

OFFICIAL STATEMENT DATED NOVEMBER 15, 2016

NEW ISSUE – Book-Entry Only

Fitch Ratings: AAA
Moody's Investors Service: Aaa
Standard & Poor's Ratings Services: AAA
See "Ratings" herein.

In the opinion of Bond Counsel, (i) under existing statutes, regulations and decisions, interest on the Bonds is forever exempt from taxation by the State of Maryland, its counties and municipalities; no opinion is expressed as to estate or inheritance taxes or any other taxes not levied or assessed directly on the interest on the Bonds; and (ii) assuming compliance with certain covenants described herein, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations and decisions. Interest on the Bonds, for federal income tax purposes, is not includable in the alternative minimum taxable income of individuals, corporations or other tax payers as an enumerated item of tax preference or other specific adjustment; however, interest on the Bonds may be taken into account in determining "adjusted current earnings" for purposes of computing the alternative minimum tax for corporations, and interest on the Bonds will be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States of America. See "TAX MATTERS."

\$381,810,000

**WASHINGTON SUBURBAN SANITARY
DISTRICT, MARYLAND
(MONTGOMERY AND PRINCE GEORGE'S COUNTIES, MARYLAND)
CONSOLIDATED PUBLIC IMPROVEMENT BONDS OF 2016
(SECOND SERIES)**

Dated:	Date of Delivery
Due:	June 1, as shown on the inside front cover
Interest Payment Date:	June 1 and December 1, beginning June 1, 2017
Denomination:	\$5,000 or any integral multiples thereof
Form:	Registered, book-entry only through the facilities of The Depository Trust Company
Optional Redemption:	The Bonds maturing on or after June 1, 2027 are subject to redemption prior to maturity without premium. See "Description of the Bonds - Redemption Provisions."
Sources of Payment and Security:	<p>Debt service on the Bonds is expected to be paid from revenues generated in the District from fees, charges, rates and assessments and other available funds. In the event of a deficiency of such revenues for the purpose of paying the principal of and interest on the Bonds, the Public Utilities Article of the Annotated Code of Maryland provides that the county councils of Montgomery County and Prince George's County shall impose ad valorem taxes upon all the assessable property within the District. See "Summary of District Ad Valorem Taxes and Other Charges and Revenues Therefrom."</p> <p><i>To date, ad valorem tax revenues have not been required from such counties to pay debt service on any of the Commission's outstanding bonds.</i></p>
Purpose:	The proceeds of the Bonds and investment earnings thereon will provide funding for (i) the construction or reconstruction of water supply facilities, water supply lines and transmission mains, sewage disposal facilities, sewer collection mains and trunk sewers and (ii) paying costs of issuance.
Bond Counsel:	McKennon Shelton & Henn LLP
Financial Advisor:	Wye River Group, Incorporated
Paying Agent and Bond Registrar:	The Bank of New York Mellon Trust Company, N. A

FOR MATURITY SCHEDULES, INTEREST RATES, YIELDS AND CUSIP NUMBERS, SEE INSIDE FRONT COVER

The Bonds are offered when, as and if issued and subject to the unqualified approving opinion of McKennon Shelton & Henn LLP, Baltimore, Maryland and other conditions specified in the Notice of Sale. It is expected that the Bonds will be available for delivery through the facilities of The Depository Trust Company, New York, New York, on or about December 1, 2016.

MATURITY SCHEDULES
\$381,810,000 CONSOLIDATED PUBLIC IMPROVEMENT BONDS OF 2016
(SECOND SERIES)

<u>Maturity June 1</u>	<u>Principal Amount</u>	<u>Interest Rate**</u>	<u>Price or Yield**</u>	<u>CUSIP Number†</u>	<u>Maturity June 1</u>	<u>Principal Amount</u>	<u>Interest Rate**</u>	<u>Price or Yield**</u>	<u>CUSIP Number†</u>
2017	\$ 6,425,000	2.00%	0.85%	940157J68	2032	\$12,120,000	4.00%	3.06%*	940157L57
2018	6,360,000	5.00	0.98	940157J76	2033	12,605,000	4.00	3.21*	940157L65
2019	6,680,000	5.00	1.13	940157J84	2034	13,105,000	5.00	2.86*	940157L73
2020	7,010,000	5.00	1.39	940157J92	2035	13,765,000	5.00	2.90*	940157L81
2021	7,360,000	5.00	1.54	940157K25	2036	14,450,000	5.00	2.92*	940157L99
2022	7,730,000	5.00	1.61	940157K33	2037	15,175,000	5.00	2.95*	940157M23
2023	8,115,000	5.00	1.79	940157K41	2038	15,930,000	5.00	2.97*	940157M31
2024	8,525,000	5.00	1.96	940157K58	2039	16,730,000	4.00	3.61*	940157M49
2025	8,950,000	5.00	2.11	940157K66	2040	17,400,000	4.00	3.62*	940157M56
2026	9,395,000	5.00	2.22	940157K74	2041	18,095,000	4.00	3.63*	940157M64
2027	9,865,000	5.00	2.34*	940157K82	2042	18,820,000	4.00	3.64*	940157M72
2028	10,360,000	5.00	2.43*	940157K90	2043	19,570,000	4.00	3.65*	940157M80
2029	10,880,000	3.00	3.00	940157L24	2044	20,355,000	4.00	3.66*	940157M98
2030	11,205,000	4.00	2.92*	940157L32	2045	21,165,000	4.00	3.67*	940157N22
2031	11,650,000	4.00	2.99*	940157L40	2046	22,015,000	4.00	3.68*	940157N30

* Yield to first call date.

** The rates shown above are the rates payable by the District resulting from the successful bid for the Bonds of each series on November 15, 2016 by a group of banks and investment banking firms. The successful bidders have furnished to the Commission the yields and prices shown above. Yields are shown above for the Bonds maturing June 1, 2017 through June 1, 2046. Other information concerning the terms of the reoffering of the Bonds, if any, should be obtained from the successful bidders and not from the Commission. See "Sale at Competitive Bidding."

† CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by Standard & Poor's CUSIP Service Bureau, division of The McGraw-Hill Companies, Inc. that is not affiliated with the Commission and the Commission is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The Commission has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the assigned CUSIP numbers set forth above. The use of CUSIP numbers in this Official Statement is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau.

WASHINGTON SUBURBAN SANITARY COMMISSION

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Wye River Group, Incorporated

BOND REGISTRAR AND PAYING AGENT

The Bank of New York Mellon Trust Company, N.A.

Additional copies of this Official Statement may be obtained from J.D. Noell, Disbursements Group Leader, Washington Suburban Sanitary Commission, 14501 Sweitzer Lane, Laurel, Maryland 20707 (301-206-7069), or from Wye River Group, Incorporated (410-267-8811). Copies of the latest Official Statements of Montgomery County, Maryland and Prince George's County, Maryland are available at the offices of the respective counties. THE WASHINGTON SUBURBAN SANITARY COMMISSION HAS NOT UNDERTAKEN TO AUDIT, AUTHENTICATE OR OTHERWISE VERIFY THE INFORMATION SET FORTH IN ANY OFFICIAL STATEMENT OF MONTGOMERY COUNTY, MARYLAND OR PRINCE GEORGE'S COUNTY, MARYLAND. REFERENCE TO THE OFFICIAL STATEMENTS OF MONTGOMERY COUNTY, MARYLAND AND PRINCE GEORGE'S COUNTY, MARYLAND IS INCLUDED HEREIN FOR CONVENIENCE ONLY AND ANY INFORMATION INCLUDED IN SUCH OFFICIAL STATEMENTS IS NOT INCORPORATED HEREIN, BY REFERENCE OR OTHERWISE.

This Official Statement is provided in connection with the issuance of the Bonds referred to herein and may not be reproduced or be used, in whole or in part, for any other purpose. The information contained in this Official Statement has been derived from information provided by the Commission and other sources which are believed to be reliable. Additional information, including financial information, concerning the Commission is available from the Commission's website. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. This Official Statement is not to be construed as a contract or agreement between the Commission and the purchasers or holders of any of the Bonds.

No dealer, broker, salesperson or other person has been authorized by the Commission to give any information or to make any representations with respect to this offering, other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the Commission. 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 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The Bonds have not been registered with the U.S. Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exceptions contained in the Securities Act of 1933. Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds or passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

The order and placement of information in this Official Statement, including the appendices, are not an indication of relevance, materiality or relative importance, and this Official Statement, including the appendices, must be read in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provision or selection in this Official Statement.

Some statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," "plan," "budget," and similar expressions are intended to identify forward-looking statements. Projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are not to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in this Official Statement. The achievement of results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Commission does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur or do not occur.

All quotations from and summaries and explanations of provisions of laws 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 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Commission since the date hereof.

All references in this Official Statement to the Commission's website are provided for convenience only. The information on the Commission's website is NOT incorporated herein, by reference or otherwise.

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SUMMARY OF OFFICIAL STATEMENT

This Official Statement, including the cover page, inside front cover, and appendices hereto, is to set forth certain information concerning the \$381,810,000 Consolidated Public Improvement Bonds of 2016 (Second Series) (the “Bonds”) of the Washington Suburban Sanitary District (the “District”). The following summary is qualified in its entirety by the detailed information in this Official Statement, including the cover page and appendices hereto. This summary is only a brief description of the offering and potential investors should review this entire Official Statement. The Official Statement speaks only as of its date, and the information contained herein is subject to change.

The District

The District is a sanitary district incorporated under Chapter 122 of the Acts of the General Assembly of 1918, as amended. It is governed by and is under the jurisdiction of a commission of six members constituting a statutory body corporate under the name of the Washington Suburban Sanitary Commission (the “Commission”). Three of the Commissioners are required to be from, and are appointed by, the County Executive of Montgomery County, Maryland and three of the Commissioners are required to be from, and are appointed by, the County Executive of Prince George’s County, Maryland. The District operates as a public corporation of the State of Maryland under the Public Utilities Article of the Annotated Code of Maryland, as amended (the “Public Utilities Article”). Through its governing body, the Commission, it provides, as authorized, water and sewerage systems, including water supply and sewage disposal facilities for Montgomery and Prince George’s Counties. The area initially incorporated in the District has been expanded by legislative enactments to its present boundaries encompassing over 950 square miles within Montgomery and Prince George’s Counties effectively representing 95% of the land area of both counties. See “Washington Suburban Sanitary District - Establishment, Powers and Service Area.”

Authorization of Bonds

Bonds of the District, including the Bonds offered by this Official Statement, are issued upon the basis of authorizations, under the Constitution, the Public Utilities Article and other applicable law, and by the Commission through the adoption of resolutions or orders. See “Bonded Indebtedness of the District - Authorization of Debt.”

Purpose of Bonds

Proceeds of the Bonds will be used to finance (i) the costs of the construction or reconstruction of water supply facilities, water supply lines and transmission mains, sewage disposal facilities, sewer collection mains and trunk sewers; and (ii) the costs of issuing the Bonds. See “Use of Proceeds of the Bonds.”

Sources of Payment and Security for Bonds

Debt service on the Bonds is expected to be paid from revenues generated in the District from fees, charges, rates and assessments and other available funds. However, in the event of a deficiency of such revenues, for the purpose of paying the principal of and interest on bonds and notes of the District, including the Bonds, the Public Utilities Article provides the County Council of Montgomery County and the County Council of Prince George’s County, respectively, shall levy, annually, against all the assessable property within the District ad valorem taxes sufficient to pay such principal and interest when due. Due to the level of revenues generated in the District from fees, charges, rates and assessments, the Commission has not needed to seek ad valorem tax revenues from such counties to pay debt service on any of its outstanding bonds and notes since the incorporation of the District and does not anticipate the need to cause the counties to levy ad valorem taxes to pay the debt service on the Bonds. See “Summary of District Ad Valorem Taxes and Other Charges and Revenues Therefrom” herein.

Denominations

The Bonds will be issued in denominations of \$5,000 each or any integral multiple thereof.

Book-Entry Only System

The Depository Trust Company (“DTC”) will act as the securities depository for the Bonds. The Bonds will be issued on a book-entry only basis. Beneficial Owners (defined herein) will not receive certificates representing their ownership interest in the Bonds except in the event of termination of the book-entry only. Principal of and interest payments on the Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Payments by Direct Participants and Indirect Participants (each as defined herein) to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in “street name.” For a more complete description, see Appendix E herein.

Redemption

The Bonds maturing on or after June 1, 2027 are callable for redemption prior to their respective maturities, at the option of the Commission, from any money that may be made available for such purpose. Any such redemption may be made on not fewer than 20 days’ notice by mail, either in whole or in part on any date not earlier than June 1, 2026, at the principal amount of the Bonds to be redeemed, with interest thereon accrued to the date fixed for redemption, without premium, as more fully described herein under “Description of the Bonds - Redemption Provisions.”

Tax Matters

In the opinion of Bond Counsel, (i) under existing law, interest on the Bonds is exempt from taxation by the State of Maryland, its counties and municipalities; no opinion is expressed as to estate or inheritance taxes or any other taxes not levied or assessed directly on the interest on the Bonds; and (ii) assuming compliance with certain covenants described herein, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations and decisions. Interest on the Bonds for federal income tax purposes is not includable in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment; however, interest on the Bonds may be taken into account in determining “adjusted current earnings” for purposes of computing the alternative minimum tax for corporations, and interest on the Bonds will be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States of America. See “Tax Matters.”

