



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett  
*County Executive*

Joseph F. Beach  
*Director*

May 14, 2010

Mr. Anthony L. South  
Executive Director  
Maryland State Board of Education  
200 West Baltimore Street  
Baltimore, Maryland 21201

Dear Mr. South:

Per your request for additional information, attached please find:

1. Table with MOE (Per DLS) adjusted for Inflation;
2. Moody's Rating Review placing Montgomery County on a watch list;
3. March 2010 letter and email (with attachments) from the Comptroller on the March income tax distribution.

Please don't hesitate to call me if you have any questions on the attached or are in need of additional information.

Sincerely,

Joseph F. Beach  
Director

JFB:df

Attachments

Office of the Director

**Increase Above Maintenance of Effort vs. Estimated Consumer Price Index Increases**

Fiscal Year	MOE	CPI (Fiscal Year)*	MOE w/CPI	CPI Increase	DLS Increase Above MOE**	DLS Increase +/- vs. CPI Increase
FY03	1,050,704,474	2.81%	1,080,202,492	29,498,018	26,039,000	(3,459,018)
FY04	1,101,609,837	2.50%	1,129,132,043	27,522,206	34,005,000	6,482,794
FY05	1,144,305,145	3.55%	1,184,926,161	40,621,016	75,743,000	35,121,984
FY06	1,224,249,858	4.07%	1,274,046,334	49,796,476	41,759,000	(8,037,476)
FY07	1,290,342,636	3.37%	1,333,775,905	43,433,269	98,844,000	55,410,731
FY08	1,373,676,059	4.35%	1,433,425,459	59,749,400	75,442,000	15,692,600
FY09	1,452,496,404	2.15%	1,483,757,842	31,261,438	68,531,000	37,269,562
<b>TOTAL</b>				<b>281,881,823</b>	<b>420,363,000</b>	<b>138,481,177</b>

\* For the Baltimore-Washington Region, from the Montgomery County Department of Finance

\*\*From the State of Maryland's Department of Legislative Services



**New Issue: MOODY'S PLACES MONTGOMERY COUNTY'S (MD) GO ULT RATING ON REVIEW FOR POSSIBLE DOWNGRADE AFFECTING \$1.8 BILLION OF OUTSTANDING DEBT**

Global Credit Research - 05 Apr 2010

**ASSIGNS Aa1 RATING TO \$30 MILLION TAXABLE LIMITED OBLIGATION CERTIFICATES (FACILITY AND RESIDENTIAL DEVELOPMENT PROJECTS), SERIES OF 2010A; ON REVIEW FOR POSSIBLE DOWNGRADE**

County  
MD

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
Taxable Limited Obligation Certificates - Facility and Residential Development Projects Series of 2010A	Aa1
<b>Sale Amount</b>	\$30,000,000
<b>Expected Sale Date</b>	04/06/10
<b>Rating Description</b>	Taxable Limited Obligation Certificates

**Opinion**

NEW YORK, Apr 5, 2010 -- Moody's Investors Service has assigned a Aa1 rating to Montgomery County's (MD) \$30 million Taxable Limited Obligation Certificates (Facility and Residential Development Projects), Series 2010A. The rating is on review for possible downgrade. The certificates are secured by the county's pledge to make lease payments sufficient for debt service coverage, subject to annual appropriation. At this time, Moody's has placed the county's Aaa general obligation rating on review for possible downgrade, as well as the county's certificate's of participation notes, taxable limited obligation certificates, lease revenue bonds, and General Obligation debt issued through the Maryland-National Parks and Planning Commission. The rating reflects the county's diverse and substantial economy, sizable tax base, affluent demographics, and manageable debt burden. Placement on watchlist for possible downgrade reflects deterioration of the county's financial position driven primarily by income tax revenue shortfalls, which is expected to result in the use of a significant portion of the county's General Fund and Revenue Stabilization Fund as of fiscal 2010 (year ends June 30th). Future rating reviews will factor (a) management's ability to mitigate the projected current year operating deficit, given identification of a number of potential gap closing measures that are largely non-recurring in nature; (b) steps taken in the 2011 budget to restore structurally balanced operations, and (c) development of a plan to restore financial flexibility to levels in keeping with the current rating category.

The Aa1 rating assigned to the current certificate is additionally based upon the adequate legal provisions of the lease, the high likelihood of appropriation for lease payments given the county's code requirement to provide affordable housing facilities, and the repayment period that matches the useful life of the project.

**SATISFACTORY LEGAL PROVISIONS FOR THE CERTIFICATES; FINANCED ACQUISITION AND/OR REHABILITATION OF AFFORDABLE HOUSING UNITS IS ESSENTIAL TO COUNTY OPERATIONS**

Moody's believes that the county code requirement to provide affordable housing facilities mitigates the risk of non-appropriation and that the legal provisions adequately protect certificate-holders. Approximately \$23 million of the proceeds will be used to reimburse the county for advance funding of various affordable housing projects while the remaining portion will be used to finance the acquisition or rehabilitation of additional affordable housing projects. Under the Funding Agreement, the county executive covenants to include funds in the proposed annual budget sufficient to cover lease payments to the trustee for the term of the lease. The county will make payments under the Conditional Purchase Agreement and the Trust Agreement directly to the trustee (U.S. Bank National Association, Sr. Unsec. rated Aa1) on the second business day preceding each debt service payment date, which Moody's considers adequate. Importantly, the repayment period corresponds to the expected useful life of the financed assets.

