	1,446,592,632	-	-	-
Interest on long-term debt	70,401,131	-	-	-
Total Governmental Activities	2,668,114,509	130,930,994	206,409,600	66,118,819
Business-type Activities:				
Liquor control	152,098,599	177,938,916	-	-
Solid waste disposal and collection	104,106,630	96,179,903	-	-
Parking lot districts	24,063,575	22,123,851	-	-
Permitting services	20,744,660	25,466,582	-	-
Community use of public facilities	5,958,685	6,338,050	-	-
Total Business-type Activities	306,972,149	328,047,302	-	-
Total Primary Government	$ 2,975,086,658	$ 458,978,296	$ 206,409,600	$ 66,118,819
Component Units:				
General government (BUPI)	$ 3,153,904	$ 2,822,087	$ 236,333	$ -
Culture and recreation (MCRA)	12,927,847	11,133,508	-	2,428,546
Community development and housing (HOC)	181,381,264	102,305,798	84,369,732	2,230,614
Education:				
Elementary and secondary education (MCPS)	1,769,019,880	32,978,084	97,484,420	42,518,178
Higher education (MCC)	192,128,403	61,864,557	19,874,636	2,810,686
Total Component Units	$ 2,158,611,298	$ 211,104,034	$ 201,965,121	$ 49,988,024

General Revenues:
- Property taxes
- County income taxes
- Real property transfer taxes
- Recordation taxes
- Fuel energy taxes
- Hotel-motel taxes
- Telephone taxes
- Other taxes
- Grants and contributions not restricted to specific programs
- Investment income
- Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

Notes to Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (132,803,112)	$ -	$ (132,803,112)	$ -
(361,309,656)	-	(361,309,656)	-
(90,724,095)	-	(90,724,095)	-
(97,359,875)	-	(97,359,875)	-
(46,578,272)	-	(46,578,272)	-
(13,331,267)	-	(13,331,267)	-
(5,555,056)	-	(5,555,056)	-
(1,446,592,632)	-	(1,446,592,632)	-
(70,401,131)	-	(70,401,131)	-
(2,264,655,096)	-	(2,264,655,096)	-
-	25,840,317	25,840,317	-
-	(7,926,727)	(7,926,727)	-
-	(1,939,724)	(1,939,724)	-
-	4,721,922	4,721,922	-
-	379,365	379,365	-
-	21,075,153	21,075,153	-
(2,264,655,096)	21,075,153	(2,243,579,943)	-
-	-	-	(95,484)
-	-	-	634,207
-	-	-	7,524,880
-	-	-	(1,596,039,198)
-	-	-	(107,578,524)
$ -	$ -	$ -	$ (1,695,554,119)
1,010,964,428	8,412,877	1,019,377,305	-
940,274,273	-	940,274,273	-
133,654,796	-	133,654,796	-
127,300,257	-	127,300,257	-
114,904,208	-	114,904,208	-
14,162,958	-	14,162,958	-
29,907,857	-	29,907,857	-
3,418,965	-	3,418,965	-
-	-	-	1,803,157,357
15,806,293	3,557,676	19,363,969	3,950,393
13,112,218	-	13,112,218	-
29,801,928	(29,801,928)	-	-
2,433,308,181	(17,831,375)	2,415,476,806	1,807,107,750
168,653,085	3,243,778	171,896,863	111,553,631
1,385,538,110	252,343,906	1,637,882,016	1,576,427,883
$ 1,554,191,195	$ 255,587,684	$ 1,809,778,879	$ 1,687,981,514

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
Exhibit A-3

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and investments	$ 145,262,662	$ 849,550	$ 53,755,169	$ 165,932,922	$ 365,800,303
Cash with fiscal agents	271,178	29,731,939	6,393,738	-	36,396,855
Cash	149,126	-	-	32,225	181,351
Investments	-	-	-	5,331,177	5,331,177
Receivables (net of allowances for uncollectibles):					
Income taxes	225,150,291	-	-	-	225,150,291
Property taxes	31,022,367	-	-	7,423,013	38,445,380
Capital leases	-	41,275,000	-	-	41,275,000
Accounts	36,098,016	11,244	695,574	2,625,557	39,430,391
Special assessments	-	54,404	-	-	54,404
Notes	-	-	91,464	5,753,552	5,845,016
Parking violations	725,534	-	-	-	725,534
Mortgages receivable	197,550	-	300,000	95,548,720	96,046,270
Interest	-	-	-	60,110	60,110
Other	-	30	6,550	260,710	267,290
Due from other funds	104,277,711	-	-	4,397,415	108,675,126
Due from component units	4,556,091	-	13,257,693	27,673,177	45,486,961
Due from other governments	34,607,132	-	11,741,757	19,866,444	66,215,333
Inventory of supplies	3,663,666	-	668,526	-	4,332,192
Prepaids	577,871	-	2,239	847,595	1,427,705
Total Assets	$ 586,559,195	$ 71,922,167	$ 86,912,710	$ 335,752,617	$ 1,081,146,689
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 19,583,386	$ 123,531	$ 11,597,824	$ 14,043,089	$ 45,347,830
Retainage payable	20,099	-	11,006,229	-	11,026,328
Accrued liabilities	30,380,733	-	611,297	7,897,226	38,889,256
Deposits	-	-	-	172,839	172,839
Due to other funds	6,988,524	29,716,349	78,727,779	2,601,777	118,034,429
Due to component units	51,850,996	-	19,009,800	1,501,619	72,362,415
Due to other governments	2,341,377	-	1,438,392	11,267,138	15,046,907
Deferred revenue	228,844,913	42,082,287	1,635,853	53,275,374	325,838,427
Total Liabilities	340,010,028	71,922,167	124,027,174	90,759,062	626,718,431
Fund Balances:					
Reserved for:					
Legal debt restrictions	-	-	4,815,668	-	4,815,668
Long-term receivables	-	-	13,257,693	93,786,455	107,044,148
Inventory	3,663,666	-	668,526	-	4,332,192
Prepaids	577,871	-	2,239	845,799	1,425,909
Fire-Rescue Grant	-	-	-	1,487,399	1,487,399
Donor-specified purposes	-	-	-	1,120,926	1,120,926
Other purposes	1,730,222	-	1,499,614	5,911,631	9,141,467
Total Reserved	5,971,759	-	20,243,740	103,152,210	129,367,709
Unreserved, designated for, reported in:					
Encumbrances	13,899,185	-	-	5,743,910	19,643,095
General Fund	99,507,092	-	-	-	99,507,092
Special Revenue Funds	-	-	-	23,965,448	23,965,448
Unreserved, undesignated (deficit), reported in:					
General Fund	127,171,131	-	-	-	127,171,131
Capital Projects Fund	-	-	(57,358,204)	-	(57,358,204)
Special Revenue Funds	-	-	-	112,131,987	112,131,987
Total Unreserved (Deficit)	240,577,408	-	(57,358,204)	141,841,345	325,060,549
Total Fund Balances (Deficit)	246,549,167	-	(37,114,464)	244,993,555	454,428,258
Total Liabilities and Fund Balances	$ 586,559,195	$ 71,922,167	$ 86,912,710	$ 335,752,617	$ 1,081,146,689

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005
Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		$ 454,428,258
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	$ 505,686,613	
Construction in progress	126,992,324	
Depreciable capital assets:		
Buildings	680,172,273	
Improvements other than buildings	44,400,526	
Furniture, fixtures, equipment and machinery	214,518,469	
Automobiles and trucks	96,839,558	
Infrastructure	1,443,446,162	
Other capital assets	2,079,731	
Total capital assets	3,114,135,656	
Less accumulated depreciation	(684,653,525)	2,429,482,131
Long-term liabilities related to governmental fund activities are not due and payable in the current period and therefore not reported in the funds:		
General obligation bonds payable	(1,415,151,542)	
Lease revenue bonds payable	(41,275,000)	
Certificates of participation	(9,780,000)	
Accrued interest payable	(22,188,055)	
Capital leases payable	(83,969,583)	
Notes payable	(12,773,529)	
Compensated absences	(50,004,323)	
Claims and judgments	(1,200,000)	(1,636,342,032)
Costs incurred from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements:		
Unamortized premiums	(62,619,258)	
Deferred amount on refunding	33,247,968	
Deferred issuance costs	4,711,226	(24,660,064)
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net assets:		
Assets:		
Current assets	101,031,150	
Capital assets	68,094,275	
Less accumulated depreciation	(39,592,256)	
Liabilities	(92,110,617)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	1,878,820	39,301,372
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	168,168,549	
Property taxes	32,231,828	
Intergovernmental revenue	38,643,096	
Other revenue	52,938,057	291,981,530
Net assets of governmental activities (see Exhibit A-1)		$ 1,554,191,195

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-5

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 2,156,037,070	$ -	$ 16,166,113	$ 208,735,990	$ 2,380,939,173
Licenses and permits	9,476,136	-	-	2,554,502	12,030,638
Intergovernmental	118,853,371	-	24,983,477	79,251,486	223,088,334
Charges for services	25,772,956	14,998	1,802,973	36,016,693	63,607,620
Fines and forfeitures	7,726,337	-	-	1,175,983	8,902,320
Investment income	3,346,367	5,277,509	242,457	4,781,476	13,647,809
Miscellaneous	9,443,555	-	2,079,302	4,530,422	16,053,279
Total Revenues	2,330,655,792	5,292,507	45,274,322	337,046,552	2,718,269,173
EXPENDITURES					
Current:					
General government	189,351,472	-	-	12,700,549	202,052,021
Public safety	250,126,504	-	-	150,988,112	401,114,616
Public works and transportation	45,026,185	-	-	87,291,609	132,317,794
Health and human services	171,300,833	-	-	40,260,073	211,560,906
Culture and recreation	40,416,802	-	-	31,657,498	72,074,300
Community development and housing	11,380,397	-	-	5,566,665	16,947,062
Environment	3,228,878	-	-	2,259,013	5,487,891
Education	1,345,450,958	-	-	-	1,345,450,958
Debt Service:					
Principal retirement:					
General obligation bonds	-	114,563,381	-	-	114,563,381
Bond anticipation notes	-	200,000,000	-	-	200,000,000
Other notes	-	604,653	-	-	604,653
Interest:					
General obligation bonds	-	59,549,930	-	-	59,549,930
Bond anticipation notes	-	2,883,383	-	-	2,883,383
Other notes	-	83,815	-	-	83,815
Leases and other obligations	-	26,593,959	-	-	26,593,959
Issuing costs	-	1,901,439	-	-	1,901,439
Capital projects	-	-	257,856,073	-	257,856,073
Total Expenditures	2,056,282,029	406,180,560	257,856,073	330,723,519	3,051,042,181
Excess (Deficiency) of Revenues over (under) Expenditures	274,373,763	(400,888,053)	(212,581,751)	6,323,033	(332,773,008)
OTHER FINANCING SOURCES (USES)					
Transfers in	37,436,930	201,771,227	26,641,991	33,864,406	299,714,554
Transfers (out)	(230,100,664)	(2,369,863)	-	(32,774,003)	(265,244,530)
Sale of property	-	-	7,172,174	7,930,099	15,102,273
Payment to refunded bond escrow agent	-	(238,509,132)	-	-	(238,509,132)
Debt Issued:					
General obligation bonds	-	200,000,000	-	-	200,000,000
Premium on general obligation bonds	-	411,500	14,227,800	-	14,639,300
Bond anticipation notes	-	-	50,000,000	-	50,000,000
Lease revenue bonds	5,902,942	125,737	4,606,625	-	10,635,304
Premium on lease revenue bonds	-	26,257	-	-	26,257
General obligation refunding bonds	-	218,045,000	-	-	218,045,000
Premium on general obligation refunding bonds	-	21,177,589	-	-	21,177,589
Capital lease financing	-	-	16,028,103	-	16,028,103
Total Other Financing Sources (Uses)	(186,760,792)	400,678,315	118,676,693	9,020,502	341,614,718
Net Change in Fund Balances	87,612,971	(209,738)	(93,905,058)	15,343,535	8,841,710
Fund Balances - Begining of Year	158,936,196	209,738	56,790,594	229,650,020	445,586,548
Fund Balances (Deficit) - End of Year	$ 246,549,167	$ -	$ (37,114,464)	$ 244,993,555	$ 454,428,258

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5)		$ 8,841,710
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	$ 138,082,649	
Depreciation expense	(72,813,561)	65,269,088
In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.		(1,990,055)
Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources.		42,300,954
Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased (decreased) this year, as follows:		
Income taxes	(584,658)	
Property taxes	(6,937,144)	
Intergovernmental revenues	26,321,773	
Other revenues	(7,459,993)	11,339,978
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Debt issued or incurred:		
General obligation bonds	(214,639,300)	
General obligation refunding bonds	(239,222,588)	
Bond anticipation notes	(50,000,000)	
Leases payable	(4,745,000)	
Capital lease financing	(21,931,045)	
Notes payable	(6,091,376)	
Less issuance costs	1,381,431	
Principal repayments:		
General obligation bonds	114,563,381	
Bond anticipation notes	200,000,000	
Certificates of participation	9,435,000	
Leases payable	4,959,285	
Capital leases	7,135,000	
Notes payable	604,653	
Payment to escrow agent for refunding	238,509,133	39,958,574
Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Accrued interest payable	(277,000)	
Compensated absences	(3,484,293)	
Claims and judgments	4,046,000	
Amortization	2,188,960	2,473,667
The current year loss for certain activities of internal service funds is reported with governmental activities.		459,169
Change in net assets of governmental activities (see Exhibit A-2)		$ 168,653,085

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Revenues:							
Taxes:	(character)						
Property	$ -	$ 788,072,400	$ 788,072,400	$ -	$ 788,072,400	$ 790,352,697	$ 2,280,297
Property - penalty and interest	-	2,572,720	2,572,720	-	2,572,720	1,758,287	(814,433)
Other	-	-	-	-	-	38,721	38,721
Total Property Tax	-	790,645,120	790,645,120	-	790,645,120	792,149,705	1,504,585
County Income Tax	-	892,970,000	892,970,000	-	892,970,000	940,858,931	47,888,931
Other Local Taxes:	(object)						
Real property transfer	-	93,980,000	93,980,000	-	93,980,000	133,654,796	39,674,796
Recordation	-	60,090,000	60,090,000	-	60,090,000	127,300,257	67,210,257
Fuel energy	-	115,494,760	115,494,760	-	115,494,760	114,904,208	(590,552)
Hotel - motel	-	13,690,000	13,690,000	-	13,690,000	14,162,958	472,958
Telephone	-	32,350,000	32,350,000	-	32,350,000	29,907,857	(2,442,143)
Other	-	3,270,000	3,270,000	-	3,270,000	3,098,358	(171,642)
Total Other Local Taxes	-	318,874,760	318,874,760	-	318,874,760	423,028,434	104,153,674
Total Taxes	-	2,002,489,880	2,002,489,880	-	2,002,489,880	2,156,037,070	153,547,190
Licenses and Permits:	(character)						
Business	-	4,660,470	4,660,470	-	4,660,470	4,800,464	139,994
Non business	-	4,578,620	4,578,620	-	4,578,620	4,675,672	97,052
Total Licenses and Permits	-	9,239,090	9,239,090	-	9,239,090	9,476,136	237,046
Intergovernmental Revenue:	(character)						
State Aid and Reimbursements:	(object)						
DHR State reimbursement - HB669	-	35,862,390	35,862,390	1,313,510	37,175,900	32,040,088	(5,135,812)
Highway user revenue	-	32,050,000	32,050,000	-	32,050,000	30,333,441	(1,716,559)
Police protection	-	14,511,000	14,511,000	-	14,511,000	12,950,067	(1,560,933)
Health and human services programs	-	6,161,520	6,161,520	-	6,161,520	6,516,258	354,738
Public libraries	-	3,857,000	3,857,000	-	3,857,000	3,747,689	(109,311)
911 Emergency	-	7,099,010	7,099,010	-	7,099,010	7,453,717	354,707
Electric regulation	-	2,766,000	2,766,000	-	2,766,000	2,765,553	(447)
Other	-	2,511,090	2,511,090	-	2,511,090	1,416,398	(1,094,692)
Total State Aid and Reimbursements	-	104,818,010	104,818,010	1,313,510	106,131,520	97,223,211	(8,908,309)
Federal Reimbursements:	(object)						
Federal financial participation	-	15,517,170	15,517,170	1,232,000	16,749,170	14,069,983	(2,679,187)
Other	-	3,930,160	3,930,160	(1,141,977)	2,788,183	5,728,837	2,940,654
Total Federal Reimbursements	-	19,447,330	19,447,330	90,023	19,537,353	19,798,820	261,467
Other Intergovennmental	-	1,753,030	1,753,030	-	1,753,030	1,331,340	(421,690)
Total Intergovernmental Revenue	-	126,018,370	126,018,370	1,403,533	127,421,903	118,353,371	(9,068,532)
Charges for Services:	(character)						
General government	-	1,756,660	1,756,660	-	1,756,660	1,432,384	(324,276)
Public safety	-	11,729,420	11,729,420	-	11,729,420	12,324,967	595,547
Health and human services	-	1,649,240	1,649,240	-	1,649,240	1,585,294	(63,946)
Culture and recreation	-	2,600	2,600	-	2,600	25,143	22,543
Environment	-	200,000	200,000	-	200,000	168,150	(31,850)
Public works and transportation	-	45,000	45,000	-	45,000	64,329	19,329
Total Charges for Services	-	15,382,920	15,382,920	-	15,382,920	15,600,267	217,347
Fines and forfeitures	-	14,335,520	14,335,520	-	14,335,520	7,726,337	(6,609,183)
Investment Income:	(character)						
Pooled investment income	-	3,242,820	3,242,820	-	3,242,820	3,716,626	473,806
Other interest income	-	340,000	340,000	-	340,000	6,306	(333,694)
Total Investment Income	-	3,582,820	3,582,820	-	3,582,820	3,722,932	140,112
Miscellaneous Revenue:	(character)						
Property rentals	-	3,800,650	3,800,650	-	3,800,650	4,608,336	807,686
Sundry	-	4,794,960	4,794,960	-	4,794,960	4,994,801	199,841
Total Miscellaneous Revenue	-	8,595,610	8,595,610	-	8,595,610	9,603,137	1,007,527
Total Revenues	-	2,179,644,210	2,179,644,210	1,403,533	2,181,047,743	2,320,519,250	139,471,507
Expenditures:							
Departments or Offices:							
County Council:							
Personnel	-	6,312,001	6,312,001	37,740	6,349,741	6,244,885	104,856
Operating	42,075	623,200	665,275	(15,640)	649,635	620,871	28,764
Totals	42,075	6,935,201	6,977,276	22,100	6,999,376	6,865,756	133,620
Board of Appeals:							
Personnel	-	424,262	424,262	3,470	427,732	414,865	12,867
Operating	690	78,780	79,470	(690)	78,780	45,502	33,278
Totals	690	503,042	503,732	2,780	506,512	460,367	46,145
Legislative Oversight:							
Personnel	-	685,259	685,259	5,820	691,079	665,865	25,214
Operating	1,000	45,050	46,050	(1,000)	45,050	30,868	14,182
Totals	1,000	730,309	731,309	4,820	736,129	696,733	39,396
Merit System Protection Board:							
Personnel	-	108,810	108,810	2,110	110,920	110,582	338
Operating	-	14,520	14,520	(1,450)	13,070	11,444	1,626
Totals	-	123,330	123,330	660	123,990	122,026	1,964

(Continued)

Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Zoning and Administrative Hearings:							
Personnel	$ -	$ 372,271	$ 372,271	$ (37,220)	$ 335,051	$ 302,367	$ 32,684
Operating	-	82,210	82,210	65,700	147,910	133,666	14,244
Totals	-	454,481	454,481	28,480	482,961	436,033	46,928
Inspector General:							
Personnel	-	376,751	376,751	(33,085)	343,666	234,684	108,982
Operating	-	13,820	13,820	37,675	51,495	19,571	31,924
Totals	-	390,571	390,571	4,590	395,161	254,255	140,906
People's Counsel:							
Personnel	-	202,670	202,670	-	202,670	181,974	20,696
Operating	-	16,620	16,620	-	16,620	10,365	6,255
Totals	-	219,290	219,290	-	219,290	192,339	26,951
Circuit Court:							
Personnel	-	6,557,178	6,557,178	(132,110)	6,425,068	6,425,059	9
Operating	188,476	1,815,410	2,003,886	209,848	2,213,734	2,172,181	41,553
Capital outlay	-	-	-	3,550	3,550	3,544	6
Totals	188,476	8,372,588	8,561,064	81,288	8,642,352	8,600,784	41,568
State's Attorney:							
Personnel	-	9,056,968	9,056,968	118,240	9,175,208	9,116,082	59,126
Operating	116	380,830	380,946	265,259	646,205	513,575	132,630
Totals	116	9,437,798	9,437,914	383,499	9,821,413	9,629,657	191,756
County Executive:							
Personnel	-	3,761,004	3,761,004	8,260	3,769,264	3,685,329	83,935
Operating	10,769	288,050	298,819	198	299,017	298,952	65
Totals	10,769	4,049,054	4,059,823	8,458	4,068,281	3,984,281	84,000
Commission for Women:							
Personnel	-	831,860	831,860	41,310	873,170	862,461	10,709
Operating	-	108,500	108,500	(10,850)	97,650	96,006	1,644
Totals	-	940,360	940,360	30,460	970,820	958,467	12,353
Regional Service Centers:							
Personnel	-	2,528,153	2,528,153	9,400	2,537,553	2,445,100	92,453
Operating	9,743	448,630	458,373	26,785	485,158	485,148	10
Totals	9,743	2,976,783	2,986,526	36,185	3,022,711	2,930,248	92,463
Ethics Commission:							
Personnel	-	169,790	169,790	(2,180)	167,610	167,608	2
Operating	10,039	19,070	29,109	32,661	61,770	46,509	15,261
Totals	10,039	188,860	198,899	30,481	229,380	214,117	15,263
Intergovernmental Relations:							
Personnel	-	461,320	461,320	7,100	468,420	468,399	21
Operating	10,602	147,950	158,552	(7,266)	151,286	143,979	7,307
Totals	10,602	609,270	619,872	(166)	619,706	612,378	7,328
Board of Liquor License Commissioners:							
Personnel	-	835,170	835,170	5,860	841,030	790,892	50,138
Operating	4,073	135,250	139,323	(79)	139,244	134,838	4,406
Totals	4,073	970,420	974,493	5,781	980,274	925,730	54,544
Public Information:							
Personnel	-	875,381	875,381	39,890	915,271	898,113	17,158
Operating	21,069	163,380	184,449	121,620	306,069	245,257	60,812
Totals	21,069	1,038,761	1,059,830	161,510	1,221,340	1,143,370	77,970
Board of Elections:							
Personnel	-	1,989,598	1,989,598	708,630	2,698,228	2,441,488	256,740
Operating	34,171	1,869,680	1,903,851	(189,220)	1,714,631	1,192,385	522,246
Totals	34,171	3,859,278	3,893,449	519,410	4,412,859	3,633,873	778,986
County Attorney:							
Personnel	-	4,081,759	4,081,759	(59,460)	4,022,299	4,022,298	1
Operating	291,319	397,950	689,269	292,951	982,220	865,022	117,198
Capital outlay	-	-	-	5,500	5,500	5,500	-
Totals	291,319	4,479,709	4,771,028	238,991	5,010,019	4,892,820	117,199
Management and Budget:							
Personnel	-	3,191,910	3,191,910	(34,730)	3,157,180	3,055,149	102,031
Operating	6,407	148,670	155,077	50,000	205,077	183,781	21,296
Totals	6,407	3,340,580	3,346,987	15,270	3,362,257	3,238,930	123,327
Finance:							
Personnel	-	7,191,730	7,191,730	328,220	7,519,950	7,426,682	93,268
Operating	191,013	1,273,870	1,464,883	(327,995)	1,136,888	1,136,887	1
Totals	191,013	8,465,600	8,656,613	225	8,656,838	8,563,569	93,269
Human Resources:							
Personnel	-	4,205,651	4,205,651	84,850	4,290,501	4,290,497	4
Operating	286,078	2,176,390	2,462,468	(93,583)	2,368,885	2,353,346	15,539
Totals	286,078	6,382,041	6,668,119	(8,733)	6,659,386	6,643,843	15,543
Technology Services:							
Personnel	-	14,010,676	14,010,676	(65,550)	13,945,126	13,806,998	138,128
Operating	4,203,270	11,409,380	15,612,650	(136,634)	15,476,016	15,476,016	-
Capital outlay	-	152,630	152,630	56,510	209,140	209,138	2
Totals	4,203,270	25,572,686	29,775,956	(145,674)	29,630,282	29,492,152	138,130
Procurement:							
Personnel	-	2,420,138	2,420,138	(45,260)	2,374,878	2,220,959	153,919
Operating	22,329	228,260	250,589	27,745	278,334	278,332	2
Capital outlay	-	-	-	15,290	15,290	15,289	1
Totals	22,329	2,648,398	2,670,727	(2,225)	2,668,502	2,514,580	153,922

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Corrections and Rehabilitation:							
Personnel	$ -	$ 41,848,393	$ 41,848,393	$ 1,891,850	$ 43,740,243	$ 43,740,243	$ -
Operating	27,353	6,355,340	6,382,693	1,190,401	7,573,094	7,366,407	206,687
Totals	27,353	48,203,733	48,231,086	3,082,251	51,313,337	51,106,650	206,687
Human Relations Commission:							
Personnel	-	1,838,336	1,838,336	10,950	1,849,286	1,736,264	113,022
Operating	222	119,980	120,202	-	120,202	99,703	20,499
Totals	222	1,958,316	1,958,538	10,950	1,969,488	1,835,967	133,521
Police:							
Personnel	-	140,035,334	140,035,334	4,349,843	144,385,177	143,946,827	438,350
Operating	764,028	23,969,670	24,733,698	(1,415,643)	23,318,055	23,318,050	5
Capital outlay	-	-	-	7,600	7,600	7,594	6
Totals	764,028	164,005,004	164,769,032	2,941,800	167,710,832	167,272,471	438,361
Sheriff:							
Personnel	-	12,432,938	12,432,938	592,457	13,025,395	12,609,978	415,417
Operating	27,676	1,566,890	1,594,566	512,501	2,107,067	1,812,544	294,523
Totals	27,676	13,999,828	14,027,504	1,104,958	15,132,462	14,422,522	709,940
Public Works and Transportation:							
Personnel	-	32,550,709	32,550,709	1,603,060	34,153,769	34,052,027	101,742
Operating	1,107,492	23,820,800	24,928,292	6,207,267	31,135,559	30,789,981	345,578
Capital outlay	-	-	-	26,505	26,505	26,499	6
Totals	1,107,492	56,371,509	57,479,001	7,836,832	65,315,833	64,868,507	447,326
Health and Human Services:							
Personnel	-	95,946,623	95,946,623	980,017	96,926,640	96,358,548	568,092
Operating	2,354,276	70,740,110	73,094,386	(7,395,212)	65,699,174	69,186,885	(3,487,711)
Totals	2,354,276	166,686,733	169,041,009	(6,415,195)	162,625,814	165,545,433	(2,919,619)
Libraries:							
Personnel	-	24,992,905	24,992,905	(302,495)	24,690,410	24,597,658	92,752
Operating	936,036	6,796,510	7,732,546	336,607	8,069,153	8,032,875	36,278
Totals	936,036	31,789,415	32,725,451	34,112	32,759,563	32,630,533	129,030
Housing and Community Affairs:							
Personnel	-	6,170,296	6,170,296	21,980	6,192,276	6,091,103	101,173
Operating	19,102	936,520	955,622	(23,594)	932,028	928,891	3,137
Totals	19,102	7,106,816	7,125,918	(1,614)	7,124,304	7,019,994	104,310
Economic Development:							
Personnel	-	3,169,473	3,169,473	28,630	3,198,103	3,196,262	1,841
Operating	52,000	2,118,560	2,170,560	(8,779)	2,161,781	2,121,509	40,272
Totals	52,000	5,288,033	5,340,033	19,851	5,359,884	5,317,771	42,113
Environmental Protection:							
Personnel	-	2,975,505	2,975,505	19,440	2,994,945	2,877,871	117,074
Operating	42,971	950,310	993,281	(2,977)	990,304	889,625	100,679
Totals	42,971	3,925,815	3,968,786	16,463	3,985,249	3,767,496	217,753
Total Departments	10,664,395	592,023,612	602,688,007	10,048,598	612,736,605	610,793,652	1,942,953
Nondepartmental:							
State retirement contribution - operating	-	769,830	769,830	-	769,830	769,825	5
Retirees group insurance - operating	-	16,512,900	16,512,900	-	16,512,900	16,512,900	-
State positions supplement - personnel	-	243,401	243,401	-	243,401	156,445	86,956
Judges special pension contribution - personnel	-	6,110	6,110	11,320	17,430	11,768	5,662
Compensation adjustment - personnel	-	1,287,939	1,287,939	(491,120)	796,819	506,611	290,208
Compensation adjustment - operating	1,125	312,140	313,265	58,100	371,365	342,309	29,056
Municipal tax duplication - operating	-	6,067,710	6,067,710	20	6,067,730	6,067,711	19
Tax grants to municipalities - operating	-	28,020	28,020	-	28,020	28,012	8
Rebate - Takoma Park police - operating	-	453,810	453,810	102,200	556,010	504,884	51,126
Rebate - Takoma Park library - operating	-	89,670	89,670	1,640	91,310	90,482	828
Homeowners' association roadways - operating	-	276,390	276,390	-	276,390	276,390	-
Contribution to risk management - operating	-	11,488,680	11,488,680	19	11,488,699	11,019,681	469,018
Support for the arts - operating	682,037	1,706,180	2,388,217	1,449,717	3,837,934	3,835,734	2,200
Historical activities - operating	-	311,770	311,770	-	311,770	311,770	-
Conference and Vistors Bureau - operating	70,160	634,650	704,810	(22,582)	682,228	682,228	-
Arts Council - operating	-	1,117,970	1,117,970	-	1,117,970	1,117,970	-
Community grants - operating	1,787,451	2,840,320	4,627,771	594,135	5,221,906	5,195,153	26,753
Conference Center - operating	-	1,260,270	1,260,270	-	1,260,270	1,242,158	18,112
County associations - operating	-	56,740	56,740	20	56,760	56,741	19
Metropolitan Washington C O G - operating	-	679,390	679,390	-	679,390	653,561	25,829
Public Technology, Inc. - operating	-	27,500	27,500	-	27,500	27,500	-
Independent audit - operating	50,469	290,380	340,849	(38,749)	302,100	301,830	270
Prisoner medical services - operating	-	14,000	14,000	-	14,000	1,558	12,442
Boards, committees and commissions - operating	-	5,000	5,000	-	5,000	4,678	322
Charter Review Commission - operating	-	400	400	-	400	125	275
Closing costs assistance - operating	-	132,740	132,740	-	132,740	123,180	9,560
Working families income supplement - operating	-	8,084,000	8,084,000	-	8,084,000	7,921,560	162,440
Interagency technology, policy and coordinating committee - operating	-	29,700	29,700	-	29,700	6,786	22,914
County Leases - operating	-	10,582,390	10,582,390	806,500	11,388,890	10,985,640	403,250
Rockville parking district - operating	-	130,000	130,000	-	130,000	130,000	-
Desktop computer modernizaton - operating	571,537	6,196,660	6,768,197	(904)	6,767,293	6,202,965	564,328
Utilities - operating	13,519	14,743,710	14,757,229	3,949,790	18,707,019	17,681,379	1,025,640
Total - Nondepartmental:	3,176,298	86,380,370	89,556,668	6,420,106	95,976,774	92,769,534	3,207,240
Total Expenditures	13,840,693	678,403,982	692,244,675	16,468,704	708,713,379	703,563,186	5,150,193
Excess of Revenues over (under) Expenditures	(13,840,693)	1,501,240,228	1,487,399,535	(15,065,171)	1,472,334,364	1,616,956,064	144,621,700