Continuing Disclosure

In order to assist bidders in complying with SEC Rule 15c2-12(b)(5), the Commission will execute and deliver a continuing disclosure certificate on or before the date of issuance of the Bonds pursuant to which it will undertake to provide certain information annually and notices of certain events. See “Continuing Disclosure” and Appendix C herein.

Litigation

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

There are miscellaneous claims now pending against the Commission, including claims currently in litigation. See “Litigation.”

Limitation on Offering or Reoffering Securities

No dealer, broker, sales agent, financial consultant or any other person has been authorized by the Commission, Montgomery County or Prince George’s County to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

OFFICIAL STATEMENT

\$381,810,000

**WASHINGTON SUBURBAN SANITARY
DISTRICT, MARYLAND
(MONTGOMERY AND PRINCE GEORGE'S COUNTIES, MARYLAND)
CONSOLIDATED PUBLIC IMPROVEMENT BONDS OF 2016
(SECOND SERIES)**

INTRODUCTORY STATEMENT

The purpose of this Official Statement, including the cover page, inside front cover, and appendices hereto, is to set forth certain information concerning the \$381,810,000 Consolidated Public Improvement Bonds of 2016 (Second Series) (the "Bonds") of the Washington Suburban Sanitary District (the "District"). The proceeds of the Bonds will be used to (i) finance the construction or reconstruction of water supply facilities, water supply lines and transmission mains, sewage disposal facilities, sewer collection mains and trunk sewers and (ii) pay the costs of issuing the Bonds.

The District is a sanitary district incorporated under Chapter 122 of the Acts of the General Assembly of 1918, as amended. It is governed by and under the jurisdiction of a commission of six members constituting a statutory body corporate under the name of the Washington Suburban Sanitary Commission (the "Commission"). See "Washington Suburban Sanitary District - Commission" herein.

Amounts herein relating to tax collections, front foot benefit charges, water and sewer charges and the District's financial position have been taken from official records of the Commission. All estimates and assumptions herein have been based upon information believed to be reliable and correct; however, statements made involving estimates and assumptions, whether or not expressly so stated, are intended merely as such and not as representations of facts.

SECURITY

Bonds and Notes Are Currently Paid from Revenues Other Than Taxes

Currently all of the debt service on bonds and notes of the District is being paid from revenues generated in the District from fees, charges, rates and assessments and other available funds. The Commission has not sought ad valorem tax revenues from Montgomery County or Prince George's County to pay debt service on any of its outstanding bonds or notes and does not anticipate the need to levy ad valorem taxes to pay the debt service on the Bonds, or for any of its operations. However, the underlying security for all bonds and notes of the District is the levy of ad valorem taxes on the assessable property as stated in the following paragraph. See "Summary of District Ad Valorem Taxes and Other Charges and Revenues Therefrom" herein.

Levy of Taxes to Pay Bonds and Notes

For the purpose of securing the principal of and interest on bonds and notes of the District, including the Bonds, in the event of a deficiency of the above referenced revenues, the Public Utilities Article provides for the levy, annually, against all the assessable property within the District by the County Council of Montgomery County and the County Council of Prince George's County, respectively, of ad valorem taxes sufficient to pay such principal and interest when due and payable.

After receiving from the County Executive of each County the assessed valuations of the taxable property in the District, the Commission determines the amount necessary to be raised, taking into account the amount available from other sources, by the levy of taxes for the next taxable year for the payment of interest on all outstanding bonds and notes due and payable in such year. The Commission shall determine the number of cents per \$100 valuation necessary to raise such amount and shall so certify to the two county councils. Each of the county councils in its next annual levy is required to levy and to collect such tax as county taxes are levied and collected. The tax so levied and collected shall be remitted to the Commission.

Charges and Assessments

While the Bonds constitute general obligations of the District, the Commission fixes and collects the following charges and assessments which have been and are currently estimated to be sufficient to pay all expenses of the Commission including principal of and interest on the Bonds.

Water Consumption Charge: The Commission fixes and collects a water consumption charge, which is based upon metered water use on all properties connected to the water supply system of the District. The proceeds of the water consumption charges are applied to the payment of principal of and interest on the water supply bonds and notes of the District (including that portion of the Bonds allocable to water supply projects), and to the payment of the cost of operating and maintaining the water supply system.

Sewer Usage Charge: The Commission fixes and collects a sewer usage charge, which is based on metered water use on all properties connected to the sewage disposal system of the District. Sewer only customers are billed a flat rate on a quarterly basis. The proceeds of the sewer usage charges are applied to the payment of the principal of and the interest on all sewage disposal bonds and notes of the District (including that portion of the Bonds allocable to sewage disposal projects), and to the payment of the costs of operating and maintaining the sewage disposal system.

Ready to Serve Charge: The Ready to Serve Charge is comprised of two components: the Account Maintenance Fee (AMF) and the Infrastructure Investment Fee (IIF). The AMF is a fixed fee that recovers the costs associated with the expenses and overhead of maintaining and servicing each account. The IIF is a fixed fee that funds the debt service associated with the Commission's water and sewer pipe reconstruction program in the approved Capital Improvements Program. Both fees will remain fixed until FY20.

Front Foot Benefit Charge: The Commission assesses, on certain property benefiting from water mains or sewers, front foot benefit charges in amounts sufficient to pay debt service on said bonds as such debt service becomes due. The front foot benefit charges are payable in annual installments during the term of the respective bonds issued for the particular improvements. Proceeds of such front foot benefit charges are applied to the payment of the principal of and the interest on the general construction bonds of the District.

The assessment of front foot benefit charges normally begins the calendar year (January 1 through December 31) following the completion of or actual connection to the newly constructed water and/or sewer lines. Once construction is completed, those property owners directly benefitting from the newly constructed water and/or sewer mains receive in writing a "Notice of Benefit Assessment". This notice is accompanied by a letter which includes the property's classification, footage, rate(s), and amount of the proposed front foot benefit charges.

In regards to customer appeal rights, after owners are notified in writing of their assessments, customers are requested to contact the Property Assessment staff with any questions or concerns they may have about the proposed assessments. Also, the customer may elect to be represented at the informal hearing. Following the informal hearing, the customer is provided a written decision by the commission with whom he/she met, and the customer is informed of his/her right to additionally appeal the Commissioner's decision to the full Commission. Hearings with the full Commission are held in accordance with the State's Administrative Procedures Act.

Annually following a public hearing, the Commission establishes a "base" water and sewer rate which is used to assess properties abutted or served by the Commission's water and/or sewer lines. After the base rate is established, a property's front foot benefit charge is determined by multiplying its assessment rate(s) by its assessable front footage and each property is classified as subdivision residential, multi-unit residential, small acreage, industrial or single business, multi-unit Business, or agricultural.

ESTIMATED SOURCES AND USES OF FUNDS

Estimated Sources and Uses of the Bonds

Sources of Funds:	
Par Amount of Bonds	\$381,810,000.00
Net Original Issue Premium	<u>36,924,409.85</u>
Total Sources of Funds	<u>\$418,734,409.85</u>
Uses of Funds:	
Deposit to Construction Fund	\$417,056,747.78
Underwriters Discount	<u>1,677,662.07</u>
Total Uses of Funds	<u>\$418,734,409.85</u>

USE OF PROCEEDS OF THE BONDS

The Bonds will provide funding for the construction or reconstruction of water supply facilities, water supply lines and transmission mains, sewage disposal facilities, sewer collection mains and trunk sewers. The Bonds may also be issued to replace short-term bond anticipation notes.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of their initial delivery and will bear interest at the rates and mature in the amounts and at the times set forth on the inside front cover page hereof.

The Bonds shall be fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. The Bond Registrar and Paying Agent shall be The Bank of New York Mellon Trust Company, N.A. (the "Bond Registrar" or "Paying Agent"), having a corporate trust office in Pittsburgh, Pennsylvania, which shall register the Bonds and the transfer of Bonds on the District's bond registration books. The payment of interest on each Bond shall be made by the Bond Registrar and Paying Agent on each interest payment date to the person appearing on the bond registration books as the registered owner of such Bond (or the previous bond or bonds evidencing the same debt as that evidenced by such Bond) at the close of business on the record date for such interest, which shall be the 15th day of the calendar month next preceding such interest payment date, by check or draft mailed to such person at his address as it appears on the registration books. The payment of principal shall be made to the owner registered on the bond registration books upon presentation and surrender thereof to The Bank of New York Mellon Trust Company, N.A. at the office of its affiliate, The Bank of New York Mellon, in New York, New York or Dallas, Texas. The Bonds may be transferred or exchanged subject to the requirements prescribed by the respective resolutions authorizing their issuance, including provisions that the Bond Registrar shall not be required to exchange or register the transfer of any bond during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Bonds or any portion thereof and ending at the close of business on the day of such mailing or of any Bond called for redemption in whole or in part pursuant to the resolutions.

Redemption Provisions

The Bonds which mature on or after June 1, 2027, are callable for redemption prior to their respective maturities, at the option of the Commission, from any money that may be made available for such purpose. Any such redemption may be made on not fewer than 20 days' notice by mail, either in whole or in part on any date not earlier than June 1, 2026, at the principal amount of the Bonds to be redeemed, with interest thereon accrued to the date fixed for redemption, without premium. If less than all of the Bonds of any one maturity shall be called for redemption, the

particular bonds of such maturity to be redeemed shall be selected by lot; except that so long as the Depository Trust Company (“DTC” or, together with any successor securities depository for the Bonds, the “Securities Depository”) or its nominee is the sole registered owner of the Bonds, the particular Bond or portion to be redeemed shall be selected by DTC in such manner as DTC shall determine. In selecting Bonds for redemption, the Bond Registrar shall treat each bond of a denomination higher than \$5,000 as representing that number of bonds which is equal to the principal amount of such bond divided by \$5,000.

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co., DTC’s partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate of the Bonds will be issued for each maturity of the Bonds in principal amount equal to the aggregate principal amount of the Bonds of such maturity and will be deposited with DTC. Beneficial Owners (as defined in Appendix E) will not receive certificates representing their ownership interest in the Bonds except in the event of termination of the book-entry only. Principal of and interest payments on the Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Payments by Direct Participants and Indirect Participants (each as defined in Appendix E) to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in “street name.” For a more complete description, see Appendix E herein.

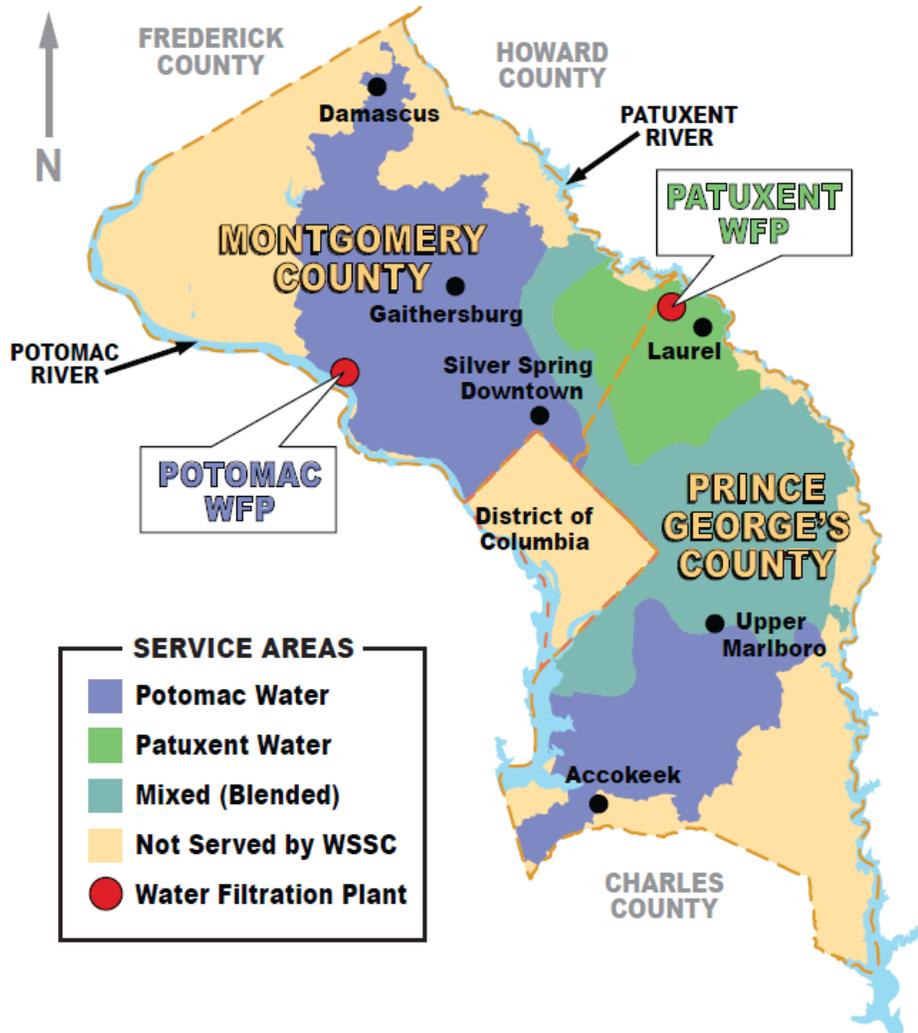
Annual Debt Service on the Bonds

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 6,425,000	\$ 8,331,425	\$14,756,425
2018	6,360,000	16,534,350	22,894,350
2019	6,680,000	16,216,350	22,896,350
2020	7,010,000	15,882,350	22,892,350
2021	7,360,000	15,531,850	22,891,850
2022	7,730,000	15,163,850	22,893,850
2023	8,115,000	14,777,350	22,892,350
2024	8,525,000	14,371,600	22,896,600
2025	8,950,000	13,945,350	22,895,350
2026	9,395,000	13,497,850	22,892,850
2027	9,865,000	13,028,100	22,893,100
2028	10,360,000	12,534,850	22,894,850
2029	10,880,000	12,016,850	22,896,850
2030	11,205,000	11,690,450	22,895,450
2031	11,650,000	11,242,250	22,892,250
2032	12,120,000	10,776,250	22,896,250
2033	12,605,000	10,291,450	22,896,450
2034	13,105,000	9,787,250	22,892,250
2035	13,765,000	9,132,000	22,897,000
2036	14,450,000	8,443,750	22,893,750
2037	15,175,000	7,721,250	22,896,250
2038	15,930,000	6,962,500	22,892,500
2039	16,730,000	6,166,000	22,896,000
2040	17,400,000	5,496,800	22,896,800
2041	18,095,000	4,800,800	22,895,800
2042	18,820,000	4,077,000	22,897,000
2043	19,570,000	3,324,200	22,894,200
2044	20,355,000	2,541,400	22,896,400
2045	21,165,000	1,727,200	22,892,200
2046	<u>22,015,000</u>	<u>880,600</u>	<u>22,895,600</u>
Total	<u>\$381,810,000</u>	<u>\$296,893,275</u>	<u>\$678,703,275</u>

WASHINGTON SUBURBAN SANITARY DISTRICT

Establishment, Powers and Service Area

The District was created in 1918 and operates as a public corporation of the State of Maryland under the Public Utilities Article. Through its governing body, the Commission, it provides, as authorized, water and sewerage systems, including water supply and sewage disposal facilities for Montgomery and Prince George's Counties, Maryland. The area initially incorporated in the District has been expanded by legislative enactments to its present boundaries encompassing over 950 square miles within Montgomery and Prince George's Counties.