**TAX BASE EXPANSION EXPECTED TO SLOW WITH MARKET DOWNTURN; EMPLOYMENT BASE DRAWS FROM BOTH PUBLIC AND PRIVATE SECTORS**

Located directly northwest of Washington, D.C. (G.O. rated A1/stable) along the I-270 corridor, Montgomery County provides a significant economic and employment base to the Washington-Baltimore metropolitan region. The assessed valuation of the county's tax base has increased by an average 11.2% annually during the past five years, driven predominantly by the

appreciation of existing properties. The full market value of the county reached a substantial \$168 billion as of fiscal 2009. Residential real estate activity has slowed markedly following record rates of growth for home sales and homebuilding activity through 2005, a pattern that is expected to continue during the near term. Home sales volume declined by an average 20% annually from 2006 to 2008 but experienced a year-over-year increase of 22% during 2009. Sales price devaluation has trailed sales volume declines; the average sales price decreased 8% in 2008 from the 2007 peak and declined by an additional 13.8% in 2009. Despite these trends, Moody's believes that the county's tax base will continue to exhibit a steady, albeit slowed rate of expansion, given the statewide requirement to phase-in reassessment-related tax base growth over a three-year period, effectively smoothing the impact of property devaluation. Further, the county's homestead tax credit limits the county's ability to capture homestead appreciation for annual tax levy purposes to 10%, assuring steady annual growth in the tax levy as pent-up appreciation is added to the tax rolls.

The county's economy is anchored by a large federal government presence that employs approximately 68,000 civilians at 23 federal agencies including the National Institutes of Health, the Food and Drug Administration, the Naval Medical Command, and the National Oceanic and Atmospheric Administration. The county also is home to a large private sector that includes the health care, financial services, technology, defense, hospitality, and advanced manufacturing sectors. Unemployment in the county remains consistently below both state and national norms, with the December 2009 unemployment rate of 5.2% (county officials report it increased to 6.2% as of January 2010) below the 7.2% state and 9.7% U.S. levels. Wealth indicators are well above those for the state, with 1999 median family income equal to 136% of the state and 2006 per capita personal income at 146% of the state level (U.S. Bureau of Economic Analysis).

#### SIGNIFICANT NARROWING OF FINANCIAL FLEXIBILITY AND RELIANCE ON ECONOMICALLY-SENSITIVE REVENUES POSE CHALLENGES FOR THE NEAR TERM

Since November 2009, the county's financial flexibility has continued to erode driven in large part by shortfalls related to economically sensitive revenue sources totaling \$171.9 million, of which \$147.4 million is income tax related. The sheer magnitude of revenue underperformance has required management to utilize a significant portion of the county's reserves, constraining the availability of additional financial flexibility that may be required to adequately offset ongoing revenue variance in the current fiscal year and on into fiscal 2011. Year-to-date, approximately \$100 million of budgetary savings have been implemented while the remaining revenue variance is expected to be offset by the use of reserves. Management continues to evaluate potential budget reductions and interfund transfers which could potentially provide short-term flexibility. Current projections for end-of-year fiscal 2010 show the county ending the year with an extremely narrow \$23.5 million (0.9% of General Fund revenue) in available reserves (Unreserved Undesignated General Fund and Revenue Stabilization Fund), \$13 million of which is dependent upon the approval and implementation of an energy tax increase during the final quarter of fiscal 2010.

As established by county policy, management strives to maintain combined fund equity - including unreserved General Fund balance and the separately-held Revenue Stabilization Fund (RSF) - at a level equal to 6% of annual budget. General Fund balance available above the policy minimum typically is appropriated in the subsequent year's budget to support operating and capital expenditures. While the 6% target affords satisfactory financial reserves, the appropriation of fund balance above the target represents a structural vulnerability for the county, as the availability of fund balance to support operations fluctuates with the economy. This structural risk has resulted in the narrowing of the county's financial flexibility during fiscal 2008 and 2009, concurrent with the economic downturn, following a period of sound financial performance during fiscal years 2004 through 2007. Risk has historically been mitigated by proactive management, including the development of multi-year financial forecasts and a demonstrated willingness to make significant mid-year budget adjustments when necessary. However, the county ended fiscal 2009 with available General Fund balance measurably below recent levels and appropriated additional resources from fund balance in fiscal 2010. The ability of the county to stabilize and replenish reserve levels and to restore financial flexibility will be a key credit consideration going forward.

The county's revenue base includes a number of economically-sensitive revenue sources (income, recordation and transfer taxes) that generated significant budgetary surpluses during the real estate market boom period of fiscal 2004 to fiscal 2007 but are driving the current financial deterioration. These surpluses offset annual fund balance appropriations during the four-year period and increased General Fund balance by a combined \$190.3 million to a record \$316.7 million in fiscal 2007 (11.9% of fund revenues). The county's separate RSF, which is supported by positive variances in certain General Fund revenue sources, increased by \$32.4 million during the same four-year period to \$119.6 million as of fiscal 2007. As of the end of fiscal 2009, total fund balance declined to a more narrow \$108.1 million (3.9% of revenues), of which \$28.9 million was unreserved undesignated. Taken together, unreserved undesignated fund balance and the RSF balance represented 5.3% of fiscal 2009 General Fund revenues, which afforded the county with a satisfactory financial flexibility. At year-end, the county utilized \$65.3 million (more than the original appropriation of \$44.5 million) of fund balance although \$75.6 million was reportedly due to one-time expenditures.