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONCLUDED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-7

	Budget						
	Prior Year Carryover Encumbrances	**Current Year**	**Total Original**	**Revisions**	**Final**	**Actual**	**Variance Positive (Negative)**
Other Financing Sources (Uses):							
Transfers In:							
Special Revenue Funds:							
Fire Tax District	$ -	$ 120,750	$ 120,750	$ -	$ 120,750	$ 120,750	$ -
Recreation	-	4,499,560	4,499,560	-	4,499,560	4,499,560	-
Mass Transit	-	5,272,360	5,272,360	-	5,272,360	5,272,360	-
Water Quality Protection	-	108,830	108,830	-	108,830	108,830	-
Urban Districts	-	277,670	277,670	-	277,670	277,670	-
Housing Activities	-	55,840	55,840	-	55,840	55,840	-
Cable TV	-	2,203,490	2,203,490	-	2,203,490	2,203,490	-
Total Special Revenue Funds	-	12,538,500	12,538,500	-	12,538,500	12,538,500	-
Enterprise Funds:							
Liquor	-	20,503,510	20,503,510	-	20,503,510	20,503,510	-
Parking Lot Districts	-	1,913,440	1,913,440	-	1,913,440	1,913,440	-
Solid Waste Activities	-	1,654,530	1,654,530	-	1,654,530	1,654,530	-
Community Use of Public Facilities	-	281,670	281,670	-	281,670	281,670	-
Permitting Services	-	2,749,660	2,749,660	-	2,749,660	2,749,660	-
Total Enterprise Funds	-	27,102,810	27,102,810	-	27,102,810	27,102,810	-
Total Transfers In	-	39,641,310	39,641,310	-	39,641,310	39,641,310	-
Transfers In - Component Units:							
Montgomery County Public Schools	-	328,420	328,420	-	328,420	328,420	-
Montgomery Community College	-	-	-	-	-	682,406	682,406
Total Transfers In - Component Units	-	328,420	328,420	-	328,420	1,010,826	682,406
Transfers (Out):							
Special Revenue Funds:							
Recreation	-	(1,210,800)	(1,210,800)	-	(1,210,800)	(1,210,800)	-
Urban Districts	-	(684,100)	(684,100)	-	(684,100)	(684,100)	-
Mass Transit	-	(509,950)	(509,950)	(2,750,000)	(3,259,950)	(3,259,950)	-
Revenue Stabilization	-	-	-	-	-	(5,235,889)	(5,235,889)
Fire Tax District	-	-	-	(795,980)	(795,980)	(795,980)	-
Housing Activities	-	(11,874,700)	(11,874,700)	-	(11,874,700)	(11,874,700)	-
Economic Development	-	(225,720)	(225,720)	-	(225,720)	(225,720)	-
Grants	-	-	-	(394,801)	(394,801)	(446,793)	(51,992)
Total Special Revenue Funds	-	(14,505,270)	(14,505,270)	(3,940,781)	(18,446,051)	(23,733,932)	(5,287,881)
Internal Service Funds:							
Motor Pool	-	(584,970)	(584,970)	(74,980)	(659,950)	(605,796)	54,154
Total Internal Service Funds	-	(584,970)	(584,970)	(74,980)	(659,950)	(605,796)	54,154
Enterprise Funds:							
Community Use of Public Facilities	-	(99,730)	(99,730)	-	(99,730)	(99,730)	-
Parking Lot Districts	(389,808)	-	(389,808)	-	(389,808)	(199,841)	189,967
Solid Waste Activities	-	(1,341,100)	(1,341,100)	-	(1,341,100)	(1,341,100)	-
Permitting Services	-	(1,059,660)	(1,059,660)	-	(1,059,660)	(1,059,660)	-
Total Enterprise Funds	(389,808)	(2,500,490)	(2,890,298)	-	(2,890,298)	(2,700,331)	189,967
Debt Service Fund	-	(189,032,700)	(189,032,700)	(232,117)	(189,264,817)	(186,529,027)	2,735,790
Capital Projects Fund	(26,296,270)	(54,691,340)	(80,987,610)	41,011,450	(39,976,160)	(19,027,068)	20,949,092
Total Transfers (Out)	(26,686,078)	(261,314,770)	(288,000,848)	36,763,572	(251,237,276)	(232,596,154)	18,641,122
Transfers (Out) - Component Units:							
Montgomery County Public Schools - operating	-	(1,209,195,760)	(1,209,195,760)	(3,300,952)	(1,212,496,712)	(1,211,773,321)	723,391
Montgomery County Public Schools - capital	(11,620,584)	(8,848,000)	(20,468,584)	(49,469,036)	(69,937,620)	(56,827,273)	13,110,347
Total Montgomery County Public Schools	(11,620,584)	(1,218,043,760)	(1,229,664,344)	(52,769,988)	(1,282,434,332)	(1,268,600,594)	13,833,738
Montgomery Community College - operating	-	(70,935,017)	(70,935,017)	(811,658)	(71,746,675)	(71,746,675)	-
Montgomery Community College - capital	(8,465,390)	(863,000)	(9,328,390)	(7,960,515)	(17,288,905)	(5,103,689)	12,185,216
Total Montgomery Community College	(8,465,390)	(71,798,017)	(80,263,407)	(8,772,173)	(89,035,580)	(76,850,364)	12,185,216
Housing Opportunity Commission - operating	-	(4,411,030)	(4,411,030)	-	(4,411,030)	(4,411,029)	1
Housing Opportunity Commission - capital	-	(250,000)	(250,000)	-	(250,000)	(184,301)	65,699
Total Housing Opportunity Commission	-	(4,661,030)	(4,661,030)	-	(4,661,030)	(4,595,330)	65,700
Total Transfers (Out) - Component Units	(20,085,974)	(1,294,502,807)	(1,314,588,781)	(61,542,161)	(1,376,130,942)	(1,350,046,288)	26,084,654
Total Other Financing Sources (Uses)	(46,772,052)	(1,515,847,847)	(1,562,619,899)	(24,778,589)	(1,587,398,488)	(1,541,990,306)	45,408,182
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(60,612,745)	(14,607,619)	(75,220,364)	(39,843,760)	(115,064,124)	74,965,758	190,029,882
Fund Balance - Begining of Year	60,612,745	100,032,520	160,645,265	(1,170,408)	159,474,857	159,474,857	-
Fund Balance - End of Year	$ -	$ 85,424,901	$ 85,424,901	$ (41,014,168)	$ 44,410,733	$ 234,440,615	$ 190,029,882

Notes to Financial Statements are an integral part of this statements.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
Exhibit A-8

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Equity in pooled cash and investments	$ 9,160,601	$ 43,605,446	$ 15,627,108	$ 16,688,115	$ 85,081,270	$ 91,439,496
Cash	34,150	3,000	86,472	50	123,672	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	1,593,854	-	1,593,854	-
Accounts	2,548,017	2,671,035	7,056	34,645	5,260,753	1,543,434
Notes	-	-	-	-	-	11,428
Parking violations	-	-	2,058,782	-	2,058,782	-
Due from other funds	-	4,544	-	-	4,544	4,552,499
Due from component units	-	63,322	-	-	63,322	344,318
Due from other governments	-	144,712	193,364	-	338,076	43,726
Inventory of supplies	29,827,378	-	-	-	29,827,378	2,703,668
Prepaids	530,977	3,352	9,654	2,179	546,162	392,281
Other assets	73,006	-	-	-	73,006	-
Total Current Assets	42,174,129	46,495,411	19,576,290	16,724,989	124,970,819	101,031,150
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	28,013,581	5,528,949	-	33,542,530	-
Investments	-	3,215,206	-	-	3,215,206	-
Restricted Assets	-	31,228,787	5,528,949	-	36,757,736	-
Unamortized bond costs	-	473,264	559,237	-	1,032,501	-
Capital Assets:						
Land, improved and unimproved	481,430	17,834,755	34,461,478	-	52,777,663	22,506
Improvements other than buildings	-	72,607,727	39,657,812	-	112,265,539	268,565
Buildings	7,388,354	23,515,099	166,168,502	-	197,071,955	315,732
Furniture, fixtures, equipment, and machinery	5,213,026	9,971,739	298,874	2,665,878	18,149,517	4,393,945
Automobiles and trucks	3,048,041	423,444	91,763	66,886	3,630,134	63,093,527
Construction in progress	2,526,436	272,298	9,481,582	-	12,280,316	-
Subtotal	18,657,287	124,625,062	250,160,011	2,732,764	396,175,124	68,094,275
Less: Accumulated depreciation	9,949,778	91,583,755	71,249,977	2,527,988	175,311,498	39,592,256
Total Capital Assets (net of accumulated depreciation)	8,707,509	33,041,307	178,910,034	204,776	220,863,626	28,502,019
Total Noncurrent Assets	8,707,509	64,743,358	184,998,220	204,776	258,653,863	28,502,019
Total Assets	50,881,638	111,238,769	204,574,510	16,929,765	383,624,682	129,533,169
LIABILITIES						
Current Liabilities:						
Accounts payable	12,453,794	7,097,349	1,838,988	180,632	21,570,763	7,619,015
Interest payable	-	92,064	-	-	92,064	-
Retainage payable	-	99,989	994,434	-	1,094,423	-
Deposits	359,981	-	26,750	-	386,731	-
Claims payable	-	-	-	-	-	80,363,503
Accrued liabilities	1,810,248	963,119	359,734	9,748,473	12,881,574	3,042,788
Due to other funds	248,634	101,057	33,780	302,554	686,025	593,976
Due to component units	-	-	-	569,259	569,259	-
Due to other governments	752,196	1,295,628	8,613	-	2,056,437	100,626
Deferred revenue	-	-	-	1,071,311	1,071,311	58,494
General obligation bonds payable	-	51,618	-	-	51,618	-
Revenue bonds payable	-	2,920,000	5,610,000	-	8,530,000	-
Landfill closure costs	-	1,683,000	-	-	1,683,000	-
Other liabilities	-	-	226,354	-	226,354	-
Total Current Liabilities	15,624,853	14,303,824	9,098,653	11,872,229	50,899,559	91,778,402
Noncurrent Liabilities:						
General obligation bonds payable	-	4,894	-	-	4,894	-
Revenue bonds payable	-	22,672,052	31,174,811	-	53,846,863	-
Landfill closure costs	-	20,425,523	-	-	20,425,523	-
Compensated absences	364,578	158,867	67,620	390,274	981,339	332,215
Total Noncurrent Liabilities	364,578	43,261,336	31,242,431	390,274	75,258,619	332,215
Total Liabilities	15,989,431	57,565,160	40,341,084	12,262,503	126,158,178	92,110,617
NET ASSETS						
Invested in capital, net of related debt	8,707,509	7,392,743	142,125,223	204,776	158,430,251	28,502,019
Restricted for debt service	-	31,228,787	5,528,949	-	36,757,736	-
Unrestricted	26,184,698	15,052,079	16,579,254	4,462,486	62,278,517	8,920,533
Total Net Assets	$ 34,892,207	$ 53,673,609	$ 164,233,426	$ 4,667,262	257,466,504	$ 37,422,552
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,878,820)	
Net assets of business-type activities					$ 255,587,684	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-9

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
OPERATING REVENUES						
Sales - net	$ 177,911,175	$ -	$ -	$ -	$ 177,911,175	$ -
Charges for services	15,240	96,056,499	14,941,946	8,595,810	119,609,495	202,928,597
Licenses and permits	-	9,920	-	23,086,112	23,096,032	-
Fines and penalties	-	26,505	7,140,091	122,710	7,289,306	-
Claim recoveries	-	-	-	-	-	3,061,039
Total Operating Revenues	177,926,415	96,092,924	22,082,037	31,804,632	327,906,008	205,989,636
OPERATING EXPENSES						
Cost of goods sold	125,226,878	-	-	-	125,226,878	-
Personnel costs	17,492,428	9,240,559	2,827,139	19,386,229	48,946,355	17,318,921
Postage	46,839	44,605	3,020	40,876	135,340	1,547,990
Self-insurance incurred and estimated claims	-	-	-	-	-	114,409,371
Insurance	748,080	766,029	80,090	14,560	1,608,759	19,371,768
Supplies and materials	480,877	4,493,249	417,616	264,099	5,655,841	17,086,208
Contractual services	1,744,681	82,378,665	4,922,624	3,375,112	92,421,082	11,848,160
Communications	322,059	240,426	129,963	354,463	1,046,911	161,343
Transportation	455,225	1,608,969	164,626	508,372	2,737,192	189,367
Public utility services	587,879	97,441	1,839,208	625,760	3,150,288	659,378
Rentals	3,590,841	21,578	1,429,481	1,256,248	6,298,148	461,758
Maintenance	474,549	267,236	1,562,643	737,741	3,042,169	7,898,657
Depreciation	737,777	2,602,717	7,217,465	51,630	10,609,589	6,219,627
Landfill closure expense	-	650,000	-	-	650,000	-
Other	362,149	476,659	52,302	110,892	1,002,002	190,080
Total Operating Expenses	152,270,262	102,888,133	20,646,177	26,725,982	302,530,554	197,362,628
Operating Income (Loss)	25,656,153	(6,795,209)	1,435,860	5,078,650	25,375,454	8,627,008
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	8,412,877	-	8,412,877	-
Intergovermental	-	-	-	-	-	41,035
Gain (loss) on disposal of capital assets	(15,082)	8,359	(1,719,526)	(10,472)	(1,736,721)	198,007
Investment income	53,613	2,298,811	877,847	327,405	3,557,676	2,410,352
Interest expense	-	(1,264,996)	(1,718,541)	-	(2,983,537)	-
Other revenue	12,500	86,979	41,814	-	141,293	1,737,074
Total Nonoperating Revenues (Expenses)	51,031	1,129,153	5,894,471	316,933	7,391,588	4,386,468
Income (Loss) Before Capital Contributions and Transfers	25,707,184	(5,666,056)	7,330,331	5,395,583	32,767,042	13,013,476
Capital Contributions	-	-	5,902,942	-	5,902,942	-
Transfers In (Out):						
Transfers in	-	-	199,841	5,000	204,841	1,234,846
Transfers out	(20,503,510)	(1,654,530)	(10,706,668)	(3,045,003)	(35,909,711)	(40,500)
Total Transfers In (Out)	(20,503,510)	(1,654,530)	(10,506,827)	(3,040,003)	(35,704,870)	1,194,346
Change in Net Assets	5,203,674	(7,320,586)	2,726,446	2,355,580	2,965,114	14,207,822
Total Net Assets - Beginning of Year	29,688,533	60,994,195	161,506,980	2,311,682		23,214,730
Total Net Assets - End of Year	$ 34,892,207	$ 53,673,609	$ 164,233,426	$ 4,667,262		$ 37,422,552
Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds					278,664	
Change in net assets of business-type activities					$ 3,243,778	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-10

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Liquor	Solid Waste Activities	Parking Lot Districts	Other Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 181,095,928	$ 95,149,213	$ 22,079,223	$ 30,736,676	$ 329,061,040	$ 204,631,798
Payments to suppliers	(136,822,256)	(91,426,279)	(9,164,963)	(6,798,441)	(244,211,939)	(56,642,085)
Payments to employees	(17,232,182)	(9,343,132)	(2,757,234)	(19,141,398)	(48,473,946)	(17,153,948)
Internal activity - operating payments from other funds	-	2,112,950	-	1,059,660	3,172,610	-
Claims paid	-	-	-	-	-	(109,169,103)
Other revenue	12,500	86,979	41,814	1,149,147	1,290,440	1,737,075
Net Cash Provided (Used) by Operating Activities	27,053,990	(3,420,269)	10,198,840	7,005,644	40,838,205	23,403,737
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	8,090,110	-	8,090,110	-
Operating subsidies and transfers from other funds	-	-	199,841	5,000	204,841	-
Operating subsidies and transfers to other funds	(20,503,510)	(1,654,530)	(10,706,668)	(3,045,003)	(35,909,711)	(40,500)
Intergovernmental revenue	-	-	-	-	-	41,035
Net Cash Provided (Used) by Noncapital Financing Activities	(20,503,510)	(1,654,530)	(2,416,717)	(3,040,003)	(27,614,760)	535
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from sale of capital assets	-	8,359	-	-	8,359	344,960
Purchases of capital assets	(2,768,589)	(1,761,431)	(14,185,083)	(44,491)	(18,759,594)	(6,289,637)
Repayment of notes receivable	-	-	-	-	-	3,611
Principal paid on capital debt	-	(3,686,619)	(5,425,000)	-	(9,111,619)	-
Interest paid on capital debt	-	(1,194,722)	(1,694,191)	-	(2,888,913)	-
Internal activity - payments from other funds	-	-	-	-	-	1,234,846
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,768,589)	(6,634,413)	(21,304,274)	(44,491)	(30,751,767)	(4,706,220)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	53,613	2,180,658	877,847	327,405	3,439,523	2,384,247
Investment income from nonpooled investments	-	26,180	-	-	26,180	26,105
Net Cash Provided (Used) by Investing Activities	53,613	2,206,838	877,847	327,405	3,465,703	2,410,352
Net Increase (Decrease) in Cash and Cash Equivalents	3,835,504	(9,502,374)	(12,644,304)	4,248,555	(14,062,619)	21,108,404
Balances - Beginning of Year	5,359,247	81,124,401	33,886,833	12,439,610	132,810,091	70,331,393
Balances - End of Year	$ 9,194,751	$ 71,622,027	$ 21,242,529	$ 16,688,165	$ 118,747,472	$ 91,439,797
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$ 25,656,153	$ (6,795,209)	$ 1,435,860	$ 5,078,650	$ 25,375,454	$ 8,627,008
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	737,777	2,602,717	7,217,465	51,630	10,609,589	6,219,627
Other revenue	12,500	86,979	41,814	-	141,293	1,737,074
Changes in assets and liabilities:						
Receivables, net	(459,646)	1,105,973	379,895	35,169	1,061,391	(1,343,873)
Inventories, prepaids and other assets	(2,041,747)	146	1,114	1,601	(2,038,886)	(92,361)
Accounts payable and other liabilities	2,938,399	(287,054)	517,450	497,595	3,666,390	8,151,480
Accrued expenses	210,554	(133,821)	605,242	1,340,999	2,022,974	104,781
Net Cash Provided (Used) by Operating Activities	$ 27,053,990	$ (3,420,269)	$ 10,198,840	$ 7,005,644	$ 40,838,205	$ 23,403,736
Noncash investing, capital and financing activities:						
Capital asset disposals	$ 15,082	$ -	$ 1,719,526	$ 10,473	$ 1,745,081	$ 51,341
Assets acquired through transfers from governmental activities	-	-	5,902,942	-	5,902,942	-
Change in fair value of investments that are not cash equivalents	-	91,973	-	-	91,973	-

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005
Exhibit A-11

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	$ 1,047,513	$ 24,273,778	$ 2,050,131	$ 52,707,279
Cash	-	-	-	299,594
Investments:				
U.S. Government and agency obligations	342,255,205	-	-	-
Asset-backed securities	30,034,502	-	-	-
Municipal/Provincial bonds	1,143,116	-	-	-
Corporate bonds	274,681,642	-	-	-
Collateralized mortgage obligations	9,603,250	-	-	-
Commercial mortgage-backed securities	13,576,170	-	-	-
Common and preferred stock	1,387,747,640	-	-	-
Mutual and commingled funds	257,376,349	-	-	-
Short-term investments	53,478,063	-	-	-
Cash collateral received under securities lending agreements	270,825,841	-	-	-
Real estate holdings	681,790	-	-	-
Alternative investments	21,090,370	-	-	-
Total investments	2,662,493,938	-	-	-
Receivables (net of allowances for uncollectibles):				
Dividends receivable and accrued interest	7,124,154	-	-	-
Property taxes	-	-	-	8,122,997
Accounts	104,530	-	-	84,492
Other	-	-	-	575
Due from other funds	6,084,739	-	-	-
Due from component units	90,381	-	-	-
Due from other governments	52,888	-	-	-
Prepaids	705	-	-	-
Total Current Assets	2,676,998,848	24,273,778	2,050,131	61,214,937
Total Assets	2,676,998,848	24,273,778	2,050,131	$ 61,214,937
LIABILITIES				
Current Liabilities:				
Accounts payable	273,213,194	-	7,640	7,595
Accrued liabilities	181,809	-	-	-
Deposits	-	-	-	929,197
Due to other funds	2,478	-	-	-
Due to other governments	-	-	-	1,829,162
Uncollected property taxes due to other governments	-	-	-	7,799,087
Undistributed taxes and refunds	-	-	-	16,522,496
Deferred revenue	127,593	-	-	-
Tax sale surplus and redemptions payable	-	-	-	3,627,587
Other liabilities	-	-	-	30,499,813
Total Current Liabilities	273,525,074	-	7,640	61,214,937
Noncurrent Liabilities:				
Compensated absences	42,366	-	-	-
Total Liabilities	273,567,440	-	7,640	$ 61,214,937
NET ASSETS				
Held in trust for pension benefits, external investment pool participants, and other purposes	$ 2,403,431,408	$ 24,273,778	$ 2,042,491	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-12

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts
ADDITIONS			
Contributions:			
Employers	$ 83,413,891	$ -	$ -
Members	40,074,356	-	120,283
Share purchases	-	18,557,929	-
Total Contributions	123,488,247	18,557,929	120,283
Investment income	229,442,926	592,859	31,364
Less: Investment expenses	12,929,314	-	-
Net Investment Income	216,513,612	592,859	31,364
Other income - forfeitures	175,080	-	-
Total Additions, net	340,176,939	19,150,788	151,647
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	102,641,063	-	-
Survivors	2,086,755	-	-
Disability	10,906,765	-	-
Total Benefits	115,634,583	-	-
Share redemptions	-	15,535,000	-
Member refunds	13,419,600	-	-
Program expenses	-	-	242,306
Administrative expenses	2,104,113	-	-
Movement of member account asset balances	77,837,950	-	-
Total Deductions	208,996,246	15,535,000	242,306
Net Increase (Decrease)	131,180,693	3,615,788	(90,659)
Net Assets - Beginning of Year	2,272,250,715	20,657,990	2,133,150
Net Assets - End of Year	$ 2,403,431,408	$ 24,273,778	$ 2,042,491

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2005
Exhibit A-13

	MCPS	HOC	Nonmajor Component Units	Total
ASSETS				
Equity in pooled cash and investments	$ 15,323,186	$ 5,250,410	$ 24,403,262	$ 44,976,858
Cash with fiscal agents	75,401	8,615,607	34,155	8,725,163
Cash	6,232,684	15,791	3,030,993	9,279,468
Investments-cash equivalents	18,868,845	51,960,807	15,519,835	86,349,487
Investments	3,318,533	-	37,216,653	40,535,186
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	36,785,490	36,785,490
Accounts	9,577,497	4,659,701	4,173,429	18,410,627
Notes	-	1,809	751,863	753,672
Mortgages receivable	-	251,187,408	-	251,187,408
Interest	-	3,528,066	-	3,528,066
Other	1,211,026	1,874,841	1,041,940	4,127,807
Due from primary government	67,256,213	654,042	5,021,419	72,931,674
Due from other governments	14,325,315	461,462	3,814,663	18,601,440
Inventory of supplies	8,467,985	371,896	1,663,027	10,502,908
Prepaids	132,490	1,774,280	499,721	2,406,491
Deferred charges	-	-	858,454	858,454
Other assets	-	26,447,151	2,253,110	28,700,261
Restricted Assets:				
Cash	-	-	505,221	505,221
Cash with fiscal agents	-	484,839	-	484,839
Investments - cash equivalents	-	87,262,339	14,589,694	101,852,033
Investments	-	218,645,758	-	218,645,758
Capital Assets:				
Nondepreciable assets	195,551,712	84,978,006	60,496,321	341,026,039
Depreciable assets, net	1,178,828,247	266,085,768	169,930,767	1,614,844,782
Total Assets	1,519,169,134	1,014,259,981	382,590,017	2,916,019,132
LIABILITIES				
Accounts payable	34,268,178	16,371,546	13,842,674	64,482,398
Interest payable	16,819	13,951,817	834,127	14,802,763
Retainage payable	9,631,448	-	1,273,948	10,905,396
Accrued liabilities	60,030,226	3,263,622	409,034	63,702,882
Claims payable	20,356,643	-	-	20,356,643
Deposits	-	8,623,983	57,322	8,681,305
Due to primary government	1,393,115	42,701,198	1,890,669	45,984,982
Deferred revenue	9,093,655	18,759,868	4,324,857	32,178,380
Other liabilities	-	9,648,308	32,069	9,680,377
Noncurrent Liabilities:				
Due within one year	23,489,685	21,277,776	4,932,757	49,700,218
Due in more than one year	101,207,650	708,407,818	97,946,806	907,562,274
Total Liabilities	259,487,419	843,005,936	125,544,263	1,228,037,618
NET ASSETS				
Invested in capital, net of related debt	1,352,506,762	48,723,423	201,239,461	1,602,469,646
Restricted for:				
Capital projects	-	-	2,555,499	2,555,499
Debt service	-	43,598,584	3,267,429	46,866,013
Other purposes	532,330	3,704,144	14,209,108	18,445,582
Unrestricted (deficit)	(93,357,377)	75,227,894	35,774,257	17,644,774
Total net assets	$ 1,259,681,715	$ 171,254,045	$ 257,045,754	$ 1,687,981,514

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
Exhibit A-14

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**MCPS**	**HOC**	**Nonmajor Component Units**	**Total**
Component units:								
General government	$ 3,153,904	$ 2,822,087	$ 236,333	$ -	$ -	$ -	$ (95,484)	$ (95,484)
Culture and recreation	12,927,847	11,133,508	-	2,428,546	-	-	634,207	634,207
Community development and housing	181,381,264	102,305,798	84,369,732	2,230,614	-	7,524,880	-	7,524,880
Education:								
Secondary education	1,769,019,880	32,978,084	97,484,420	42,518,178	(1,596,039,198)	-	-	(1,596,039,198)
Higher education	192,128,403	61,864,557	19,874,636	2,810,686	-	-	(107,578,524)	(107,578,524)
Total component units	$ 2,158,611,298	$ 211,104,034	$ 201,965,121	$ 49,988,024	(1,596,039,198)	7,524,880	(107,039,801)	(1,695,554,119)
General revenues:								
Grants and contributions not restricted to specific programs					1,676,080,744	-	127,076,613	1,803,157,357
Investment income					522,443	1,173,736	2,254,214	3,950,393
Total general revenues					1,676,603,187	1,173,736	129,330,827	1,807,107,750
Change in net assets					80,563,989	8,698,616	22,291,026	111,553,631
Net assets - beginning					1,179,117,726	162,555,429	234,754,728	1,576,427,883
Net assets - ending					$ 1,259,681,715	$ 171,254,045	$ 257,045,754	$ 1,687,981,514

Notes to Financial Statements are an integral part of this statements.

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) applicable to local government entities. The following is a summary of significant policies:

A) Reporting Entity

Background

Montgomery County, Maryland (County) is a charter government under the constitution and general laws of the State of Maryland (State). The charter provides for separate legislative and executive branches with legislative responsibility vested in an elected nine-member county council and executive responsibility vested in an elected county executive. The County provides its citizens with services in areas of general government, public safety, public works and transportation, health and human services, education, culture and recreation, community development and housing, and environment.

As required by GAAP, these financial statements present the primary government and its component units, which are entities for which the primary government is considered financially accountable. The County reporting entity is determined by criteria established by the Governmental Accounting Standards Board (GASB). The judgment to include or exclude activities is dependent on evaluation of the GASB criteria. Various departments and agencies governed directly by the County Executive and the County Council of Montgomery County are included in the reporting entity as the primary government and are referred to hereafter as the Primary Government. The component units (as discussed below) are included in the reporting entity because the Primary Government approves the budget requests, provides a significant amount of funding for each of these units, and/or appoints the governing boards.

Discretely Presented Component Units

The financial data of the County's component units are discretely presented in a column separate from the financial data of the primary government, to emphasize that the component units are legally separate from the Primary Government. Financial information regarding the component units is included in the component units' combining statements. The following are the County's component units, each of which has a June 30 fiscal year-end:

Montgomery County Public Schools (MCPS) provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education are elected by the voters. (One nonvoting student member is elected by secondary students.) However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.

Montgomery Community College (MCC) provides educational services to County citizens by offering two-year associate degrees and a continuing education program. MCC is responsible for post secondary education within the government's jurisdiction. The Montgomery County Board of Community College trustees is the governing authority. The State Governor appoints the trustees from a list of candidates supplied by a nominating committee. The nominating committee is controlled by the County Executive and the County Council. Therefore, essentially the Primary Government and the State Governor must agree upon the trustees to serve on the College's Governing Board. In addition, the County Council reviews and approves both the operating and capital budgets and budgetary amendments of MCC. The Primary Government contributes substantial funding for both the operating and capital budgets, as well as issues debt for the construction of college facilities.