Commission

The District is under the jurisdiction of, and its governing body is, the Commission, a body corporate consisting of six members who are required to be residents of the District. Three Commissioners are required to be from, and are appointed by the County Executive of Montgomery County, subject to their confirmation by the county council thereof, and three Commissioners are required to be from, and are appointed by the County Executive of Prince George's County, subject to their confirmation by the county council thereof. No more than two commissioners from Montgomery County may be of the same political party. The term of office for the Commissioners is four years, with termination dates

on a staggered year basis. At the end of a term a commissioner continues to serve until a successor is appointed and takes the oath of office. The Chair and the Vice-Chair of the Commission are elected by the Commission and may not be from the same county. These two offices rotate annually between the two counties unless waived, as provided by law. The Commission may conduct business with a quorum of four Commissioners.

The County Executive of each of the two counties may, with the approval of the majority of the members of the County Council of the respective county, remove any Commissioner appointed from such county from such Commissioner's current term of office prior to the completion of such term. In addition, a majority of the Montgomery County Council, by resolution, may, unless the County Executive of Montgomery County disapproves the resolution in writing within 30 days of its adoption, remove any Commissioner appointed from Montgomery County prior to the completion of his or her term. In either event, a public hearing must be held thereon unless waived in writing by the Commissioner sought to be removed.

Powers and Responsibilities of the Commission

The powers and responsibilities of the Commission as set forth in the Public Utilities Article include, among others:

- (i) providing for the construction, reconstruction, operation and maintenance of water supply and sanitary sewerage facilities in the District;
 - (ii) establishing water rates, sewer usage rates, connection charges, front foot benefit charges and permit fees, and causing ad valorem taxes to be levied;
 - (iii) issuing bonds and notes of the District, including refunding bonds and bond anticipation notes;
 - (iv) exercising the power of eminent domain;
 - (v) providing for the construction, reconstruction, operation and maintenance of water and sewer house connection lines from the Commission's mains to abutting property lines;
 - (vi) approving the location of, and issuing permits for, all utilities to be installed in public ways;
 - (vii) reviewing preliminary subdivision plans as to suitability of water and sewer design and reviewing street grades for those streets in which there are Commission facilities;
 - (viii) formulating regulations governing all plumbing and gas fitting installations;
 - (ix) issuing permits for the installation of and inspection of all plumbing and gas fitting connections;
- and
- (x) licensing master and journeyman plumbers and gas fitters.

Commission Membership

Fausto R. Bayonet: Mr. Bayonet was appointed to the Commission from Montgomery County in June 2015, and was elected Chair of the Commission in June 2016. An architect who has worked in the architectural and engineering fields for three decades, he has lived in Montgomery County for more than 40 years. A native of the Dominican Republic, Bayonet earned his bachelor's degree in Architecture from that country's Eastern Central University. He furthered his architectural studies at the University of Maryland when he came to the Washington area in 1971. Mr. Bayonet has had a role in the design of numerous commercial and government projects throughout the Washington Metropolitan area, such as renovations to University of Maryland's Byrd Stadium, the Embassy of Nicaragua and the U.S. District Courthouse in Alexandria, Virginia. He has also done consulting work for the University of Maryland's Office of Architectural Services. Mr. Bayonet shared his consulting skills as Mentor and Sales Instructor with the former Bell Atlantic company, where his efforts led to increased sales at branches in Virginia, Maryland and Delaware. He is also a licensed real estate agent in the State of Maryland and member of the Greater Capital Area Association of Realtors, the National Association of Realtors and the Maryland Association of Realtors. As 20-year member of the Montgomery County Democratic Party, Mr. Bayonet is a veteran campaigner, having done volunteer work for county executives and Council members, governors, lieutenant governors, delegates, congressmen and senators. He is also a member of the Hispanic Democratic Club of Montgomery County and served on its executive board. In addition, he has volunteered for different institutions that serve the Latino community of the Metropolitan area. Mr. Bayonet has been married for more than 30 years and has four children. Mr. Bayonet's term expires in May 2019.

Christopher Lawson: Mr. Lawson was appointed to the Commission from Prince George's County in May 2011, and was elected Vice Chair of the Commission in June 2016. He has previously served as Chair and Vice Chair of the Commission. Mr. Lawson, President and Principal at Insuraty Inc., is a CPLH licensed insurance broker and Advisor to mid-sized companies and organizations in the area of employee benefits consulting, brokerage and administration including 401k retirement plan advisory and administration. Mr. Lawson comes from Raleigh, North Carolina, where he studied Business Administration at Saint Augustine's College before moving to the Washington metropolitan area and starting his business career representing corporations such as American Express Corporate Services and Cigna Healthcare in sales, business development and management. During his business career he has been honored on numerous occasions by Guardian Life Insurance Company, Gold Producers Award, and American Express, Presidents Club, Top District Award and Peak Performance Award. He was also honored with the Gold Masters Club Award by Allianz Life Insurance Company and has been featured in the Gazette of Politics and Business, Pride of Prince George's County business owners. Mr. Lawson has served on the Board of Directors for the Prince George's Chamber of Commerce and was presented with the distinguished service award in 2006. Mr. Lawson was an original member of the Washington D.C. Board of Directors for the National Association of African American Insurance Agents in the capacity of Vice President. He is a current member of the Society for Human Resource Management and the National Association of Health Underwriters. A resident of Prince George's County Maryland for 20 years, Mr. Lawson previously served as the President of the South Bowie Boys and Girls Club and was awarded the Prince Georges County Boys and Girls Club Inc. Man of the year award in 2003. He has served on the City of Bowie Maryland diversity task force and city recreation committee providing recommendations for recreation fields and facilities development to the Bowie City Council. Mr. Lawson was recognized by proclamation from the City of Bowie for his distinguished service in 2003. In 2006 Lawson led the campaign efforts as Chairman, to elect Rushern L. Baker III for Prince George's County Executive. Mr. Lawson's term expires in June 2019.

Omar M. Boulware: Mr. Boulware was appointed to the Commission from Prince George's County in November 2013 He has previously served as Chair of the Commission. Mr. Boulware has a long history of military, public and community service. A Navy veteran, Mr. Boulware is a congressional relations officer in the Department of Veterans Affairs. He advises the Secretary of Veterans Affairs on Congressional interests, including veteran outreach, veteran small business, and collaboration between the Veterans Affairs and the Department of Defense. His areas of expertise include budgeting, financial management and legislation. While attending the University of North Carolina at Chapel Hill, Mr. Boulware volunteered for service in the United States Navy, where he served a three-year tour of duty on the staff for Chief of Naval Operations in the Pentagon. Upon completion of active duty, he entered federal civil service as a legislative liaison in the Department of the Navy's Office of Legislative Affairs. He concurrently served in the U.S. Navy Reserve from 2000 to 2012, earning the rank of Petty Officer First Class. Mr. Boulware and his family live in Mitchellville, where he is involved in the community. He is vice president of the Greater Marlboro Democratic Club and the former president of the Prince George's County Young Democrats. A board member of Enterprise Estates Civic Association, he also served as vice president of Chapel Oaks/Beaver Heights Civic Association. Mr. Boulware was a Maryland Fire-Rescue Education and Training Commissioner. He was a member of the Prince George's County Personnel Board, and in 2011 was a member of County Executive Rushern Baker III's transition committee. Mr. Boulware is a 2005 honors graduate of Strayer University with a BBA degree in Management and a minor in Economics. He was a 2007 Rawlings Fellow at University of Maryland's James McGregor Burns Academy of Leadership. Mr. Boulware's term expires in June 2017.

Howard A. Denis: Howard A. Denis, a former Maryland State Senator and Montgomery County Council member was appointed Commissioner from Montgomery County effective January 19, 2016. Most recently, Mr. Denis was part of the Congressional Staff on the House Oversight & Government Reform Committee, serving from 1995, until he retired on December 31, 2015. He brings almost 40 years of experience in public service and a track record of strongly representing and working for his constituency to the position. In addition, Mr. Denis has extensive knowledge in land-use and planning in Montgomery County, Maryland. Denis served for 18 years as a Maryland State Senator (1977-1995) and six years on the Montgomery County Council (2000-2006). He served on the Maryland State Lottery Commission and is a five-time delegate to the Republican National Convention. A graduate of Bethesda-Chevy Chase High School, he received his B.A. in Government from Georgetown College and his law degree from Georgetown University Law Center. Mr. Denis is married to Babette Wise and has a daughter, Corey Leigh Denis. He currently resides in Chevy Chase. Mr. Denis' term expires in May 2019.

T. Eloise Foster: Ms. Foster was appointed to the Commission from Montgomery County in June 2016. When she was appointed as the Secretary of Budget & Management in 2000, she became the first African American woman to hold this statewide office in the nation. She returned to this role under then-Governor Martin O'Malley, serving from

2007-2015. She also served as Deputy Secretary of Budget & Management and Assistant Secretary of Budget & Fiscal Planning prior to that. Ms. Foster earned her bachelor's degree in Business Administration from Howard University and her MBA from American University's Kogod School of Business. Ms. Foster's term expires in May 2017.

Thomasina V. Rogers: Ms. Rogers was appointed to the Commission from Prince George's County in June 2016. She is the former Chair of the Occupational Safety and Health Review Commission, to which she was first appointed in 1998. Prior to that, Ms. Rogers led the Administrative Conference of the United States, and also headed the Office of Legal Counsel, U.S. Equal Employment Opportunity Commission. She received her undergraduate degree in journalism from Northwestern University and her law degree from Columbia University School of Law. Ms. Rogers' term expires in June 2019.

Management and Operations

The daily operation of the Commission is supervised by the General Manager/CEO.

Senior Staff

A brief resume of the Commission's senior staff is shown below:

Carla A. Reid, General Manager/CEO: Carla A. Reid was appointed in January 2016 as General Manager and Chief Executive Officer of the Commission. She is the 12th General Manager and the first woman to serve in this capacity in the Commission's 98-year history. Ms. Reid began her 20-year career at the Commission in 1986, ultimately serving as Deputy General Manager from 2005-2006. In addition to Deputy General Manager at the Commission, Ms. Reid also served as Chief of Mission Support, Chief of Customer Care, Meter Services Division Manager, Northern Meter Operations Section Head, Meter Maintenance Head, Field Operations Supervisor and Civil Engineer. Prior to re-joining the Commission in January 2016, Ms. Reid worked for the County Executive of Montgomery County, Isiah Leggett, as the Director of the Department of Permitting Services. In 2011, she joined newly elected Prince George's County Executive Rushern L. Baker's staff as Deputy Chief Administrative Officer for Economic Development and Public Infrastructure. In this position, she led all operations related to economic development including permitting, transportation, environmental matters and tourism. For seven years, Ms. Reid was an adjunct professor at the University of the District of Columbia, where an award was created in her name to recognize outstanding teaching on the UDC staff. She holds a Bachelor of Science degree in civil engineering from Howard University and a master's degree in business administration from the University of Maryland, University College. She is an active member of her community, having served on several boards for organizations such as DC Water, Melwood, Montgomery Alliance, the Prince George's County Revenue Authority and Arts on the Block.