During fiscal 2010, the county's governing board employed austere budget reduction measures to reduce the structural gap, including the renegotiation of fiscal 2010 salary adjustments (\$125 million savings) and the elimination of pay-go funding (\$30 million), but the use of fund balance is tied in part to the county's decision to uphold the 1990 voter-approved county charter amendment that limits property tax revenues to the prior year's total plus inflation and revenue derived from new construction. The revenue restriction can be overridden by a unanimous vote of the nine council members (increased from a required vote

of seven of nine member as of November 2008), an option that has been exercised on four occasions since 1990 (2003, 2004, 2005, and 2008). The proposed fiscal 2011 budget does not exercise this option. The council's historical ability and willingness to override the charter tax limit when necessary has been a positive credit factor. However, the constraints of the charter tax limit may challenge the General Fund to stabilize and replenish available reserves to the 6% target level in the near term. Moody's will continue to monitor and evaluate the county's ability to progress toward policy compliance following the planned one-year deviation in fiscal 2010. The failure to restore reserves to the policy requirement and the sustained narrowing of financial flexibility away from historical levels may introduce negative pressure on the county's credit profile.

#### DEBT POSITION EXPECTED TO REMAIN MANAGEABLE

The county's debt burden, equal to a modest 1.3% of full valuation, will remain manageable given its debt affordability policies and the self-support of various enterprise debt obligations. Amortization of principal is average, with 70% repaid within 10 years, and debt service comprised 15.7% of fiscal 2009 operating expenditures. The county's \$3.7 billion amended capital improvement program for fiscal years 2009-2014 focuses on public schools (34%), transportation facilities (27%), public safety (9%) and community college projects (9%). Primary funding sources include county general obligation bonds (49%), intergovernmental revenues (15%), and current revenue sources (9%). Including the current issue, the county will have \$100 million in variable rate demand obligations (5% of total debt) and \$185 million in commercial paper (9% of total debt), a level which Moody's deems manageable. The county is not party to any derivative agreements.

#### KEY STATISTICS

2008 population (est.): 956,000

Fiscal 2009 full valuation: \$168 billion

Fiscal 2008 full valuation per capita: \$175,732

December 2009 unemployment: 5.2%

County reported January 2010 unemployment: 6.2%

1999 Median Family Income: \$84,035 (136% of state, 168% of nation)

1999 Per Capita Income: \$35,684 (139% of state, 165% of nation)

FY 2009 General Fund balance (audited): \$108.1 million (4.0% of fund revenues)

FY 2009 Available Reserves (General Fund and Revenue Stabilization Fund balances) (audited): \$227 million (7.6% of General fund revenues)

Overall debt burden: 1.4%

Payout of principal (10 years): 70%

General obligation bonds outstanding: \$2.27 billion

#### RECALIBRATION OF RATING TO THE GLOBAL RATING SCALE; PRINCIPAL METHODOLOGY

The current long-term rating assigned to Montgomery County, MD was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit [www.moodys.com/gsr](http://www.moodys.com/gsr).

The principal methodology used in rating the district was Moody's General Obligation Bonds Issued by U.S. Local Governments, published in October 2009 and available on [www.moodys.com](http://www.moodys.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action on Montgomery County, MD was on December 23rd, 2009 when the county's Aaa rating with stable outlook was affirmed.

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INVESTORS SERVICE

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# MOODY'S

## INVESTORS SERVICE

**New Issue: MOODY'S PLACES MONTGOMERY COUNTY'S (MD) GO ULT RATING ON REVIEW FOR POSSIBLE DOWNGRADE AFFECTING \$1.8 BILLION OF OUTSTANDING DEBT**

Global Credit Research - 05 Apr 2010

### **ASSIGNS Aa1 RATING TO \$23 MILLION CERTIFICATES OF PARTICIPATION (PUBLIC TRANSPORTATION EQUIPMENT ACQUISITION), SERIES OF 2010; ON REVIEW FOR POSSIBLE DOWNGRADE**

County  
MD

#### **Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
Certificates of Participation - Public Transportation Equipment Acquisition Series of 2010	Aa1
<b>Sale Amount</b>	\$23,000,000
<b>Expected Sale Date</b>	04/06/10
<b>Rating Description</b>	Certificates of Participation

#### **Opinion**

NEW YORK, Apr 5, 2010 -- Moody's Investors Service has assigned a Aa1 rating to Montgomery County's (MD) \$23 million Certificates of Participation (Public Transportation Equipment Acquisition), Series 2010. The rating is on review for possible downgrade. The certificates are secured by the county's pledge to make lease payments subject to annual appropriation sufficient for debt service coverage, and by a first lien security interest in the financed equipment. At this time, Moody's has placed the county's Aaa general obligation rating on review for possible downgrade, as well as the county's certificate's of participation notes, taxable limited obligation certificates, lease revenue bonds, and General Obligation debt issued through the Maryland-National Parks and Planning Commission. The rating reflects the county's diverse and substantial economy, sizable tax base, affluent demographics, and manageable debt burden. Placement on watchlist for possible downgrade reflects deterioration of the county's financial position driven primarily by income tax revenue shortfalls, which is expected to result in the use of a significant portion of the county's General Fund and Revenue Stabilization Fund as of fiscal 2010 (year ends June 30th). Future rating reviews will factor (a) management's ability to mitigate the projected current year operating deficit, given identification of a number of potential gap closing measures that are largely non-recurring in nature; (b) steps taken in the 2011 budget to restore structurally balanced operations, and (c) development of a plan to restore financial flexibility to levels in keeping with the current rating category.