Montgomery County Revenue Authority (MCRA) is governed by a five-member Board of Directors. All members are appointed by the County Executive subject to the confirmation of the County Council. The County Council approves the capital budget of MCRA. MCRA approves its own operating budget. MCRA is an instrumentality of the Primary Government for the purpose of constructing, improving, and maintaining self-sustaining projects devoted to public use, good or welfare.

Housing Opportunities Commission of Montgomery County (HOC) is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of HOC and guarantees a relatively small portion of its debt (up to $50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though there is a large dependence on the U.S. Department of Housing and Urban Development (HUD), HOC has sufficient financial accountability to the Primary Government to be included as a component unit.

Bethesda Urban Partnership, Inc (BUPI) has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI, a not-for-profit corporation, is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI's funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

Complete financial statements can be obtained at the component units' administrative offices listed below:

Montgomery County Public Schools
850 Hungerford Drive
Rockville, MD 20850

Montgomery Community College
900 Hungerford Drive
Rockville, MD 20850

Montgomery County Revenue Authority
101 Monroe Street, 4th Floor
Rockville, MD 20850

Housing Opportunities Commission of Montgomery County, Maryland
10400 Detrick Avenue
Kensington, MD 20895-2484

Bethesda Urban Partnership, Inc.
7700 Old Georgetown Road
Bethesda, MD 20814

Joint Ventures

The following organizations are considered joint ventures of the County: Maryland-National Capital Park and Planning Commission (M-NCPPC), Washington Suburban Sanitary Commission (WSSC), Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA). Disclosure of the County's participation in these joint ventures is presented in Note IV-D. Complete financial statements can be obtained at the joint ventures' offices listed below:

Maryland-National Capital Park and Planning Commission
6611 Kenilworth Avenue
Riverdale, MD 20737

Washington Suburban Sanitary Commission
14501 Sweitzer Lane
Laurel, MD 20707-5902

Washington Suburban Transit Commission
8720 Georgia Avenue, Suite 904
Silver Spring, MD 20910

Washington Metropolitan Area Transit Authority
600 Fifth Street, NW
Washington, DC 20001

Metropolitan Washington Council of Governments
777 N. Capitol Street, NE, #300
Washington, DC 20002-4290

Northeast Maryland Waste Disposal Authority
100 South Charles St, Tower II-Suite 402
Baltimore, MD 21201-3330

B) Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The government-wide financial statements report information on all of the nonfiduciary activities of the Primary Government and its component units. Since by definition, assets of fiduciary funds are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities of the Primary Government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Statement of Net Assets – This statement is designed to display the financial position of the reporting entity as of year-end. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. Net assets are divided into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – This statement demonstrates the degree to which the direct expenses of a given function or segment for the fiscal year are offset by program revenues. Therefore, this statement reflects both the gross and net costs per functional category (general government, public safety, public works and transportation, health and human services, culture and recreation, community development and housing, environment, and education) that are otherwise being supported by general revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The County does not allocate indirect expenses. The operating grants column includes operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds, 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 assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses.

General Fund Budget-to-Actual Comparison Statement - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. For this reason, the County has chosen to make its General Fund budget-to-actual comparison statement part of the basic financial statements. The County and many other governments revise their original budgets over the course of the year for a variety of reasons; such revisions are reflected in a separate column in this statement.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement Focus and Basis of Accounting

Full Accrual Basis Financial Statements - The government-wide, proprietary fund, and certain fiduciary fund (pension and other employee benefit trusts, investment trust, and private-purpose trusts) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The agency funds also use the accrual basis of accounting to recognize assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements.

Modified Accrual Basis Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In the governmental funds, revenues are recorded as soon as they are susceptible to accrual (both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and judgments and compensated absences are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

In applying the susceptible to accrual concept to income taxes (distributed by the State), property taxes, and intergovernmental revenues other than grants, the County defines "available" to mean received within 30 days after year-end.

In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing those collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. The County records estimated receivables relating to income taxes when the underlying income is earned. Amounts not received within 30 days are reported as deferred revenue. At year-end, deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the County's availability period. Amounts relating to late filers are expected to be received from the State within the next fiscal year; however, collections related to delinquent returns and audits and unallocated withholding may not occur and be remitted to the County for several years. Deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and remaining unallocated withholding.

In applying the susceptible to accrual concept to operating and capital grants, classified with intergovernmental revenues in the fund financial statements, the County records receivables when the applicable eligibility requirements including time requirements are met. Related revenues are recognized to the extent that cash is expected to be received within one year of year-end. Resources received before the eligibility requirements are met are reported as deferred revenue.

Charges for services, licenses and permits, fines and penalties, and miscellaneous revenues (except earnings on investments) are generally recorded as revenues when received in cash during the year. At year-end, receivables are recorded for significant amounts due. If such amounts are received in cash after year-end within the County's 30 day availability period, they are recognized as revenue; if not, such amounts are reported as deferred revenue.

Financial Statement Presentation

The County reports the following major governmental funds:

General Fund - This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Special assessment activities are accounted for in the Debt Service Fund for practical purposes because they differ significantly from traditional special assessment practices. The principal and interest collected annually on such assessments are used as a partial source of funding for debt service on all outstanding general obligation road and storm drainage bonds. The remaining debt service requirement is financed from current governmental revenues and transfers, generally from the General Fund.

Capital Projects Fund - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The County reports the following major enterprise funds:

Liquor Enterprise Fund - This fund accounts for the operations of twenty-five liquor stores and the Montgomery County Liquor Warehouse. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages within the County.

Solid Waste Activities Enterprise Fund - This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling and leaf vacuuming, for the County. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements. The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County. The Vacuum Leaf Collection program provides leaf collection services to downcounty residents during the late fall/winter months.

Parking Lot Districts Enterprise Fund - This fund accounts for the fiscal activity related to serving the parking needs of the people who work and shop in the four central business districts zoned for commercial or industrial use identified as Silver Spring, Bethesda, Wheaton, and Montgomery Hills.

Additionally, the County reports the following fund types:

Other Governmental Funds - The other governmental fund types used by the County are special revenue and permanent. Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs.

Internal Service Funds - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or to other governmental units, on a cost-reimbursement basis. There are four Internal Service Funds reported by the County: Motor Pool, Liability and Property Coverage Self-Insurance, Employee Health Benefits Self-Insurance, and Central Duplicating.

The County reports the following fiduciary fund types:

Pension and Other Employee Benefit Trust Fund - This fund is used to account for all activities of the Employees' Retirement System of Montgomery County (defined benefit plan), Employees' Retirement Savings Plan (defined contribution plan) and Deferred Compensation Plan, including accumulation of resources for, and payment of, retirement annuities and/or other benefits and administrative costs.

Investment Trust Fund - This fund accounts for the portion of the external investment pool, sponsored by the County, that belongs to participating governments that are not part of the County reporting entity.

Private-Purpose Trust Funds - These funds account for arrangements under which principal and interest are legally held in trust for parties outside of the County, such as the Strathmore Hall Foundation, court appointed guardians, and others, and must be expended in accordance with their designated purposes.

Agency Funds - These funds are used to account for assets, such as property taxes, held in a purely custodial capacity, where the County receives, temporarily invests, and remits such resources to individuals, private organizations, or other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets. The effect of interfund services provided and used between functions has not been eliminated in the Statement of Activities, since to do so would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

D) Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

Pooled Cash and Investments – The County sponsors an external investment pool. Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The portion of pooled cash and investments applicable to other legally separate entities (not included in the County reporting entity) is accounted for in a separate Investment Trust Fund. During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. At year-end, investments in the pool are adjusted to fair value. See Note III-A for additional information.

Non-pooled Investments:

Governmental Fund Types – Investments of the Housing Opportunities Commission (HOC) Treasury Bonds Permanent Fund (a Primary Government fund) are stated at fair value.

Proprietary Fund Types – The Solid Waste Activities Enterprise Fund investment is a U.S. Government security which is stated at fair value.

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value determined primarily on the basis of market quotations. If the quotations are not readily available then investments may be valued by another method which reflects fair value. Pension investments are comprised of an actively managed pool of equities, bonds, real estate commingled funds, and short-term securities, and passively managed index funds, managed by professional investment advisory firms under contract with the Board of Investment Trustees. Commingled funds are pooled investment vehicles. The Employees' Retirement System Pension and Other Employee Benefit Trust Fund (System) invests in derivatives, in accordance with the policy of the Board of Investment Trustees. The policy prohibits the investment in derivatives for the purpose of leveraging its investment portfolio. During FY05, investments in derivatives included asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, and floating rate securities. The System entered into these investments either to increase earnings or to hedge against potential losses, but these investments were not used to leverage the portfolio. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the credit worthiness of the related parties to the contracts. The System also participates in securities lending transactions (see Note III-A).

Cash and Cash Equivalents – For Statement of Cash Flows reporting purposes, the County has defined "cash equivalents" as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. The balance sheet classification for "cash and cash equivalents" in the Statement of Cash Flows includes the following: "Equity in pooled cash and investments," "Cash," "Cash with fiscal agents," and "Restricted Equity in pooled cash and investments."

2) Receivables and Payables

Due From/To Other Funds and Internal Balances – Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the year and where repayment is expected within a reasonable time are referred to as "due from/to other funds." Such outstanding balances not expected to be repaid within a reasonable time are included in interfund "transfers in/out." Any residual balances of "due from/to other funds" outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Trade Accounts Receivable – Trade and other receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is calculated based on historical collection data and, in some cases, specific account analysis.

3) Inventories and Prepaids

Inventories – Inventories are valued at lower of cost (principally first-in, first-out) or market in the Liquor Enterprise Fund and consist of goods held for sale. Inventories valued at cost (principally moving-average) are carried in the Motor Pool Internal Service Fund and the governmental fund types. All inventories are maintained by perpetual records and adjusted by annual physical counts. Inventories in the governmental funds and Motor Pool Internal Service Fund consist of items held for consumption. The cost is recorded as an expenditure at the time individual items are withdrawn for use. In governmental funds, the reserve for inventory is equal to the amount of inventory to indicate that portion of fund balance which is not available for funding other expenditures.

Prepaids – Payments made to vendors for services that will benefit periods beyond the end of the fiscal year are recorded as prepaids.

4) Restricted Assets

Certain proceeds of the County's bonds, as well as certain resources set aside for revenue bond repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

5) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of $5,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and structures	20 – 40
Improvements other than buildings	3 – 40
Infrastructure	20 – 60
Furniture, fixtures, equipment and machinery	3 – 20
Automobiles and trucks	2 – 15

6) Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer's share of social security and medicare taxes. Based on a historical analysis of leave usage, 75 percent and 25 percent of such accrued leave is classified as current and long-term, respectively. In the proprietary fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

7) Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable in the proprietary fund financial statements and noncurrent liabilities in the government-wide financial statements are reported net of the applicable bond premium or discount. Bond issuance costs are generally reported as a deferred asset and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

8) <u>Fund Equity</u>

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The capital assets related to component units are reported on the financial statements of MCPS and MCC, and this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2005, the County has reported outstanding general obligation debt related to MCPS, MCC, and M-NCPPC amounting to $786,773,722. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of $381,428,568.

In the government-wide Statement of Net Assets (Exhibit A-1), the amount reported in the Business-type Activities column for net assets invested in capital, net of related debt, includes $48,634,805 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of $46,600,511 at June 30, 2005, is an obligation of the Governmental Activities (see Note III-E3), and the debt does not relate to a governmental capital asset, the impact of such debt is reported in the unrestricted portion of net assets in the Governmental Activities column. However, in the Total Primary Government column, the impact of such debt as been reclassified and reflected with the associated capital asset, in net assets invested in capital, net of related debt.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. However, long-term receivables in the Grants Special Revenue Fund, a nonmajor governmental fund, have not met the “available” criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than reserved fund balance.

Designations of fund balances represent tentative management plans that are subject to change, which are described more fully in Note III-H.

9) <u>Property Taxes</u>

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY05. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of seven members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate adopted for levy year 2004 (i.e., FY05) exceeded the Charter limit for that year.

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Owner-occupied residential property owners pay their tax on a semi-annual schedule, with the first and second installments due on September 30 and December 31, respectively. Taxpayers may opt to make both semi-annual payments on or before September 30.

The County collects delinquent real property taxes through a public tax lien sale. Tax liens, representing delinquent taxes on real property are sold in random groups, utilizing a sealed bid process, on the second Monday in June, when taxes have remained overdue since the preceding October 1 or in the case of a semi-annual schedule, January 1.

10) Accounting Changes

The County has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*. The primary impact of the Statement to the County's financial statements is increased disclosure of the following investment risks and policies related to such risks: interest rate, credit, custodial credit, concentration of credit, and foreign currency (see Note III-A).

The County has also adopted, earlier than required, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an Amendment of GASB Statement No. 34*. The primary impact of this Statement to the County's financial statements is to add a disclosure of the portion of total net assets that is restricted by enabling legislation (see Note III-H2).

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A) Budgetary Information

Overview

Annual appropriated operating budgets are adopted for the General Fund, Debt Service Fund, substantially all Special Revenue Funds, Enterprise Funds, the Liability and Property Coverage Self-Insurance Internal Service Fund, and the Employee Health Benefits Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

Encumbrance accounting is employed for budgetary purposes in the governmental and proprietary funds. Encumbrances (purchase orders and contracts awarded for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to preserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as a designation of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

Approval

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in three major categories (personnel costs, operating, and capital outlay) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note III-H1), such encumbrances are designated as part of the current fiscal year's fund balance. The annual budget must be consistent with the six-year program for public services and fiscal policy. Multi-year planning provides a framework to make informed decisions about the levels of public services and project the impact of what may happen as a result of current decisions and policies. For the capital projects budget, the annual resolution provides spending authority at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation; or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY05, the County Council increased the operating budget through supplemental and special appropriations by $30.9 million. In addition, supplemental appropriations increased the CIP budget by $7.6 million.

Presentation

The basis used to prepare the legally adopted budget is different from GAAP in a number of ways, including the following:

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Proceeds under certain capital lease financing.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MCC.

Adjustments necessary to reconcile the General Fund budgetary and GAAP statements are as follows:

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
General Fund:				
As reported - budgetary basis	$ 2,320,519,250	$ 703,563,186	$ (1,541,990,306)	$ 74,965,758
Reconciling items:				
Cancellation of prior year encumbrances	(1,170,407)	-	-	(1,170,407)
Elimination of encumbrances outstanding	-	(13,899,185)	-	13,899,185
Unrealized gains (losses)	(376,565)	-	-	(376,565)
Financing under capital lease	-	5,902,942	5,902,942	-
Conference Center activity	7,968,308	7,673,308	-	295,000
Contribution and disposition of capital asset	500,000	500,000	-	-
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	2,204,380	-	(2,204,380)	-
Public agency permits	-	1,059,660	1,059,660	-
Solid waste tipping fees	-	1,341,100	1,341,100	-
Community use of public facilities for elections	-	94,730	94,730	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	1,010,826	-	(1,010,826)	-
Component Units - Transfer out	-	1,350,046,288	1,350,046,288	-
As reported - GAAP basis	$ 2,330,655,792	$ 2,056,282,029	$ (186,760,792)	$ 87,612,971

B) Deficit Fund Equity

Capital Projects – The $37,114,464 deficit in the Capital Projects Fund represents a timing difference between the construction of capital assets and the planned FY06 issuance of debt to fund that construction.

Mass Transit Facilities – The $2,400,789 unreserved deficit in the Mass Transit Facilities Special Revenue Fund is caused by a delay in receiving FY05 state aid amounting to $6.9 million for the County's Ride-On program. This amount, which is reflected as a receivable and deferred revenue in the accompanying financial statements, was received in August 2005.

Liability and Property Coverage Self-Insurance - The $898,420 unrestricted deficit in the Liability and Property Coverage Self-Insurance Internal Service Fund is primarily caused by an unanticipated increase both in claims incurred and paid during the past years, and in incurred but not reported claims as determined by the actuary. Actions have been taken by management to adjust the rates beginning in FY03, to recover this deficit over an originally planned timeframe of three years. The deficit will be recovered by continuing to charge participating agencies higher insurance premium rates in future years; however higher than originally anticipated claims in FY04, have resulted in an extended timeframe for recovery, through FY06.

Central Duplicating - The $641,914 unrestricted deficit in the Central Duplicating Internal Service Fund results primarily from a revenue shortfall in covering expenses associated with records management/imaging services which started in FY05. Effective FY06, charges for services have been aligned to all expenses within this fund to include expenses associated with records management/imaging services; and therefore, no further deficit is anticipated beyond FY05. Further, the deficit realized in FY05, will be recovered in FY06 through a one-time per employee fee that is built into all County departments' budgets.

NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Overview

The Montgomery County reporting entity total cash and investments as of June 30, 2005, totaled $3,875,338,406, of which $3,363,984,393 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

Statement of Net Asset Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 622,399,770	$ 44,976,858	$ 667,376,628
Cash with fiscal agents	36,396,855	8,725,163	45,122,018
Cash	604,917	9,279,468	9,884,385
Investments - cash equivalents	-	86,349,487	86,349,487
Investments	2,667,825,115	40,535,186	2,708,360,301
Restricted equity in pooled cash and investments	33,542,530	-	33,542,530
Restricted cash with fiscal agents	-	484,839	484,839
Restricted cash	-	505,221	505,221
Restricted investments - cash equivalents	-	101,852,033	101,852,033
Restricted investments	3,215,206	218,645,758	221,860,964
Total	$ 3,363,984,393	$ 511,354,013	$ 3,875,338,406
Deposit and Investment Summary:			
Deposits	$ 35,870,174	$ 12,056,975	$ 47,927,149
Investments	3,291,112,447	364,476,842	3,655,589,289
Cash on hand, fiscal agents, safe deposit escrow	37,001,772	134,820,196	171,821,968
Total	$ 3,363,984,393	$ 511,354,013	$ 3,875,338,406

Primary Government cash and investments reconciles to the basic financial statements as follows:

Government-wide	$ 621,112,160
Fiduciary funds	2,742,872,233
Total	$ 3,363,984,393

PRIMARY GOVERNMENT

2) External Investment Pool

Overview:

The County maintains an external investment pool that is subject to oversight by the County's investment committee, but is not subject to regulatory oversight by the Securities and Exchange Commission (SEC). Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The equity position of each fund and component unit is reported as an asset by the funds and component units. The external portion of the pool (i.e., participation by legally separate entities) is reported as the Investment Trust Fund in the accompanying financial statements. Participants' shares redeemed during the year are based on actual cost; participants' shares are then adjusted to fair value at year-end. The County has not provided or obtained any legally binding guarantees during the year to support the value of shares.

During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of “2a-7 like”. The fair value of U. S. Government securities, commercial paper and bankers’ acceptances are provided by the County’s custodian, which are based on various industry standard pricing sources. Fair value of investments in repurchase agreements are estimated based on an industry accepted index, with comparable collateral or credit quality, as appropriate. For interest-bearing investments, market value quotations did not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest have been classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and the adjustment to fair value at year-end, is allocated to pool participants based upon their average equity in the pool. The adjustment to fair value for the current year related to all County funds (exclusive of legally separate entities’ accounts reflected in the Investment Trust Fund) has been recorded in the General Fund, since this amount is not material.

External investment pool amounts, included in the schedule above, are as follows:

Balance Sheet Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 622,399,770	$ 9,385,020	$ 631,784,790
Restricted equity in pooled cash and investments	33,542,530	-	33,542,530
Total	$ 655,942,300	$ 9,385,020	$ 665,327,320
Deposit and Investment Summary:			
Deposits	$ 35,870,174	$ -	$ 35,870,174
Investments	620,072,126	9,385,020	629,457,146
Total	$ 655,942,300	$ 9,385,020	$ 665,327,320

Deposits:

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statute requires that securities underlying certificates of deposit have a market value that equals or exceeds the cost of the deposit while County investment policy requires a market value of at least 102 percent of the cost of the deposit. Appropriate sections of these cited statutes also require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County’s name at a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

Deposits include bank accounts and non-negotiable certificates of deposit. With the exception of $3,960,131 at Wachovia Bank, of which only $793,082 was collected, deposits at financial institutions were fully insured or collateralized at year-end. The under-collateralized position at Wachovia resulted from a deposit received late in the business day on June 30, 2005, and was remedied on July 1, 2005. In addition to improving the daily monitoring of collateral balances, the County will now require that its depository banks post collateral in excess of historical average balances.

Investments:

The County, through its external investment pool, 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 financial obligations, and maximization of the investment yield on short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's investment policies as approved by the County Council. There were no unusual variations in the mix or volume of the investment portfolio throughout the year. The County was in compliance with all applicable investment statutes throughout the fiscal year.

Investment Type:	Fair Value	Principal	Maturity Range	Interest Rate Range
Repurchase agreements	$ 139,986,860	$ 140,000,000	July 05	3.08 - 3.40 %
U. S. Government securities	289,790,852	290,244,671	July 05 - June 07	2.02 - 3.80
Commercial paper	31,193,470	31,129,338	July - August 05	3.16 - 3.35
Bankers' acceptances	83,920,018	83,751,924	July - December 05	3.06 - 3.49
Money market mutual funds	84,565,946	84,565,946	n/a	3.10 - 3.31
Total	$ 629,457,146	$ 629,691,879		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy limits investments to maturities of one year or less. However, a portion of the portfolio may be invested in investments with longer maturities (up to two years); any investment with a maturity of over 12 months must be approved by the Director of Finance prior to execution. As of June 30, 2005, the County's investment maturities are as follows:

		Investment Maturities (in Years)	
Investment Type:	Fair Value	Less than 1	1-2
Repurchase agreements	$ 139,986,860	$ 139,986,860	$ -
U. S. Government securities	289,790,852	279,790,852	10,000,000
Commercial paper	31,193,470	31,193,470	-
Bankers' acceptances	83,920,018	83,920,018	-
Money market mutual funds	84,565,946	84,565,946	-
Total	$ 629,457,146	$ 619,457,146	$ 10,000,000

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secures. Cited statutes also authorize investments in banker's acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade, the Maryland Local Government Investment Pool (MLGIP), and money market mutual funds that are registered and operate in accordance with Rule 2a-7 and in accordance with Maryland State Code. State statutes and County policies require that these money market mutual funds invest only in obligations of U.S. Treasuries, U.S. Agencies and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities.

As of June 30, 2005, the County's investments were rated as follows:

	Ratings		
Investment Type	Standard & Poor's	Fitch	Moody's
Repurchase agreements [1]	N/R	N/R	N/R
U.S. Government securities [2]:			
Agency discounts	A-1+	F1+	P-1
Federal Agricultural Mortgage Corp discount notes	N/R	N/R	N/R
Federal National Mortgage Association mortgage backed securities discount notes	N/R	N/R	N/R
Other U.S. Government securities	AAA	AAA	Aaa
Commercial paper [3]	A-1	F1	P-1
Bankers' acceptances [4]	N/R	N/R	N/R
Money market mutual funds	AAA	AAA	Aaa

N/R-Not Rated

1 Disclosure of the credit risk for the County's repurchase agreements are required since the underlying securities are not issued or explicitly guaranteed by the U.S. Government.

2 Only includes securities implicitly guaranteed by the U.S. Government.

3 Not all commercial paper is rated by all agencies. However, each commercial paper is rated by at least one rating agency. Each such rating is of the highest investment grade.

4 While the bankers' acceptances are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the County will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name. County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2005, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. It is the County's policy to diversify by investment type and institution in order to avoid unreasonable risks, with maximum limits as follows:

Diversification by Investment Type	Maximum percent of Portfolio*
U. S. Treasury obligations	100 %
U. S. Government agencies	50
Repurchase agreements	50
Bankers' acceptances	50
Money market mutual fund	25
Local government investment pool	25
Collateralized certificates of deposit**	25
Commercial paper	5

Diversification by Institution	Maximum percent of Portfolio*
Approved broker/dealers	50 %
Money market mutual funds by fund	25
Bankers' acceptances by country	25
Bankers' acceptances by institution	10
Commercial banks (certificates of deposit)**	10
U.S. Government agencies by agency	20

* At time of purchase

** Certificates of deposit are classified as deposits for financial reporting purposes.

As of June 30, 2005, five percent or more of the County's investments, excluding amounts issued or explicitly guaranteed by the U.S. Government, mutual funds, and pooled investments, are invested in:

Issuer	Fair Value
Federal Home Loan Bank	$ 146,650,234
Federal Home Loan Mortgage Corp	46,785,673
Federal National Mortgage Association	81,371,745
JP Morgan	37,341,109
Morgan Stanley	160,632,001
UBS	49,995,342

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2005, are as follows:

Statement of Net Assets
June 30, 2005

Assets:	
Investment in securities, at fair value	$629,457,146
Cash	35,870,174
Total assets and net assets	$665,327,320
Net assets consist of:	
Internal participants' units outstanding ($1.00 par)	$641,053,542
External participants' units outstanding ($1.00 par)	24,273,778
Net assets	$665,327,320
Participants net asset value, offering price and redemption price per share ($665,327,320 / 667,678,183 units)	$ 1.00

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Investment Income *		$ 13,181,581
Distributions to participants:		
Distributions paid and payable		(13,181,581)
Share transactions at net asset value of $1.00 per share:		
Purchase of units	$13,582,300,590	
Redemption of units	(13,470,458,230)	
Net increase in net assets and shares resulting from share transactions		111,842,360
Total increase in net assets		111,842,360
Net assets, July 1, 2004		553,484,960
Net assets, June 30, 2005		$665,327,320

* The pool has no expenses.

3) Major and Nonmajor Fund Deposit and Investment Risks

Primary government (non fiduciary) cash and investments are primarily invested in the County's external investment pool. Major funds with significant cash and investments comprised of other than the external investment pool include the following:

Debt Service Fund - Cash with fiscal agents of $29,731,939 is held for approximately one day in bank accounts that are not in the County's name and are not collateralized. Per the Montgomery County Code, banks receiving County funds in trust, for the purpose of paying principal and interest on bonds or other County obligations, need not furnish security for those funds.

Capital Projects Fund – Cash with fiscal agents of $6,393,738 is held in money market mutual funds.

There are no cash and investments in nonmajor funds with significantly greater risk exposures than those described above or those relating to the external investment pool.

4) Fiduciary Funds

Employees' Retirement System:

Investment Overview

Section 33-61 of the County Code (Code), authorizes the Board of Investment Trustees (Board) (see Note IV-F) to purchase investments with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments shall be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Employees' Retirement System (System) is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by the County, any political subdivision within the County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by the County. Investments in real property are limited to a pooled investment arrangement in which the Board has no power or right to manage the real estate property, provided that the pooled arrangement does not invest more than 10 percent of its assets in real property located in the County.

Credit Risk/Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one organization that represent 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2005, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	$165,585,072	22.83 %
	Unrated	26,892,496	3.71
Foreign Government Obligations	AAA	89,503,655	12.34
	AA	16,383,306	2.26
	A	1,477,406	0.20
	BBB	7,041,913	0.97
	BB	4,015,682	0.55
	B	420,920	0.06
	Unrated	30,934,755	4.26
Asset-Backed Securities	AAA	28,996,110	4.00
	AA	363,634	0.05
	A	674,758	0.09
Commercial Mortgage-Backed Securities	AAA	13,173,740	1.82
	AA	402,430	0.06
Collateralized Mortgage Obligations	AAA	7,016,865	0.97
	Unrated	2,586,385	0.36
Municipal /Provincial Bonds	Unrated	1,143,116	0.16
Corporate Bonds	AAA	9,099,732	1.25
	AA	13,383,469	1.85
	A	29,184,742	4.02
	BBB	32,293,552	4.45
	BB	41,178,112	5.68
	B	37,228,186	5.13
	CCC	467,500	0.06
	Unrated	9,114,964	1.26
Fixed Income Pooled Funds	AA	102,731,385	14.16
Short-term Investments and Other	AA	465,000	0.06
	NA	53,620,750	7.39
Total Fixed Income Securities		$725,379,635	100.00 %

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board’s investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager’s portfolio based on the duration of each manager’s respective benchmark. Duration is a measure of interest rate risk based on a bond price’s sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond’s price would move up/down by 8 percent.

As of June 30, 2005, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	4.54	$ 192,477,568	26.53 %
Foreign Government Obligations	9.74	149,777,637	20.65
Asset-Backed Securities	1.19	30,034,502	4.14
Commercial Mortgage-Backed Securities	3.19	13,576,170	1.87
Collateralized Mortgage Obligations	1.38	9,603,250	1.32
Municipal /Provincial Bonds	N/A	1,143,116	0.16
Corporate Bonds	5.03	171,950,257	23.71
Fixed Income Pooled Funds	1.18	102,731,385	14.16
Short-term Investments and Other	N/A	54,085,750	7.46
Total Fixed Income Securities		$ 725,379,635	100.00 %

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as follows:

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
Japanese Yen	$ 70,719,983	$ -	$ 12,433,716	$ 83,153,699
British Pound Sterling	48,623,164	23,566,631	(14,380,620)	57,809,175
European Currency Unit	71,355,117	43,943,211	(64,101,543)	51,196,785
Swiss Franc	14,014,394	139,376	1,432,306	15,586,076
Australian Dollar	5,545,464	-	8,015,308	13,560,772
Hong Kong Dollar	10,439,142	-	-	10,439,142
Swedish Krona	7,629,866	19,090,677	(18,488,880)	8,231,663
Canadian Dollar	6,411,014	17,800,624	(19,696,645)	4,514,993
South African Rand	3,934,220	-	-	3,934,220
Thai Baht	3,372,338	-	4	3,372,342
Other Currencies	15,118,491	2,329,169	(2,139,162)	15,308,498
Total International Securities	$257,163,193	$106,869,688	$ (96,925,516)	$ 267,107,365

Derivatives

The System invests in derivative instruments on a limited basis in accordance with the Board's policy. During FY05, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchanged-traded future contracts, forward currency contracts, and floating rate securities. Investment managers are specifically prohibited from purchasing securities on margin or leverage. The System entered into these investments either to increase earnings or to hedge against potential losses. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. At June 30, 2005, direct investments in derivatives represented 13.8 percent of the total fair value of the System's portfolio. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures and interest rate swaps. An exchange-traded financial futures contract is a legally-binding agreement to buy or sell a financial instrument in a designated future month at a price agreed upon by the buyer and seller at initiation of the contract. Futures contracts are standardized according to quality, quantity and delivery time. Exchange-traded financial futures are used to adjust asset class exposures to achieve target allocations to U.S. fixed income in the form of U.S. Treasury securities. Futures provide a means to achieve these exposures in a more efficient way and at lower transaction costs. To maintain the target level of exposure to fixed income, U.S. Treasury futures contracts are purchased and sold. As of June 30, 2005, the System held the following futures contracts:

Type	Notional Value	Maturity
Foreign Currency	$ 35,190,535	September 2005
	66,762,107	December 2005
	47,890,659	March 2006
	3,599,813	June 2006
Interest Rate	51,925,323	August 2005
	(19,698,733)	September 2005
	(13,540,671)	December 2005
	13,244,696	March 2006
	1,189,122	June 2006
	(21,835,450)	September 2006
U.S. Government Bond	(34,720,537)	September 2005
	5,630,469	December 2005
Foreign Government Bond	45,183,627	September 2005

Securities Lending

Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. The Board does not restrict the amount of loans the lending agent may make on its behalf. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2005, the fair value of securities on loan was $300,036,600. Cash received as collateral and the related liability of $270,825,841 as of June 30, 2005, is shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $6,289,677 and $5,695,038, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2005:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
U.S. Government Obligations	$ 85,420,501	$ -	$ 87,193,042
Foreign Government Obligations	3,767,570	-	3,935,356
Corporate Bonds	29,065,015	-	29,785,063
Equities	145,250,343	-	149,912,380
Lent for Non-Cash Collateral:			
U.S. Government Obligations	31,527,130	32,311,419	-
Corporate Bonds	2,433,840	2,486,781	-
Equities	2,572,201	2,637,005	-
Total	$300,036,600	$ 37,435,205	$ 270,825,841

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2005, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

Employees' Retirement Savings Plan:

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2005, the fair value of the mutual and commingled investment funds was $69,986,937. The fair value of the investments in international mutual funds was $1,720,879.