Sheila R. Finlayson, Esq., Corporate Secretary: Ms. Finlayson joined the Commission in May 2013 as Corporate Secretary. She is one of the Commission's corporate officers and the executive officially authorized to attest documents on behalf of the Commission and to act as the custodian of the Commission's official files and records, including the minutes of open and closed meetings that are subject to the Maryland Open Meetings Act. Ms. Finlayson also manages the day-to-day administrative functions of the Office of the Commission/Corporate Secretary's Office and serves as parliamentarian at the Commission's meetings. Ms. Finlayson received her law degree from Howard University School of Law in Washington, D.C. and her undergraduate degree from the University of Maryland at College Park, Maryland. Ms. Finlayson has extensive corporate secretarial and governance experience, having previously served as the Corporate Secretary and Director of Board Relations for the Society for Human Resource Management, a professional membership association in Alexandria, Virginia, and as Vice President, Counsel and Corporate Secretary for Independence Federal Savings Bank, a federally-chartered stock savings bank in Washington, D.C. Ms. Finlayson is licensed to practice law and is a member in good standing of the Bar of the Commonwealth of Pennsylvania.

Joseph F. Beach, Chief Financial Officer and Treasurer: Mr. Beach joined the Commission in June 2016. He came to WSSC from Montgomery County Government in Maryland, where he held the positions of Assistant Chief Administrative Officer, Office of Management and Budget Director and, most recently, Finance Director. As Finance Director, Mr. Beach was responsible for directing all of the activities of the county's Department of Finance including issuing debt, revenue collection, risk management, preparation of financial statements and developing and implementing sound fiscal policies. A graduate of the University of Michigan, Mr. Beach also holds a master's degree in Public Affairs from the George Washington University and a J.D. from the University of Baltimore. He was admitted to the State Bar of Maryland in December 1995.

Amanda Staken Conn, General Counsel: Ms. Conn was appointed General Counsel of the Commission on November 14, 2016. She is the first female general counsel in WSSC's 98-year history. A legal professional with 20 years of experience in the public and private sector, Ms. Conn previously served as deputy secretary of the Maryland Department of Planning, a position she filled after serving that agency as their Counsel and Assistant Attorney General for several years. She also served as an assistant county attorney in the Baltimore County Office of Law specializing in zoning, planning, preservation and County Council matters. The 2012 recipient of the Outstanding Achievements in the Legal Field award from the University of Baltimore Women's Bar Association, she is a frequent lecturer on statutory construction, land use and zoning-related topics. She was an attorney at Funk & Bolton, P.A., in Baltimore, representing local governments across the state on a variety of issues. Ms. Conn earned her bachelor's degree in Government and Politics from the University of Maryland and her law degree from the University of Baltimore School of Law. Ms. Conn is a member of the state and federal bars in Maryland, as well as the Fourth Circuit Court of Appeals and the Supreme Court.

Letitia C. Carolina-Powell, Budget Group Leader: Ms. Carolina-Powell joined the Commission as Sr. Financial Analyst in September 2007. She was promoted to Budget Unit Coordinator in January 2009 and appointed Budget Group Leader in June 2015. Ms. Carolina-Powell has over 20 years of finance experience in both the public and private sectors. Prior to joining the Commission, she worked as a Project Controller Manager for Deloitte Consulting where she was responsible for the financial management and performance forecasting of Department of Defense contracts. She also served as a Budget Manager for the Federal Home Loan Mortgage Corporation. Ms. Carolina-Powell holds a Masters of Business Administration from the University of Maryland, College Park and a bachelor's degree in Economics from Williams College.

Labor Relations

On June 30, 2016 the Commission had 1,635 full time employees of whom approximately 517 are represented by the American Federation of State, County and Municipal Employees. The Commission considers its labor relations to be satisfactory.

Employees' Retirement Plan

Substantially all Commission employees participate in either the closed or open version of the contributory Washington Suburban Sanitary Commission Employees' Retirement Plan (the "Retirement Plan"). The closed version of the Retirement Plan is applicable only to participants as of June 30, 1978 who did not elect to change to the open version. The open version of the Retirement Plan is mandatory for all employees who commenced employment on or after July 1, 1978, and all other employees who elected to change to the open version.

The Retirement Plan, including the books and records thereof, is an entity distinct from the Washington Suburban Sanitary Commission. Its assets are managed by an independent board of trustees comprised of two Commissioners, four Commission employees, two commission retirees, two members of the business community, and the Executive Director of the Retirement Plan. The Retirement Plan's valuation is prepared annually by an independent actuarial firm.

As of June 30, 2015, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27. Based on actuarial valuations as of June 30, 2015 and June 30, 2014, which were rolled forward to December 31, 2015 and December 31, 2014, the Retirement Plan's independent actuaries determined that, at December 31, 2015 and 2014 (the measurement dates), the Retirement Plan's total pension liability exceeded its fiduciary net position by \$210.6 million and \$175.5 million, respectively.

The Retirement Plan began using the average value method to determine actuarial asset value effective July 1, 2007. This smoothing method explicitly recognizes each year's investment gain or loss over a five-year period with the final actuarial value not less than 80% or more than 120% of the market value of assets. The Retirement Plan implemented Governmental Accounting Standards Board ("GASB") Statement No. 67 Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25 in fiscal year 2014. As required by GASB Statement No. 67, the Plan's fiduciary net position as a percentage of total pension liability was 76.9% as of December 31, 2015 and 80.9% as of December 31, 2014.

For additional information concerning the Retirement Plan, see Appendix A, “Notes to Financial Statements,” Note L, Retirement Plan.

Other Post-Employment Benefits

The Commission obtains an actuarial report (the “OPEB Report”) addressing the extent of its projected liability to its retirees for other post-employment benefits at least biennially. The OPEB Report is prepared in accordance with the standards set forth in GASB Statement 45. The OPEB Report is subject to a number of actuarial and economic assumptions; these assumptions are generally similar to the assumptions used in evaluating the Commission’s pension fund liabilities.

The Commission’s 2016 and 2015 annual OPEB cost was \$14.8 million and \$16.8 million, respectively. In 2016 and 2015 the Commission pre-funded \$10 million and \$10 million, respectively, as the initial installments of a phase-in of the required pre-funding level. Amounts funded exceeded OPEB costs by \$6,583,000 and \$5,613,000 in 2016 and 2015, respectively, and appropriate adjustments were made to the OPEB liability. The cumulative liability will be adjusted and paid with interest over a twenty-nine year period from fiscal year 2008. For additional information concerning the OPEB Plan, see Appendix A, “Notes to Financial Statements,” Note M, Other Post-Employment Benefits within the financial statements.

Leases and Agreements

During fiscal year 1985, the Commission entered into an agreement with a partnership for the provision and operation of a concrete water storage tank. Associated with this transaction, the Commission was obligated to pay certain fees and charges over the life of the agreement. Upon the expiration of the lease agreement in fiscal year 2015 the Commission purchased the storage tank from the lessor.

The Commission is party to certain agreements to provide water service to Howard County, Maryland on an as-available basis and sewage service to the City of Rockville, Maryland. The Commission considers its present capacity to be adequate to continue providing water and sewerage services under these contracts and is of the opinion at the present time that no new capital expenditures will be required of the Commission to fulfill these obligations.

Refunding Bonds and Bonds Refunded

From time to time, refunding bonds of the District have been issued pursuant to the terms of the Public Utilities Article in order to yield savings to the Commission in debt service payments. The proceeds of such refunding bonds have been used to purchase United States government obligations, which have been deposited with escrow agents. As evidenced by the respective verification reports prepared by independent verification agents, the principal of and interest on such government obligations held by the respective escrow agents will provide sufficient money to pay, when due, all of the principal of, redemption premium and interest on, the refunded bonds up to and including their retirement.

The following chart sets forth the refunding bonds of the District as of June 30, 2016:

<u>Refunding Bonds</u>	<u>Date of Refunding Issue</u>	<u>Escrow Agent</u>	Amount of Refunded Bonds Outstanding as of June 30, 2016
Consolidated Public Improvement Refunding Bonds of 2015.....	11/24/2015	The Bank of New York Mellon	<u>118,805,000</u>
			<u>\$118,805,000</u>

The outstanding refunding bonds of the District, including refunding bonds issued to refund water supply bonds of the District, are required by the Public Utilities Article to be included in the debt limitation mentioned under the heading “Bonded Indebtedness of the District - Borrowing Limitation” below. The outstanding refunded bonds are not required to be included within such debt limitation.

BONDED INDEBTEDNESS OF THE DISTRICT

Bond Program

The Commission issues bonds to provide funding for the construction or reconstruction of (i) water supply facilities, water supply lines and transmission mains (the “Water Supply Bonds”), (ii) sewage disposal facilities, sewer collection mains and trunk sewers (the “Sewage Disposal Bonds”), and (iii) Commission-built water/sewer pipes in subdivisions (the “General Construction Bonds”). The bonds may also be issued to replace short-term bond anticipation notes. Pursuant to Section 19-101 of the Local Government Article of the Annotated Code of Maryland, as amended, the Water Supply Bonds, the Sewage Disposal Bonds and the General Construction Bonds may be consolidated for sale and sold, issued and delivered as a single issue of bonds that are designated as the “Consolidated Public Improvement Bonds.”

Maryland Water Quality Debt

The Maryland Water Quality Revolving Loan Fund is administered by the Maryland Water Quality Financing Administration. As of June 30, 2016, the Commission had \$245,446,876 of outstanding debt under this program. The Commission’s obligation to repay this amount is evidenced by Commission bonds, which are payable over a 20-year period at below-market interest rates and on parity with the bonds of the Commission. The source of repayment and security for such Commission obligations is the same as that for the Commission’s Water Supply Bonds and Sewage Disposal Bonds, respectively.

Washington Suburban Sanitary Commission Debt Statement

	Bonds Outstanding <u>June 30, 2016</u>
Bonds Outstanding ⁽¹⁾⁽²⁾ :	
General Construction Bonds (self-supporting) ⁽³⁾	\$ 174,284,641
Water Supply Bonds (self-supporting) ⁽⁴⁾	818,937,395
Sewage Disposal Bonds (self-supporting) ⁽⁵⁾	1,111,682,964
Maryland Water Quality Loan Fund (self-supporting) ⁽⁵⁾	<u>245,446,876</u>
Total Bonds Outstanding	2,350,351,876
Less:	
Self-supporting Bonds	<u>2,350,351,876</u>
Bonds Outstanding Exclusive of Self-supporting Bonds	<u>\$ 0</u>
Assessed Valuation ⁽⁶⁾ , All Property within District	\$273,112,412,244
Per Capita: (Population estimated at 1,934,877)	
Bonds Outstanding Total	\$ 1,215
Bonds Outstanding Exclusive of Self-supporting Bonds	\$ 0

- (1) Excludes \$118,805,000 principal amount of bonds outstanding as of June 30, 2016 which have been refunded.
- (2) Excludes \$120,000,000 principal amount of bond anticipation notes outstanding as of June 30, 2016. See “Short-Term Financing Program” below.
- (3) Front foot benefit charges are levied sufficient to pay debt service.
- (4) Water consumption charges are fixed sufficient to pay all operating expenses and debt service.
- (5) Sewage usage charges are fixed sufficient to pay all operating expenses and debt service.
- (6) Includes the assessed valuation for Montgomery County and Prince George’s County as of June 30, 2016.

Bonded Debt Outstanding and Changes from June 30, 2015 to June 30, 2016⁽¹⁾⁽²⁾

	Bonds Outstanding June 30, 2015	Issued	Defeased	Redeemed	Bonds Outstanding June 30, 2016
General Construction Bonds.....	\$ 205,955,000	\$ 59,935,335	\$ 8,805,000	\$ 82,800,694	\$ 174,284,641
Water Supply Bonds	643,170,167	311,572,788	72,500,000	63,305,560	818,937,395
Sewage Disposal Bonds	864,284,833	345,256,877	37,500,000	60,358,746	1,111,682,964
Maryland Water Quality Loan Fund...	<u>247,953,771</u>	<u>12,702,651</u>	<u>-</u>	<u>15,209,546</u>	<u>245,446,876</u>
Total.....	<u>\$1,961,363,771</u>	<u>\$ 729,467,651</u>	<u>\$118,805,000</u>	<u>\$221,674,546</u>	<u>\$2,350,351,876</u>

(1) Excludes \$118,805,000 principal amount of bonds outstanding as of June 30, 2016 which have been refunded.

(2) Excludes \$120,000,000 principal amount of bond anticipation notes outstanding as of June 30, 2016. See "Short-Term Financing Program" below.

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Adjusted Debt Service

The following table shows principal, interest, and total debt service on the District’s outstanding bonds.

**Outstanding Bonds
June 30, 2016⁽¹⁾⁽²⁾**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017.....	\$135,269,826	\$87,509,614	\$222,779,440
2018.....	138,297,578	81,628,190	219,925,768
2019.....	132,762,111	75,642,540	208,404,651
2020.....	137,472,787	69,986,334	207,459,121
2021.....	135,147,790	64,283,727	199,431,517
2022.....	128,516,230	59,139,685	187,655,915
2023.....	123,749,641	54,444,212	178,193,853
2024.....	121,095,564	49,925,932	171,021,496
2025.....	119,927,813	45,598,965	165,526,778
2026.....	111,960,241	41,559,238	153,519,479
2027.....	107,631,550	37,760,115	145,391,665
2028.....	104,991,779	33,988,961	138,980,740
2029.....	96,504,996	30,321,440	126,826,436
2030.....	87,463,837	26,939,395	114,403,232
2031.....	76,488,405	23,947,515	100,435,920
2032.....	62,548,705	21,435,730	83,984,435
2033.....	43,649,743	19,491,200	63,140,943
2034.....	44,786,525	18,124,881	62,911,406
2035.....	36,146,947	16,751,484	52,898,431
2036.....	35,639,808	15,410,587	51,050,395
2037.....	36,810,000	14,034,675	50,844,675
2038.....	38,085,000	12,613,108	50,698,108
2039.....	39,410,000	11,142,583	50,552,583
2040.....	40,785,000	9,621,196	50,406,196
2041.....	42,215,000	8,046,987	50,261,987
2042.....	43,705,000	6,417,883	50,122,883
2043.....	45,250,000	4,731,554	49,981,554
2044.....	46,865,000	2,985,854	49,850,854
2045.....	29,360,000	1,242,096	30,602,096
2046.....	7,815,000	214,913	8,029,913
Total.....	<u>\$2,350,351,876</u>	<u>\$ 944,940,594</u>	<u>\$ 3,295,292,470</u>

- (1) Excludes \$118,805,000 principal amount of bonds outstanding as of June 30, 2016 which have been refunded.
(2) Excludes \$120,000,000 principal amount of bond anticipation notes outstanding as of June 30, 2016. See “Short-Term Financing Program” below.