The Aa1 rating assigned to the current certificate is based upon the adequate legal provisions of the lease, the essential nature of the financed equipment, and the short repayment period. The rating also reflects the county's diverse and substantial economy, sizable tax base, affluent demographics, and significantly weakened financial operations although historically characterized by comprehensive fiscal policies and sound management practices. Proceeds will be used to acquire 64 replacement buses for the County's Ride-On bus fleet.

#### **SATISFACTORY LEGAL PROVISIONS FOR THE CERTIFICATES; FINANCED EQUIPMENT IS ESSENTIAL TO COUNTY OPERATIONS**

Moody's believes that the essential nature of the pledged assets mitigates the risk of non-appropriation by the county and that the legal provisions adequately protect certificate-holders. The proceeds will finance the acquisition of 64 replacement buses for the County's Ride-On bus fleet; in accordance with the Division of Transit Services' bus replacement plan; including 30 hybrid vehicles and 34 diesel vehicles. Under the Conditional Purchase Agreement, the county executive covenants to include funds in the proposed annual budget sufficient to cover lease payments to the trustee for the term of the lease. The county will make payments under the Conditional Purchase Agreement and the Trust Agreement directly to the trustee (U.S. Bank National Association, rated Sr. Unsec. Aa1) on the third business day preceding each debt service payment date, which Moody's considers adequate. Importantly, the seven-year repayment period corresponds to the expected useful life of the financed assets.

#### **TAX BASE EXPANSION EXPECTED TO SLOW WITH MARKET DOWNTURN; EMPLOYMENT BASE DRAWS FROM BOTH PUBLIC AND PRIVATE SECTORS**



Located directly northwest of Washington, D.C. (G.O. rated A1/stable) along the I-270 corridor, Montgomery County provides a significant economic and employment base to the Washington-Baltimore metropolitan region. The assessed valuation of the county's tax base has increased by an average 11.2% annually during the past five years, driven predominantly by the appreciation of existing properties. The full market value of the county reached a substantial \$168 billion as of fiscal 2009. Residential real estate activity has slowed markedly following record rates of growth for home sales and homebuilding activity through 2005, a pattern that is expected to continue during the near term. Home sales volume declined by an average 20% annually from 2006 to 2008 but experienced a year-over-year increase of 22% during 2009. Sales price devaluation has trailed sales volume declines; the average sales price decreased 8% in 2008 from the 2007 peak and declined by an additional 13.8% in 2009. Despite these trends, Moody's believes that the county's tax base will continue to exhibit a steady, albeit slowed rate of expansion, given the statewide requirement to phase-in reassessment-related tax base growth over a three-year period, effectively smoothing the impact of property devaluation. Further, the county's homestead tax credit limits the county's ability to capture homestead appreciation for annual tax levy purposes to 10%, assuring steady annual growth in the tax levy as pent-up appreciation is added to the tax rolls.

The county's economy is anchored by a large federal government presence that employs approximately 68,000 civilians at 23 federal agencies including the National Institutes of Health, the Food and Drug Administration, the Naval Medical Command, and the National Oceanic and Atmospheric Administration. The county also is home to a large private sector that includes the health care, financial services, technology, defense, hospitality, and advanced manufacturing sectors. Unemployment in the county remains consistently below both state and national norms, with the December 2009 unemployment rate of 5.2% (county officials report it increased to 6.2% as of January 2010) below the 7.2% state and 9.7% U.S. levels. Wealth indicators are well above those for the state, with 1999 median family income equal to 136% of the state and 2006 per capita personal income at 146% of the state level (U.S. Bureau of Economic Analysis).

#### SIGNIFICANT NARROWING OF FINANCIAL FLEXIBILITY AND RELIANCE ON ECONOMICALLY-SENSITIVE REVENUES POSE CHALLENGES FOR THE NEAR TERM

Since November 2009, the county's financial flexibility has continued to erode driven in large part by shortfalls related to economically sensitive revenue sources totaling \$171.9 million, of which \$147.4 million is income tax related. The sheer magnitude of revenue underperformance has required management to utilize a significant portion of the county's reserves, constraining the availability of additional financial flexibility that may be required to adequately offset ongoing revenue variance in the current fiscal year and on into fiscal 2011. Year-to-date, approximately \$100 million of budgetary savings have been implemented while the remaining revenue variance is expected to be offset by the use of reserves. Management continues to evaluate potential budget reductions and interfund transfers which could potentially provide short-term flexibility. Current projections for end-of-year fiscal 2010 show the county ending the year with an extremely narrow \$23.5 million (0.9% of General Fund revenue) in available reserves (Unreserved Undesignated General Fund and Revenue Stabilization Fund), \$13 million of which is dependent upon the approval and implementation of an energy tax increase during the final quarter of fiscal 2010.