Employees' Deferred Compensation Plan:

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2005, the fair value of the mutual and commingled investment funds was $186,691,687. The fair value of the investments in international mutual funds included in the County Plan was $8,849,337.

COMPONENT UNITS

HOC:

At year-end, HOC's cash and investments are significant in relation to the total component unit cash and investments. HOC's cash balances as of June 30, 2005, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

HOC's investment policy which applies to the General Fund, Public Fund and the Opportunity Housing Fund, requires that the majority of HOC's investments must be on a short-term basis (less than one year); however a portion of the portfolio may be invested in investments with longer maturities (up to two years). The investment requirements for the Multi-Family Fund and Single Family Fund are specified within each of the bond trust indentures. The bond trustee is required to invest money in obligations with the objective that sufficient money will be available to pay the interest due on the bonds and will mature or be subject to redemption with the objective that sufficient money will be available for the purposes intended in accordance with the Indenture.

Credit Risk

HOC's investment policy for the General Fund, Public Fund and the Opportunity Housing Fund permits the following investment types: U.S. government and federal agencies; repurchase agreements; banker's acceptances; money market mutual funds; Maryland local government investment pool; Montgomery County investment pool; certificate of deposits and time deposits; and commercial paper. Bankers Acceptances of domestic banks and commercial paper must maintain the highest rating from one of the Nationally Recognized Statistical Rating Organizations (NRSRO) as designated by the SEC or State Treasurer. Repurchase agreements require collateralization at 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities provided the collateral is held by a custodian, other than the seller. Certificates of deposit or time deposits must be collateralized at 102% of the fair value and held by a custodian other than the seller.

HOC invests in the Montgomery County Local Government Investment Pool (County external investment pool) and the Maryland State Local Government Investment Pool (MLGIP). The MLGIP is not subject to regulatory oversight by the SEC, however the MGLIP is operated pursuant to the annotated code of Maryland.

The Single Family and Multi-Family Bond Funds require that the trustee invest moneys on deposit under the indenture in investment obligations as defined by the respective bond indenture agreements. Investment obligations are defined as the following: (i) Government obligations; (ii) bond debentures or other obligation issued by government agencies or corporations; (iii) time deposits or certificate of deposits insured by the Federal Deposit Insurance Corporation; (iv) repurchase agreements backed by obligations described in (i) and (ii) above; (v) investment agreements; (vi) tax exempt obligations; and (vii) money market funds.

Custodial Risk

Amounts held in trust accounts and other demand accounts are covered by federal depository insurance, or collateralized at a level of at least 102% of fair value of principal and accrued interest.

Repurchase agreement collateral for the MLGIP is segregated and held in the name of Mercantile-Safe Deposit and Trust's account at the Federal Reserve Bank.

At June 30, 2005, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value	Less than 1 year
Cash Equivalents:		
General Fund:		
Repurchase agreements	$ 8,000,000	$ 8,000,000
Investment in MLGIP	6,210,370	6,210,370
Money market accounts	5,718,669	5,718,669
Opportunity Housing Fund:		
Investment in County external investment pool	5,250,410	5,250,410
Investment in MLGIP	436,425	436,425
Money market accounts	24,308,519	24,308,519
Public Fund:		
Money market accounts	3,947,717	3,947,717
Investment in MLGIP	4,740,781	4,740,781
Multi-Family Fund - Money market accounts	48,768,232	48,768,232
Single Family Fund - Money market accounts	41,797,669	41,797,669
Total	$149,178,792	$149,178,792
Short-term Investments:		
Opportunity Housing Fund - U.S. Treasury bond	90,483	90,483
Multi-Family Fund - GNMA pool	593,130	593,130
Total	$ 683,613	$ 683,613

Long-Term Investments	Fair Value	1-5 Years	Long-Term	Rating
Long-term Investments:				
Multi-Family Fund:				
U.S. Treasuries	$ 7,964,587	$ -	$ 7,964,587	AAA
Fannie Mae	4,050,980	-	4,050,980	AAA
GNMA pool	84,071,268	46,617,680	37,453,588	AAA
SSB repurchase agreement	2,602,247	-	2,602,247	AAA
Bank One investment agreement	591,525	-	591,525	AA/Aa2
Trinity Plus investment agreement	3,172,670	3,172,670	-	AAA
Freddie Mac	2,654,830	470,645	2,184,185	AAA
Single Family Fund:				
Federal Farm Credit Banks	12,386,421	-	12,386,421	AAA
Federal Home Loan Banks	4,363,400	1,491,747	2,871,653	AAA
U.S. Treasuries	12,288,387	-	12,288,387	AAA
Fannie Mae	1,668,527	-	1,668,527	AAA
Solomon repurchase agreement	2,345,800	-	2,345,800	AA1
Trinity Plus investment agreement	63,942,270	63,942,270	-	AAA
TransAmercia	15,859,233	15,859,233	-	A+
Total	217,962,145	131,554,245	86,407,900	
Cash balances	602,319			
Total cash, cash equivalents and investments	$368,426,869			

B) Receivables

1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2005, reported in the enterprise funds, amounted to:

Liquor	$ 323,700
Solid Waste Activities	48,358
Parking Lot Districts	6,776,091
	$ 7,148,149

2) Due from/to Component Units

The balances at June 30, 2005, were:

Due from Component Units / Due to Primary Government: Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	$ 1,316,837	$ 1,800,000	$ 60,513	$ 1,378,741	$ -	$ 4,556,091
Capital Projects	-	-	-	13,257,693	-	13,257,693
Solid Waste Activities Enterprise	61,849	471	-	1,002	-	63,322
Nonmajor governmental	-	-	-	27,673,177	-	27,673,177
Internal Service	14,429	6,765	3,589	309,041	10,494	344,318
Fiduciary	-	-	8,837	81,544	-	90,381
Total Due to Primary Government	$ 1,393,115	$ 1,807,236	$ 72,939	$ 42,701,198	$ 10,494	$ 45,984,982

Due to Component Units / Due from Primary Government: Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	$ 51,269,480	$ 62,015	$ -	$ 519,501	$ -	$ 51,850,996
Capital Projects	14,069,441	4,931,144	-	9,215	-	19,009,800
Nonmajor governmental	1,348,033	16,502	-	125,326	11,758	1,501,619
Nonmajor Enterprise	569,259	-	-	-	-	569,259
Total Due from Primary Government	$ 67,256,213	$ 5,009,661	$ -	$ 654,042	$ 11,758	$ 72,931,674

In the nonmajor governmental funds, $21,180,563 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of $2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for $1 per year for 83 years. Fund balance has been reserved for the remaining loans.

3) Due From Other Governments

The total amount due from other governments at June 30, 2005, was comprised of the following:

	General	Capital Projects	Solid Waste Activities	Parking Lot Districts	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	$ -	$ 1,410,213	$ 687	$ -	$ 1,519,960	$ 336	$ -	$ 2,931,196
State of Maryland	34,399,560	9,636,384	5,683	-	18,158,687	23,504	43,677	62,267,495
Other	207,572	695,160	138,342	193,364	187,797	19,886	9,211	1,451,332
Total	$ 34,607,132	$ 11,741,757	$ 144,712	$ 193,364	$ 19,866,444	$ 43,726	$ 52,888	$ 66,650,023

B) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004 *	Increases	Decreases	Balance June 30, 2005
Governmental Activities				
Nondepreciable Capital Assets:				
Land	$ 485,901,383	$ 20,536,815	$ 729,079	$ 505,709,119
Construction in progress	233,804,099	108,029,846	214,841,621	126,992,324
Total Nondepreciable Capital Assets	719,705,482	128,566,661	215,570,700	632,701,443
Depreciable Capital Assets:				
Buildings	528,404,040	154,886,754	2,802,789	680,488,005
Improvements other than buildings	45,742,635	634,624	1,708,168	44,669,091
Furniture, fixtures, equipment and machinery	180,835,341	29,797,342	310,557	210,322,126
Leasehold improvements	7,221,582	1,368,706	-	8,590,288
Automobiles and trucks	157,167,181	9,460,821	6,694,917	159,933,085
Infrastructure	1,377,946,353	65,499,809	-	1,443,446,162
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	2,299,396,863	261,648,056	11,516,431	2,549,528,488
Less Accumulated Depreciation for:				
Buildings	187,600,517	17,373,801	2,425,330	202,548,988
Improvements other than buildings	22,181,848	1,419,642	899,862	22,701,628
Furniture, fixtures, equipment and machinery	53,746,062	18,604,753	265,810	72,085,005
Leasehold improvements	315,228	400,268	-	715,496
Automobiles and trucks	75,130,120	12,043,337	6,504,924	80,668,533
Infrastructure	315,467,085	28,983,414	-	344,450,499
Other assets	867,659	207,973	-	1,075,632
Total Accumulated Depreciation	655,308,519	79,033,188	10,095,926	724,245,781
Total Depreciable Assets, net	1,644,088,344	182,614,868	1,420,505	1,825,282,707
Governmental Activities Capital Assets, net	$ 2,363,793,826	$ 311,181,529	$ 216,991,205	$ 2,457,984,150
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	$ 52,777,663	$ -	$ -	$ 52,777,663
Construction in progress	15,382	22,812,762	10,547,828	12,280,316
Total Nondepreciable Capital Assets	52,793,045	22,812,762	10,547,828	65,057,979
Depreciable Capital Assets:				
Buildings	194,588,225	6,126,995	3,643,265	197,071,955
Improvements other than buildings	108,697,664	4,792,340	1,224,465	112,265,539
Furniture, fixtures, equipment and machinery	17,980,417	1,436,030	1,266,930	18,149,517
Automobiles and trucks	3,665,921	42,234	78,021	3,630,134
Total Capital Assets being Depreciated	324,932,227	12,397,599	6,212,681	331,117,145
Less Accumulated Depreciation for:				
Buildings	65,040,927	6,323,986	1,974,046	69,390,867
Improvements other than buildings	89,969,006	2,750,820	1,174,161	91,545,665
Furniture, fixtures, equipment and machinery	11,677,219	1,303,284	1,251,846	11,728,657
Automobiles and trucks	2,482,359	231,499	67,549	2,646,309
Total Accumulated Depreciation	169,169,511	10,609,589	4,467,602	175,311,498
Total Depreciable Assets, net	155,762,716	1,788,010	1,745,079	155,805,647
Business-Type Activities Capital Assets, net	$ 208,555,761	$ 24,600,772	$ 12,292,907	$ 220,863,626

* Certain amounts have been reclassified to conform with the current year presentation.

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:	
General government	$ 8,744,639
Public safety	24,238,249
Public works and transportation	37,924,354
Health and human services	1,111,843
Culture and recreation	5,373,163
Community development and housing	1,420,438
Environment	220,502
Total depreciation expense-governmental activities	$ 79,033,188
Business-type activities:	
Liquor	$ 737,777
Solid waste activities	2,602,717
Parking lot districts	7,217,465
Permitting services	51,630
Total depreciation expense-business-type activities	$ 10,609,589

Construction commitments as of June 30, 2005, are as follows:

General government	$ 12,906,173
Public safety	12,002,406
Public works and transportation	28,277,354
Culture and recreation	24,812,457
Community development and housing	9,072,613
Environment	2,852,639
Total	$ 89,923,642

COMPONENT UNITS

Capital assets of MCPS, amounting to $1,374,379,959 at June 30, 2005, are significant in relation to the total component unit capital assets.

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Governmental Activities				
Nondepreciable capital assets:				
Land	$ 66,547,599	$ 1,127,605	$ 29,956	$ 67,645,248
Construction in progress	95,288,745	113,842,370	81,224,651	127,906,464
Total nondepreciable capital assets	161,836,344	114,969,975	81,254,607	195,551,712
Depreciable capital assets:				
Buildings and improvements	1,485,260,653	78,337,886	1,272,809	1,562,325,730
Site improvements	113,288,489	6,569,500	-	119,857,989
Vehicles and equipment	118,305,277	13,113,387	4,723,429	126,695,235
Total depreciable capital assets	1,716,854,419	98,020,773	5,996,238	1,808,878,954
Less accumulated depreciation for:				
Buildings and improvements	504,460,420	35,857,658	1,116,007	539,202,071
Site improvements	22,239,990	2,740,001	-	24,979,991
Vehicles and equipment	67,284,472	8,945,908	4,577,825	71,652,555
Total accumulated depreciation	593,984,882	47,543,567	5,693,832	635,834,617
Total depreciable capital assets, net	1,122,869,537	50,477,206	302,406	1,173,044,337
Governmental activities capital assets, net	$1,284,705,881	$165,447,181	$ 81,557,013	1,368,596,049
Business-Type Activities				
Depreciable capital assets:				
Buildings	$ 17,831	$ -	$ -	17,831
Vehicles and equipment	16,613,395	1,807,182	42,568	18,378,009
Total depreciable capital assets	16,631,226	1,807,182	42,568	18,395,840
Less accumulated depreciation for:				
Buildings	8,024	1,783	-	9,807
Vehicles and equipment	11,613,311	1,028,907	40,095	12,602,123
Total accumulated depreciation	11,621,335	1,030,690	40,095	12,611,930
Business-type activities capital assets, net	$ 5,009,891	$ 776,492	$ 2,473	5,783,910
Total MCPS government-wide capital assets				$ 1,374,379,959

Depreciation expense of MCPS was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	$ 39,485,723
Special education	297,203
School administration	31,187
Student personnel services	1,936
Student transportation	6,087,767
Operation of plant	185,081
Maintenance of plant	460,931
Administration	993,739
Total depreciation expense-governmental activities	$ 47,543,567
Business-type activities:	
Food services	$ 1,016,862
Adult education and summer entrepreneurial	8,830
Real estate management	4,998
Total depreciation expense-business type activities	$ 1,030,690

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2005, is as follows:

	Due From Fund					
Due To Fund	General	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
General	$ -	$ 1,268	$ -	$ 2,920,801	$ 4,066,455	$ 6,988,524
Debt Service	28,526,469	-	1,189,880	-	-	29,716,349
Capital Projects	75,382,242		3,207,535	66,372	71,630	78,727,779
Liquor	-	2,137	-	137,874	108,623	248,634
Solid Waste Activities	-	-	-	46,364	54,693	101,057
Parking Lot Districts	-	954	-	15,927	16,899	33,780
Nonmajor Governmental	-	185	-	1,121,074	1,480,518	2,601,777
Nonmajor Enterprise	-	-	-	122,293	180,261	302,554
Internal Service	369,000	-	-	119,848	105,128	593,976
Fiduciary	-	-	-	1,946	532	2,478
Total	$ 104,277,711	$ 4,544	$ 4,397,415	$ 4,552,499	$ 6,084,739	$ 119,316,908

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY06:

- $28.0 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and to lag time between programming and collection of certain impact taxes;
- $28.5 million to the Debt Service Fund relating to a debt service payment due on the first day of the next fiscal year, that must be remitted to the County's fiscal agent one working day prior to the debt service due date; and
- $.369 million to the Central Duplicating Internal Service Fund to offset cash deficits.

Remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2005, consisted of the following:

	Transfers In Fund							
		Debt	Capital	Parking	Nonmajor	Nonmajor	Internal	
Transfers Out Fund	General	Service	Projects	Lot Districts	Governmental	Enterprise	Service	Total
General	$ -	$ 186,529,027	$ 19,027,068	$ 6,102,783	$ 23,733,932	$ 5,000	$ 605,796	$ 236,003,606
Debt Service	-	-	2,369,863	-	-	-	-	2,369,863
Liquor	20,503,510	-	-	-	-	-	-	20,503,510
Solid Waste Activities	1,654,530	-	-	-	-	-	-	1,654,530
Parking Lot Districts	1,913,440	-	5,827	-	8,787,401	-	-	10,706,668
Nonmajor Governmental	10,334,120	15,242,200	5,239,233	-	1,343,073	-	615,377	32,774,003
Nonmajor Enterprise	3,031,330	-	-	-	-	-	13,673	3,045,003
Internal Service Funds	-	-	-	-	40,500	-	-	40,500
Total	$ 37,436,930	$ 201,771,227	$ 26,641,991	$ 6,102,783	$ 33,904,906	$ 5,000	$ 1,234,846	$ 307,097,683

Primary activities include:

- Transfers from the General and various non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipt and pay-go funding from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfer of certain revenues in excess of statutory formulas from the General Fund to the Revenue Stabilization Special Revenue Fund.

Included in the amounts above is $11,874,700 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program.

Nonmajor governmental transfers in, include $40,500 in capital asset contributions to the Mass Transit program (a special revenue fund) of the general government. Such amounts are treated as governmental transfers for government-wide purposes. At the fund level, the contribution is reported as a transfer out in the Motor Pool Internal Service Fund, but is not reported in the Mass Transit Special Revenue Fund, in accordance with generally accepted accounting principles. Therefore, nonmajor governmental transfers in reported in the schedule above will not agree to the Other Governmental Funds transfers in reported in the accompanying financial statements.

Transfers at the government-wide financial statement level include $5,902,942 associated with the General Fund and Silver Spring Parking Lot District (SSPLD) relating to general governmental capital lease obligations for capital assets accounted for in the SSPLD. At the fund level, such transfers are classified as capital contributions in the SSPLD, and expenditures and an other financing source in the General Fund, in accordance with generally accepted accounting principles (see Note III-E3).

E) Leases

1) Operating Leases

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 $10,852,000 for FY05. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2006	$12,578,000
2007	10,415,000
2008	9,777,000
2009	8,872,000
2010	7,890,000
2011 - 2015	18,836,000
2016	466,000
Total	$68,834,000

2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F5), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. Separate lease agreements were executed in conjunction with each bond issue. The leases associated with the 2002 and 2004 bond issues have original terms of 22 years and 20 years, respectively, both ending on June 1, 2024.

The composition of the capital lease receivable is as follows:

	Shady Grove	Grosvenor	Total
Minimum lease payments receivable	$ 31,608,026	$31,079,198	$ 62,687,224
Unearned lease income	(10,790,416)	(10,621,808)	(21,412,224)
Net investment in direct financing leases	$ 20,817,610	$20,457,390	$ 41,275,000

At June 30, 2005, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2006	$ 3,292,757
2007	3,294,214
2008	3,292,339
2009	3,295,276
2010	3,294,214
Later years	46,218,424
Total minimum lease payments	$ 62,687,224

3) Capital Lease Obligations

The County has entered into various lease agreements as lessee with the Montgomery County Revenue Authority (MCRA) for financing the construction or acquisition of certain County facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception dates of the leases.

The assets acquired and placed in service through MCRA capital leases are as follows:

Land	$ 13,449,033
Land improvements	182,516
Buildings	34,302,177
Furniture, fixtures, equipment and machinery	159,291
Subtotal	48,093,017
Less accumulated depreciation	(14,575,912)
Total asset value under capital leases	$ 33,517,105

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, are as follows:

Fiscal Year Ending June 30	
2006	$ 3,794,725
2007	3,763,272
2008	3,745,638
2009	3,359,503
2010	3,369,600
2011-2015	11,436,539
2016-2020	6,267,275
2021-2023	2,985,500
Total minimum lease payments	38,722,052
Less: amount representing interest	(11,397,052)
Present value of minimum lease payments	$ 27,325,000

Included in the schedules above are amounts relating to the Montgomery County Conference Center, which was opened during FY05. The Maryland Stadium Authority (MSA) also participated in financing the construction through the issuance of long-term debt. The County recognized the MSA contribution of $19,719,328 as revenue when the Conference Center opened. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term.

The County has also entered into a lease agreement as lessee with MCRA to lease from MCRA the Germantown Indoor Swim Center. The construction of the Germantown Swim Center, which is still in progress, is being funded through the issuance of lease revenue bonds by MCRA. The ownership of the Germantown Swim Center will transfer to the County at the end of the MCRA lease term. Bond funded costs incurred as of year-end totaling $11,916,313 are recorded as construction-in-progress.

Since construction of the Germantown Swim Center is not yet complete, the asset and liability presented in the Statement of Net Assets do not equal the total present value of minimum lease payments presented below.

Fiscal Year Ending June 30	
2006	$ 1,833,075
2007	1,833,825
2008	1,832,075
2009	1,834,950
2010	1,834,200
2011-2015	9,173,400
2016-2019	7,336,800
Total minimum lease payments	25,678,325
Less: amount representing interest	(7,023,325)
Present value of minimum lease payments	$18,655,000

The County has entered into a lease agreement as lessee with the Maryland Economic Development Corporation (MEDCO) to lease from MEDCO the Town Square Garage 61 and Wayne Avenue Garages, located in the Silver Spring Parking Lot District (SSPLD). The construction of these garages is being funded through the issuance of lease revenue bonds by MEDCO. The ownership of the garages will transfer to the County at the end of the lease term. Although this capital lease is a general governmental obligation, the asset is reflected in the SSPLD, as required by law, and is offset by a capital contribution. For government-wide financial statement purposes, the capital lease obligation in the governmental activities and capital asset in the business-type activities are offset by transfers out and transfers in, respectively, since any amounts that ultimately may be repaid by the SSPLD are not expected to be repaid within a reasonable time.

The assets acquired through this capital lease are as follows:

	Town Square	Wayne Avenue	Total
Buildings	$24,409,836	$ 25,976,677	$50,386,513
Less accumulated depreciation	(813,661)	(938,047)	(1,751,708)
Total asset value under capital leases	$23,596,175	$ 25,038,630	$48,634,805

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, are as follows:

Fiscal Year Ending June 30	Town Square	Wayne Ave	Total
2006	$ 2,485,201	$ 3,373,788	$ 5,858,989
2007	2,485,804	3,376,563	5,862,367
2008	2,482,246	3,108,763	5,591,009
2009	2,477,591	3,075,925	5,553,516
2010	2,476,852	3,113,475	5,590,327
2011-2015	12,303,993	15,494,669	27,798,662
2016-2017	4,886,845	6,187,505	11,074,350
Total minimum lease payments	29,598,532	37,730,688	67,329,220
Less: amount representing interest	(6,218,532)	(9,080,688)	(15,299,220)
Present value of minimum lease payments	$ 23,380,000	$ 28,650,000	$ 52,030,000

F) Long-Term Debt

PRIMARY GOVERNMENT

1) General Obligation Bonds Payable

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) Community College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Public Housing Facilities, and (9) Parking Facilities. All bonds are valid and legally binding general obligations of the County, and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County.

General obligation bonds that are reported in the Solid Waste Activities Enterprise Fund are payable first from revenues of that fund.

Proceeds from general obligation bonds for public schools and the community college are appropriated by the County Council to MCPS and MCC (component units), respectively, and remitted to such component units by the County. For GAAP purposes, proceeds from debt issuance for these purposes and any related expenditures incurred and reimbursed to the component units are reflected as other financing sources and expenditures, respectively, in the accompanying fund financial statements. These amounts are not budgeted by the County since this activity is appropriated for budget purposes to the component units. Any general obligation bond proceeds, not yet expended by the component units at year end, is reflected as Reserved Fund Balance of the Capital Projects Fund.

On September 28, 2004, the County issued $97,690,000 in general obligation refunding bonds dated August 15, 2004. These bonds were issued with a true interest cost of 3.72%, to current refund $95,750,000 of general obligation (GO) refunding bonds that were previously issued. A detailed listing of these refunded bonds is as follows:

	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
GO Bonds	4/15/97	1998-17	5.3226%	$ 115,000,000	2009 2016-17	$ 17,250,000
GO Bonds	4/1/98	1999-18	4.7607%	115,000,000	2010 2013-17	34,500,000
GO Bonds	4/1/99	2000-19	4.4760%	120,000,000	2012 2014-18	36,000,000
GO Bonds	2/1/02	2003-22	4.4619%	160,000,000	2018	8,000,000
				$ 510,000,000		$ 95,750,000

The net proceeds of the general obligation refunding bonds were used to purchase direct obligations, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the United States of America. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds that were refunded. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by $8,494,368. This amount is being netted against the new debt and amortized over the remaining life of the new debt.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2005	$ 4,549,062	$ 1,879,488	$ 2,669,574
2006	4,749,063	4,422,325	326,738
2007	4,749,063	4,422,325	326,738
2008	4,749,063	4,422,325	326,738
2009	10,499,062	8,717,200	1,781,862
2010	10,190,000	10,185,950	4,050
2011	4,159,687	4,157,725	1,962
2012	10,159,687	10,157,100	2,587
2013	9,624,688	9,620,075	4,613
2014	15,344,375	15,343,700	675
2015	14,779,063	14,776,363	2,700
2016	19,963,750	19,963,650	100
2017	19,089,375	19,085,987	3,388
2018	14,700,000	14,695,788	4,212
Total	$147,305,938	$ 141,850,001	$ 5,455,937

The present value of the above debt service savings (or economic gain) is $3,325,787.

On June 28, 2005, the County issued $120,355,000 in general obligation refunding bonds dated June 1, 2005. These bonds were issued with a true interest cost of 3.78%, to current refund $122,250,000 of general obligation (GO) refunding bonds that were previously issued. A detailed listing of these refunded bonds is as follows:

	Dated Date	Original Maturity	True Interest Cost	Originally Issued	Years Refunded	Amount Refunded
GO Bonds	4/1/98	1999-18	4.7607%	$ 115,000,000	2018	$ 5,750,000
GO Bonds	4/1/99	2000-19	4.4760%	120,000,000	2019	6,000,000
GO Bonds	1/1/00	2001-20	5.4850%	130,000,000	2012	6,500,000
GO Bonds	2/1/01	2002-21	4.5447%	140,000,000	2014-21	56,000,000
GO Bonds	2/1/02	2003-22	4.4619%	160,000,000	2016-17 2019-22	48,000,000
				$ 665,000,000		$ 122,250,000

The net proceeds of the general obligation refunding bonds were used to purchase direct obligations, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the United States of America. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds that were refunded. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by $11,689,066. This amount is being netted against the new debt and amortized over the remaining life of the new debt.

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings
2005	$ -	$ (451,331)	$ 451,331
2006	6,051,563	3,510,354	2,541,209
2007	6,051,563	6,017,750	33,813
2008	6,051,563	6,017,750	33,813
2009	6,051,562	6,017,750	33,812
2010	6,051,562	6,017,750	33,812
2011	6,051,562	6,017,750	33,812
2012	12,551,563	12,043,250	508,313
2013	5,710,312	5,708,750	1,562
2014	12,710,313	12,202,250	508,063
2015	12,377,812	11,869,250	508,562
2016	20,045,313	19,541,000	504,313
2017	19,312,812	18,807,250	505,562
2018	16,330,313	15,825,625	504,688
2019	23,950,000	23,444,875	505,125
2020	16,900,000	16,391,500	508,500
2021	16,150,000	15,642,125	507,875
2022	8,400,000	7,892,500	507,500
Total	$ 200,747,813	$192,516,148	$ 8,231,665

The present value of the above debt service savings (or economic gain) is $4,591,792.

In November 2001, $143,000,000 in general obligation bonds, which mature in FY09 and beyond, were defeased. In November 2002, $95,750,000 in general obligation bonds, which mature in FY07 and beyond, were defeased. These defeasances were affected by placing the proceeds of general obligation refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. As of June 30, 2005, $122,250,000, and $35,750,000 respectively, in general obligation bonds referred to above are considered to be defeased.

General obligation bond issues outstanding as of June 30, 2005, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2005	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2005
04/01/86	1987-06	5.8 - 6.3	$ 50,000,000	$ 2,500,000	$ -	$ -	$ 2,500,000
07/01/92 *	1993-10	2.75 - 5.8	273,038,054	94,518,054	-	-	94,518,054
10/01/94	1995-08	5.2 - 6.125	100,000,000	5,000,000	-	-	5,000,000
03/15/96	1997-16	5.1 - 5.5	120,000,000	12,000,000	-	-	12,000,000
04/15/97	1998-17	5.0 - 5.375	115,000,000	17,250,000	-	-	17,250,000
01/01/98 *	2003-15	3.9 - 5.25	69,510,000	68,275,000	-	-	68,275,000
04/01/98	1999-18	4.875	115,000,000	23,000,000	-	-	23,000,000
04/01/99	2000-19	4.0 - 5.0	120,000,000	36,000,000	-	-	36,000,000
01/01/00	2001-20	5.0 - 6.0	130,000,000	39,000,000	-	-	39,000,000
02/01/01	2002-21	4.0 - 5.0	140,000,000	56,000,000	-	-	56,000,000
11/15/01 *	2003-19	3.6 - 5.25	146,375,000	138,595,000	6,122,645	(7,843,355)	136,874,290
02/01/02	2003-22	3.0 - 5.0	160,000,000	80,000,000	1,746,565	-	81,746,565
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	93,595,000	6,323,427	(4,780,371)	95,138,056
05/01/03	2004-23	1.5 - 4.0	155,000,000	139,500,000	1,126,811	-	140,626,811
05/01/03*	2004-11	2.0 - 5.0	49,505,000	45,060,000	2,708,019	(1,225,801)	46,542,218
03/15/04	2005-24	3.0 - 5.0	154,600,000	146,870,000	9,472,432	-	156,342,432
08/15/04*	2008-17	3.0 - 5.25	97,690,000	97,690,000	6,358,360	(7,784,380)	96,263,980
05/15/05	2006-25	4.0 - 5.0	200,000,000	200,000,000	14,465,092	-	214,465,092
06/01/05*			120,355,000	120,355,000	14,147,935	(11,614,061)	122,888,874
Total			$ 2,409,668,054	$ 1,415,208,054	$ 62,471,286	$ (33,247,968)	$ 1,444,431,372

* Issue represents refunding bonds.