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Summary of Outstanding Debt Service as of June 30, 2016⁽¹⁾⁽²⁾

	<u>Principal</u>	<u>Interest To Maturity</u>	<u>Total Debt Service</u>
General Construction Bonds	\$ 174,284,641	\$ 41,003,452	\$ 215,288,093
Water Supply Bonds	818,937,395	366,809,539	1,185,746,934
Sewage Disposal Bonds.....	1,111,682,964	519,564,430	1,631,247,394
Maryland Water Quality Loan Fund.....	<u>245,446,876</u>	<u>17,563,174</u>	<u>263,010,050</u>
Total.....	<u>\$2,350,351,876</u>	<u>\$944,940,594</u>	<u>\$3,295,292,471</u>

(1) Excludes \$118,805,000 principal amount of bonds outstanding as of June 30, 2016 which have been refunded.

(2) Excludes \$120,000,000 principal amount of bond anticipation notes outstanding as of June 30, 2016. See “Short-Term Financing Program” below.

Authorization of Debt

The Bonds are issued upon the basis of authorizations, under the Constitution and laws of the State of Maryland, including Titles 16 through 25 of Division II of the Public Utilities Article, particularly Titles 22 and 25 thereof and other applicable law, by the Commission through the adoption of Resolution No. 2017-2138 or orders of the Commission.

Borrowing Limitation

The Public Utilities Article limits the amount of bonds and notes issued by the District that may be outstanding at any time. The aggregate principal amount of bonds and notes of the District (excluding refunded bonds and certain short-term instruments) outstanding at any time may not exceed the sum of: (i) 3.8% of the total assessable tax base of all real property assessed for county tax purposes within the District, and (ii) 7.0% of the total assessable personal property and operating real property assessed for county tax purposes within the District (or such respective percentages of such tax bases as of July 1, 1997, if larger).

Shown below are the latest certified assessed valuations of those portions of the Counties that lie within the District, and the ratio of debt to permitted debt.

	<u>Total Assessed Valuation (000)</u>	<u>Maximum Debt Permitted (000)</u>	<u>Total Debt Outstanding (000)</u>	<u>Ratio of Debt Outstanding to Debt Permitted</u>
June 30, 2016.....	\$273,112,412	\$10,451,218	\$2,470,352	23.6 %
June 30, 2015.....	242,885,625	9,289,681	1,961,364	21.1
June 30, 2014.....	240,410,073	9,197,332	1,952,543	21.2
June 30, 2013	240,018,093	9,180,923	1,878,296	20.5
June 30, 2012.....	227,730,398	8,715,697	1,556,797	17.9

Short-Term Financing Program

On June 24, 2003, the Commission established a \$465,000,000 short-term borrowing facility whereby it may issue and redeem its General Obligation Multi-Modal Bond Anticipation Notes (the “BANs”) from time to time. The BANs are general obligations of the District. On November 19, 2008, the Commission amended the previous note program to expand the authority to issue notes up to an additional \$600,000,000. The BANs are tax-exempt variable rate demand notes, the interest rates on which are reset weekly. The BANs are subject to optional redemption by the Commission at par on not less than fifteen days’ notice to the holders thereof. Debt service on the BANs is expected to be paid from revenues generated in the District from fees, charges, rates and assessments and other available funds and, in the event of a deficiency, are secured by ad valorem taxes upon all the assessable property within the District, without limitation as to rate or amount. The principal of the BANs is payable from the proceeds of the long-term water supply

bonds and sewage disposal bonds of the District and other available funds. Until such time as they are redeemed from bond proceeds, the Commission generally amortizes the BANs principal over a 20-year term.

On August 28, 2013, the Commission replaced its liquidity facility provider, Helaba, with two new facilities; TD Bank N.A. and State Street Bank and Trust Company respectively. On that date, the outstanding Series A BANs in the aggregate principal amount of \$130,100,000 were fully redeemed and reissued in two separate series, Series A Notes and Series B Notes. On February 26, 2014 and June 24, 2015, the Commission issued \$50,000,000 and \$90,000,000 aggregate principal amount of BANs respectively. On August 31, 2016, the Commission issued \$95,000,000 aggregate principal amount of BANs.

The Series A Notes are secured by a Standby Note Purchase Agreement between the Commission and TD Bank, N.A. in the aggregate principal amount of \$107,500,000 and the Series B Notes are secured by a Standby Note Purchase Agreement between the Commission and State Street Bank and Trust Company in the aggregate principal amount of \$107,500,000. Under each Standby Note Purchase Agreement, the applicable banks are obligated, subject to certain terms and conditions of a note order, to purchase the notes secured thereby, or portions thereof tendered for purchase and not remarketed. Each Standby Note Purchase Agreement is scheduled to expire on August 28, 2019.

The Commission has issued \$786,000,000 aggregate principal amount of BANs since the short-term borrowing facility was established on June 24, 2003. Of that amount, \$571,100,000 has been redeemed, leaving a balance of \$215,000,000 aggregate principal amount of BANs outstanding as of August 31, 2016. The proceeds of the BANs are used to provide interim financing for the water and sewer projects comprising a portion of the Commission's capital program.

Record of No Default

The Commission has never defaulted on any bonded indebtedness.

DISTRICT FINANCIAL DATA

The District's financial records are maintained on the debt service method of accounting to conform to its annual budget. The District maintains a fund accounting system to separately account for its construction functions and operating functions. Each operating fund is credited with its share of the interest earned from the investments. The Commission continuously reviews its procedures to ascertain if it is necessary to update them due to new developments and other changes. Revenue available for debt service and operating expenses for the five most recent complete fiscal years ended June 30 are shown in summary form as follows:

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Summary of Operating Revenues, Expenses and Net Revenues ^(Loss) (Dollars in Thousands)⁽¹⁾

	Fiscal Year ended June 30,				
	2016	2015	2014	2013	2012
Gross Revenues Available for Debt Service	<u>\$ 644,611</u>	<u>\$ 643,046</u>	<u>\$ 623,021</u>	<u>\$ 598,510</u>	<u>\$ 584,831</u>
Debt Service:					
Bonds Redeemed and Sinking Fund					
Contributions	150,399	173,642	180,025	161,921	163,928
Interest on Bonds and Notes Payable	<u>78,073</u>	<u>74,380</u>	<u>69,042</u>	<u>65,710</u>	<u>59,082</u>
Total.....	<u>228,472</u>	<u>248,022</u>	<u>249,067</u>	<u>227,631</u>	<u>223,010</u>
Net Revenues Available for Operations.....	416,139	395,024	373,954	370,879	361,821
Operating Expense Exclusive of Depreciation and Amortization	<u>405,078</u>	<u>415,684</u>	<u>365,963</u>	<u>356,527</u>	<u>338,004</u>
Net Revenue (Loss)	<u>\$ 11,061</u>	<u>\$ (20,660)</u>	<u>\$ 7,991</u>	<u>\$ 14,352</u>	<u>\$ 23,817</u>
Composed of:					
Water Operating (1)	\$ (4,914)	\$ (20,085)	\$ (11,357)	\$ 9,986	\$ 21,927
Sewer Operating (1)	15,291	6,271	30,721	12,057	6,225
Other Operating Funds.....	<u>684</u>	<u>(6,846)</u>	<u>(11,373)</u>	<u>(7,691)</u>	<u>(4,335)</u>
Total	<u>\$ 11,061</u>	<u>\$ (20,660)</u>	<u>\$ 7,991</u>	<u>\$ 14,352</u>	<u>\$ (23,817)</u>

(1) Operating losses were planned uses of existing prior year surpluses within the operating funds accomplished by restraining rate increases in the respective year.

Source: Washington Suburban Sanitary District.

The Commission's operating revenues derived from water and sewer charges vary from year to year, as water usage fluctuates in response to a variety of factors (such as changing weather patterns and economic conditions, for example). The Commission's policy is to maintain a reserve in the amount of at least 10% of budgeted water and sewerage operating revenues to offset any shortfall in such revenues. In those years in which water or sewerage operating revenues exceed budgeted amounts, the Commission generally accrues the resulting surplus in the respective Operating Fund(s) to be utilized in future years' budgets for fiscally prudent purposes, including rate increase mitigation, one-time expenditures, increasing the Commission's reserve, and applying the surplus against future capital costs on a pay-as-you-go basis. In those years in which water or sewer operating revenues do not reach budgeted amounts, the Commission adjusts its then-current budget by reducing expenditures and by drawing upon the reserve, if necessary. In the event that the reserve is inadequate to cover such shortfall, the Commission may implement a mid-year rate increase after notifying the respective County Councils, although this has never been required. The Commission did not draw upon the reserve during fiscal year 2014, fiscal year 2015 or fiscal year 2016. The Commission increased the reserve target by \$2.3 million in fiscal year 2015 and has further increased the reserve target by \$6.3 million in fiscal year 2016, with a goal of maintaining a reserve of 10%. At June 30, 2016 the reserve target amounted to \$61.9 million, which is approximately 10.6% of budgeted water and sewer rate revenue while the actual fund balance was \$149.9 million (excludes the ending general bond debt service fund balance of \$57.5 million). The fiscal year 2017 budgeted addition is expected to maintain a reserve percentage of 10.5%.

Budget

The Public Utilities Article requires the Commission, prior to January 15 preceding the respective fiscal year, to prepare operating and capital budgets (the "Budget") for the ensuing fiscal year.

The Budget is prepared to reflect the total funding and staffing requirements of the Commission as well as its individual programs and organizational components. The Budget is divided into two major sections, the Operating Budget and the Capital Budget. The Operating Budget reflects the Commission's resource requirements to operate and maintain its completed plants and other installations. The Operating Budget consists of three separate funds: Water Operating, Sewer Operating, and General Bond Debt Service. The Capital Budget reflects the Commission's plan to

receive and expend funds for capital projects including those identified in the first year of its Six Year Capital Improvements Program (see “Capital Improvement Program - Six Year Capital Program”), reconstruction programs and other capital programs. The Capital Budget consists of three separate funds: Water Supply Bond, Sewage Disposal Bond and General Construction Bond funds.

The Budget process begins with submission of requests by all organizational units. The Finance Office compiles and presents the budget to the General Manager for review. After review, the General Manager submits this Budget with his recommendations to the Commissioners. The Commissioners review the Budget and make changes they deem necessary in order to arrive at the Commission’s proposed Budget.

The Public Utilities Article requires that the Proposed Budget be published by January 15. Copies of the Proposed Budget are available to the public. The Commission holds public hearings on the Proposed Budget prior to February 15 after providing 21 days’ notice of such hearing by publication in at least two newspapers published and generally circulated in Montgomery County and two newspapers published and generally circulated in Prince George’s County.

The Commission is required to transmit the Proposed Budget by March 1 to the County Executives of Prince George’s and Montgomery Counties. The County Executives make recommendations on the Proposed Budget by March 15 to their respective County Councils. The County Councils may hold public hearings and conduct work sessions with Commission personnel during the months of April and May. Each County Council may add to, delete from, increase or decrease any item of the Proposed Budget and shall transmit by May 15 any proposed changes to the other County Council for review and concurrence. Each County Council must approve all amendments to the Proposed Budget and, prior to June 1, approve the Budget.

In the event both County Councils fail to concur on a change with respect to any item in such Proposed Budget by June 1, that failure shall constitute approval of the item as submitted by the Commission.

Finally, upon receipt of the joint resolutions of the two County Councils, the Commission adopts the Budget and approves the water and sewer rates, other charges and fees, and ad valorem tax rates required to fund the approved expenditure levels.

The Commission’s audited financial statements (Appendix A) are prepared in accordance with generally accepted accounting principles. Comparison of the audited financial statements to the debt service method statements requires adjustments for several differences, including depreciation, bond principal redemption, capitalized interest and unfunded pension costs.

SUMMARY OF DISTRICT AD VALOREM TAXES AND OTHER CHARGES AND REVENUES THEREFROM

Ad Valorem Tax Rate

At present, no ad valorem taxes are levied pursuant to Commission certification for the payment of debt service on outstanding bonds. Debt service on the Bonds and other outstanding bonds of the District is expected to be paid from revenues generated in the District from fees, charges, rates and assessments and other available funds.

Tax Collection Procedures

Pursuant to Section 22-106 of Division II of the Public Utilities Article to retire and pay the interest on bonds each year the county councils of Montgomery County and Prince George's County shall impose against the assessable property that is in the District a tax sufficient to pay the principal of and interest on the bonds, as and when due and until paid in full. Each year the Commission shall determine the amount necessary to pay the principal and interest on bonds issued and shall set aside such amount from water service charges, sewer usage charges, house connection charges, and any other charges imposed by the Commission as the Commission determines to be fair and equitable. The amount set aside shall be deducted from the amount that the Commission determines to be necessary to be raised by taxation.