As established by county policy, management strives to maintain combined fund equity - including unreserved General Fund balance and the separately-held Revenue Stabilization Fund (RSF) - at a level equal to 6% of annual budget. General Fund balance available above the policy minimum typically is appropriated in the subsequent year's budget to support operating and capital expenditures. While the 6% target affords satisfactory financial reserves, the appropriation of fund balance above the target represents a structural vulnerability for the county, as the availability of fund balance to support operations fluctuates with the economy. This structural risk has resulted in the narrowing of the county's financial flexibility during fiscal 2008 and 2009, concurrent with the economic downturn, following a period of sound financial performance during fiscal years 2004 through 2007. Risk has historically been mitigated by proactive management, including the development of multi-year financial forecasts and a demonstrated willingness to make significant mid-year budget adjustments when necessary. However, the county ended fiscal 2009 with available General Fund balance measurably below recent levels and appropriated additional resources from fund balance in fiscal 2010. The ability of the county to stabilize and replenish reserve levels and to restore financial flexibility will be a key credit consideration going forward.

The county's revenue base includes a number of economically-sensitive revenue sources (income, recordation and transfer taxes) that generated significant budgetary surpluses during the real estate market boom period of fiscal 2004 to fiscal 2007 but are driving the current financial deterioration. These surpluses offset annual fund balance appropriations during the four-year period and increased General Fund balance by a combined \$190.3 million to a record \$316.7 million in fiscal 2007 (11.9% of fund revenues). The county's separate RSF, which is supported by positive variances in certain General Fund revenue sources, increased by \$32.4 million during the same four-year period to \$119.6 million as of fiscal 2007. As of the end of fiscal 2009, total fund balance declined to a more narrow \$108.1 million (3.9% of revenues), of which \$28.9 million was unreserved undesignated. Taken together, unreserved undesignated fund balance and the RSF balance represented 5.3% of fiscal 2009 General Fund revenues, which afforded the county with a satisfactory financial flexibility. At year-end, the county utilized \$65.3 million (more than the original appropriation of \$44.5 million) of fund balance although \$75.6 million was reportedly due to one-time expenditures.

During fiscal 2010, the county's governing board employed austere budget reduction measures to reduce the structural gap, including the renegotiation of fiscal 2010 salary adjustments (\$125 million savings) and the elimination of pay-go funding (\$30

million), but the use of fund balance is tied in part to the county's decision to uphold the 1990 voter-approved county charter amendment that limits property tax revenues to the prior year's total plus inflation and revenue derived from new construction. The revenue restriction can be overridden by a unanimous vote of the nine council members (increased from a required vote of seven of nine member as of November 2008), an option that has been exercised on four occasions since 1990 (2003, 2004, 2005, and 2008). The proposed fiscal 2011 budget does not exercise this option. The council's historical ability and willingness to override the charter tax limit when necessary has been a positive credit factor. However, the constraints of the charter tax limit may challenge the General Fund to stabilize and replenish available reserves to the 6% target level in the near term. Moody's will continue to monitor and evaluate the county's ability to progress toward policy compliance following the planned one-year deviation in fiscal 2010. The failure to restore reserves to the policy requirement and the sustained narrowing of financial flexibility away from historical levels may introduce negative pressure on the county's credit profile.

#### DEBT POSITION EXPECTED TO REMAIN MANAGEABLE

The county's debt burden, equal to a modest 1.3% of full valuation, will remain manageable given its debt affordability policies and the self-support of various enterprise debt obligations. Amortization of principal is average, with 70% repaid within 10 years, and debt service comprised 15.7% of fiscal 2009 operating expenditures. The county's \$3.7 billion amended capital improvement program for fiscal years 2009-2014 focuses on public schools (34%), transportation facilities (27%), public safety (9%) and community college projects (9%). Primary funding sources include county general obligation bonds (49%), intergovernmental revenues (15%), and current revenue sources (9%). Including the current issue, the county will have \$100 million in variable rate demand obligations (5% of total debt) and \$185 million in commercial paper (9% of total debt), a level which Moody's deems manageable. The county is not party to any derivative agreements.

#### KEY STATISTICS

2008 population (est.): 956,000

Fiscal 2009 full valuation: \$168 billion

Fiscal 2008 full valuation per capita: \$175,732

December 2009 unemployment: 5.2%

County reported January 2010 unemployment: 6.2%

1999 Median Family Income: \$84,035 (136% of state, 168% of nation)

1999 Per Capita Income: \$35,684 (139% of state, 165% of nation)

FY 2009 General Fund balance (audited): \$108.1 million (4.0% of fund revenues)

FY 2009 Available Reserves (General Fund and Revenue Stabilization Fund balances) (audited): \$227 million (7.6% of General fund revenues)

Overall debt burden: 1.4%

Payout of principal (10 years): 70%

General obligation bonds outstanding: \$2.27 billion

#### RECALIBRATION OF RATING TO THE GLOBAL RATING SCALE; PRINCIPAL METHODOLOGY

The current long-term rating assigned to Montgomery County, MD was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit [www.moody.com/gsr](http://www.moody.com/gsr).