** GAAP require amortization of premiums and issue costs to occur prospectively, beginning with the year of implementation. As a result, unamortized premiums and issue costs for issues prior to FY02, are not reflected above.

Changes in general obligation bonds during FY05 are as follows:

	Balance July 1, 2004	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2005
Governmental Activities:					
General County	$ 210,124,080	$ 77,587,027	$ 16,705,311	$ 36,626,825	$ 234,378,971
Roads and Storm Drainage	330,186,668	107,839,607	30,930,689	50,672,000	356,423,586
Parks	43,290,733	18,931,200	3,559,291	5,443,675	53,218,967
Public Schools	669,568,960	181,864,529	56,510,941	115,271,369	679,651,179
Community College	42,008,469	20,059,440	2,843,202	5,321,131	53,903,576
Consolidated Fire Tax District	17,059,709	9,016,955	1,513,336	3,130,000	21,433,328
Mass Transit	16,332,736	2,746,242	2,252,706	1,535,000	15,291,272
Public Housing	1,098,568	-	247,905	-	850,663
	1,329,669,923	418,045,000	114,563,381	218,000,000	1,415,151,542
Business-Type Activities/Enterprise Funds:					
Solid Waste Activities:					
General County	108,131	-	51,619	-	56,512
	108,131	-	51,619	-	56,512
Total	$ 1,329,778,054	$ 418,045,000	$ 114,615,000	$ 218,000,000	$ 1,415,208,054

For the general obligation bonds carried in the enterprise funds, $51,618 from the Solid Waste Activities Fund is classified as a current liability.

General obligation bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	General Obligation Bond Requirements Principal	Interest	Total
2006	$ 121,320,000	$ 62,996,099	$ 184,316,099
2007	121,210,000	59,445,627	180,655,627
2008	120,940,000	53,663,590	174,603,590
2009	99,786,683	60,498,882	160,285,565
2010	98,387,086	51,784,454	150,171,540
2011-2015	430,624,285	156,225,687	586,849,972
2016-2020	296,185,000	63,786,243	359,971,243
2021-2025	126,755,000	13,730,152	140,485,152
Total	$ 1,415,208,054	$ 522,130,734	$1,937,338,788

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6 percent of the assessable base of real property and 15 percent of the assessable base of personal property and operating real property. The legal debt margin as of June 30, 2005, is $5,065,888,861.

General obligation bonds authorized and unissued as of June 30, 2005, are as follows:

Purpose	Authority Chapter	Authority Act	Authority Amount	Amount Unissued
General County, Parks, and	22	2000	$ 78,300,000	$ 1,690,000
Consolidated Fire Tax District	17	2001	35,200,000	35,200,000
	21	2002	4,700,000	4,700,000
	17	2003	63,600,000	63,600,000
	18	2004	31,200,000	31,200,000
			213,000,000	136,390,000
Roads and Storm Drainage	21	2002	34,800,000	33,240,000
	17	2003	1,700,000	1,700,000
	18	2004	97,500,000	97,500,000
			134,000,000	132,440,000
Public Schools and	21	2002	104,800,000	26,768,000
Community College	17	2003	52,400,000	52,400,000
	18	2004	145,000,000	145,000,000
			302,200,000	224,168,000
Mass Transit	17	2001	6,700,000	5,605,000
	21	2002	1,600,000	1,600,000
	17	2003	900,000	900,000
			9,200,000	8,105,000
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	855,000	855,000
			5,630,000	5,570,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$ 677,345,000	$ 514,803,000

In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

2) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to provide funds for the Bethesda Parking Lot District, the Silver Spring Parking Lot District, and the Solid Waste Disposal activities. These revenue bonds are secured by pledges of the respective funds.

Revenue bond issues outstanding as of June 30, 2005, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2005	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2005
Parking Revenue Refunding 2002:								
Bethesda Parking Lot District	05/01/02	2003-09	3.00 - 5.00	$ 14,560,000	$ 7,925,000	$ 98,203	$ (203,341)	$ 7,819,862
Silver Spring Parking Lot District	05/01/02	2003-09	3.00 - 5.00	12,130,000	6,050,000	88,243	(148,016)	5,990,227
Parking Revenue 2002A:								
Bethesda Parking Lot District	06/01/02	2003-21	3.00 - 4.75	26,000,000	22,995,000	(20,278)	-	22,974,722
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	25,685,000	980,573	(1,073,521)	25,592,052
Total				$ 83,765,000	$ 62,655,000	$ 1,146,741	$ (1,424,878)	$ 62,376,863

Changes in revenue bond principal during FY05 are as follows:

`	Balance July 1, 2004	Bonds Issued	Bonds Retired	Balance June 30, 2005
Bethesda Parking Lot District	$ 34,235,000	$ -	$ 3,315,000	$ 30,920,000
Silver Spring Parking Lot District	8,160,000	-	2,110,000	6,050,000
Solid Waste Disposal	28,520,000	-	2,835,000	25,685,000
Total	$ 70,915,000	$ -	$ 8,260,000	$ 62,655,000

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Silver Spring Parking Lot District	
	Principal	Interest	Principal	Interest
2006	$ 3,430,000	$ 1,282,102	$ 2,180,000	$ 244,288
2007	3,550,000	1,168,027	2,265,000	173,438
2008	2,595,000	1,043,778	780,000	60,187
2009	2,730,000	930,678	825,000	30,937
2010	1,200,000	821,478	-	-
2011-2015	6,830,000	3,338,707	-	-
2016-2020	8,600,000	1,711,170	-	-
2021	1,985,000	94,288	-	-
Total	$30,920,000	$ 10,390,228	$ 6,050,000	$ 508,850

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
2006	$ 2,920,000	$ 1,092,300	$ 8,530,000	$ 2,618,690	$ 11,148,690
2007	3,005,000	1,004,700	8,820,000	2,346,165	11,166,165
2008	3,160,000	854,450	6,535,000	1,958,415	8,493,415
2009	3,255,000	751,750	6,810,000	1,713,365	8,523,365
2010	3,420,000	589,000	4,620,000	1,410,478	6,030,478
2011-2015	9,925,000	913,750	16,755,000	4,252,457	21,007,457
2016-2020	-	-	8,600,000	1,711,170	10,311,170
2021	-	-	1,985,000	94,288	2,079,288
Total	$25,685,000	$ 5,205,950	$ 62,655,000	$ 16,105,028	$ 78,760,028

Revenue bonds authorized and unissued as of June 30, 2005, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 42,088,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Total			$143,098,000	$ 57,343,000

Restricted assets related to these revenue bonds, classified as "Investments" or "Equity in Pooled Cash and Investments" for statement of net asset purposes, include the following:

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	$ 830,117	$ 1,104,133	$ -
Debt Service Account - Used to pay debt service on bonds	392,675	202,024	-
Debt Service Reserve Account (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available in the Debt Service Account	-	-	3,215,206
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	2,445,501
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	22,819,080
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	2,749,000
Total	$ 2,722,792	$ 2,806,157	$ 31,228,787

In lieu of Debt Service Reserve Accounts, the 2002 Series Parking Refunding Bonds and the 2002 Series A Parking Revenue Bonds are being secured with a municipal bond insurance policy. The County is in compliance with all significant financial bond covenants.

3) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY05 are as follows:

	Balance July 1, 2004	BANs Issued	BANs Retired	Balance June 30, 2005
BAN Series 2002-D	$ 35,000,000	$ -	$ 35,000,000	$ -
BAN Series 2002-E	115,000,000	-	115,000,000	-
BAN Series 2002-F	-	50,000,000	50,000,000	-
Total	$ 150,000,000	$ 50,000,000	$ 200,000,000	$ -

BAN Notes, Series 2002-D, Series 2002-E, and Series 2002-F, totaling $200,000,000 were retired on May 26, 2005 with proceeds from general obligation bonds dated May 15, 2005.

The interest rate changes based on market conditions. During FY05, the rate of interest varied from 1.04 to 3.05 percent. Interest earned on BAN proceeds totaled $882,283 during FY05, which was accounted for in the Debt Service Fund.

BANs totaling $50 million were issued during FY05 at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002, and was amended on July 16, 2002, July 29, 2003, and July 27, 2004 to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY06, and intends to use the proceeds for capital construction and improvements. In connection with these BANs, the County entered into a line of credit agreement on June 15, 2005, with Fortis Bank S.A./N.V., acting through its Connecticut branch, under which the County may borrow, on a revolving basis, up to $300 million to pay the principal on the notes, and up to $22,191,781 to pay the interest. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this line of credit. Because the County entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as noncurrent liabilities at year-end.

Per Resolution No. 14-1307 dated June 11, 2002, Resolution No. 14-1374 dated July 16, 2002, Resolution No. 15-318 dated July 29, 2003, and Resolution No. 15-729 dated July 27, 2004, the amount of BANs authorized and unissued as of June 30, 2005, is $504,403,000.

4) <u>Certificates of Participation</u>

In June 2001, the County issued Certificates of Participation (certificates) for its Equipment Acquisition Program dated June 1, 2001, in the amount of $54.66 million. The certificates represent proportionate interests in a Conditional Purchase Agreement (CPA) between the County, as purchaser, and Wachovia Bank (formerly First Union National Bank), as seller, for the acquisition of certain equipment to be used in the public safety and public transportation programs of the County. The CPA requires the County, as purchaser, to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County may terminate the CPA at the end of the last fiscal year or earlier date for which an appropriation is available if sufficient funds are not appropriated for any fiscal year. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or a charge against the general credit or taxing powers of the County.

The certificates were issued at interest rates ranging from 4 to 4.5 percent and have a maturity schedule as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2006	$ 9,780,000	$ 440,100	$ 10,220,100

5) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of $37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. WMATA's obligation to make payments under the leases are payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund of $3,349,477, included in Capital Projects Fund cash with fiscal agents in the accompanying financial statements, is less that the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

The County issued $4,745,000 in lease revenue bonds (Metrorail Garage Projects) on September 1, 2004. The bonds were issued due to certain cost increases incurred since the issuance of the Series 2002 Bonds. The County needed an additional $2,100,000 to complete construction of the Shady Grove Metro Garage and an additional $2,110,000 to complete construction of the Grosvenor Metro Garage. The Series 2004 bonds were delivered on September 28, 2004. The lease has a term of 20 years ending in June 1, 2024.

Lease Revenue Bonds outstanding as of June 30, 2005, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2005	Unamortized Premium	Carrying Value June 30, 2005
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	$ 37,880,000	$ 36,680,000	$ 123,503	$ 36,803,503
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	4,595,000	24,469	4,619,469
Total				$ 42,625,000	$ 41,275,000	$ 147,972	$ 41,422,972

Lease revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Lease Revenue Bond Requirements Principal	Interest	Total
2006	$ 1,485,000	$ 1,807,758	$ 3,292,758
2007	1,535,000	1,759,214	3,294,214
2008	1,585,000	1,707,339	3,292,339
2009	1,645,000	1,650,277	3,295,277
2010	1,705,000	1,589,214	3,294,214
2011-2015	9,640,000	6,856,319	16,496,319
2016-2020	12,015,000	4,594,255	16,609,255
2021-2024	11,665,000	1,447,850	13,112,850
Total	$ 41,275,000	$21,412,226	$62,687,226

6) State MICRF Loan

In September 1998, the County entered into a $1,800,000 long-term loan agreement with the Maryland Industrial and Commercial Redevelopment Fund (MICRF). In accordance with terms of the loan, the proceeds have been reloaned to a private corporation for purposes of renovation and relocation of facilities to the County. After fulfilling the necessary requirements, $150,000 of the loan was converted to a State grant during FY02. Although it is expected that the County's loan with MICRF will be repaid by loan repayments received from the private user, through the Economic Development Special Revenue Fund, the County's loan is a full faith and credit obligation of the County. The principal amount payable at June 30, 2005, for this loan is $1,198,385.

7) Taxable Term Loans

During FY04, the County entered into two taxable term loan agreements with Wachovia Bank. The first term loan of $4,000,000, which commenced on February 2, 2004, was used to finance the purchase of the Kay property in Germantown, which will be used for development of a biotechnology and information technology business park. The repayment period is 5 years, requiring semi-annual payments of principal and interest at 3.24 percent. The second term loan of $1,332,000, which commenced on March 30, 2004, was used to purchase kitchen and audio-visual equipment to be used in the County's conference center project which opened in November 2004. The repayment period is 5 years, requiring semi-annual payments of principal and interest at 2.91 percent. The principal amount payable at June 30, 2005, for this loan is $4,315,715.

8) HUD Loan

During 2002, the County Council authorized the Department of Housing and Community Affairs (DHCA) to participate in the HUD Section 108 program for the purpose of acquiring twenty-one units at the Chelsea Tower which provides affordable housing for income qualified persons. On July 16, 2003, the County signed a loan agreement with HUD in the amount of $870,000. The County subsequently received approval from the County Council to disburse and re-loan these funds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, the principal of $870,000 with interest thereon on a semi-annual basis at 4.59 percent over a twenty year period, which is consistent with the HUD repayment terms. The principal amount payable at June 30, 2005, for this loan is $827,000.

9) Due to Component Unit – HOC Loan

On March 31, 2003, with the assistance of HOC, the County acquired the former Econo Lodge in Gaithersburg to convert it to a facility providing housing for eligible families and individuals. A portion of the funding for the acquisition, $2.55 million, came from the HOC MPDU/Property Acquisition Fund. The County used this interim financing source until a permanent financing source could be identified. The County repaid HOC in June 2005.

10) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

Governmental Activities	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due within one year
Bonds and Notes Payable:					
General obligation bonds	$ 1,329,669,923	$ 418,045,000	$ (332,563,381)	$ 1,415,151,542	$ 121,268,382
Bond anticipation notes	150,000,000	50,000,000	(200,000,000)	-	-
Lease revenue bonds	37,880,000	4,745,000	(1,350,000)	41,275,000	1,485,000
State MICRF loan	1,270,924	-	(72,539)	1,198,385	75,250
Equipment notes	873,167	6,091,376	(532,114)	6,432,429	1,584,818
Taxable term loans	5,332,000	-	(1,016,285)	4,315,715	1,028,105
HUD loan	870,000	-	(43,000)	827,000	43,000
Subtotal	1,525,896,014	478,881,376	(535,577,319)	1,469,200,071	125,484,555
Add remaining original issue premium	32,545,879	35,843,146	(5,769,767)	62,619,258	-
Less deferred amount on refundings	(16,346,812)	(20,183,434)	3,282,278	(33,247,968)	-
Total Bonds and Notes Payable	1,542,095,081	494,541,088	(538,064,808)	1,498,571,361	125,484,555
Other Liabilities:					
Certificates of participation	19,215,000	-	(9,435,000)	9,780,000	9,780,000
Due to component units - HOC loan	2,550,000	-	(2,550,000)	-	-
Compensated absences	47,765,576	38,645,017	(35,077,409)	51,333,184	38,499,888
Capital leases	69,173,538	21,931,045	(7,135,000)	83,969,583	7,010,000
Claims and judgments	5,246,000	-	(4,046,000)	1,200,000	1,200,000
Total Other Liabilities	143,950,114	60,576,062	(58,243,409)	146,282,767	56,489,888
Governmental Activities Long-Term Liabilities	$ 1,686,045,195	$ 555,117,150	$ (596,308,217)	$ 1,644,854,128	$ 181,974,443
Business-Type Activities					
General Obligation Bonds:					
Solid waste disposal	$ 108,131	$ -	$ (51,619)	$ 56,512	$ 51,618
Revenue Bonds:					
Parking revenue bonds	42,395,000	-	(5,425,000)	36,970,000	5,610,000
Solid waste disposal revenue refunding bonds	28,520,000	-	(2,835,000)	25,685,000	2,920,000
Subtotal	71,023,131	-	(8,311,619)	62,711,512	8,581,618
Add remaining original issue premium	1,529,343	-	(362,324)	1,167,019	-
Less remaining original issue discount	(22,535)	-	2,257	(20,278)	-
Less deferred amount on refundings	(1,911,372)	-	486,494	(1,424,878)	-
Total General Obligation and Revenue Bonds	70,618,567	-	(8,185,192)	62,433,375	8,581,618
Other Liabilities:					
Compensated absences	3,597,099	366,592	(38,334)	3,925,357	2,944,018
Notes payable	800,000	-	(800,000)	-	-
Landfill closure costs	22,458,523	650,000	(1,000,000)	22,108,523	1,683,000
Total Other Liabilities	26,855,622	1,016,592	(1,838,334)	26,033,880	4,627,018
Business-Type Activities Long-Term Liabilities	$ 97,474,189	$ 1,016,592	$ (10,023,526)	$ 88,467,255	$ 13,208,636

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $1,328,861 ($996,646 due within one year, and $332,215 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

11) Conduit Debt Obligations

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County has issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring facilities for third party facility users or of refunding outstanding bonds. Facility users may be individuals, public or private corporations, or other entities. The bonds are secured by the facilities financed and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2005, there were 41 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 24 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2005, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $210,850,000. The principal amount payable at June 30, 2005, for bonds issued after July 1, 1996, totaled $335,324,191.

12) Special Taxing Districts

The County has three development districts: Kingsview Village Center, West Germantown, and Clarksburg Town Center. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, Montgomery County Development District Act enacted in 1994. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas with high priority for new development or redevelopment.

Pursuant to Chapter 14, special taxes and/or assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective district. Any bond issued under Chapter 14 is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements.

In December 1999, the County issued $2.4 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessment were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds for the West Germantown Development District. The County issued $11,600,000 of Senior Series 2002A bonds and $4,315,000 of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt. Bonds have not yet been issued for the Clarksburg Town Center development district.

Pursuant to Section 2.07 (g) of the West Germantown Bond Indenture, upon the satisfaction of certain assessed value requirements which were met, the holders of the Junior Series 2002B bonds requested that the County issue additional bonds in exchange for the Junior Series 2002B bonds. The additional bonds, which were issued in FY05, are on a parity with the Series 2002A bonds (i.e., they are senior lien bonds) and have the same terms and conditions as the Series 2002B bonds.

The County was petitioned by property owners to form two additional development districts in the Clarksburg area, Clarksburg Village and Clarksburg Skylark (currently marketed as Greenway Village). These districts are in the evaluation phase.

COMPONENT UNITS

At June 30, 2005, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	$ 14,373,626	$596,119,860	$ 610,493,486
Capital leases payable	1,712	19,976,234	19,977,946
Notes payable	6,902,438	92,311,724	99,214,162
Total	$ 21,277,776	$708,407,818	$ 729,685,594

HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding as follows:

Purpose	
Multi-Family Mortgage Purchase Program Fund	$ 393,065,386
Single Family Mortgage Purchase Program Fund	217,428,100
Total	$ 610,493,486

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 1.0 to 11.25 percent and 1.1 to 8.5 percent, respectively, as of June 30, 2005.

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. The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year	Guaranteed Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2006	$ 290,000	$ 565,542	$ 855,542
2007	300,000	554,542	854,542
2008	310,000	542,798	852,798
2009	325,000	530,498	855,498
2010	340,000	517,478	857,478
2011-2015	1,515,000	2,357,612	3,872,612
2016-2020	2,880,000	2,091,075	4,971,075
2021-2025	-	1,371,065	1,371,065
2026-2030	5,430,000	822,639	6,252,639
Total	$ 11,390,000	$ 9,353,249	$ 20,743,249

The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

Fiscal Year	Total Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2006	$ 14,373,626	$ 23,399,289	$ 37,772,915
2007	9,892,483	23,447,059	33,339,542
2008	11,256,619	23,167,600	34,424,219
2009	11,765,644	22,867,183	34,632,827
2010	12,339,560	22,519,549	34,859,109
2011-2015	129,823,935	106,778,701	236,602,636
2016-2020	57,828,241	98,147,973	155,976,214
2021-2025	73,894,269	88,558,047	162,452,316
2026-2030	83,984,353	69,792,924	153,777,277
2031-2035	122,429,877	29,290,379	151,720,256
2036-2040	42,155,000	10,647,186	52,802,186
2041-2045	39,865,000	5,586,370	45,451,370
2046-2048	4,360,000	314,147	4,674,147
Unamortized Bond Discount	(3,475,121)	-	(3,475,121)
Total	$ 610,493,486	$ 524,516,407	$ 1,135,009,893

Changes in the HOC revenue bonds during FY05 are as follows:

Purpose	Balance July 1, 2004	Bonds Issued *	Bonds Retired	Balance June 30, 2005
Multi-Family Mortgage Purchase Program Fund	$ 356,955,046	$ 51,480,340	$ 15,370,000	$ 393,065,386
Single Family Mortgage Purchase Program Fund	223,391,233	104,554,533	110,517,666	217,428,100
Total	$ 580,346,279	$ 156,034,873	$ 125,887,666	$ 610,493,486

* Includes accretions and bond discounts.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt), and accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 2004	$ 329,344,000
Redemptions during the year	7,800,000
New issuances during the year	(43,150,000)
Bonds outstanding, June 30, 2005	$ 293,994,000

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

G) Segment Information

The County has issued revenue bonds to finance activities relating to solid waste disposal operations, including recycling, and the Silver Spring and Bethesda Parking Lot districts (PLDs). The Solid Waste Disposal operations and the Silver Spring and Bethesda PLDs are accounted for within the Solid Waste Activities Fund and the Parking Lot Districts Fund, respectively. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each activity as of and for the year ended June 30, 2005, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	$ 44,849,432	$ 4,383,822	$ 11,505,027
Due from component units	63,322	-	-
Other assets	31,702,051	2,875,926	3,212,260
Capital assets	33,037,352	91,253,951	80,825,948
Total Assets	109,652,157	98,513,699	95,543,235
LIABILITIES			
Current liabilities	13,735,276	3,555,518	5,421,090
Due to other funds	93,111	14,059	17,578
Long-term liabilities	43,234,634	3,843,287	27,393,661
Total Liabilities	57,063,021	7,412,864	32,832,329
NET ASSETS			
Invested in capital assets, net of related debt	7,388,788	85,263,724	50,031,364
Restricted for debt service	31,228,787	2,806,157	2,722,792
Unrestricted	13,971,561	3,030,954	9,956,750
Total Net Assets	$ 52,589,136	$ 91,100,835	$ 62,710,906

Condensed Statements of Revenues, Expenses, and Changes in Fund Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
OPERATING REVENUES (EXPENSES):			
Operating Revenues:			
Charges for services	$ 90,316,979	$ 5,627,056	$ 8,549,874
Licenses and permits	9,920	-	-
Fines and penalties	26,505	2,032,915	4,789,248
Total Operating Revenues (pledged against bonds)	90,353,404	7,659,971	13,339,122
Depreciation	2,597,445	3,396,403	3,483,417
Other operating expenses	94,957,279	6,972,166	5,447,448
Operating Income (Loss)	(7,201,320)	(2,708,598)	4,408,257
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	4,567,337	3,407,443
Gain (loss) on disposal of capital assets	8,359	(1,719,526)	-
Investment income	2,249,027	242,790	530,787
Interest expense	(1,264,996)	(340,058)	(1,378,483)
Other revenue	86,979	1,997	39,816
Capital contributions	-	5,902,942	-
Transfers in	-	199,841	-
Transfers out	(1,527,350)	(3,787,528)	(5,954,741)
Change in Net Assets	(7,649,301)	2,359,197	1,053,079
Beginning Net Assets	60,238,437	88,741,638	61,657,827
Ending Net Assets	$ 52,589,136	$ 91,100,835	$ 62,710,906

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	$ (3,734,702)	$ 1,064,950	$ 9,052,227
Noncapital financing activities	(1,527,350)	564,208	(2,452,150)
Capital and related financing activities	(6,634,413)	(5,881,526)	(15,077,765)
Investing activities	2,157,054	242,790	530,787
Net Increase (Decrease)	(9,739,411)	(4,009,578)	(7,946,901)
Beginning Cash and Cash Equivalents	79,791,247	9,220,844	20,533,060
Ending Cash and Cash Equivalents	$ 70,051,836	$ 5,211,266	$ 12,586,159

* Includes Solid Waste Leafing

H) Fund Equity

PRIMARY GOVERNMENT

1) Designated Fund Balances

Designated fund balances include amounts encumbered at year-end, which are reported separately in the accompanying financial statements. Designated fund balances also include committed amounts which have been appropriated as part of the next year's original budget where the source of funds is the fund balance as of the end of the current year, and amounts appropriated but unexpended in the Capital Projects Fund where the source of funds is current receipts in the governmental funds.

Such amounts are as follows at June 30, 2005:

	General	Special Revenue	Total
Designated for next year's budget	$ 27,029,039	$ 19,420,816	$ 46,449,855
Designated for transfers to Capital Projects Fund	72,478,053	4,544,632	77,022,685
Total	$ 99,507,092	$ 23,965,448	$ 123,472,540

Designated fund balance does not include the following commitments, which otherwise meet the criteria for designation, but for which sufficient unrestricted fund balance is not available to designate at year-end:

	Debt Service	Capital Projects	Special Revenue	Total
Encumbrances *	$ 220,880	$89,923,642	$17,491,414	$107,635,936
Transfers to Capital Projects Fund	-	-	2,680,715	2,680,715
Total	$ 220,880	$89,923,642	$20,172,129	$110,316,651

* Encumbrances relating to special revenue funds include $14,196,623 relating to the Grants Fund, where appropriation and spending on Federal and State grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available.

2) Net Assets Restricted by Enabling Legislation

Net assets restricted by enabling legislation represent legislative restrictions that a party external to the government can compel the government to honor. For the County, such amounts represent primarily accumulated net assets attributed to revenue streams, such as taxes or fees, which are restricted for specified purposes in the County Code. Such amounts, which are included with restricted net assets in the government-wide Statement of Net Assets, are as follows at year-end:

Governmental activities	$ 241,496,516
Business-type activities	31,631,333
Total	$ 273,127,849

I) Significant Transactions with Discretely Presented Component Units

1) Operating and Capital Funding

Expenditures incurred for operating and capital funding of discretely presented component units amounted to the following for the year ended June 30, 2005:

	General Fund			Capital	
	Operating	Capital *	Total	Projects	Total
MCPS	$1,211,773,321	$ 56,827,273	$1,268,600,594	$ 88,670,798	$1,357,271,392
MCC	71,746,675	5,103,689	76,850,364	12,470,877	89,321,241
HOC	4,411,029	184,301	4,595,330	-	4,595,330
Total	$1,287,931,025	$ 62,115,263	$1,350,046,288	$ 101,141,675	$1,451,187,963

* Represents current receipt and pay-go funding transferred from the General Fund for component units' use towards their capital projects.

For GAAP financial statement reporting purposes, General Fund expenditures incurred for funding of MCPS and MCC are classified as education expenditures; HOC funding is classified under community development and housing.

2) Other Transactions

BUPI charges for services revenue includes $2,644,574 earned under contracts with the County. For capital leases with MCRA, see Note III-E3. For mortgages receivable due from HOC, see Note III-B2.

NOTE IV. OTHER INFORMATION

A) Risk Management

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation; comprehensive general; automobile and professional liability (errors and omissions); property coverage including fire and theft; and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include MCPS, HOC, MCC, MCRA, BUPI, M-NCPPC, the City of Rockville, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the Village of Martin's Additions, the City of Gaithersburg, the Village of Drummond, the City of Takoma Park, and the Village of Friendship Heights. The liability for claims with respect to all participants transfers to the self-insurance fund, except for M-NCPPC which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, prescription, dental, vision, and life insurance. While the majority of coverage is self-insured, certain fully insured plan options, including health maintenance organizations (HMO's), are offered to participants.

WSTC, BUPI, Montgomery Community Television, the Strathmore Hall Foundation, Inc., and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include nonincremental claims adjustment expenses such as internal salary costs. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in the Liability and Property Coverage Self-Insurance Fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

Changes in the balances of Claims Payable for the self-insurance funds for FY05 and FY04 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2003	$57,736,000	$ 8,828,246
Claims and changes in estimates	27,320,388	96,047,483
Claim payments *	(20,850,388)	(93,404,827)
Balance June 30, 2004	64,206,000	11,470,902
Claims and changes in estimates	27,205,036	101,891,704
Claim payments *	(20,524,036)	(103,886,103)
Balance June 30, 2005 **	$70,887,000	$ 9,476,503

* Includes non-monetary settlements.
** Includes incurred but not reported claims of $40,916,000 and $9,476,503, for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

B) <u>Significant Commitments and Contingencies</u>

1) <u>Landfill</u>

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, “Solid Waste Disposal Criteria,” established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at $54,041,000, which has been fully accrued through June 30, 2005. Of the total amount accrued, $30,932,477 in actual costs has been paid out in prior years, and $1,000,000 was paid in FY05, resulting in a net liability of $22,108,523 at June 30, 2005. The current and non-current portions of the adjusted liability at year-end are estimated at $1,683,000 and $20,425,523 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed $17,140,000. Of this amount, $1,200,000 has been reflected as a liability in the accompanying governmental activities financial statements, as the County's liability on certain claims appears to be probable.

3) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2005, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

4) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amount of outstanding commitments at June 30, 2005, are as follows:

Enterprise Funds:	Operating	Capital	Inventory	Total
Major Funds:				
Liquor	$ 5,071,285	$ -	$ 7,616,098	$ 12,687,383
Solid Waste Activities:				
Disposal operations	3,724,088	48,054	-	3,772,142
Collection operations	44,679	-	-	44,679
Leafing operations	2,061	-	-	2,061
Parking Lot Districts:				
Silver Spring	458,041	1,598,936	-	2,056,977
Bethesda	487,985	6,156,988	-	6,644,973
Wheaton	118,295	107,298	-	225,593
Montgomery Hills	16,369	-	-	16,369
Subtotal	9,922,803	7,911,276	7,616,098	25,450,177
Nonmajor Funds:				
Permitting Services	97,741	-	-	97,741
Subtotal	97,741	-	-	97,741
Total Enterprise Funds	10,020,544	7,911,276	7,616,098	25,547,918
Internal Service Funds:				
Motor Pool	2,938,422	-	6,760,354	9,698,776
Central Duplicating	122,118	-	-	122,118
Liability and Property Coverage Self-Insurance	192,960	-	-	192,960
Employee Health Benefits Self-Insurance	506,195	-	-	506,195
Total Internal Service Funds	3,759,695	-	6,760,354	10,520,049
Total Proprietary Funds	$ 13,780,239	$ 7,911,276	$ 14,376,452	$ 36,067,967

As of June 30, 2005, the County has $7,105,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

C) Subsequent Events

Commercial paper bond anticipation notes (BANS) amounting to $150,000,000 were issued on July 7, 2005. The County issued an additional $50,000,000 in BANS on December 6, 2005.

On July 12, 2005, the County Council introduced, and subsequently approved, legislation to increase the level of authorized general obligation bond principal by an additional $228,700,000, effective August 4, 2005.

The County issued $16,495,000 in parking system revenue bonds on August 10, 2005, to finance a portion of the costs of renovating public parking facilities in the Bethesda Parking Lot District. The bonds were delivered on August 31, 2005.

D) Joint Ventures

The Primary Government participates in six joint ventures which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no “Investment in Joint Ventures” is included in the accompanying financial statements. Audited financial statements are available from each of the six organizations. A general description of each joint venture follows:

Maryland-National Capital Park and Planning Commission (M-NCPPC)

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George’s Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties' oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of M-NCPPC issued for its jurisdiction.

At June 30, 2005, M-NCPPC had outstanding notes payable and bonds payable in the amount of $168,364,140, of which $15,909,140 was self-supporting. Of the total amount payable, $14,687,005 represented debt due within one year. Generally, debt of M-NCPPC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. Montgomery County’s contingent liability for non self-supporting M-NCPPC debt at June 30, 2005, is $37,150,000, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

Washington Suburban Sanitary Commission (WSSC)

WSSC is a bi-county instrumentality of the State of Maryland created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The two participating counties share equal control over WSSC in the selection of the six-member governing body, budgeting authority, and financing responsibility.

At June 30, 2005, WSSC had outstanding notes payable and bonds payable in the amount of $1,459,371,472, of which $1,456,126,472 was self-supporting. Of the total amount payable, $238,196,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on WSSC bonds, unless 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. At June 30, 2005, all WSSC debt relating to the County is self-supporting.

Washington Suburban Transit Commission (WSTC)

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the State Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling $84,273 to WSTC during FY05. The FY05 WSTC Annual Financial Report was not available when this report was published.

Washington Metropolitan Area Transit Authority (WMATA)

WMATA was created in 1967 by interstate compact among the states of Maryland and Virginia and the District of Columbia. WMATA's primary function is to plan, construct, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a twelve-member Board of Directors. Maryland, Virginia, and the District of Columbia each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.

Montgomery County is committed to participation in WMATA and its regional Metro Rail and Metro Bus programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail and bus operating expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rail System. The County's share of the cost of construction of the Metro Rail System has been totally assumed by the State. In addition, State legislation mandates, effective in FY00, that the State provides 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover its related 100 percent of the combined operating deficit of WMATA and County Ride-On operations (that began on or after June 30, 1989) assuming that 40 percent (effective in FY01) of gross operating costs are recovered by revenues.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY05, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	$ 34,225,218
Rail operating subsidy	23,469,453
Americans with Disabilities Act service	14,552,639
Metrobus and Metrorail capital replacement	35,075,735
Debt service on WMATA revenue bonds	4,867,500
Local bus program	40,353,402
Total	$152,543,947

At June 30, 2005, WMATA had outstanding debt of $227,900,000, of which $23,040,000 represented debt due within one year. All of this debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental regional planning organization in which local governments work together, in partnership with state and federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 11 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY05 membership dues and fees for services amounting to $653,561.

Northeast Maryland Waste Disposal Authority (NEMWDA)

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following eight member jurisdictions from the State of Maryland: Montgomery County, Baltimore County, Anne Arundel County, Frederick County, Harford County, Howard County, Carroll County, and City of Baltimore. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). In April 2003, NEMWDA refinanced $205,078,908 of the 1993 bonds. At June 30, 2005, NEMWDA had outstanding bonds payable in the amount of $279,555,000, of which $19,965,000 represented debt due within one year. Of these amounts, $252,310,000 related to the Project, $15,525,000 of which represented debt due within one year. These bonds are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY05 amounted to $43,199,150.

E) Employee Benefits

1) Deferred Compensation

During FY05, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. County non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who did not elect to continue to participate in the County Plan may participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

During FY99, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries. Trust responsibilities were assigned to the Board of Investment Trustees (Board). The County Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. The assets of the Union Plan are not included in the accompanying financial statements since the County has no fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

Under both Plans, contributions are sent to contracted third party administrator investment vendors for different types of investments as selected by participants. A separate account, which reflects the monies deferred, the investment of the monies, and related investment earnings, is maintained for each participant. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies. Administrative expenses relating to the County Plan, which are not significant to the County Plan, have been paid by the General Fund.

For represented employees who elected to participate in the Union Plan, the $77.8 million transfer of their account balances from the County Plan to the Union Plan has been reported as Movement of Member Account Asset Balances in the accompanying Statement of Changes in Fiduciary Net Assets.

2) <u>Annual, Sick Leave, and Other Compensated Absences</u>

Employees of the County earn annual, compensatory, and sick leave in varying amounts. Employees who are part of the County Management Leadership Service and participate in the Retirement Savings Plan earn only Paid Time Off (PTO) leave. In the event of termination, employees are reimbursed for accumulated annual, PTO (where applicable), and compensatory leave (up to a limit if applicable). Under the Employees' Retirement System of Montgomery County, covered employees are given credited service toward retirement benefits for accumulated sick leave at retirement. Earned but unused annual, PTO, and compensatory leave is accounted for in the proprietary funds as a liability. The liability for unused annual, PTO, and compensatory leave payable from governmental fund types is reflected only at the government-wide level because it will be paid from future periods' resources. Liabilities for compensated absences have not been recorded in governmental funds since the portion expected to be liquidated with expendable available financial resources has been determined to be immaterial. Earned but unused sick leave is not recorded as a liability because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

3) <u>Group Insurance Benefits</u>

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY05, the County and its employees contributed $63,032,534 and $17,270,948, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled $345,257, $2,328,366, and $41,488 for these component units, respectively, for FY05.

4) Postemployment Benefits

In addition to the pension benefits described in Note IV-F, the County, by authority of various Montgomery County Council resolutions, provides certain postemployment health and life insurance benefits to all employees who retire under the Employees' Retirement System and the Employees' Retirement Savings Plan. Prior to 1987, the County plan offered retirees the opportunity to contribute 20 percent toward the cost of group insurance benefits, with the County contributing 80 percent of the cost. Under this arrangement, the County contribution continues for a length of time equal to the time the retiree was eligible for group insurance with the County. After that, the individual is required to pay the full cost of the insurance. All employees hired after January 1, 1987, are covered by a different cost sharing arrangement. Under this plan, the County's contribution to group insurance ranges from 50 percent to 70 percent depending on the employees' years of eligibility under the County's group insurance program. Under this arrangement, employees have a lifetime insurance cost share. Currently, 4,270 retirees meet those eligibility requirements for postemployment benefits. Postemployment benefits, accounted for in the Employee Health Benefits Self-Insurance Internal Service Fund, are funded by an appropriation in a non-departmental account of the General Fund, dividends, and pre-funded contributions from active employees. Expenses are recognized as retirees report claims, with an amount included to provide for incurred but not reported claims. The employer contributions were $16,512,900 for FY05; retired employee contributions were $9,731,406.

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's fire and rescue department volunteers who meet certain age and service criteria. Benefit expenditures amounting to $886,794 in FY05 also include disability and survivor annuities and lump-sum death benefits, and are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis. There were 425 recipients comprising former volunteers and their beneficiaries at the end of FY05.

F) Pension Plan Obligations

1) Defined Benefit Pension Plan

Plan Description - The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation.

The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board consists of thirteen trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 101 Monroe Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Section 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Benefit provisions are established under the Montgomery County Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups and retirement membership classes within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement class assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated group members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group.

Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. Disability benefits are contingent upon service-connected or nonservice-connected occurrences and total or partial permanent disablement. Death benefits are contingent upon service-connected or nonservice-connected occurrences. Effective July 1, 1989, when a member terminates employment before his retirement date and after completion of five years of credited service, he may elect to leave his member contributions in the System and receive a pension upon reaching his normal retirement date, based on the amount of his normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under Section 33-45 of the Montgomery County Code of 2001, as amended. A member who terminates employment prior to five years of credited service is refunded his accumulated contributions with interest.

Deferred Retirement Option (DROP) Plans, established in FY00, allow any employee who is a member of a specified membership class 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.

Funding Policy - Required employee contribution rates varying from 4 to 8.5 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year's employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY05 were based on an actuarial valuation as of June 30, 2003, the latest valuation available on the date the County Council was required to approve the appropriation resolution. The ARC, or annual pension cost (APC), were the same as contributions actually made.

The APC and the net pension obligation (NPO) of the County and the participating agencies and political subdivisions for FY05 were as follows:

Fiscal Year	APC	Percentage of APC Contributed	NPO
2003	$ 55,205,855	100 %	$ -
2004	61,927,029	100	-
2005	74,655,371	100	-

Allocated Insurance Contract - On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. The transactions related to this agreement have not been recognized in the System's financial statements.

2) Defined Contribution Plan

Plan Description - Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under Section 33-114 of the County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994, are covered under this Plan. In addition to the County, other participant agencies include MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., and WSTC. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan, provided they are unrepresented employees, or represented by a collective bargaining agreement that allows for participation in this Plan.

Under this Plan, employees contribute 3 percent of regular earnings up to Social Security wage base and 6 percent above Social Security wage base. The employer contributes 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. The employee and employer contribution rates are established under Section 33-116 and 33-117 of the County Code, respectively. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY05 were $8,758,520 and $4,819,587, respectively.

3) Other

The County contributed $769,825 during FY05 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

APPENDIX C

DEFINITIONS OF TERMS AND SUMMARY OF THE NOTE ORDER

The following are definitions of certain terms used in this Official Statement and brief summaries of certain provisions of the Note Order. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the Note Order, a copy of which is on file with the County.

DEFINITIONS

"Additional Notes" means any issue of Notes issued subsequent to and on a parity with the Notes initially issued under the Note Order.

"Alternate Liquidity Facility" means a liquidity facility, letter of credit or other security or liquidity device issued in accordance with Section 4.11 of the Note Order which shall have a term of not less than 364 days (or until the final maturity of the Notes, if earlier than 364 days) and shall have the same material terms as the initial Liquidity Facility.

"Alternate Rate" means for a Note in a particular Mode, the following as the same shall be applied in accordance with the provisions of Section 2.8 of the Note Order.

> For a Note in the Commercial Paper Mode, the Lehman Brothers Tax Exempt Commercial Paper Index.
>
> For a Note in the Daily Mode, the last lawful interest rate for such Note set by the Remarketing Agent pursuant to Section 2.6 of the Note Order.
>
> For a Note in the Weekly Mode, the BMA Municipal Swap Index.
>
> For a Note in the Term Rate Mode, the Alternate Term Rate.

"Alternate Term Rate" means for a Note in the Term Rate Mode, an index published or provided by Kenny Information Systems, which index is based on yield evaluations at par of bonds, the interest on which is excluded from gross income for purposes of Federal income taxation and are not subject to a "minimum tax" or similar tax under the Code (unless all tax-exempt bonds are subject to such tax). The bonds upon which the index is based shall include not less than five "high grade" component issuers selected by Kenny Information Systems which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time-to-time by Kenny Information Systems in its discretion. The yield evaluation period for the index shall be a one year evaluation.

"Authorized Denominations" means (i) with respect to Notes in a Commercial Paper Mode, $100,000 and any integral multiple of $5,000 in excess thereof, (ii) with respect to Notes in a Daily Mode or Weekly Mode, $100,000 and any integral multiple of $5,000 in excess thereof, and (iii) with respect to Notes in a Term Rate Mode or a Fixed Rate Mode, $5,000 and any integral multiple thereof.

"Authorizing Legislation" means Chapter 17 of the Laws of Montgomery County of 1981, Chapter 19 of the Laws of Montgomery County of 1981, Chapter 13 of the Laws of Montgomery County of 1982, Chapter 14 of the Laws of Montgomery County of 1982, Chapter 8 of the Laws of Montgomery County of 1983, Chapter 9 of the Laws of Montgomery County of 1983, Chapter 10 of the Laws of Montgomery County of 1983, Chapter 6 of the Laws of Montgomery County of 1984, Chapter 20 of the Laws of Montgomery County of 1985, Chapter 13 of the Laws of Montgomery County of 1986, Chapter 22 of the Laws of Montgomery County of 2000, Chapter 17 of the Laws of Montgomery County of 2001, Chapter 21 of the Laws of Montgomery County of 2002, Chapter 17 of the Laws of Montgomery County of 2003, Chapter 18 of the Laws of Montgomery County of 2004, Chapter 19 of the Laws of Montgomery County of 2005, and such other Laws of Montgomery County as may be added by amendment to the Note Order.

"Available Principal Commitment" initially means $50,000,000, which initial amount is equal to the aggregate principal amount of the Notes Outstanding as of the effective date of the Standby Note Purchase Agreement, and thereafter means such initial amount adjusted from time to time as follows: (a) downward by the amount of any mandatory or voluntary reduction of the Available Principal Commitment pursuant to Section 2.4 or 2.11 of the Standby Note Purchase Agreement, respectively; (b) downward by the principal amount of any Notes purchased by the Bank pursuant to Section 2.1 of the Standby Note Purchase Agreement; and (c) upward by the principal amount of any Notes theretofore purchased by the Bank pursuant to Section 2.1 of the Standby Note Purchase Agreement which are remarketed (or deemed to be remarketed pursuant to Section 2.5(c) of the Standby Note Purchase Agreement) by the Remarketing Agent and for which the Bank has received immediately available funds equal to the principal amount thereof and accrued interest thereon; *provided, however*, that the sum of (i) the Available Principal Commitment plus (ii) the aggregate principal amount of Bank-Owned Notes shall never exceed $50,000,000. Any adjustments to the Available Principal Commitment as described in clause (a), (b) or (c) above shall occur simultaneously with the occurrence of the events described in such clauses.

"Bank" means initially Dexia Credit Local, acting through its New York Branch, the provider of the initial Liquidity Facility, its successors and assigns or any provider of any Alternate Liquidity Facility or its successors and assigns.

"Bank Interest Rate" means the interest rate, not to exceed the maximum interest rate permitted by law, payable on Bank-Owned Notes and determined pursuant to the Liquidity Facility.

"Bank Note Custody Agreement" means the Bank Note Custody Agreement by and among the County, the Registrar and Paying Agent and the Bank, pursuant to which the Registrar and Paying Agent will serve as custodian for Bank-Owned Notes.

"Bank-Owned Notes" means any Notes registered in the name of the Bank pursuant to Section 4.8(b) of the Note Order.

"BMA Municipal Swap Index" means, with respect to any Note in the Weekly Mode for which a rate is not set pursuant to Section 2.6(b) of the Note Order, the rate per annum determined on the basis of an index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by the Indexing Agent which meet specific criteria established by the Bond Market Association, formerly known as the Public Securities Association. In the event the Indexing Agent no longer publishes an index satisfying the requirements of the preceding sentence, the rate shall be the "J.J. Kenny Index", provided, however, that if the J.J. Kenny Index also ceases to be published, an alternative index shall be calculated by an entity selected in good faith by the County, and shall be determined using the criteria for the BMA Municipal Swap Index.

"Bond Anticipation Note Act" means Section 12 of Article 3l of the Annotated Code of Maryland, as amended and supplemented from time to time.

"Bond Counsel" means any firm of nationally recognized municipal bond attorneys selected by the County and experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for Federal income tax purposes.

"Bond Documents" means the Standby Note Purchase Agreement, the Notes, the Series B Notes, the Note Order, the Note Order relating to the Series B Notes, the Resolution, the Remarketing Agreement, the Remarketing Agreement relating to the Series B Notes and the Bank Note Custody Agreement.

"Bonds" means the general obligation bonds that are authorized to be issued by the County pursuant to the Authorizing Legislation.

"Business Day" means a day on which the Registrar and Paying Agent, the Remarketing Agent, the Bank or banks or trust companies in New York, New York, are not authorized or required to remain closed and on which the New York Stock Exchange is not closed.

"Closing Date" means June 7, 2006, the date of initial authentication and delivery of Notes.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Paper Note" means any Note which is in the Commercial Paper Mode.

"Commercial Paper Mode" means, with respect to a particular Note, the Mode during which such Note bears interest at a Commercial Paper Rate.

"Commercial Paper Rate" means the interest rate (per annum) on any Note in the Commercial Paper Mode determined pursuant to Section 2.5 of the Note Order.

"Commitment Period" means the period from the effective date of the Standby Note Purchase Agreement to and including the earliest of (i) the Scheduled Termination Date, (ii) the date on which no Notes are Outstanding, (iii) the close of business on the Conversion Date, (iv) the close of business on the thirty-fifth (35^{th}) day following the date on which a Notice of Termination of Commitment to Purchase is received by the County and the Registrar and Paying Agent, or if such day is not a Business Day, the next following Business Day, (v) the Substitution Date and (vi) the date on which the Available Commitment has been reduced to zero or terminated in its entirety pursuant to Section 2.4, Section 2.11 or Section 8.13 of the Standby Note Purchase Agreement.

"Conversion Date" means the date on which the interest rate on all of the Notes has been converted to bear interest at a Fixed Rate, a Commercial Paper Rate or a Term Rate.

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

"County Funds Account" means the account of that name created in Section 4.12 of the Note Order.

"County Representative" means the Chief Administrative Officer of the County, the Director of Finance of the County and any other person at the time designated to act on behalf of the County for purposes of the Note Order by a written instrument furnished to the Registrar and Paying Agent containing the specimen signature of such person and signed on behalf of the County by any of its officers. The certificate may designate an alternate or alternates.

"Current Mode" shall have the meaning specified in Section 2.10(a)(i) of the Note Order.

"Daily Mode" means the Mode during which all or any part of the Notes bear interest at the Daily Rate.

"Daily Rate" means the per annum interest rate on any Note in the Daily Mode determined pursuant to Section 2.6(a) of the Note Order.

"Debt" of any person means at any date, without duplication, (a) all obligations of such person for borrowed money, (b) all obligations of such person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (d) all obligations of such person as lessee under capital leases, (e) all Debt of others secured by a lien on any asset of such person, whether or not such Debt is assumed by such person, and (f) all guarantees by such person of Debt of other persons.

"Electronic Means" means telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission.

"Eligible Notes" means Notes bearing interest at a Daily Rate or a Weekly Rate which are not Bank-Owned Notes or Notes owned by or on behalf of, or for the account of, the County or any related person to the County.

"Event of Default" means any occurrence or event specified in and defined by Section 7.1 of the Note Order.

"Expiration Date" means the stated expiration date of the Liquidity Facility, or such stated expiration date as it may be extended from time to time as provided in the Liquidity Facility, or any earlier date on which the Liquidity Facility shall terminate, expire or be cancelled. The Expiration Date of the initial Liquidity Facility is June 7, 2011, unless earlier terminated in accordance with its terms.

"Expiration Tender Date" means the day five Business Days prior to the Expiration Date.

"Favorable Opinion of Bond Counsel" means, with respect to any action the occurrence of which requires such an opinion, an unqualified Opinion of Counsel, which shall be a Bond Counsel, to the effect that such action is permitted under the Authorizing Legislation, the Bond Anticipation Note Act and the Note Order and will not impair the exclusion of interest on the Notes from gross income for purposes of Federal income taxation or the exemption of interest on the Notes from personal income taxation under the laws of the State (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Notes).

"Fitch" means Fitch, Inc., a nationally recognized bond rating agency, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the County and approved by the Bank (which shall not be under any liability by reason of such approval).

"Fixed Rate" means the per annum interest rate on any Note in the Fixed Rate Mode determined pursuant to Sections 2.7(b) of the Note Order.

"Fixed Rate Notes" means any Notes in the Fixed Rate Mode.

"Fixed Rate Mode" means the Mode during which all or a particular portion of the Notes bear interest at a Fixed Rate(s).

"Funds" shall mean, collectively, the Purchase Fund, the Note Fund, and the Rebate Fund created pursuant hereto.

"Governmental Authority" means any national, state or local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, public or statutory instrumentality, authority, body, agency, bureau or entity (including any zoning authority, the Federal Deposit Insurance Corporation or the Federal Reserve Board, any central bank or any comparable authority), or any arbitrator with authority to bind a party at law.

"Government Obligations" means any of the following securities, if and to the extent the same are non-callable and not subject to redemption at the option of the owners, at the time legal for investment of the County's funds, as determined by the County: direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America and including a receipt, certificate or any other evidence of an ownership interest in an aforementioned obligation, or in specified portions thereof (which may consist of specified portions of interest thereon).

"Indexing Agent" means Municipal Market Data, Boston Massachusetts, a Thompson Financial Services Company, or its successor.

"Information Services" means any of the following services which has been designated in a certificate of the County delivered to the Registrar and Paying Agent: Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services "Called Bond Service," 55 Broad Street, 28th Floor, New York, New York 10004; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard & Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or such other services providing information with respect to called bonds as the County may designate in a certificate of the County delivered to the Registrar and Paying Agent.

"Interest Account" means the account by that name created in Section 5.2 of the Note Order.

"Interest Accrual Period" means the period during which a Note accrues interest payable on any Interest Payment Date applicable thereto. With respect to Notes in the Daily Mode, the Interest Accrual Period shall commence on (and include) the first day of each month and shall extend through (and include) the last day of such month; provided, that if such month is the month in which the Notes are authenticated and delivered, or if the Notes are changed to the Daily Mode during such month, the Interest Accrual Period shall commence on the date of authentication and delivery of the Notes or the Mode Change Date, as the case may be; provided, further, that if no interest has been paid on Notes in the Daily Mode, interest shall accrue from the date of original authentication and delivery of the Notes or the Mode Change Date, as appropriate. With respect to a Note in a Mode other than the Daily Mode, the Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid in such Mode, from the date of original authentication and delivery of such Note, or the Mode Change Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any Note, interest is in default or overdue on the Notes, such Note shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding Notes.

"Interest Payment Date" means each date on which interest is to be paid and is: (i) with respect to a Commercial Paper Note, each Purchase Date; (ii) with respect to a Note in the Daily Mode, the first Business Day of each month, (iii) with respect to a Note in the Weekly Mode, the first Business Day of each month; (iv) with respect to a Note in the Term Rate Mode, each Term Rate Interest Payment date for such Note; (v) with respect to a Note in the Fixed Rate Mode, each Stated Interest Payment Date (beginning with the first Stated Interest Payment Date that occurs no earlier than three months after the commencement of the Fixed Rate Mode for such Note); (vi) with respect to Bank-Owned Notes, the dates required under the applicable Liquidity Facility; and (vii) (without duplication as to any Interest Payment date listed above) any Mode Change Date and each Maturity Date.

"Interest Period" means, for a Note in a particular Mode, the period of time that such Note bears interest at the rate (per annum) which becomes effective at the beginning of such period. The Interest Period for each Mode is as follows:

for a Note in the Commercial Paper Mode, the period of from one to 270 calendar days as established by the Remarketing Agent pursuant to Section 2.5 of the Note Order;

for a Note in the Daily Mode, the period from (and including) the Mode Change Date upon which such Note is changed to the Daily Mode to (but excluding) the next Rate Determination Date for such Note, and thereafter the period from and including the current

Rate Determination Date for such Note to (but excluding) the next Rate Determination Date for such Note;

for a Note in the Weekly Mode, the period from (and including) the Mode Change Date upon which such Note is changed to the Weekly Mode to (and including) the next Tuesday, and thereafter the period from (and including) each Wednesday to (and including) the next Tuesday;

for a Note in the Term Rate Mode, the period from (and including) the Mode Change Date to (but excluding) the last day of the first period that such Note shall be in the Term Rate Mode as established by the County for such Note pursuant to Sections 2.10(a)(i) of the Note Order and, thereafter, the period from (and including) the beginning date of each successive interest rate period selected for such Note by the County pursuant to Section 2.7(a) while it is in the Term Rate Mode to (but excluding) the ending date for such period selected for such Note by the County. Each Interest Period for a Note in the Term Rate Mode shall end on a Stated Interest Payment Date occurring not earlier than three months after the commencement of such Period; and

for a Note in the Fixed Rate Mode, the period from (and including) the Mode Change Date to (and including) the Maturity Date.

"J.J. Kenny Index" means, with respect to a Note in the Weekly Mode for which a rate is not, or cannot be, set pursuant to Section 2.6(b) of the Note Order, the index generally made available on the applicable Rate Determination Date by Kenny Information Systems or any successor thereto. The J.J. Kenny Index shall be based upon 30-day yield evaluations at par of bonds, the interest on which is exempt from Federal income taxation under the Internal Revenue Code of 1986 as amended, of not less than five "high grade" component issuers selected by the Kenny Information Systems which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Kenny Information Systems in its discretion. The bonds on which the J.J. Kenny Index is based shall not include any bonds the interest on which is subject to a "minimum tax" or similar tax under the Internal Revenue Code, unless all tax-exempt bonds are subject to such tax.

"Lehman Brothers Tax Exempt Commercial Paper Index" means the index by that name published from time-to-time by Lehman Brothers, Inc.

"Liquidity Facility" means the Standby Note Purchase Agreement entered into by and among the County, the Registrar and Paying Agent and the Bank contemporaneously with the original delivery of the Notes, except that upon the issuance of an Alternate Liquidity Facility in accordance with Section 4.11 of the Note Order such term shall mean such Alternate Liquidity Facility.

"Liquidity Facility Interest Amount" means the amount of the interest portion of the Liquidity Facility, which (i) during the Daily Mode and the Weekly Mode shall be an amount equal to 34 days' interest on the Outstanding Notes calculated at the Maximum Rate on the basis of a 365 day year for the actual number of days elapsed, (ii) during the Commercial Paper Mode shall be an amount equal to 270 days' interest on the Outstanding Notes calculated at the Maximum Rate on the basis of a 365 day year for the actual number of days elapsed, and (iii) during the Term Rate Mode and the Fixed Rate Mode shall be an amount equal to 205 days' interest on the Outstanding Notes then covered by the Liquidity Facility, calculated at the Maximum Rate on the basis of a 360 day year composed of twelve 30-day months.

"Liquidity Facility Purchase Account" means the account by that name created in Section 4.12 of the Note Order.

"Mandatory Purchase Date" means (i) any Purchase Date for Notes in the Commercial Paper Mode or the Term Rate Mode, (ii) any Mode Change Date involving a change from the Daily Mode or the Weekly Mode, (iii) the Substitution Tender Date and (iv) the Expiration Tender Date.

"Maturity Date" means June 1, 2026 and, upon a change to the Fixed Rate Mode, any Serial Maturity Date established pursuant to Section 2.10(b) of the Note Order.

"Maximum Rate" means, on any day and with respect to any Note, if such Note is supported by the Liquidity Facility, the per annum interest rate used to calculate the Liquidity Facility Interest Amount applicable to such Note, which shall initially be 10%.

"Mode" means, as the context may require, the Commercial Paper Mode, the Daily Mode, the Weekly Mode, the Term Rate Mode or the Fixed Rate Mode.

"Mode Change Date" means with respect to any Note in a particular Mode, the day on which another Mode for such Note begins.

"Mode Change Notice" means the notice from the County to the other Notice Parties of the County's intention to change Mode.

"Moody's" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the County and approved by the Bank (which shall not be under any liability by reason of such approval).

"New Mode" shall have the meaning specified in Section 2.10(a) of the Note Order.

"Note Fund" means the fund by that name created in Section 5.2 of the Note Order.

"Note Order" means Order No. B277-06, executed as of June 7, 2006, as it may be supplemented or amended from time to time pursuant to the provisions of the Note Order.

"Notes" means the notes issued pursuant to the Note Order including Additional Notes that are authenticated and delivered by the Registrar and Paying Agent under and pursuant to Article II of the Note Order.

"Notice Parties" means the County, the Registrar and Paying Agent, the Remarketing Agent and the Bank.

"Opinion of Counsel" means a written legal opinion from a firm of attorneys experienced in the matters to be covered in the opinion.

"Outstanding," when used as of a particular time with reference to Notes, means (subject to the provisions of Section 9.2 of the Note Order) all Notes delivered under the Note Order except:

> Notes cancelled by the Registrar and Paying Agent or surrendered to the Registrar and Paying Agent for cancellation;
>
> Notes paid or deemed to have been paid within the meaning of Section 10.2 of the Note Order; and
>
> Notes in lieu of or in substitution for which replacement Notes shall have been executed by the County and delivered by the Registrar and Paying Agent under the Note Order.

Notwithstanding the foregoing, Notes registered in the name of the Bank or its nominee pursuant to Section 4.8(b) of the Note Order shall remain Outstanding in the hands of the Bank until the Bank is paid all amounts due on such Notes. Furthermore, Notes, the principal of which was paid with an advance made under the Liquidity Facility, which advance has not been reimbursed, shall remain outstanding until the Bank is reimbursed in full for such advance.

"Owner" means the registered owner of a Note.

"Permitted Investments" means any investments that are then legal investments of the County under the laws of the State.

"Principal Account" means the account by that name created in Section 5.2 of the Note Order.

"Principal Payment Date" means any date upon which the principal amount of Notes is due under the Note Order, including the Maturity Date, any Serial Maturity Date, any Redemption Date, or the date the maturity of any Note is accelerated pursuant to the terms of the Note Order or otherwise.

"Purchase Date" means (i) for a Note in the Commercial Paper Mode, the last day of the Interest Period for such Note, (ii) for a Note in the Daily Mode or the Weekly Mode, any Business Day selected by the Owner of said Note pursuant to the provisions of Section 4.1 of the Note Order and (iii) for a Note in the Term Rate Mode, the last day of the Interest Period for such Note (or the next Business Day is such last day is not a Business Day), but only if the Owner thereof shall have elected to have such Note purchased on such date pursuant to Section 4.4 of the Note Order.