At least 30 days before the taxable year for property taxes, the county executives of Montgomery County and Prince George's County shall certify to the Commission the total valuation of assessable property within the District in

each county. The Commission shall determine the amount necessary, for the next taxable year, to pay: (i) interest on all outstanding bonds; (ii) principal of all serial bonds maturing during the year; and (iii) the proportionate part of principal of all outstanding sinking fund bonds as determined by the usual table of redemption of bonds by annual deposit in a sinking fund.

After deducting all amounts applicable to payment of interest and principal on the bonds, the Commission shall certify to the county councils of Montgomery County and Prince George's County the number of cents per \$100 necessary to raise the amount determined to pay the debt service.

Each year the county councils of Montgomery County and Prince George's County shall impose a tax in the amount determined by the Commission under the Public Utilities Article on all assessable property within the District. The taxes imposed under this Act shall (i) have the same status as county taxes; and (ii) be imposed and collected by the tax collecting authority for each county as county taxes. Every 60 days, each county shall pay to the Commission the taxes collected under the Public Utilities Article.

Front Foot Benefit Charges and Historic Collections

For meeting debt service on its outstanding \$174,284,641 of general construction bonds as of June 30, 2016, there have been assessed front foot benefit charges in amounts sufficient, taking delinquencies in account, to pay debt service on the general construction bonds as such debt service becomes due. Front foot benefit charges are payable in annual or semi-annual installments. There are no operations, repair or maintenance costs paid from front foot benefit charges.

Front foot benefit charges for water and sewer lines placed in service during 2016 and 2015, as shown in the table below, became effective January 1, 2016 and 2015, respectively. The charges are payable over 20-years.

	Annual Rates per linear front foot*			
	Effective		Effective	
	January 1, 2016		January 1, 2015	
	Water	Sewer	Water	Sewer
Subdivision	\$4.80	\$7.18	\$4.80	\$7.18
Business (First 200 feet)	6.39	9.55	6.39	9.55
Small Acreage (First 150 feet)	4.80	7.18	4.80	7.18
Multi-Unit Residential Apartment	4.80	7.18	4.80	7.18
Townhouse.....	4.80	7.18	4.80	7.18
Agricultural (First 150 feet)	4.80	7.18	4.80	7.18

*The total amount of assessment can be redeemed at any time by the property owner.

Front foot benefit charges and deferred house connection charges are levied on a calendar year basis prior to July 1 of each year. Charges can be paid in two installments, the first due prior to October 1 and the second due prior to January 1. Levies, and collections for the five calendar years through 2015 as supplied by the counties, are shown in the following table:

<u>Levy Year(2)</u>	<u>Amount Levied</u>	<u>Montgomery County</u>		<u>Prince George's County</u>		
		<u>Total Collections</u>	<u>Percent Collected(1)</u>	<u>Amount Levied</u>	<u>Total Collections</u>	<u>Percent Collected(1)</u>
2015	\$12,053,519	\$12,025,315	99.77%	\$14,220,067	\$14,180,525	99.72%
2014	15,647,153	15,638,863	99.95	17,905,855	17,884,447	99.88
2013	19,593,246	19,590,121	99.98	22,718,632	22,700,889	99.92
2012	23,767,335	23,740,544	99.89	27,158,233	27,139,889	99.93
2011	26,387,653	26,376,130	99.96	30,815,410	30,791,500	99.92

- (1) Collections are applied to their respective levy years regardless of the year of collection.
- (2) Original levies adjusted by subsequent additions, deletions and collections as of June 30, 2016. Assessments are levied on construction completed in the previous calendar year.

Water and Sewer Charges

Water consumption charges are collected to pay the operation, repair and maintenance costs of, and the debt service on bonds and notes issued for, water supply projects. Sewer usage charges are collected to pay the operation, repair and maintenance costs of, and the debt service on bonds and notes issued for, sewerage projects. Ad valorem taxes are not presently levied for such purposes.

Under the Public Utilities Article, the Commission imposes a 5% late payment charge on any water/sewer bill outstanding after 30 days for residential customers and 20 days for commercial customers. If payment is not made within an additional 15 days, a termination notice is forwarded to a delinquent property owner advising that service will be discontinued by a specified date without further notice. Should this fail, and if any bill shall remain unpaid for 60 days from the date fixed for payment, it is collectible against the owner of the property served. As of this date of the Official Statement, historically the bad debt write-off has never been material to the Commission.

The Commission employs a conservation oriented multi-rate structure for both water and sewer usage. The structure applies a sliding schedule of rates per thousand gallons of use with a level of charges determined by the customer's average daily consumption (ADC) during each billing period. The rates as of July 1, 2016 range from \$3.38 to \$7.81 per thousand gallons for water consumption and \$4.30 to \$10.90 per thousand gallons for sewer usage. The schedule starts at a base consumption level of 1-49 gallons a day where the lowest water and sewer rates apply and moves up in sixteen increments to a top ADC threshold at 9,000 gallons or more where the highest water/sewer rates apply to the total consumption by the customer unit. Sewer-only customers are charged a flat rate. In addition, all customers are assessed Ready-to-Serve fees, based on meter size, in cumulative amounts ranging from \$27.00 to \$6,203.00 per quarter.

Other Charges

The Commission collects other charges and fees, namely, house connection fees, plumbing and gas connection inspection fees and system development charges, as mentioned below.

Sub-district Charges

In order to expedite ahead of schedule, the construction of water and/or sewer facilities to serve certain sub-districts within the District, the Commission established individual sub-district charges in the Olney, Mattawoman, Green Branch, Mill Branch and Clopper Road Sub-districts to help defray the cost of capital construction therein. The Commission has suspended the collection of sub-district charges, because system development charges provide sufficient growth-related cost recovery. See "System Development Charge" below.

House Connection Fees

On January 1, 2005, to reflect the construction cost differential, the Commission's pricing of house connections for residential customers changed to one in which unimproved and improved connections receive different rates for each different sized connection. Beginning January 1, 2016, the rate for standard one-inch or one and one-half inch residential water connections in an unimproved area is \$2,250, whereas a standard one-inch or one and one-half inch residential water connection in an improved area is \$7,250. A standard residential sewer connection in an unimproved area is \$3,500, whereas a standard residential sewer connection in an improved area is \$11,500. Commercial customers are charged different rates for larger sized improved and unimproved area connections to reflect the construction cost differential for these two types of connections.

Plumbing and Gas Connection Inspection Fees

The Commission inspects the installation of all plumbing and gas facilities throughout the bi-county area. This affords standardization of materials and methods for plumbing and gas systems in the District. The Commission charges certain fees for such inspections.

System Development Charge

The Commission is authorized by the Public Utilities Article to impose a system development charge at the time of filing of each plumbing permit application. The charge is applicable to each first-time connection to the water or

sewer systems of the District, and to each additional connection or increase in water meter size due to a change in property use or an increase in demand at a property already connected to the system. The amount of the charge is established and annually revised by the Montgomery County Council and the Prince George’s County Council. The charge is applied based on the number of plumbing fixtures at the subject property. The rate schedule in effect as of July 1, 2016 imposes charges of between \$22 and \$264,000 for 71 categories of non-residential fixtures, and between \$44 and \$880 for 20 categories of residential fixtures. The system development charge is capped at \$2,036 per apartment unit, \$3,054 for dwellings with one or two toilets, \$5,090 for dwellings with three or four toilets, and \$7,126 for dwellings with five toilets. The Commission may apply the proceeds of the system development charge only to pay for new treatment, transmission and collection facilities, the need for which is directly attributable to the addition of new service, or to amortize bonds issued in connection with the construction of such facilities.

INFORMATION REGARDING MONTGOMERY AND PRINCE GEORGE’S COUNTIES

Montgomery County, Maryland and Prince George’s County are each body politics and corporate and political subdivisions of the State of Maryland. The populations of Montgomery and Prince George’s Counties are shown below:

	<u>1990</u>	<u>2000</u>	<u>2010</u>
Montgomery County	\$ 757,027	\$ 873,341	\$1,004,709
Prince George’s County	<u>728,553</u>	<u>801,515</u>	<u>881,138</u>
Total	<u>\$ 1,485,580</u>	<u>\$1,674,856</u>	<u>\$1,885,847</u>

Source: U.S. Census of Counties.

Additional information regarding Montgomery County and Prince George’s County, including detailed governance, demographic, economic and financial information is set forth in Appendix B and can be obtained from the most recent Official Statements of such counties. The information regarding Montgomery County and Prince George’s County set forth in Appendix B to this Official Statement has been provided to the Commission by Montgomery County and Prince George’s County, respectively. The Commission has not undertaken to audit, authenticate or otherwise verify the information set forth in Appendix B or any Official Statement of Montgomery County or Prince George’s County. The Commission makes no guaranty, warranty or other representation respecting the accuracy and completeness of the information set forth in Appendix B or any such Official Statement. The Commission is not in a position to, and will not, undertake to update any information set forth in Appendix B or in any Official Statement of Montgomery County or Prince George’s County. Reference to the Official Statements of Montgomery County and Prince George’s County is included herein for convenience only and any information included in such Official Statements is not incorporated herein, by reference or otherwise.

CAPITAL IMPROVEMENTS PROGRAM

Ten Year Plan

The State of Maryland requires that every county in the State have a ten-year water and sewerage plan. The Commission, as the provider of water and wastewater services for Prince George’s and Montgomery Counties, has assisted in the preparation of the ten-year plans since 1971. The County 10-year plans provide the overall guidance for the timing and capacity for planned implementation of new water filtration plants, pumping stations, transmission lines and storage facilities and sewage treatment plants, pumping stations, force mains and interceptor sewers and related facilities. Local water distribution and sewage collection systems are approved by Commission authority consistent with service policies in the ten-year plans.

Six Year Capital Program

Each year the Commission prepares a six-year projection of capital expenditures for new major water and sanitary sewerage facilities constituting its Capital Improvements Program (“CIP”). In addition, six-year projections are made for existing water and sewer systems reconstruction activities, a planned program for rehabilitating the older or deficient portions of these systems. The principal objective of the CIP is the six-year programming of planning, design, land acquisition, and construction activities on a yearly basis for major water and sewerage infrastructure projects and

programs. These projects and programs may be necessary for system improvements for service to existing customers (78% of the CIP), to comply with federal and/or state environmental mandates (9%), or to support new development in accordance with the counties' approved plans and policies for orderly growth and development (13%). The projects within the approved six-year program include an aggressive program to rehabilitate or replace the older portions of the Commission's 5,500 miles of water mains and 5,400 miles of sewer mains, provide for growth as needed and ensure compliance with the 2005 sanitary sewer and 2016 Potomac Water Filtration Plant consent decrees. The projects are generally categorized as follows:

- Capital Improvements Program (CIP) & Allocated Costs
- Systems Reconstruction Program
- Engineering Support Program (ESP)
- Energy Performance Program (EPP)
- Other Capital Projects
- General Construction

Working to protect clean water, in July of 2005 the Commission joined U.S. Representative Chris Van Hollen, Lieutenant Governor Michael S. Steele and representatives from the Anacostia Watershed Society, Natural Resources Defense Council (NRDC), Audubon Naturalist Society and Friends of Sligo Creek to announce agreement on a multi-year action plan to dramatically minimize, and eliminate where possible, sewage overflows. A sanitary sewer overflow (SSO) is an event where untreated or partially treated wastewater discharges from a sanitary sewer system into the surrounding areas.

The comprehensive plan settles a lawsuit filed by the U.S. Department of Justice (DOJ) in November 2004 on behalf of the U.S. Environmental Protection Agency (EPA) regarding overflows in the Commission's wastewater collection system. The Commission has worked closely with its partners at the federal, state and local levels to develop a proactive plan that will augment its existing efforts to maintain, identify and repair problem areas within its 5,400-mile sewer system. This sanitary sewer consent decree, similar to many others enacted throughout the country, will enhance the Commission's ability to meet the public health needs of our customers. The Commission is well underway on this program and all funding required has been incorporated within the existing CIP. On June 26, 2016 the sanitary sewer consent decree deadline was extended for an additional six years.

In February 2014, the Potomac Riverkeeper, Inc. ("PR") and the Chesapeake Bay Foundation, Inc. ("CBF") filed a complaint for injunctive relief and penalties in U.S. District Court in Maryland alleging violations of the Clean Water Act ("CWA") by the Commission (the "Issuer"). Under a Consent Decree executed by the District Court of Maryland on April 15, 2016, the Commission is required to undertake short-term operational changes and capital improvements at the Potomac Water Filtration Plant that will enable WSSC to reduce solids discharged to the river, and to plan, design and implement upgrades or new construction to achieve requirements established by MDE and incorporated in a new discharge permit. An Audit report and Long-Term Upgrade Plan are to be submitted by WSSC for consideration by January 2, 2017. Costs for implementation of improvements are estimated at \$43 million, and are to be expended over at least 7 years, all of which is expected to be incurred after fiscal year 2016. The costs for the improvements are included in WSSC's budget and capital improvements program.

The Commission has approved water and sewer CIP, Engineering Support and Energy Performance Program projects with a value of nearly \$2.3 billion for fiscal years 2017-2022, and over \$936 million for water and sewer system reconstruction projects during the same period. Of this amount, nearly \$2.6 billion is anticipated to be funded through the sale of Commission bonds. The remaining amount is expected to be funded through federal and state grants, operating funds, and contributions from other sources.