The principal methodology used in rating the district was Moody's General Obligation Bonds Issued by U.S. Local

Governments, published in October 2009 and available on [www.moodys.com](http://www.moodys.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action on Montgomery County, MD was on December 23rd, 2009 when the county's Aaa rating with stable outlook was affirmed.

### Analysts

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-----Original Message-----

From: SHARION MCCLAMY [mailto:smcclamy@comp.state.md.us]

Sent: Tuesday, March 30, 2010 2:17 PM

To: Charles Mannion; Richard Drain; john hammond; kurt svendsen; Jason Bennett; Jerry Frantz; R J Pellicoro; Dominic Delpozzo; edward gallagher; Pedro aponte; william voorhees; fred homan; keith dorsey; Marie Barnes; robert burk; robert sandlass; terry cannon; Denise Roberts; pamela howard; deborah hudson; Tim Hayden; Terry Shannon; Barbara Spicher; Cathy moore; H Sun; James abernathy; jonathon seeman; Elaine Kramer; Gene Adkins; Rachel Custis; harold higgins; Kathy Whited; Phil Thompson; michael spears; robert willey; audrey mattax; heidi keeney; I Decker; John Kroll; L. Pellegrino; M. Gastley; Kelly Weaver; Robert Reilly; Scott Weeks; wendy yoder; David Eicholtz; John Scotten; Donald Stitely; Raymond Wacks; sharon greisz; Dawn Jacobs; Diane Robinson; Kent County; P Merritt; R Williams; michael sanderson; Platt, David; Barrett, Jennifer; Hagedoorn, Robert; J. Borders; M Lange; Angela Lane; J Lehner; debra murray; Kimberly Edlund; Peggy Hill; Pat Peterson

Cc: GEORGE FREYMAN; WAYNE GREEN

Subject: March 2010 Local Distribution Memo

March 31, 2010

To: County Finance Officers

From: Maryland State Comptrollers Office

Subject: March Distribution of Local Income Tax

Attached is a comparison of the March distribution of the local income tax and other local revenues (Table 1). This distribution of \$76.7 million is comprised of the local shares of delinquent taxes and fiduciary payments received in the first half of fiscal year 2010 along with the formula-driven disparity grant for the third quarter of fiscal year 2010. This distribution is down 18.8% from last March, although most of the decline is attributable to the delinquent distribution for Montgomery County. Excluding Montgomery County, the total distribution declines only 1.6%.

The delinquent distribution (Table 2) represents the local tax liability reported on late-filed and amended returns for the prior two years and net tax collections for earlier years. This distribution represents the local tax liability on returns for tax years 2006 and 2007 which were filed between July 1 and December 31, 2009, and net tax collections received during that period for tax years 2005 and before. The delinquent distribution is \$36.4 million, a decline of 25.8%. As noted, the distribution for Montgomery County fell substantially, greater than the total \$12.6 million decline. There appear to be several factors at play which are unique to the county and are currently under investigation; we are working with county officials to explain the situation. As for the remaining counties, the distribution actually increases 9.6%, although as is the case with most non-quarterly distributions, the delinquent distribution can be volatile due to the small number of returns.

Table 3 shows the detail of the fiduciary distribution for returns received in the first half of fiscal year 2010. The \$10.0 million distribution (largely reflecting tax year 2008 activity) is down 40% from last year, which itself had declined 30% from the year before. Since most of these

returns reflect tax year 2008 activity, and the Standard and Poors 500 Index experienced its largest decline in more than 20 years during 2008 (38.5%), this performance is not unexpected.

The third quarter disparity grant distribution, determined by law, is shown in Table 4. If you have any questions about the March 31 distribution, please contact George Freyman of the Revenue Administration Division, at (410) 260-7455.

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TABLE 1

**COMPARISON OF LOCAL TAX DISTRIBUTION  
MARCH 2009 AND 2010  
(Net of Municipalities)**

	March 2009 Local Income Tax Distribution	March 2010 Local Income Tax Distribution	Increase or Decrease	Percentage of Increase or Decrease
ALLEGANY	\$ 1,813,397.39	\$ 1,997,239.14	\$ 183,841.75	10.1%
ANNE ARUNDEL	3,578,816.31	4,493,870.24	915,053.93	25.6%
BALTIMORE COUNTY	8,164,690.20	7,080,177.27	(1,084,512.93)	-13.3%
CALVERT	504,851.99	633,115.28	128,263.29	25.4%
CAROLINE	658,218.03	642,096.95	(16,121.08)	-2.4%
CARROLL	563,543.09	392,473.55	(171,069.54)	-30.4%
CECIL	1,265,403.26	338,023.97	(927,379.29)	-73.3%
CHARLES	906,624.27	1,231,548.17	324,923.90	35.8%
DORCHESTER	680,517.89	510,426.70	(170,091.19)	-25.0%
FREDERICK	1,175,655.13	1,121,700.54	(53,954.59)	-4.6%
GARRETT	558,646.74	663,524.17	104,877.43	18.8%
HARFORD	1,246,244.22	1,055,436.26	(190,807.96)	-15.3%
HOWARD	2,663,964.90	2,658,369.56	(5,595.34)	-0.2%
KENT	37,888.38	267,219.23	229,330.85	605.3%
MONTGOMERY	28,143,403.07	11,434,778.27	(16,708,624.80)	-59.4%
PRINCE GEORGE'S	13,772,925.03	14,528,781.06	755,856.03	5.5%
QUEEN ANNE'S	473,603.06	157,272.76	(316,330.30)	-66.8%
ST. MARY'S	460,764.96	394,057.81	(66,707.15)	-14.5%
SOMERSET	1,196,846.00	1,279,689.62	82,843.62	6.9%
TALBOT	279,303.41	185,148.00	(94,155.41)	-33.7%
WASHINGTON	329,156.91	296,637.25	(32,519.66)	-9.9%
WICOMICO	556,548.88	850,985.54	294,436.66	52.9%
WORCESTER	177,904.50	13,998.04	(163,906.46)	-92.1%
BALTIMORE CITY	25,265,994.13	24,478,013.88	(787,980.25)	-3.1%
<b>TOTAL</b>	<b>\$ 94,474,911.75</b>	<b>\$ 76,704,583.26</b>	<b>\$ (17,770,328.49)</b>	<b>-18.8%</b>