"Purchase Fund" means the fund by that name created in Section 4.12 of the Note Order.

"Purchase Price" means (i) an amount equal to the principal amount of any Notes purchased on any Purchase Date, plus, in the case of any purchase of Notes in the Daily Mode or the Weekly Mode, accrued interest, if any, to, but not including, the Purchase Date, or (ii) an amount equal to the principal amount of any Notes purchased on a Mandatory Purchase Date, plus, in the case of any Notes purchased on a Substitution Tender Date, accrued interest, if any, to, but not including, the Mandatory Purchase Date.

"Rate Determination Date" means the date on which the interest rate on a Note shall be determined, which, (i) in the case of the Commercial Paper Mode, shall be the first day of an Interest Period; (ii) in the case of the Daily Mode, shall be each Business Day commencing with the first day the Notes become subject to the Daily Mode; (iii) in the case of the initial conversion to the Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date, and thereafter, shall be each Tuesday or, if Tuesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day next preceding such Tuesday; (iv) in the case of the Term Rate Mode, shall be a Business Day no earlier than thirty (30) Business Days and no later than the Business Day next preceding the first day of an Interest Period, as determined by the Remarketing Agent; and (v) in the case of the Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

"Rating Confirmation Notice" means a notice from Moody's, S&P or Fitch, as appropriate, confirming that the rating on the Notes will not be withdrawn (other than a withdrawal of a short term rating upon a change to a Term Rate Mode) as a result of the action proposed to be taken.

"Rebate Fund" means the fund by that name created in Section 6.4 of the Note Order.

"Rebate Requirement" means the Rebate Requirement defined in the Tax Certificate.

"Record Date" means (i) with respect to Notes in a Commercial Paper Mode or a Weekly Mode, the day (whether or not a Business Day) next preceding each Interest Payment Date, (ii) with respect to Notes in the Daily Mode, the last day of each month (whether or not a Business Day) and (iii) with respect to Notes in a Term Rate Mode or a Fixed Rate Mode, the fifteenth (15th) day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

"Redemption Date" means the date fixed for redemption of Notes subject to redemption in any notice of redemption given in accordance with the terms of the Note Order.

"Redemption Price" means an amount equal to the principal of and premium, if any, and accrued interest, if any, on the Notes to be paid on the Redemption Date.

"Registrar and Paying Agent" means U.S. Bank Trust National Association, a national banking association organized and existing under the laws of the United States, and having its principal office in New York, New York, or any other bank or trust company duly incorporated and existing under and by virtue of the laws of any state or of the United States of America, which may be substituted in its place as provided in Section 8.2 of the Note Order.

"Related Documents" means the Standby Note Purchase Agreement, the Notes, the Note Order, the Resolution, the Remarketing Agreement, the Bank Note Custody Agreement and any other document or instrument related thereto or issued thereunder.

"Remarketing Agent" means Lehman Brothers Inc., or any other investment banking firm which may at any time be substituted in its place as provided in Section 8.7 of the Note Order.

"Remarketing Agreement" means that certain Remarketing Agreement relating to the Notes, dated as of June 1, 2006, by and between the County and the Remarketing Agent or any similar agreement between the County and the Remarketing Agent, as it may be amended or supplemented from time to time in accordance with its terms.

"Remarketing Proceeds Account" means the account by that name created in Section 4.12 of the Note Order.

"Renewal Date" means the forty-fifth (45th) day prior to the Expiration Date.

"Resolution" means Resolution No. 15-1418 adopted by the County on April 25, 2006, as supplemented and amended from time to time.

"Securities Depositories" means any of the following registered securities depositories which has been designated in a certificate of the County delivered to the Registrar and Paying Agent: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax -516/227-4039 or 4190, (ii) Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-312/663-2343, and (iii) Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax- 215/496-5058; or, such other securities depositories as the County may designate in a certificate of the County delivered to the Registrar and Paying Agent.

"Serial Notes" shall be the Notes maturing on the Serial Maturity Dates, as determined pursuant to Section 2.10 of the Note Order.

"Serial Maturity Dates" means the dates on which the Serial Notes mature, as determined pursuant to Section 2.10 of the Note Order.

"Serial Payments" mean the payments to be made in payment of the principal of the Serial Notes on the Serial Maturity Dates.

"Short-Term Mode" means a Daily Mode, a Weekly Mode or the Commercial Paper Mode.

"S&P" means Standard & Poor's Rating Group, a division of McGraw-Hill, duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the County and approved by the Bank (which shall not be under any liability by reason of such approval).

"Standby Note Purchase Agreement" means that certain Standby Note Purchase Agreement, dated as of June 1, 2006, by and among the Bank, the Registrar and Paying Agent and the County.

"State" means the State of Maryland.

"Stated Interest Payment Dates" means each June 1 and December 1.

"Substitution Date" means the date on which an Alternate Liquidity Facility is substituted for the Liquidity Facility.

"Substitution Tender Date" means the date five Business Days prior to the Substitution Date.

"Supplemental Note Order" means any order that supplements or amends the Note Order in accordance with Article IX of the Note Order.

"Tax Certificate" means that certificate signed by the County on the date the Notes are issued and relating to the requirements of Section 148 of the Code.

"Term Rate" means the per annum interest rate for any Note in the Term Rate Mode determined pursuant to Section 2.7(a) of the Note Order.

"Term Rate Interest Payment Dates" means, with respect to a Note in the Term Rate Mode and for the current Interest Period for such Note, each Stated Interest Payment Date occurring in such Period (beginning with the first Stated Interest Payment Date that occurs no earlier than three months after the commencement of such Period).

"Term Rate Mode" means the Mode during which all or any part of the Notes bear interest at the Term Rate.

"Weekly Mode" means the Mode during which all or any part of the Notes bear interest at the Weekly Rate.

"Weekly Rate" means the per annum interest rate on any Note in the Weekly Mode determined pursuant to Section 2.6(b) of the Note Order.

SUMMARY OF CERTAIN PROVISIONS OF THE NOTE ORDER

Calculation and Payment of Interest; Maximum Rate. When a Commercial Paper Mode, a Daily Mode or a Weekly Mode is in effect, interest shall be calculated on the basis of a 365/366 day year for the actual number of days elapsed. When a Term Rate Mode or a Fixed Rate Mode is in effect, interest shall be calculated on the basis of a 360 day year comprised of twelve 30-day months. Payment of interest on each Note shall be made on each Interest Payment Date for such Note for unpaid interest accrued during the Interest Accrual Period to the Owner of record of such Note on the applicable Record Date.

(a) Some or all of the Notes in any Mode, other than a Fixed Rate Mode, may be changed to any other Mode at the times and in the manner hereinafter provided. Subsequent to such change in Mode (other than a change to a Fixed Rate Mode), any Note may again be changed to a different Mode at the times and in the manner hereinafter provided. A Fixed Rate Mode shall be in effect until the Maturity Date, or acceleration thereof prior to the Maturity Date, and may not be changed to any other Mode.

(b) Absent manifest error, the interest rates contained in the records of the Registrar and Paying Agent shall be conclusive and binding upon the County, the Remarketing Agent, the Registrar and Paying Agent, the Bank and the Owners.

(c) No Notes shall bear interest at an interest rate higher than the Maximum Rate.

(d) In the absence of manifest error, the determination of interest rates and interest periods by the Remarketing Agent shall be conclusive and binding, upon the Remarketing Agent, the Registrar and Paying Agent, the Bank, the County and the Owners.

Determination of Commercial Paper Rates and Interest Periods During the Commercial Paper Mode. An Interest Period for a Commercial Paper Note shall be of such duration, ending on a Business Day (but not later than the current Expiration Tender Date), of from one to 270 calendar days, as the Remarketing Agent shall determine in accordance with the provisions of this section. A Commercial Paper Note can have an Interest Period, and bear interest at a rate, different than other Commercial Paper Notes. In making the determinations with respect to Interest Periods, subject to limitations imposed by the preceding sentence and in Section 2.4 of the Note Order, on each Rate Determination Date for a Commercial Paper Note, the Remarketing Agent shall select for such Note the Interest Period which would result in the Remarketing Agent being able to remarket such Note at par in the secondary market at the lowest interest rate then available and for the longest Interest Period available at such rate, provided that if on any Rate Determination Date, the Remarketing Agent determines that current or anticipated future market conditions or anticipated future events are such that a different Interest Period would result in a lower average interest cost on such Note, then the Remarketing Agent shall select the Interest Period which in the judgment of the Remarketing Agent would permit such Note to achieve such lower average interest cost; provided, however, that if the Remarketing Agent has received notice from the County that any Note is to be changed from the Commercial Paper Mode to any other Mode or is to be purchased in accordance with a mandatory purchase pursuant to Section 4.5 of the Note Order, the Remarketing Agent shall, with respect to such Note, select Interest Periods which do not extend beyond the Mandatory Purchase Date.

On or after 4:00 P.M. on the Business Day next preceding each Rate Determination Date for a Commercial Paper Note, any Owner of such Note may telephone the Remarketing Agent and receive notice of the anticipated next Interest Period and the anticipated Commercial Paper Rate for such Interest Period for such Note.

To receive payment of the Purchase Price, the Owner of any Note in the Commercial Paper Mode must present such Note to the Registrar and Paying Agent, by 12:00 noon on the Rate Determination Date, in which case, the Registrar and Paying Agent shall pay the Purchase Price to such Owner by the close of business on the same day.

By 12:30 P.M. on each Rate Determination Date for a Commercial Paper Note, the Remarketing Agent shall determine the Commercial Paper Rate for the Interest Period then selected for such Note and shall give notice by Electronic Means to the Registrar and Paying Agent of the new Owner, the Interest Period, the Purchase Date and the Commercial Paper Rate.

By 1:00 P.M. on each Rate Determination Date, the Remarketing Agent will assign CUSIP numbers for each Commercial Paper Note for which a Commercial Paper Rate and Interest Period have been determined on such date and notify the Registrar and Paying Agent of such assignment by Electronic Means.

Determination of Interest Rate During the Daily Mode and the Weekly Mode. The interest rate for any Note in the Daily Mode or Weekly Mode shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of such Note on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued and unpaid interest, if any.

(a) During the Daily Mode, the Remarketing Agent shall establish the Daily Rate by 10:00 A.M. on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The Remarketing Agent shall make the Daily Rate available by telephone to any Owner or Notice Party requesting such rate, and on the last Business Day of each month, shall give notice to the Registrar and Paying Agent of the Daily Rates that were in effect for each day of such month by Electronic Means.

(b) During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 4:00 P.M. on each Rate Determination Date. The Weekly Rate shall be in effect (i) initially, from and including the first day the Notes become subject to the Weekly Mode to and including the following Tuesday and (ii) thereafter, from and including each Wednesday to and including the following Tuesday. The Remarketing Agent shall make the Weekly Rate available (i) after 4:00 P.M. on the Rate Determination Date by telephone to any Owner or Notice Party requesting such rate and (ii) by Electronic Means to the Registrar and Paying Agent not later than the second Business Day immediately succeeding the Rate Determination Date.

Determination of Term Rate and Fixed Rate.

(a) Term Rates. Once Notes are changed to the Term Rate Mode, such Notes shall continue in the Term Rate Mode until changed to another Mode in accordance with Section 2.10 of the Note Order. The Term Rate shall be determined by the Remarketing Agent not later than 4:00 P.M. on the Rate Determination Date, and the Remarketing Agent shall make the Term Rate available by telephone to any Notice Party requesting such rate. The Remarketing Agent shall give written notice of the Term Rate to the County and the Registrar and Paying Agent upon request. The Term Rate shall be the minimum rate which, in the sole judgment of the Remarketing Agent, will result in a sale of the Notes at a price equal to the principal amount thereof on the Rate Determination Date for the Interest Period selected by the County in writing delivered to the Remarketing Agent before such Rate Determination Date. If a new Interest Period is not selected by the County prior to such Rate Determination Date (for a reason other than a court prohibiting such selection) the new Interest Period shall be the same length as the current Interest Period (or such lesser period as shall be necessary to comply with the next sentence and paragraph) . No Interest Period in the Term Rate Mode may extend beyond the applicable Maturity Date.

A Note on the date it is converted to the Term Rate Mode and while it is in the Term Rate Mode does not have to be secured by a Liquidity Facility if so determined by the County as provided by Section 2.10(a) of the Note Order. If, however, it is secured by the Liquidity Facility, then, notwithstanding anything to the contrary contained herein, no Interest Period for such Note may extend beyond the Expiration Tender Date.

(b) Fixed Rate. The Remarketing Agent shall determine the Fixed Rate for a Note in the Fixed Rate Mode in the manner and at the times as follows: Not later than 4:00 P.M. on the Rate Determination Date for such Note, the Remarketing Agent shall determine the Fixed Rate for such Note. The Fixed Rate shall be the minimum interest rate which, in the sole judgment of the Remarketing Agent, will result in a sale of such Note at a price equal to the principal amount thereof on the Rate Determination Date. The Remarketing Agent shall make the Fixed Rate available by telephone to any Notice Party requesting such Fixed Rate. Upon request of any Notice Party, the Registrar and Paying Agent shall give notice of such rate by Electronic Means.

Alternate Rates. (a) The following provisions shall apply in the event (i) the Remarketing Agent fails or is unable to determine the interest rate or Interest Period for any Note or (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to a Note (or the selection by the County of the Interest Periods for Notes in the Term Rate Mode) shall be held to be unenforceable by a court of law of competent jurisdiction. These provisions shall continue to apply until such time as the Remarketing Agent (or the County if applicable) again makes such determinations. In the case of clause (ii) above, the Remarketing Agent (or the County, if applicable) shall again make such determination at such time as there is delivered to the Remarketing Agent and the County an opinion of

Bond Counsel to the effect that there are no longer any legal prohibitions against such determinations. The following shall be the methods by which the interest rates and, in the case of the Commercial Paper and Term Rate Modes, the Interest Periods, shall be determined for a Note as to which either of the events described in clauses (i) or (ii) shall be applicable. Such methods shall be applicable from and after the date either of the events described in clauses (i) or (ii) first become applicable to such Note until such time as the events described in clauses (i) or (ii) are no longer applicable to such Note. These provisions shall not apply if the County fails to select an Interest Period for a Note in the Term Rate Mode for a reason other than as described in clause (ii) above.

(b) For a Commercial Paper Note, the next Interest Period shall be from, and including, the last day of the current Interest Period for such Note to, but excluding, the next succeeding Business Day and thereafter shall commence on each Business Day and extend to, but exclude, the next succeeding Business Day. For each such Interest Period, the interest rate for such Note shall be the Lehman Brothers Tax Exempt Commercial Paper Index in effect on the Business Day that begins an Interest Period.

(c) If such Note is in the Daily Mode, then such Note shall bear interest during each subsequent Interest Period at the last lawful interest rate for such Note set by the Remarketing Agent pursuant to Section 2.6 of the Note Order.

(d) If such Note is in the Weekly Mode, then such Note shall bear interest during each subsequent Interest Period at the BMA Municipal Swap Index in effect on the first day of such Interest Period.

(e) If such Note is in the Term Rate Mode and if (i) such Note is secured by a Liquidity Facility, it will be changed automatically to the Commercial Paper Mode with an Interest Period and Commercial Paper Rate to be determined by the Remarketing Agent in accordance with Section 2.5 of the Note Order or (ii) if such Note is not secured by a Liquidity Facility, then such Note shall stay in the Term Rate Mode for subsequent Interest Periods, each beginning on the last Stated Interest Payment Date and ending on the next Stated Interest Payment Date, and shall bear interest at the Alternate Term Rate in effect at the beginning of each such Interest Period.

Additional Notes. (a) Additional Notes may be issued under the Note Order and a Supplemental Note Order for any purpose permitted under the Authorizing Legislation and the Bond Anticipation Note Act.

(b) In addition to the conditions precedent to the delivery of the Notes noted in Section 2.9 of the Note Order, the Registrar and Paying Agent shall not authenticate or deliver any Additional Notes unless it has received an opinion of Bond Counsel stating the issuance of the Additional Notes will not adversely affect the exemption from federal income taxes of interest on the Notes as set forth in the opinion of Bond Counsel delivered at the time of delivery of the Notes.

Purchase Fund. There is established under the Note Order and there shall be maintained with the Registrar and Paying Agent a separate fund to be known as the "Purchase Fund." The Registrar and Paying Agent shall further establish separate accounts within the Purchase Fund to be known as the "Liquidity Facility Purchase Account," the "Remarketing Proceeds Account" and the "County Funds Account."

(a) Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of Notes, the Registrar and Paying Agent shall deposit such proceeds in the Remarketing Proceeds Account for application to the Purchase Price of the Notes. Notwithstanding the foregoing, upon the receipt of the proceeds of a remarketing of Bank-Owned Notes, the Registrar and Paying Agent shall immediately pay such proceeds to the Bank to the extent of any amount owing to the Bank.

(b) County Funds Account. Upon receipt of funds from the County accompanied by written direction to deposit such funds in the County Funds Account, the Registrar and Paying Agent shall deposit such funds in the County Funds Account for application to the Purchase Price of the Notes.

(c) Liquidity Facility Purchase Account. Upon receipt from the Registrar and Paying Agent of the immediately available funds transferred to the Registrar and Paying Agent pursuant to paragraph (a) of Section 4.11 of the Note Order, the Registrar and Paying Agent shall deposit such money in the Liquidity Facility Purchase Account for application to the Purchase Price of the Notes to the extent that the moneys on deposit in the Remarketing Proceeds Account and the County Funds Account shall not be sufficient. Any amounts deposited in the Liquidity Facility Purchase Account and not needed with respect to any Purchase Date or Mandatory Purchase Date for the payment of the Purchase Price for any Notes shall be immediately returned to the Bank.

(d) Investment. Amounts held in the Liquidity Facility Purchase Account, the County Funds Account and the Remarketing Proceeds Account by the Registrar and Paying Agent shall be held uninvested and separate and apart from all other funds and accounts.

Application of Proceeds. The proceeds received from the sale of the Notes shall be deposited with the County and applied to financing and refinancing the acquisition, construction and equipping of certain public facilities of the County in accordance with the provisions of the Authorizing Legislation.

Note Fund. There is established under the Note Order and created a fund to be designated "Montgomery County, Maryland Consolidated Public Improvement Bond Anticipation Notes, 2006 Series A Note Fund" (the "Note Fund"). The County shall pay to the Registrar and Paying Agent for deposit in the Note Fund funds at the times and in the amounts necessary for the Registrar and Paying Agent to make the transfers described below.

The Registrar and Paying Agent shall transfer money contained in the Note Fund to the accounts described below at the following respective times in the manner hereinafter provided, which accounts the Registrar and Paying Agent agrees to establish and maintain so long as the Note Order is not discharged in accordance with Article X of the Note Order and each such account shall constitute a trust fund for the benefit of the Owners of the Notes and the Bank, and the money in each such account shall be disbursed only for the purposes and uses hereinafter authorized.

(a) Interest Account. On each Interest Payment Date, the Registrar and Paying Agent shall deposit in the Interest Account from money in the Note Fund an amount which shall be sufficient to pay interest payable on such Notes on such Interest Payment Date. Money in the Interest Account shall be used and withdrawn by the Registrar and Paying Agent on each Interest Payment Date solely for the payment of the accrued and unpaid interest of Outstanding Notes.

(b) Principal Account. On each Principal Payment Date, the Registrar and Paying Agent shall deposit in the Principal Account from money in the Note Fund, an amount equal to the principal becoming due on such Notes on each Principal Payment Date. Money in the Principal Account shall be used and withdrawn by the Registrar and Paying Agent on each Principal Payment Date solely for the payment of the principal of Outstanding Notes.

(c) Redemption Account. The Registrar and Paying Agent shall deposit in the Redemption Account amounts required to pay the principal of and premium, if any, and accrued interest on any Note to be redeemed pursuant to Sections 3.2, 3.3, 3.4 or 3.5 of the Note Order. Money in the Redemption Account shall be used and withdrawn by the Registrar and Paying Agent on each Redemption Date solely for the payment of the principal of and premium, if any, and accrued interest on such Notes upon the redemption thereof.

Investments. Except as otherwise provided in the Note Order, so long as the Notes are Outstanding and there is no default under the Note Order, moneys on deposit to the credit of the Funds shall, at the telephonic request of an County Representative, confirmed in writing within two Business Days, specifying and directing that such investment of such funds be made, be invested by the Registrar and Paying Agent in Permitted Investments. The Registrar and Paying Agent is entitled to rely on said instructions for purposes of taking any action pursuant to this section.

Events of Default. If any of the following events occur, it will constitute an "Event of Default":

(a) Default in the due and punctual payment of interest on any Note, whether at the stated Interest Payment Date thereof, or upon proceedings for redemption thereof or upon purchase thereof pursuant to Article IV of the Note Order; or

(b) Default in the due and punctual payment of the principal of or premium, if any, on any Note, whether at the stated maturity thereof, or upon proceedings for redemption thereof, or upon purchase pursuant to Article IV of the Note Order; or

(c) The County shall fail to observe or perform in any material way any covenant, condition, agreement or provision contained in the Notes or in the Note Order on the part of the County to be performed other than those set forth in Section 6.1 of the Note Order, and such failure shall continue for thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the County by the Registrar and Paying Agent, which notice may be given by the Registrar and Paying Agent in its discretion and shall be given by the Registrar and Paying Agent at the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of all Notes then Outstanding.

If the Registrar and Paying Agent has actual knowledge that an Event of Default has occurred and is continuing, the Registrar and Paying Agent will mail notice of the Event of Default to the Owners, the Remarketing Agent and the Bank as promptly as practicable after it occurs.

Remedies. If an Event of Default occurs and is continuing, any Owner may pursue any available remedy by proceeding at law or in equity to collect the principal of and premium, if any, or interest on such Note or to enforce the performance of any provision of the Notes or the Note Order. A delay or omission by any Owner in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

Waiver of Past Defaults. A majority in principal amount of the Outstanding Notes by notice to the County and the Registrar and Paying Agent may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it.

Control by Majority. The Owners of a majority in aggregate principal amount of Notes Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to Owners.

Rights of Owners to Receive Payment. Notwithstanding any other provision of the Note Order, the right of any Owner to receive payment of principal of premium, if any, and interest on a Note, on or after the due dates expressed in the Note, or the purchase price of a Note on or after the date for its purchase as provided in the Note, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the Owner.

Priorities Except as described in this section, funds drawn under the Liquidity Facility will be used only for the payment of the Purchase Price of the Notes supported by the Liquidity Facility, as provided in the Liquidity Facility. If the Registrar and Paying Agent collects any money pursuant to Article VII of the Note Order, it shall pay out the money in the following order: <u>first</u> to the Registrar and Paying Agent for amounts to which it is entitled under Section 8.3 of the Note Order, (provided, that if such money constitutes proceeds of an advance under the Liquidity Facility, the Registrar and Paying Agent shall pay the Owners <u>first</u> and itself <u>second</u>); <u>second</u> to Owners for amounts due and unpaid on the

Notes for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal, premium and interest, respectively; third to the Bank to the extent it certifies that the County is indebted to it on account of advances under the Liquidity Facility or otherwise under the Liquidity Facility and to the extent not paid pursuant to the provisions described in clause second of this paragraph; and fourth to the County.

The Registrar and Paying Agent may fix a payment date for any payment to the Owners.

Undertaking for Costs. In any suit for the enforcement of any right or remedy under the Note Order or in any suit against the Registrar and Paying Agent for any action taken or omitted by it as Registrar and Paying Agent, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This section does not apply to a suit by the Registrar and Paying Agent, a suit by an Owner pursuant to Section 7.6 of the Note Order or a suit by Owners of more than 25% in aggregate principal amount of Notes Outstanding.

Removal and Resignation of the Registrar and Paying Agent. The Registrar and Paying Agent may resign by notifying the County. The Owners of a majority in principal amount of the Outstanding Notes may remove the Registrar and Paying Agent by notifying the Registrar and Paying Agent and may appoint a successor Registrar and Paying Agent with the consent of the County and, when a Liquidity Facility is in effect and so long as the Bank has not wrongfully dishonored a drawing on the Liquidity Facility, the consent of the Bank (which shall be under no liability by reason of giving or withholding such consent). The County will remove the Registrar and Paying Agent by notifying the Registrar and Paying Agent if (a) the Registrar and Paying Agent fails to comply with the penultimate sentence of the first paragraph of this section, (b) the Registrar and Paying Agent is adjudged a bankrupt or an insolvent, (c) a receiver or other public officer takes charge of the Registrar and Paying Agent or its property or (d) the Registrar and Paying Agent otherwise becomes incapable of acting. Upon any such removal or resignation, the County, with the consent of the Bank, when a Liquidity Facility is in effect and so long as the Bank has not wrongfully dishonored a drawing on the Liquidity Facility (which consent shall not be unreasonably withheld, provided that the Bank shall be under no liability by reason of giving or withholding such consent), shall promptly appoint a successor Registrar and Paying Agent by an instrument in writing, which successor Registrar and Paying Agent shall give notice of such appointment to all Owners as soon as practicable; provided, that in the event the County does not appoint a successor Registrar and Paying Agent within sixty (60) days following the giving of any such notice of removal or the receipt of any such notice of resignation, the removed or resigning Registrar and Paying Agent may petition any appropriate court having jurisdiction to appoint a successor Registrar and Paying Agent. Any successor Registrar and Paying Agent shall be a bank with trust powers, national banking association with trust powers or trust company doing business and having a principal corporate trust office in New York, New York, having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars ($50,000,000) and subject to supervising or examination by state or national authorities. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any removal or resignation of a Registrar and Paying Agent and appointment of a successor Registrar and Paying Agent shall become effective only upon the acceptance of the appointment by the successor Registrar and Paying Agent and the transfer by the retiring Registrar and Paying Agent to the successor Registrar and Paying Agent of all property held by it under the Note Order as Registrar and Paying Agent.

Protection of the Registrar and Paying Agent. The Registrar and Paying Agent shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Note Order, and the Registrar and Paying Agent shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Registrar and Paying Agent may consult with counsel, who may be counsel to the County, with regard to legal questions arising under the Note Order, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Note Order in good faith in accordance therewith.

Whenever in the observance or performance of its rights and obligations under the Note Order the Registrar and Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Note Order, such matter (unless other evidence in respect thereof be specifically prescribed in the Note Order) may be deemed to be conclusively proved and established by a certificate of a County Representative, and such certificate shall be full warrant to the Registrar and Paying Agent for any action taken or suffered under the provisions of the Note Order upon the faith thereof, but in its discretion the Registrar and Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Registrar and Paying Agent may buy, sell, own, hold and deal in any of the Notes and may join in any action which any Owner may be entitled to take with like effect as if it were not a party hereto. The Registrar and Paying Agent, either as principal or agent, may also engage in or be interested in any financial or other transaction with the County and may act as agent, depositary or trustee for any committee or body of Owners or of owners of obligations of the County as freely as if it were not the Registrar and Paying Agent under the Note Order.

The Registrar and Paying Agent shall not be liable for any action it takes or omits to take in good faith without negligence which it believes to be authorized or within its rights or powers.

The Registrar and Paying Agent makes no representation as to the validity or adequacy of the Note Order or the Notes, shall not be accountable for the County's covenants and representations contained in the Note Order, and shall not be responsible for any statement in the Notes other than its certificate of authentication.

Appointment of Remarketing Agent. The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Note Order by giving at least thirty (30) days' notice to the County, the Registrar and Paying Agent and the Bank. The Remarketing Agent may be removed at any time, at the direction of the County with the consent of the Bank (which shall not be unreasonably withheld), by an instrument filed with the Remarketing Agent, the Registrar and Paying Agent and the Bank and upon at least thirty (30) days' notice to the Remarketing Agent. Any successor Remarketing Agent shall be selected by the County with the consent of the Bank (which shall not be unreasonably withheld) and shall be a member of the National Association of Securities Dealers, Inc., shall have a capitalization of at least fifteen million dollars ($15,000,000), and shall be authorized by law to perform all the duties set forth in the Note Order. When a Liquidity Facility is in effect and so long as the Bank has not wrongfully dishonored a draw on the Liquidity Facility, the County shall obtain the Bank's consent to the appointment of such successor Remarketing Agent. The County's delivery to the Registrar and Paying Agent of a certificate setting forth the effective date of the appointment of a successor Remarketing Agent and the name of such successor shall be conclusive evidence that (i) if applicable, the predecessor Remarketing Agent has been removed in accordance with the provisions of the Note Order and (ii) such successor has been appointed and is qualified to act as Remarketing Agent under the terms of the Note Order.

Amendment or Supplement by Consent of Owners; Without Consent of Owners. (a) The Note Order, the Notes and the rights and obligations of the County, the Registrar and Paying Agent, the Remarketing Agent, the Bank and the Owners under the Note Order may be amended or supplemented at any time by an amendment of the Note Order or supplement hereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Notes then Outstanding, exclusive of Notes disqualified as provided in Section 9.2 of the Note Order, and the written consent of the Bank when a Liquidity Facility is in effect and so long as the Bank is not in default on the Liquidity Facility (provided that the Bank shall be under no liability by reason of giving or withholding such consent), are filed with the Registrar and Paying Agent, together with a Favorable Opinion of Bond Counsel. No such amendment or supplement shall (1) reduce the rate of interest on any Note or extend the time of payment thereof or reduce the amount of principal or redemption premiums, if any, on any Note or extend the Principal Payment Date thereof without the prior written consent of the Owner of the Note so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Note Order or supplement hereto, or (3) modify any of the rights or obligations of the Registrar and Paying Agent or the Remarketing Agent without its prior written consent thereto.