The following table shows the approximate funding schedule (subject to adjustment for inflation) for approved CIP and system reconstruction projects (dollars in thousands).

	<u>FY'17</u>	<u>FY'18</u>	<u>FY'19</u>	<u>FY'20</u>	<u>FY'21</u>	<u>FY'22</u>	<u>6-Yr.-Total</u>
Water CIP/ESP/EPP	\$ 207,421	\$206,304	\$ 177,663	\$ 134,909	\$ 118,189	\$ 100,612	\$ 945,098
Sewer CIP/ESP/EPP	340,441	327,050	233,953	210,560	141,877	73,247	1,327,128
System Reconstruction	<u>158,928</u>	<u>153,133</u>	<u>154,284</u>	<u>158,046</u>	<u>154,860</u>	<u>156,894</u>	<u>936,145</u>
	<u>\$ 706,790</u>	<u>\$ 686,487</u>	<u>\$ 565,900</u>	<u>\$ 503,515</u>	<u>\$ 414,926</u>	<u>\$ 330,753</u>	<u>\$ 3,208,371</u>
Bond Funding	\$556,719	\$540,019	\$452,854	\$411,513	\$338,867	\$250,724	\$2,550,696
% of Capital Program	79%	79%	80%	82%	82%	76%	80%

The funds necessary to finance general construction projects are not included in the above six year projections. In accordance with amendments to the Public Utilities Article enacted in 1998, general construction projects begun after June 30, 2001 will generally be financed by private developers rather than the Commission.

WATER AND SEWERAGE FACILITIES, SERVICE CENTERS AND STATISTICS

The Commission currently operates water filtration plants, raw water reservoirs, wastewater treatment plants (in addition to sharing the use of regional facilities) and maintenance service centers.

Water Sources and Filtration Facilities

The Commission has multiple sources of raw water available for processing and delivery to its customers. These sources are supplemented by a number of reservoirs containing an aggregate of 17 billion gallons of raw water storage, and up to an additional 17 billion gallons of water for river quality and flow. The water filtration facilities (Potomac and Patuxent), which have a combined peak production capacity of more than 300 million gallons of water per day (mgd), are strategically located to meet all of the needs of the Commission's customers. The water system is designed with a focus on sufficient redundancy to ensure adequate overlapping coverage for the Commission's service area.

The Commission maintains a water distribution network containing more than 5,500 miles of mains. There are filtered water storage structures located at strategic points along this network to assist in meeting peak customer demands and fire protection requirements. These structures have a combined gross storage capacity of more than 200 million gallons.

Wastewater Treatment Facilities

The Commission's wastewater plants located throughout the District are as follows:

Seneca Plant	Piscataway Plant	Parkway Plant
Damascus Plant	Western Branch Plant	Hyattstown Plant

Blue Plains Plant (developed and operated by the District of Columbia Water and Sewer Authority; capacity is shared by the Commission under regional agreements)

Mattawoman Plant (developed and operated by Charles County, Maryland; the Commission has purchased 15% of the plant's capacity under a regional agreement)

Poolesville Plant (owned and operated by the Town of Poolesville, Maryland; the Commission has purchased 20,000 gpd capacity at the plant under an agreement with the Town)

In recent years, in response to efforts to improve water quality in the Chesapeake Bay, emphasis has been placed on the expansion and improvement of wastewater treatment facilities to serve current and future needs of the Commission's bi-county service area. Every plant receiving wastewater from the Commission's system is equipped to provide advanced treatment. In 2004 the State of Maryland passed the Chesapeake Bay Restoration Act into law to provide funding to remove additional nitrogen at wastewater treatment plants statewide to achieve Enhanced Nutrient Removal (ENR). Construction is nearly complete to upgrade all Commission facilities to the ENR technology. The State of Maryland had previously provided funds on a 50% cost share basis to upgrade plants statewide to Biological Nutrient Removal (BNR). The Commission has previously constructed BNR facilities at the Piscataway, Western Branch, Parkway, Seneca and Damascus Plants. Each of the prior nitrogen removal projects allowed the Commission plants to meet or surpass the BNR goals and produce effluents of < 8 mg/l nitrogen. The additional ENR upgrades are expected to further reduce nitrogen in the effluent to approximately 3 mg/l which is considered the limit of technology.

Approximately 65% of the District's sewage flow travels through the regional system in Maryland and the District of Columbia to the Blue Plains Plant Advanced Wastewater Treatment Plant in Washington, D.C. ("Blue Plains"). The Blue Plains Plant is an advanced wastewater treatment plant with treatment capacity of 370 mgd. Blue Plains enhanced nitrogen removal facilities are currently under construction. The Commission has contributed to the capital cost of these upgrades. This project continues to receive grant funding annually from previously-appropriated federal (EPA) and State pollution control grant programs. During fiscal year 2016, the Blue Plains Plant received 43.6 billion gallons (bg) of sewage from the Commission system, while the following flows were handled during the year at Commission-operated facilities: Piscataway Plant, 9.1 bg; Western Branch Plant, 7.0 bg.; Parkway Plant, 2.3 bg; Seneca Plant, 5.3 bg; and Damascus Plant, 0.3 bg. In addition, the Mattawoman Plant received 0.5 bg of sewage from the Commission system.

Wastewater is conveyed through the Commission pipeline system, which contains more than 5,400 miles of sewer mains.

Service Centers

The Commission operates four service centers throughout the service area Through facilities in Anacostia, Gaithersburg, Lyttonsville and Temple Hills, the Commission provides warehouse management, fleet services and meter operations to ensure that appropriate materials and transportation is available for the maintenance and repair of the vast water and wastewater system. In addition, the Commission operates a state-of-the-art laboratory which performs an estimated 500,000 tests annually to ensure water safety and quality.

Fiscal Year Ended June 30,	Estimated Population Served	Miles of Water Mains	Water Connections	Water Delivered (000,000 gal.)	Average mgd.	Miles of Sewer Mains	Sewer Connections
2016.....	1,774,000	5,586	457,393	60,105	164.2	5,452	430,589
2015.....	1,765,000	5,552	453,004	59,469	162.9	5,424	427,279
2014.....	1,757,000	5,521	449,333	58,603	160.6	5,402	425,445
2013.....	1,749,000	5,494	446,453	58,830	161.2	5,376	423,110
2012.....	1,742,000	5,471	444,184	60,648	165.7	5,363	421,092
2011.....	1,734,000	5,451	441,593	63,861	175.0	5,344	418,718

INSURANCE

The Commission maintains insurance on its property (structures, contents, boilers and machinery, etc.) for physical damages. The Commission also maintains Employee Dishonesty and Terrorism insurance.

The Commission is self-insured for all liability except fiduciary liability insurance which the Commission maintains in connection with its Employees Retirement Plan. Each year, the Commission budgets funds to pay for expected claims, based on past loss experience. However, should the actual claims be significantly higher than budgeted, or should a catastrophic loss occur, then funds to pay for such loss or losses would have to be obtained from ad valorem taxation or other sources of revenue, since a self-insurance fund has not been established.

The Commission is self-insured for Workers' Compensation benefits per the applicable statutory requirements of the State of Maryland.

The Commission's insurance policies contain varying self-insured retention levels. All such policies are subject to their terms, conditions, exclusions, definitions and limitations.

INVESTMENT OF OPERATING AND CAPITAL FUNDS

Commission funds held for operating and capital purposes are invested by the Commission Treasurer's Office in accordance with the Commission's investment policy, which conforms to State of Maryland law on the investment of public funds. The Commission does not leverage its investment portfolio, buy reverse repurchase agreements, invest in investment pools or enter into interest rate swaps or other derivatives. The Commission does not borrow or lend securities. The Commission invests primarily in obligations of the United States government, its agencies or instrumentalities, repurchase agreements, and bankers' acceptances. The repurchase agreements into which the Commission enters are collateralized by United States government treasury obligations and obligations of agencies and instrumentalities of the United States government, held by an independent third party custodian and marked to market daily.

LITIGATION

In February 2014, the Potomac Riverkeeper, Inc. ("PR") and the Chesapeake Bay Foundation, Inc. ("CBF") filed a complaint for injunctive relief and penalties in U.S. District Court in Maryland alleging violations of the Clean Water Act ("CWA") by the Commission; in May 2014, the Maryland Department of the Environment ("MDE") notified the Commission of its intention to file its own CWA complaint against the Commission. The parties agreed to a Consent Decree that was approved by the U.S. District Court on April 15, 2016, ending the litigation. The Consent Decree obligates WSSC to make immediate, short (3 years), and long-term (10 years) investments at the Commission's Potomac Water Filtration Plant that are designed to attain proposed performance metrics. The level of improvements and any civil and stipulated penalties and other expenditures required under the Consent Decree are not expected to have a material adverse effect on the Commission's ability to satisfy its debt service requirements for the Bonds or any other debt obligations of the District.

RATINGS

Fitch Ratings, Inc. ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Rating Services ("S&P") have assigned the Bonds long-term ratings of "AAA" (with a stable outlook), "Aaa" (with a stable outlook) and "AAA" (with a stable outlook), respectively. No application was made to any other rating agency for the purpose of obtaining a rating on the Bonds.

The Commission furnished to such rating agencies certain information and materials respecting the Bonds, the District, the Commission, Prince George's County and Montgomery County. Generally, rating agencies base their ratings on investigations, studies and assumptions that they made, in addition to the information and materials provided by the Commission. Such ratings express only the views of the respective rating agencies. There is no assurance that the ratings mentioned above will remain in force for any given period of time or that the ratings may not be lowered or withdrawn by the rating agencies or any of them. Any such lowering or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

TAX MATTERS

The following discussion does not describe all aspects of federal income taxation that may be relevant to a particular holder of Bonds in light of his or her particular circumstances and income tax situation. Each holder of Bonds should consult such holder's tax advisor as to the specific tax consequences to such holder of the ownership and disposition of such Bonds, including the application of state, local, foreign and other tax laws.

State of Maryland Taxation

In the opinion of Bond Counsel, under existing law, interest on the Bonds is forever exempt from taxation by the State of Maryland, its counties and municipalities; no opinion is expressed as to estate or inheritance taxes, or any other taxes not levied or assessed directly on the interest on the Bonds. Interest on the Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Purchasers of the Bonds should consult their own tax advisors with respect to the taxable status of the Bonds in jurisdictions other than Maryland.

Federal Income Taxation

In the opinion of Bond Counsel, under existing statutes, regulations and decisions, assuming compliance with certain covenants described herein, interest on the Bonds will be excludable from gross income for federal income tax purposes.

Under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), there are certain restrictions that must be met subsequent to the delivery of the Bonds, including restrictions that must be complied with throughout the term of the Bonds in order that the interest thereon be excludable from gross income. These include the following: (i) a requirement that certain earnings received from the investment of the proceeds of the Bonds be rebated to the United States of America under certain circumstances (or that certain payments in lieu of rebate be made); (ii) other requirements applicable to the investment of the proceeds of the Bonds; and (iii) other requirements applicable to the use of the proceeds of the Bonds and the facilities financed or refinanced with such proceeds. Failure to comply with one or more of these requirements could result in the inclusion of the interest payable on the Bonds in gross income for federal income tax purposes, effective from the date of their issuance. The Commission has covenanted to take all actions necessary to maintain the exemption of interest on the Bonds from federal income taxation in the Resolutions.

Further, under existing statutes, regulations and decisions, Bond Counsel is of the opinion that interest on the Bonds is not included in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment. However, for purposes of calculating the corporate alternative minimum tax, a corporation subject to such tax may be required to increase its alternative minimum taxable income by 75% 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 such purposes, "adjusted current earnings" may include, among other items, interest income from the Bonds. In addition, interest income on the Bonds will be subject to the branch profits tax imposed by the Code on foreign corporations engaged in a trade or business in the United States of America.

In rendering its opinion with respect to the Bonds, Bond Counsel will rely, without independent investigation, on certifications provided by the Commission with respect to certain material facts within its knowledge relevant to the tax-exempt status of interest on the Bonds. See Appendix D – Forms of Opinion of Bond Counsel.

Certain Other Federal Tax Consequences pertaining to Bonds

There are other federal income tax consequences of ownership of obligations such as the Bonds under certain circumstances, including the following: (i) deductions are disallowed for certain expenses of taxpayers allocable to interest on tax-exempt obligations, as well as interest on indebtedness incurred or continued to purchase or carry tax-exempt obligations and interest expense of financial institutions allocable to tax-exempt interest; (ii) for property and casualty insurance companies, the amount of the deduction for losses incurred must be reduced by 15% of the sum of tax-exempt interest received or accrued and the deductible portion of dividends received by such companies; (iii) interest income which is exempt from tax must be taken into account for the purpose of determining whether, and what amount of, social security or railroad retirement benefits are includable in gross income for federal income taxation purposes; (iv) for S corporations having Subchapter C earnings and profits, the receipt of certain levels of passive investment income, including interest on tax-exempt obligations such as the Bonds, can result in the imposition of tax on such passive investment income and, in some cases, loss of S corporation status; and (v) net gain realized upon the sale or other disposition of the Bonds generally must be taken into account when computing the 3.8% Medicare tax with respect to net investment income imposed on certain high income individuals and specified trusts and estates.