TABLE 2

COMPARISON OF DELINQUENT DISTRIBUTION  
 FIRST HALF FISCAL YEARS 2009 AND 2010  
 (Net of Municipalities)

	First Half Fiscal Year 2009	First Half Fiscal Year 2010	Increase or Decrease	Percentage Increase or Decrease
ALLEGANY	\$ 106,615.72	\$ 166,674.91	\$ 60,059.19	56.3%
ANNE ARUNDEL	3,213,297.12	4,343,308.69	1,130,011.57	35.2%
BALTIMORE COUNTY	3,943,472.37	5,684,930.31	1,741,457.94	44.2%
CALVERT	480,203.95	619,901.06	139,697.11	29.1%
CAROLINE	94,886.78	102,922.77	8,035.99	8.5%
CARROLL	512,148.23	381,732.03	(130,416.20)	-25.5%
CECIL	1,175,847.58	297,894.70	(877,952.88)	-74.7%
CHARLES	755,123.37	1,151,257.39	396,134.02	52.5%
DORCHESTER	126,829.27	1,145.96	(125,683.31)	-99.1%
FREDERICK	1,004,546.47	1,063,376.61	58,830.14	5.9%
GARRETT	31,814.07	127,549.18	95,735.11	300.9%
HARFORD	1,199,617.42	990,003.30	(209,614.12)	-17.5%
HOWARD	2,495,682.16	2,484,087.03	(11,595.13)	-0.5%
KENT	34,049.90	137,322.82	103,272.92	303.3%
MONTGOMERY	20,873,125.24	5,538,550.81	(15,334,574.43)	-73.5%
PRINCE GEORGE'S	8,243,860.74	8,984,464.05	740,603.31	9.0%
QUEEN ANNE'S	295,393.57	103,499.46	(191,894.11)	-65.0%
ST. MARYS	440,346.31	378,035.32	(62,310.99)	-14.2%
SOMERSET	87,600.77	49,088.08	(38,512.69)	-44.0%
TALBOT	188,200.05	51,651.57	(136,548.48)	-72.6%
WASHINGTON	317,875.85	268,952.33	(48,923.52)	-15.4%
WICOMICO	301,389.44	276,889.94	(24,499.50)	-8.1%
WORCESTER	125,825.95	-	(125,825.95)	-100.0%
BALTIMORE CITY	2,970,994.51	3,190,521.49	219,526.98	7.4%
<b>TOTAL</b>	<b>\$ 49,018,746.84</b>	<b>\$ 36,393,759.81</b>	<b>\$ (12,624,987.03)</b>	<b>-25.8%</b>



TABLE 3

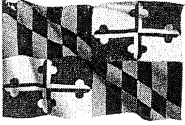
**COMPARISON OF FIDUCIARY DISTRIBUTION  
FIRST HALF FISCAL YEARS 2009 AND 2010  
(Net of Municipalities)**

	First Half Fiscal Year 2009	First Half Fiscal Year 2010	Increase or Decrease	Percentage Increase or Decrease
ALLEGANY	\$ 21,064.17	\$ 5,937.98	\$ (15,126.19)	-71.8%
ANNE ARUNDEL	365,519.19	150,561.55	(214,957.64)	-58.8%
BALTIMORE COUNTY	4,221,217.83	1,395,246.96	(2,825,970.87)	-66.9%
CALVERT	24,648.04	13,214.22	(11,433.82)	-46.4%
CAROLINE	-	6,228.68	6,228.68	100.0%
CARROLL	51,394.86	10,741.52	(40,653.34)	-79.1%
CECIL	89,555.68	40,129.27	(49,426.41)	-55.2%
CHARLES	151,500.90	80,290.78	(71,210.12)	-47.0%
DORCHESTER	21,011.62	3,608.24	(17,403.38)	-82.8%
FREDERICK	171,108.66	58,323.93	(112,784.73)	-65.9%
GARRETT	23,825.17	3,157.24	(20,667.93)	-86.7%
HARFORD	46,626.80	65,432.96	18,806.16	40.3%
HOWARD	168,282.74	174,282.53	5,999.79	3.6%
KENT	3,838.48	129,896.41	126,057.93	3284.1%
MONTGOMERY	7,270,277.83	5,896,227.46	(1,374,050.37)	-18.9%
PRINCE GEORGE'S	100,485.79	120,625.26	20,139.47	20.0%
QUEEN ANNE'S	178,209.49	53,773.30	(124,436.19)	-69.8%
ST. MARYS	20,418.65	16,022.49	(4,396.16)	-21.5%
SOMERSET	16,617.98	3,559.79	(13,058.19)	-78.6%
TALBOT	91,103.36	133,496.43	42,393.07	46.5%
WASHINGTON	11,281.06	27,684.92	16,403.86	145.4%
WICOMICO	69,753.44	24,835.35	(44,918.09)	-64.4%
WORCESTER	52,078.55	13,998.04	(38,080.51)	-73.1%
BALTIMORE CITY	3,413,935.62	1,524,544.89	(1,889,390.73)	-55.3%
<b>TOTAL</b>	<b>\$ 16,583,755.91</b>	<b>\$ 9,951,820.20</b>	<b>\$ (6,631,935.71)</b>	<b>-40.0%</b>