(b) The Note Order, the Notes and the rights and obligations of the County, the Registrar and Paying Agent, the Remarketing Agent, the Bank and the Owners under the Note Order may also be amended or supplemented at any time by an amendment of the Note Order or supplement hereto which shall become binding upon execution without the written consent of any Owners, but with the written consent of the Bank when a Liquidity Facility is in effect and so long as the Bank is not in default on the Liquidity Facility (provided that the Bank shall be under no liability by reason of giving or withholding such consent), and (if the amendment or supplement modifies any of the rights or obligations of the Registrar and Paying Agent or the Remarketing Agent under the Note Order) with the written consent of the Registrar and Paying Agent or the Remarketing Agent, as applicable, only after receipt of a Favorable Opinion of Bond Counsel and only for any one or more of the following purposes:

(i) to add to the conditions, covenants and terms contained herein required to be observed or performed by the County, other conditions, covenants and terms thereafter to be observed or performed by the County, or to surrender any right reserved herein to or conferred herein on the County, and which in either case shall not adversely affect the interests of the Owners;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective, inconsistent or conflicting provision contained herein or in regard to questions arising under the Note Order which the County may deem desirable or necessary, and which shall not adversely affect the interests of the Owners;

(iii) to comply with the requirements of Moody's, S&P or Fitch, as applicable, as a condition of rating, or maintaining an existing rating on, the Notes, provided such change is not materially adverse to the interests of the Owners of any of the Notes;

(iv) to provide for (or subsequently modify) an additional Mode for the Notes and the provisions relating thereto. Such amendment shall specify the period for payment of the interest, the intervals and dates at which the rate will be set by the Remarketing Agent and the intervals and procedures by which the Notes may be tendered for purchase. These changes will be noted on the Notes in accordance with Section 9.3 of the Note Order, or an amended Note form will be provided for in the amendment in order to reflect them;

(v) to provide for the delivery of Notes in book-entry form; or

(vi) to provide for the issuance of Additional Notes.

A change to an additional Mode from another interest rate determination method will cause a mandatory purchase of the Notes. The notice requirements of Section 4.2 of the Note Order will apply to any such change. The effective date of a change to an additional Mode cannot be after a change to the Fixed Rate Mode.

Each additional Mode interest rate will be set at the minimum rate necessary for the Remarketing Agent to sell the Notes on the day the rate is to take effect at their principal amount plus accrued interest, if any.

The amendment shall establish an index and/or method by which the rate will be set, to be used in the event that for any reason the Remarketing Agent does not set an additional Mode interest rate or a court holds that the rate set is invalid or unenforceable.

Defeasance. If and when the Notes secured by the Note Order shall become due and payable in accordance with their terms or through redemption proceedings as provided in the Note Order, or otherwise, and the whole amount of the principal, or redemption price and the interest so due and payable upon all of the Notes shall be paid, or provision shall have been made for the payment of the same, together with all other sums payable under the Note Order by the County, including all fees and expenses of the Registrar and Paying Agent and payment of all obligations due and owing to the Bank (including any principal or interest due and owing on any Bank-Owned Notes), then and in that case, the Note Order and the lien created by the Note Order shall be discharged and satisfied and the County shall be released from the covenants, agreements and obligations of the County contained in the Note Order, and the Registrar and Paying Agent shall assign and transfer to or upon the order of the County all property (in excess of the amounts required for the foregoing) then held by the Registrar and Paying Agent free and clear of any encumbrances and shall execute such documents as may be reasonably required by the County in this regard.

Subject to the provisions of the above paragraph, when any of the Notes shall have been paid and if, at the time of such payment, the County shall have kept, performed and observed all the covenants and promises in such Notes and in the Note Order required or contemplated to be kept, performed and observed by the County or on its part on or prior to that time then the Note Order shall be considered to have been discharged in respect of such Notes and such Notes shall cease to be entitled to the lien of the Note Order and such lien and all covenants, agreements and other obligations of the County under the Note Order shall cease, terminate, become void and be completely discharged as to such Notes.

Notwithstanding the satisfaction and discharge of the Note Order or the discharge of the Note Order in respect of any Notes, those provisions of the Note Order relating to the maturity of the Notes, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Notes, replacement of mutilated, destroyed, lost or stolen Notes, the safekeeping and cancellation of Notes, nonpresentment of Notes and the duties of the Registrar and Paying Agent in connection with all of the foregoing, and compliance by the County of the covenants contained in Section 6.4 of the Note Order, shall remain in effect and shall be binding upon the County, the Registrar and Paying Agent and the Owners of the Notes and the Registrar and Paying Agent shall continue to be obligated to hold in trust any moneys or investments then held by the Registrar and Paying Agent for the payment of the principal of, redemption price and interest on the Notes, to pay to the Owners of Notes the funds so held by the Registrar and Paying Agent as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Note Order or the discharge of the Note Order in respect of any Notes, those provisions of the Note Order contained in Section 8.3 of the Note Order relating to the compensation of the Registrar and Paying Agent shall remain in effect and shall be binding upon the Registrar and Paying Agent and the County.

Notes Deemed to Have Been Paid. Any Outstanding Note or Notes shall, prior to the maturity, acceleration or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in Section 10.1 of the Note Order if (a) in case said Notes are to be redeemed on any date prior to their maturity, the County shall have given to the Registrar and Paying Agent in form satisfactory to the Registrar and Paying Agent irrevocable instructions to mail, in accordance with the provisions of Article III of the Note Order, notice of redemption of such Notes on said redemption date, (b) there shall have been deposited with the Registrar and Paying Agent either moneys, in an amount which shall be sufficient, or Government Obligations, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Registrar and Paying Agent at the same time, shall be sufficient (as verified by a report of an independent certified public accountant), to pay when due the principal or redemption price (if applicable) of, and interest due and to become due on, said Notes on and prior to the redemption date or maturity date thereof, as the case may be, (c) in the event any of said Notes are not to be redeemed within the next succeeding sixty (60) days, the County shall have given the Registrar and Paying Agent in form satisfactory to the Registrar and Paying Agent irrevocable instructions to mail, as soon as practicable in the same manner as a notice of redemption is mailed pursuant to Article III of the Note Order, a notice to the Owners of such Notes and to the Securities Depositories and an Information Service that the deposit required by (b) above has been made with the Registrar and Paying Agent and that said Notes are deemed to have been paid in accordance with this section and stating such maturity or redemption dates upon which moneys are to be available for the payment of the principal or redemption price (if applicable) of said Notes, and (d) as to any Notes in the Daily Mode, the Weekly Mode or the Commercial Paper Mode, the County shall have delivered to the Registrar and Paying Agent a Rating Confirmation Notice. Neither the securities nor moneys deposited with the Registrar and Paying Agent pursuant to this section nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or redemption price (if applicable) of, and interest on said Notes; provided that any cash received from such principal or interest payments on such obligations deposited with the Registrar and Paying Agent, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in Government Obligations maturing at times and in amounts, together with the other moneys and payments with respect to Government Obligations then held by the Registrar and Paying Agent pursuant to this section, sufficient to pay when due the principal or redemption price (if applicable) of, and interest to become due on said Notes on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Registrar and Paying Agent of a written direction of a County Representative, be paid over to the County, as received by the Registrar and Paying Agent, free and clear of any trust, lien or pledge.

Any release under this section shall be without prejudice to the right of the Registrar and Paying Agent to be paid reasonable compensation for all services rendered by it under the Note Order and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Note Order created and the performance of its powers and duties under the Note Order; provided, however, that the Registrar and Paying Agent shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to Article X of the Note Order.

Moneys Held for Particular Notes. Except as otherwise provided in Section 10.2 of the Note Order, the amounts held by the Registrar and Paying Agent for the payment of the interest, principal, Purchase Price or redemption price due on any date with respect to particular Notes shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Notes entitled thereto.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

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

Ladies and Gentlemen:

We have examined certified copies of the legal proceedings and other proofs submitted relative to the authorization of the issuance of $50,000,000 Montgomery County, Maryland Consolidated Public Improvement Bond Anticipation Notes, 2006 Series A (the "Notes"), by Montgomery County, Maryland (the "County"). The Notes are issued under and pursuant to the terms of Resolution No. 15-1418 adopted by the County on April 25, 2006 (the "Resolution") and Order No. B277-06 executed by the County Executive of the County pursuant to the authority of the Resolution on June 7, 2006 (the "Note Order"). The terms of the Notes are specified in the Resolution and the Note Order.

Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Note Order.

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

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

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

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

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

(a) The County is a duly organized and validly existing body politic and corporate and a political subdivision of the State of Maryland, empowered to issue the Notes under the Note Order.

(b) The Resolution has been duly adopted by the County and and has not been amended, rescinded or revoked and is in full force and effect.

(c) The Note Order and the Notes are enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, or other laws or equitable principles relating to or limiting creditor's rights generally, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

(d) The Notes constitute the valid and binding general obligations of the County, to the payment of which the County's full faith and credit and unlimited taxing power has been pledged.

(e) The Note Order has been duly adopted and constitutes the valid and binding obligation of the County.

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

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

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

(h) Under the terms of the Note Order, prior to (i) certain changes in Mode, (ii) the delivery of an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect, and (ii) certain amendments to the terms of the Note Order, there must be delivered to the Registrar and Paying Agent an opinion of Bond Counsel to the effect that such event will not impair the exclusion of interest on the Notes from gross income for purposes of Federal income taxation or the exemption of interest on the Notes from personal income taxation under the laws of the State of Maryland. Accordingly, we express no opinion as to the effect of any such change in Mode, substitution or amendments on the excludability of interest on the Notes from gross income for federal income tax purposes.

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

It is to be understood that the rights of the owners of the Notes and the enforceability of the Notes, the Resolution and the Note Order may be limited by bankruptcy, insolvency, reorganization, moratorium, or other laws or equitable principles relating to or limiting creditor's rights generally, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

Very truly yours,

[to be signed "Venable LLP"]

APPENDIX E

PROPOSED FORM OF NOTE

No. ________________ $____________________________

UNITED STATES OF AMERICA
STATE OF MARYLAND
MONTGOMERY COUNTY, MARYLAND

CONSOLIDATED PUBLIC IMPROVEMENT BOND ANTICIPATION NOTE
2006 SERIES A

DATE OF ORIGINAL ISSUE	MATURITY DATE	MODE	CUSIP

REGISTERED
OWNER: ___________________________

PRINCIPAL
AMOUNT: _____________________ DOLLARS

Montgomery County, Maryland (the "County"), a body politic and corporate and a political subdivision of the State of Maryland (the "State"), acknowledges itself indebted to, and for value received, hereby promises to pay to the Registered Owner specified above, or to such Registered Owner's registered assigns or personal representatives, the Principal Amount specified above on the Maturity Date specified above, unless this Note is redeemed or purchased prior thereto as hereinafter provided, upon its presentation and surrender as provided under a Note Order executed as of June 7, 2006, of the County, as supplemented from time to time (the "Note Order"), and to pay to the Registered Owner interest on such Principal Amount until paid at the times and at the rates described herein.

The Note is one of a duly authorized issue of notes of the County designated "Consolidated Public Improvement Bond Anticipation Notes, 2006 Series A" (the "Notes"), issued under and pursuant to Section 12 of Article 31 of the Annotated Code of Maryland, as amended (the "Bond Anticipation Note Act"), and under and pursuant to the Note Order. All Notes issued under the Note Order are equally and ratably secured by the pledges and covenants made therein, except as otherwise expressly provided or permitted in the Note Order, to which reference is made for a description of the rights of Registered Owners of the Notes. The Registered Owner hereof, by acceptance of this Note, consents to all of the terms and conditions of the Note Order, a copy of which is on file with U. S. Bank Trust National Association, as Registrar and Paying Agent.

This Note is a direct and general obligation of the County, and the full faith, credit and taxing authority of the County are hereby irrevocably pledged to the payment of the principal or redemption price of and interest on this Note in accordance with its terms. The County hereby covenants and agrees with the Owners, from time to time, of the Notes and the Bank to cause to be levied and collected taxes sufficient to make such payments and to take any further action that may be appropriate from time to time during the period that this Note remains outstanding and unpaid and any amount remains due and payable under the Liquidity Facility to provide the funds necessary to make the payments required hereunder and under the Liquidity Facility.

The proceeds of the Notes will be used by the County to to provide funds to finance and refinance the acquisition, construction and equipping of certain public facilities of the County.

1. Definitions. Any term used herein as a defined term but not defined herein shall be defined as in the Note Order.

2. Source of Payments. (a) Payments of the principal of, interest on and optional redemption price (if any) of the Notes shall be paid by the County.

(b) The County has caused to be delivered to the Registrar and Paying Agent a Standby Note Purchase Agreement (the "Liquidity Facility") issued by Dexia Credit Local, New York Branch (together with its successors and assigns or any issuer of any Alternate Liquidity Facility, the "Bank"). The initial Liquidity Facility will expire on June 7, 2011, unless earlier terminated in accordance with its terms. The Registrar and Paying Agent, as provided in the Note Order, will draw on the Liquidity Facility in order to receive amounts sufficient to pay the Purchase Price of the Notes then secured by the Liquidity Facility to the extent that the proceeds of remarketing of Notes and other available funds are insufficient to pay such Purchase Price. Notes in the Term Rate Mode or the Fixed Rate Mode may be, but are not required to be, secured by the Liquidity Facility as provided in the Note Order. The County, upon the conditions specified in the Note Order, may provide for the delivery to the Registrar and Paying Agent of an Alternate Liquidity Facility.

3. Interest Rate. Interest in this Note will be paid at a Commercial Paper Rate when the Note is in the Commercial Paper Mode, at a Daily Rate when the Note is in the Daily Mode, at a Weekly Rate when the Note is in the Weekly Mode, at a Term Rate when the Note is in the Term Rate Mode, and at a Fixed Rate when the Note is in the Fixed Rate Mode, all as determined in accordance with the Note Order; provided, however, that no Note shall bear interest at a rate higher than the Maximum Rate. The County may change any Note in a Mode, other than a Fixed Rate Mode, to any other Mode.

When a Commercial Paper Mode, a Daily Mode or Weekly Mode is in effect, interest will be calculated on the basis of a 365/366 day year for the actual number of days elapsed, and when a Term Rate Mode or Fixed Rate Mode is in effect, on the basis of a 360 day year comprised of twelve 30-day months.

4. Interest Payment Dates and Record Dates. Payment will be made on the applicable Interest Payment Date to the Registered Owner on the applicable Record Date for unpaid interest accrued during the current Interest Accrual Period (as defined below), all as set forth in the Note Order. Certain of the provisions relating thereto are set forth below:

Mode	Interest Period	Interest Payment Date	Record Date
Commercial Paper	Determined by the Remarketing Agent as any period of 1 to 270 days ending on a Business Day	Last Day of Interest Period	The day next preceding the Interest Payment Date
Daily	From each Rate Determination Date to (but excluding) the next such Date	First Business Day of each month	The last day of each month
Weekly	From each Wednesday through the next Tuesday	First Business Day of each month	The day next preceding each Interest Payment Date
Term Rate	As determined by the County pursuant to the Note Order	Each June 1 and December 1	15th day of the month preceding each Interest Payment Date
Fixed Rate	Mode Change Date to maturity	Each June 1 and December 1	15th day of the month preceding each Interest Payment Date

In addition, unpaid interest accrued from the last Interest Payment Date to which interest has been paid will be payable on any Mode Change Date and on the Maturity Date and, with respect to Bank-Owned Notes, the dates provided in the Liquidity Facility.

"Interest Accrual Period" means the period during which the Notes accrue interest payable on any Interest Payment Date. With respect to Notes in the Daily Mode, the Interest Accrual Period shall commence on (and include) the first day of each month and shall extend through (and include) the last day of such month; provided, that if such month is the month in which the Notes were authenticated and delivered or were changed to the Daily Mode, the Interest Accrual Period shall commence on the date of authentication and delivery of the Notes or the Mode Change Date, as the case may be; provided, further, that if no interest has been paid on Notes in the Daily Mode, interest shall accrue from the date of original authentication and delivery of the Notes or the Mode Change Date, as appropriate. With respect to Notes in all Modes other than the Daily Mode, the Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid in such Mode, from the date of original authentication and delivery of the Notes, or the Mode Change Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid.

5. Method of Payment. The principal of and premium, if any, on each Note will be payable on the applicable Principal Payment Date upon its surrender at the office of the Registrar and Paying Agent. The Purchase Price of a Note will be payable upon the close of business of the Purchase Date; provided, that such Note is first surrendered to the Registrar and Paying Agent by 12:00 noon on such date (see "Tenders and Purchases" below). Interest on Notes in the Commercial Paper Mode, the Daily Mode or the Weekly Mode will be paid by the Registrar and Paying Agent by wire transfer of immediately available funds to an account specified by the Registered Owner on the applicable Record Date and, on Notes in the Term Rate or Fixed Rate Mode, by check mailed by the Registrar and Paying Agent to the Registered Owner at the address appearing in the registration books of the Registrar and Paying Agent on the applicable Record Date. Payment of interest to Registered Owners of $1,000,000 or more in aggregate principal amount of Notes in the Term Rate or Fixed Rate Mode may be made by wire transfer as provided in the Note Order. The principal of each Bank-Owned Note shall be repaid by or on behalf of the County as provided in the Liquidity Facility. Each Bank-Owned Note shall bear interest on the outstanding principal amount thereof at the Bank Interest Rate for each day from and including the date such Note becomes a Bank-Owned Note to, but not including, the date such Note is paid in full or is

remarketed. Interest on Bank-Owned Notes shall be payable as provided in the Liquidity Facility. Bank-Owned Notes shall not bear interest at the Bank Interest Rate after such Notes have been remarketed unless such Notes shall again become Bank-Owned Notes. Interest on Bank-Owned Notes shall be calculated based upon a 365/366 day year for the actual number of days elapsed.

Principal of and premium, if any, and interest on the Notes will be paid in lawful money of the United States of America.

6. Tenders and Purchases.

(a) Optional Tenders. When this Note is in the Daily Mode, the Weekly Mode or the Term Rate Mode, its Registered Owner may elect to have it, or any portion thereof in an Authorized Denomination, purchased on any Business Day selected by the Owner (a "Purchase Date") in the case of the Daily and Weekly Mode, or on the last day of the current Interest Period (or the next Business Day if such last day is not a Business Day) in the case of a Term Rate Mode, at a price equal to its principal amount plus accrued interest, if any, by delivering:

(i) (1) in the case of the Daily Mode, an irrevocable telephonic notice to the Remarketing Agent, promptly confirmed in writing to the Registrar and Paying Agent, not later than 11:00 A.M. on the Purchase Date specified by the Owner, (2) in the case of the Weekly Mode, an irrevocable written notice of tender or an irrevocable telephonic notice of tender to the Remarketing Agent, promptly confirmed in writing to the Registrar and Paying Agent, by 4:00 P.M. on a Business Day not less than seven days before the Purchase Date specified by the Registered Owner, and (3) in the case of the Term Rate Mode, upon delivery of an irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent, promptly confirmed in writing to the Registrar and Paying Agent, by not later than 4:00 p.m. on a Business Day not less than thirty (30) days before the last day of the current Interest Period applicable to such Note, stating, in each such case, the CUSIP number, Note number, the principal amount to be purchased, and the Purchase Date (in the case of the Daily and Weekly Mode); and

(ii) in either case, the Note (with all necessary endorsements) to the Registrar and Paying Agent in New York, New York, on or before 12:00 noon on the Purchase Date.

Payment of the Purchase Price shall be made as described above only if the Note so delivered conforms in all respects to the description thereof in the notice of optional tender.

SO LONG AS THE NOTES ARE REGISTERED IN THE NAME OF DTC OR ANY NOMINEE THEREOF, TO EXERCISE AN OPTIONAL TENDER, A BENEFICIAL OWNER MUST NOTIFY THE REMARKETING AGENT (AND ITS DTC PARTICIPANT, IF THE REMARKETING AGENT IS NOT SUCH OWNER'S DTC PARTICIPANT) OF ITS DECISION TO DEMAND THE PURCHASE OF ITS NOTES AS PROVIDED IN THE NOTE ORDER.

(b) Mandatory Tenders. This Note must be delivered to the Registrar and Paying Agent for purchase at its Purchase Price on or before 12:00 noon on the following dates:

(i) if the Note is in the Commercial Paper Mode, on the Purchase Date (the last day of the current Interest Period for such Note);

(ii) on any date that the Mode of the Note is changed;

(iii) on the date which is five Business Days prior to the date on which the Liquidity Facility expires or an Alternate Liquidity Facility is to be substituted for the Liquidity Facility, in the event that on or prior to the forty fifth (45th) day next preceding such date, the County has failed to deliver to the Registrar and Paying Agent and Paying Agent a Rating

Confirmation Notice (as defined in the Note Order) and notice that the ratings on the applicable Notes will not be downgraded as a result of such expiration or substitution.

BY ACCEPTANCE OF THIS NOTE, THE REGISTERED OWNER AGREES TO TENDER THIS NOTE FOR PURCHASE ON ANY DATE (THE "MANDATORY PURCHASE DATE") DESCRIBED ABOVE AND ACKNOWLEDGES THAT INTEREST WILL CEASE TO ACCRUE ON THE NOTE ON SUCH MANDATORY PURCHASE DATE, PROVIDED THAT FUNDS FOR SUCH PURCHASE ARE ON DEPOSIT WITH THE REGISTRAR AND PAYING AGENT ON SUCH MANDATORY PURCHASE DATE.

(c) Payment of Purchase Price. The Purchase Price of a Note delivered for purchase as described above (with all necessary endorsements) will be paid by wire transfer in immediately available funds by the close of business on the applicable Purchase Date.

(d) Delivery Address. Notices in respect of tenders and Notes tendered must be delivered as follows:

Notices to Remarketing Agent:	Lehman Brothers Inc. 745 7th Avenue, 3rd Floor Twentieth Floor New York, New York 10019 Attn: Francis Murphy Telephone: 212-528-1011 Facsimile: 646-758-1870
Notes and Notices to Registrar and Paying Agent:	U. S. Bank Trust National Association 100 Wall Street - Suite 1600 New York, New York 10005 Attention: Beverly A. Freeney Telephone: 212-361-2893 Facsimile: 212-509-3384

These addresses may be changed by notice mailed by first class mail to the Registered Owners at their registered addresses.

7. Redemptions.

(a) Optional Redemptions.

(i) Commercial Paper Mode. When this Note is in the Commercial Paper Mode, it is subject to redemption, at the option of the County, in whole or in part, in Authorized Denominations on its Purchase Date (the last day of its current Interest Period), at a redemption price equal to the principal amount thereof.

(ii) Daily Mode and Weekly Mode. When this Note is in the Daily Mode or the Weekly Mode, it is subject to redemption, at the option of the County, in whole on any date or in part on any Interest Payment Date, in Authorized Denominations, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest, if any.

(iii) Term Rate Mode and Fixed Rate Mode. When this Note is in the Term Rate or Fixed Rate Mode, it is subject to redemption, at the option of the County, in whole on any date or in part on any Interest Payment Date (and if in part, in such order of maturity as the County shall specify and within a maturity by lot or by such other method as the Registrar and Paying Agent determines to be fair and reasonable and in Authorized Denominations) at the redemption prices set forth below:

Length of Interest Period, in the case of Term Rate Notes or length of the remaining term of Notes, in the case of Fixed Rate Notes (measured in years from immediately preceding Mode Change Date)	Redemption Prices
greater than 15	on or after the first June 1 or December 1 (whichever is earlier) to follow the tenth anniversary of Mode Change Date: 102%; declining by 1% on each anniversary of such first June 1 or December 1 to 100%
less than or equal to 15 and greater than 10	on or after the first June 1 or December 1 (whichever is earlier) to follow the seventh anniversary of the Mode Change Date: 102%; declining by 1% on each anniversary of such first June 1 or December 1 to 100%
less than or equal to 10 and greater than 5	on or after the first June 1 or December 1 (whichever is earlier) to follow the third anniversary of Mode Change Date: 101%; declining by 1% on each anniversary of the Mode Change Date to 100%
less than or equal to 5	on or after the first June 1 or December 1 (whichever is earlier) to follow the second anniversary of the Mode Change Date at 100%

(b) Mandatory Redemption. (i) Bank-Owned Notes shall be subject to redemption at the times and in the amounts set forth in Section 3.1 of the Liquidity Facility.

(ii) The Notes shall be subject to mandatory sinking fund redemption at the following times and amounts:

Date of Redemption	Redemption Amount
June 1, 2017	$5,000,000
June 1, 2018	5,000,000
June 1, 2019	5,000,000
June 1, 2020	5,000,000
June 1, 2021	5,000,000
June 1, 2022	5,000,000
June 1, 2023	5,000,000
June 1, 2024	5,000,000
June 1, 2025	5,000,000
June 1, 2026*	5,000,000

* Date of Maturity

(c) Notice of Redemption. Notice of redemption shall be given by mail by the Registrar and Paying Agent to the Registered Owner of any Note designated for redemption in whole or in part no less than fifteen (15) nor more than sixty (60) days prior to the Redemption Date. The failure to mail such notice with respect to any Note shall not affect the validity of the proceedings for the redemption of any other Note with respect to which notice was so mailed.

(d) Effect of Notice of Redemption. If notice of redemption is given as required and money for the payment of the Redemption Price is held by the Registrar and Paying Agent, then interest on the Notes or portions thereof called for redemption shall cease to accrue on the Redemption Date.

8. Denominations, Transfer and Exchange. The Notes are in registered from without coupons in the following denominations (the "Authorized Denomination"): in the Commercial Paper Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof; in the Daily Mode or the Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof; and in the Term Rate and Fixed Rate Modes, \$5,000 and any integral multiple thereof. A Registered Owner may transfer or exchange Notes in accordance with the Note Order. The Registrar and Paying Agent may require the payment by any Registered Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

9. Persons Deemed Owners. The Registered Owner of this Note may be treated as its owner for all purposes.

10. Unclaimed Money. If any moneys held by the Registrar and Paying Agent in trust for the payment of interest, principal, premium or Purchase Price of any Notes remain unclaimed for a period of five years after the date on which such moneys were payable, the Registrar and Paying Agent will, upon written notice from the County, pay such amounts to the County or the Bank, as provided in the Note Order, but in no event before sixty (60) days written notice thereof has been given by the Registrar and Paying Agent to the Registered Owners to which such moneys were originally payable. Thereafter, such Registered Owners must look to the County for payment of such moneys.

11. Amendment and Supplement, Waiver. Subject to certain exceptions, the Note Order may be amended or supplemented with the written consent of the Bank (as long as a Liquidity Facility is in effect and there is no default by the Bank thereunder) and of the Registered Owners of a majority in aggregate principal amount of outstanding Notes, upon receipt of a Favorable Opinion of Bond Counsel. In addition, the Note Order may be amended or supplemented, as provided in the Note Order, with the written consent of the Bank (so long as a Liquidity Facility is in effect and there is no default by the Bank thereunder) and, if applicable, the written consent of the Registrar and Paying Agent or Remarketing Agent, upon receipt of a Favorable Opinion of Bond Counsel, to make certain changes in the rights and obligations of the County thereunder; to cure any ambiguity or correcting, curing or supplementing any defective, inconsistent or conflicting provisions contained therein; to comply with the requirements of the rating agencies as a condition of receiving or maintaining a rating on the Notes, to the extent such change is not materially adverse to the interests of the Owners of the Notes; to provide for (or modify) an additional Mode; to provide for the delivery of the Notes in book-entry form; or to provide for the issuance of Additional Notes.

12. Defaults and Remedies. The Note Order provides that the occurrences of certain events constitute Events of Default. If certain Events of Default occur, the Registrar and Paying Agent, or the Registered Owners of at least 25% in aggregate principal amount of Outstanding Notes, may declare the principal of and accrued interest on the Outstanding Notes to be due and payable immediately. As provided in the Note Order, the Registrar and Paying Agent may, upon the request of the Bank, rescind an acceleration under certain circumstances. In addition, on any Event of Default, the Registrar and Paying Agent may pursue any available remedy, provided that so long as the Liquidity Facility is in effect and there has been no default by the Bank thereunder, the Registrar and Paying Agent will pursue any remedy only at the direction of the Bank. An Event of Default and its consequences may be waived as provided in the Note Order. The Registered Owners of a majority in principal amount of the Outstanding Notes may direct the Registrar and Paying Agent in its exercise of any trust or power. Registered Owners may not enforce the Note Order or the Notes except as provided in the Note Order.

13. Waiver of Personal Liability. No official, officer or employee of the County will be individually or personally liable for the payment of interest, principal or premium on the Notes.

THIS NOTE MUST BE PRESENTED TO THE REGISTRAR AND PAYING AGENT
TO OBTAIN PAYMENT OF THE PRINCIPAL OF AND INTEREST
ON THIS NOTE ON EACH PURCHASE DATE WHEN THIS
NOTE IS IN THE COMMERCIAL PAPER MODE OR THE TERM RATE MODE

Purchase Date	Interest Period Number of Days	Interest Rate	Authorized Signature of Registrar and Paying Agent
			______________________
			______________________
			______________________
			______________________
			______________________
			______________________

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by the Constitution and statutes of the State and the Note Order to exist, to have happened and to have been performed precedent to and in the issuance of this Note, exist, have happened and have been performed in due time, form and manner as required by law.

IN WITNESS WHEREOF, MONTGOMERY COUNTY, MARYLAND, has caused this Note to be signed by its County Executive by his [facsimile] signature and by its Director of Finance by his [facsimile] signature and has also caused [a facsimile of] its corporate seal to be hereunto affixed and attested by the [facsimile] signature of the Clerk of the Council.

MONTGOMERY COUNTY, MARYLAND

[SEAL]

By: ______________________________
County Executive

ATTEST:

By: ______________________________
Director of Finance

____
Clerk of the Council

CERTIFICATE OF AUTHENTICATION

Date of Authentication:

This Note is one of the Notes described in the within-mentioned Note Order.

U. S. BANK TRUST NATIONAL ASSOCIATION

Registrar and Paying Agent

By: ______________________
Authorized Signatory

(FORM OF ASSIGNMENT)

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned, ______, hereby sells assigns and transfers unto (Tax Identification or Social Security No. _______) the within Note and all rights thereunder, and hereby irrevocably constitutes and appoints_attorney to transfer the within Note on the books kept for registration thereof, with full power of substitution in the premises.

Date: ________________.

Signature ___________________________________

NOTICE: The signature to this Assignment must correspond with the name as it appears upon the face of the within Note in every particular, without alteration, enlargement or any change whatever.

Signature Guaranteed ____

NOTICE: Signatures must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company

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APPENDIX F

Dexia Credit Local

Dexia Credit Local ("Dexia") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 21 billion euros as of December 31, 2005, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,000 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2005 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2005, total funding raised by Dexia and Dexia Municipal Agency was 13.2 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2005, Dexia had total consolidated assets of 272 billion euros, outstanding medium and long-term loans to customers of 215.60 billion euros and shareholders' equity of over 7.48 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 861 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2005, the exchange rate was 1.0000 euro equals 1.173895 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa2 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

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