**TABLE 4**

**COMPARISON OF DISPARITY GRANT  
THIRD QUARTER INSTALLMENT  
FISCAL YEARS 2009 AND 2010**

	Quarter # 3 Disparity Grant Fiscal Year 2009	Quarter #3 Disparity Grant Fiscal Year 2010	Increase or Decrease	Percentage Increase or Decrease
ALLEGANY	\$ 1,685,717.50	\$ 1,824,626.25	\$ 138,908.75	8.2%
ANNE ARUNDEL				
BALTIMORE COUNTY				
CALVERT				
CAROLINE	563,331.25	532,945.50	(30,385.75)	-5.4%
CARROLL				
CECIL				
CHARLES				
DORCHESTER	532,677.00	505,672.50	(27,004.50)	-5.1%
FREDERICK				
GARRETT	503,007.50	532,817.75	29,810.25	5.9%
HARFORD				
HOWARD				
KENT				
MONTGOMERY				
PRINCE GEORGE'S	5,428,578.50	5,423,691.75	(4,886.75)	-0.1%
QUEEN ANNE'S				
ST. MARY'S				
SOMERSET	1,092,627.25	1,227,041.75	134,414.50	12.3%
TALBOT				
WASHINGTON				
WICOMICO	185,406.00	549,260.25	363,854.25	196.2%
WORCESTER				
BALTIMORE CITY	18,881,064.00	19,762,947.50	881,883.50	4.7%
<b>TOTAL</b>	\$ 28,872,409.00	\$ 30,359,003.25	\$ 1,486,594.25	5.1%



COMPTROLLER  
*of* MARYLAND  
*Serving the People*

Peter Franchot  
*Comptroller*

James M. Arnie  
*Director*  
*Revenue Administration Division*

March 24, 2010

Ms. Jennifer E. Barrett  
 Montgomery County  
 101 Monroe Street, 15th Floor  
 Rockville, MD 20850

Dear Sir/Madam:

We are pleased to transfer to your bank effective March 31, 2010 the amount of \$11,434,778.27.

This represents distributions of local income tax as follows:

Delinquent Tax Distribution-First Half Fiscal Year 2010	\$ 5,881,554.18
Fiduciary Distribution-First Half Fiscal Year 2010	\$ 5,973,972.81
Total	\$ 11,855,526.99
Less: Payments to Incorporated Municipalities	\$ 420,748.72
Balance Payable	\$ 11,434,778.27

This distribution is made pursuant to Section 2-610 of the Tax General Article, Annotated Code of Maryland.

Enclosed please find a statement detailing the payments made to the incorporated municipalities within your county.

Sincerely,

Sharion McClamy  
 Accountant  
 Distribution Unit  
 410-260-7789

**MONTGOMERY COUNTY**

	Delinquent FY 2010 First Half	Fiduciary FY 2010 First Half	Total March 2010 Distribution
BARNESVILLE	\$ 76.36	\$ 111.12	\$ 187.48
BROOKEVILLE	769.70	239.88	1,009.58
GAITHERSBURG	95,292.37	10,966.72	106,259.09
GARRETT PARK	533.47	0.14	533.61
GLEN ECHO	2,991.75	-	2,991.75
KENSINGTON	7,547.48	223.29	7,770.77
LAYTONSVILLE	14,920.80	9.49	14,930.29
POOLESVILLE	7,926.56	0.30	7,926.86
ROCKVILLE	116,701.50	59,087.33	175,788.83
SOMERSET	-	659.85	659.85
TAKOMA PARK	38,489.03	4,702.79	43,191.82
WASHINGTON GROVE	475.57	-	475.57
CHEVY CHASE VILLAGE	16,910.93	567.00	17,477.93
CHEVY CHASE #3	4,573.31	1.82	4,575.13
CHEVY CHASE	19,045.10	-	19,045.10
CHEVY CHASE #5	1,840.01	3.62	1,843.63
CHEVY CHASE VIEW	1,750.24	-	1,750.24
NORTH CHEVY CHASE	1,084.91	4.47	1,089.38
OAKMONT	-	5.04	5.04
FRIENDSHIP HEIGHTS	10,058.03	1,162.49	11,220.52
MARTINS ADDITION	1,040.44	-	1,040.44
DRUMMOND	975.81	-	975.81
	<hr/>		
TOTAL	\$ 343,003.37	\$ 77,745.35	\$ 420,748.72