Tax Accounting Treatment of Discount Bonds

Certain maturities of the Bonds may be issued at an initial public offering price that is less than the amount payable on such Bonds at maturity (the "Discount Bonds"). The difference between the initial offering price at that a substantial amount of the Discount Bonds of each maturity was first sold and the principal amount of such Discount Bonds payable at maturity constitutes the original issue discount. The amount of such original issue discount that is treated as having accrued, with respect to such Discount Bonds, is added to the original cost basis of the holder in determining, for federal income tax purposes, gain or loss upon disposition (including sale, early redemption or repayment at maturity). For federal income tax purposes, (a) any holder of a Discount Bond will recognize gain or loss upon the disposition of such Discount Bond (including sale, early redemption or payment at maturity) in an amount equal to the difference between (i) the amount received upon such disposition and (ii) the sum of (1) the holder's original cost basis in such Discount Bond, and (2) the amount of original issue discount attributable to the period during which the holder held such Discount Bond, and (b) the amount of the basis adjustment described in clause (a)(ii)(2) will not be included in the gross income of the holder.

Original issue discount on Discount Bonds will be attributed to permissible compounding periods during the life of such Discount Bonds in accordance with a constant rate of interest accrual method. The yield to maturity of the Discount Bonds of each maturity is determined using permissible compounding periods. In general, the length of a permissible compounding period cannot exceed the length of the interval between debt service payments on the Discount Bonds and must begin or end on the date of such payments. Such yield then is used to determine an amount of accrued interest for each permissible compounding period. For this purpose, interest is treated as compounding periodically at the end of each applicable compounding period. The amount of original issue discount that is treated as having accrued in respect of a Discount Bond for any particular compounding period is equal to the excess of (a) the product of (i) the yield for such Discount Bond (adjusted as necessary for an initial short period) divided by the number of compounding periods in a year and (ii) the amount that would be the tax basis of such Discount Bond at the beginning of such period if held by an original purchaser who purchased at the initial public offering price, over (b) the amount actually payable as interest on such Discount Bond during such period. For purposes of the preceding sentence, the tax basis of a Discount Bond, if held by an original purchaser, can be determined by adding to the initial issue price of such Discount Bond, the original issue discount that is treated as having accrued during all prior compounding periods. If a Discount Bond is sold or otherwise disposed of between compounding dates, then interest, which would have accrued for that compounding period for federal income tax purposes, is to be apportioned in equal amounts among the days in such compounding period.

Holders of Discount Bonds should note that under the tax regulations, the yield and maturity of a Discount Bond are determined without regard to commercially reasonable sinking fund payments and any original issue discount remaining unaccrued at the time that a Discount Bond is redeemed in advance of stated maturity will be treated as taxable gain. Moreover, tax regulations prescribe special conventions for determining the yield and maturity of certain debt instruments that provide for alternative payment schedules applicable upon the occurrence of certain contingencies.

The yields (and related prices) provided by the purchasers of the Bonds and shown on the inside cover of this Official Statement may not reflect the initial issue prices for purposes of determining the original issue discount for federal income tax purposes.

The foregoing summarizes certain federal income tax consequences of original issue discount with respect to the Discount Bonds, but does not purport to deal with all aspects of federal income taxation that may be relevant to particular investors or circumstances, including those set out above. Prospective purchasers of Discount Bonds should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on Discount Bonds. In addition, prospective corporate purchasers should consider possible federal tax consequences arising from original issue discount on the Discount Bonds under the alternative minimum tax or the branch profits tax. The amount of original issue discount considered to have accrued may be reportable in the year of accrual for state and local tax purposes or for purposes of the branch profits tax without a corresponding receipt of cash with which to pay any tax liability attributable to such discount.

Purchasers with questions concerning the detailed tax consequences of transactions in the Discount Bonds should consult their tax advisors.

Purchase, Sale and Retirement of Bonds

Except as noted below in the case of market discount, the sale or other disposition of a Bond will normally result in capital gain or loss to its holder. A holder's initial tax basis in a Bond will be its cost. Upon the sale or retirement of a Bond, for federal income tax purposes, a holder will recognize capital gain or loss upon the disposition of such security (including sale, early redemption or payment at maturity) in an amount equal to the difference between (a) the amount received upon such disposition and (b) the tax basis in such Bond, determined by adding to the original cost basis in such Bond the amount of original issue discount that is treated as having accrued as described above under "Tax Accounting Treatment of Discount Bonds." Such gain or loss will be a long-term capital gain or loss, if at the time of the sale or retirement, the Bond has been held for more than one year. Present law taxes both long and short-term capital gains of corporations at the rates applicable to ordinary income. For noncorporate taxpayers, however, short-term capital gains are taxed at the rates applicable to ordinary income, while net capital gains are taxed at lower rates. Net capital gains are the excess of net long-term capital gains (gains on capital assets held for more than one year) over net short-term capital losses.

Market Discount

If a holder acquires a Bond after its original issuance at a discount (or in the case of a Bond issued at an original issue discount, at a price that produces a yield to maturity higher than the yield to maturity at which such Bond was first issued), the holder will be deemed to have acquired such Bond at "market discount," unless the amount of market discount is *de minimis*, as described in the following paragraph. If a holder that acquires a Bond with market discount subsequently realizes a gain upon the disposition of such Bond, such gain shall be treated as taxable interest income to the extent such gain does not exceed the accrued market discount attributable to the period during that the holder held such Bond, and any gain realized in excess of such market discount will be treated as capital gain. Potential purchasers should consult their tax advisors as to the proper method of accruing market discount.

In the case of a Bond not issued at an original issue discount, market discount will be *de minimis* if the excess of the stated redemption price of such Bond at maturity over the holder's cost of acquiring such Bond is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years between the date the holder acquires such Bond and its stated maturity date. In the case of a Bond issued with original issue discount, market discount will be *de minimis* if the excess of the revised issue price of such Bond over the holder's cost of acquiring such Bond is less than 0.25% of the revised issue price multiplied by the number of complete years between the date the holder acquires such Bond and its stated maturity date. For this purpose, the "revised issue price" of a Bond is the sum of (a) its original issue price and (b) the aggregate amount of original issue discount that is treated as having accrued with respect to such Bond during the period between its original issue date and the date of acquisition by the holder.

Amortizable Bond Premium

A Bond will be considered to have been issued at a premium if, and to the extent that, the holder's tax basis in such Bond exceeds the amount payable at maturity (or, in the case of a Bond callable prior to maturity, the amount payable on the earlier call date). Under the tax regulations applicable to the Bonds, the amount of the premium would be determined with reference to the amount payable on that call date (including for this purpose the maturity date) that produces the lowest yield to maturity on such Bonds. The holder will be required to reduce his tax basis in such Bond for purposes of determining gain or loss upon disposition of the Bond by the amount of amortizable bond premium that accrues determined in the manner prescribed in the regulations. Generally, no deduction (or other tax benefit) is allowable in respect of any amount of amortizable bond premium on the Bonds.

Legislative Developments

Legislation recently under consideration or proposed after issuance and delivery of the Bonds could adversely affect the market value of the Bonds. Further, if enacted into law, any such proposal could cause the interest on the Bonds to be subject, directly or indirectly, to federal income taxation and could otherwise alter or amend one or more of the provisions of federal tax law described above or their consequences. Prospective purchasers of the Bonds should consult with their tax advisors as to the status and potential effect of any legislative proposals, as to which Bond Counsel expresses no opinion.

CERTIFICATE CONCERNING OFFICIAL STATEMENT

Concurrently with the delivery of the Bonds, one or more Officers of the Commission will certify that, to the best of their knowledge, the Official Statement did not as of its date, and does not as of the date of delivery of the Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading in any material respect.

SALE AT COMPETITIVE BIDDING

The Bonds were offered by the Commission by a competitive sale occurring on November 15, 2016, in accordance with the Notices of Sale. The Notices of Sale for the Bonds are attached hereto as part of Appendix F. The interest rates shown on the inside cover page of this Official Statement for the Bonds are the interest rates resulting from the award of the Bonds at the competitive sale. The yields or prices shown on the inside cover page of this Official Statement were furnished by the successful bidders for the Bonds. All other information concerning the nature and terms of any reoffering should be obtained from the successful bidders for the Bonds and not from the Commission.

FINANCIAL ADVISOR

Wye River Group, Incorporated, Annapolis, Maryland is an independent registered municipal advisor (the "Financial Advisor") that has rendered financial advice to the Commission regarding the issuance of the Bonds and the preparation of this Official Statement. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to the Commission, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor makes no guaranty, warranty or other representation respecting the accuracy and completeness of this Official Statement or any other matter related to the Official Statement. The Financial Advisor does not engage in the underwriting, selling, or trading of securities.

APPROVAL OF LEGAL PROCEEDINGS

The legality of the Bonds, based upon the documents and proceedings relative to the authorization, issuance and delivery thereof, is subject to the approval of McKennon Shelton & Henn LLP, Bond Counsel, whose approving opinions will be delivered with the Bonds. The proposed forms of bond counsel opinions are set forth in Appendix D.

FINANCIAL STATEMENTS

The financial statements of the Commission as of June 30, 2016 and 2015 and for the years then ended, included in Appendix A, have been audited by BCA Watson Rice LLP, independent auditors, as stated in their report appearing herein.

CONTINUING DISCLOSURE

The Commission will execute a Continuing Disclosure Certificate (the "Disclosure Undertaking") in connection with the issuance of the Bonds to assist the bidders in complying with the requirements of Rule 15c2-12 (the "Rule") promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. The Disclosure Undertaking requires the Commission to file the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access system ("EMMA") (i) certain annual financial information and operating data and (ii) certain event notices. The form of the Disclosure Undertaking is attached as Appendix C. The Commission may amend the Disclosure Undertaking in the future so long as such amendments are consistent with the Rule as then in effect.

A default by the Commission under the Disclosure Undertaking is not an event of default with respect to the Bonds. Except as described below, during the last five years, the Commission has not failed to comply, in all material respects, with its continuing disclosure undertakings.

- Due to an administrative error, the Issuer did not file updated financial information for fiscal year 2010 until October 28, 2011, however the Issuer did post the required fiscal year 2010 financial information in the Official Statement dated September 14, 2010 for the \$240,000,000 Washington Suburban Sanitary District, Maryland Consolidated Public Improvement Bonds of 2010.
- The Official Statement dated November 1, 2011 for the \$300,000,000 Washington Suburban Sanitary District, Maryland Consolidated Public Improvement Bonds of 2011, containing the fiscal year 2011 additional financial information required to comply with the Issuer's annual disclosure requirements for fiscal year 2011, was posted on EMMA but not posted as part of its annual disclosure information and cross referenced with the CUSIP numbers of the outstanding bonds.
- Financial information posted on October 28, 2011 for fiscal year 2010 was not appropriately linked to the Issuer's debt issued in 2002 and 2003. This administrative error was corrected by the Issuer on October 13, 2015.
- Certain operating data for fiscal year 2011 was not appropriately linked to all of the CUSIP numbers of the outstanding bonds until October 13, 2015.
- Due to an administrative oversight, the Issuer did not appropriately link on EMMA, certain operating data for the fiscal year ending June 30, 2013, required to comply with the Issuer's annual disclosure requirements. The Official Statement dated April 15, 2014, for the Commission's \$150,000,000 Washington Suburban Sanitary District, Maryland Consolidated Public Improvement Bonds of 2014 and \$47,395,000 Washington Suburban Sanitary District, Maryland Consolidated Public Improvement Refunding Bonds of 2014, containing the requisite operating data for the fiscal year ending June 30, 2013 was posted on EMMA but not posted as part of the Issuer's annual disclosure information for the Issuer's \$215,000,000 Washington Suburban Sanitary District, Maryland Multi-Modal Bond Anticipation Notes. On May 18, 2016, the Issuer corrected the administrative oversight.
- Due to an administrative oversight, a material event notice originally posted by the Issuer on December 23, 2015 was not appropriately linked to the Issuer's debt issued in 2015. This administrative error was corrected by the Issuer on August 24, 2016.

The Issuer has put in place internal procedures intended to ensure that all required information is provided to the MSRB for posting on EMMA on a timely basis and to all outstanding CUSIP numbers in accordance with its continuing disclosure undertakings. All annual financial statements, operating data and event notices posted on EMMA are current as of the date of this Official Statement.

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APPROVAL OF OFFICIAL STATEMENT

The execution and delivery of this Official Statement have been approved by Washington Suburban Sanitary Commission.

WASHINGTON SUBURBAN SANITARY COMMISSION

By: /s/ Fausto R. Bayonet
Fausto R. Bayonet, Chair

By: /s/ Carla A. Reid
Carla A. Reid, General Manager/CEO

**AUDITOR'S REPORT DATED SEPTEMBER 30, 2016, AND COMPARATIVE FINANCIAL STATEMENTS
OF THE COMMISSION FOR FISCAL YEARS ENDED JUNE, 30, 2016 AND 2015**

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REPORT OF INDEPENDENT AUDITORS

To The Commissioners
of the Washington Suburban Sanitary Commission:

Report on Financial Statements

We have audited the accompanying financial statements of Washington Suburban Sanitary Commission (WSSC), which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WSSC as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes A and P to the financial statements, as of June 30, 2015, the Washington Suburban Sanitary Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Therefore, prior year balances have been restated resulting in a decrease in net position of \$130.1 million as of June 30, 2014 over previously reported balances. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management discussion and analysis on pages 3-11, the schedule of changes in net pension liability and related ratios and related notes on page 43, the schedule of contributions and related notes on pages 44 - 45, and the schedule of historical other postemployment benefits information on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Washington, D.C.
September 30, 2016

BCA Watson Rre LLP

**WASHINGTON SUBURBAN SANITARY COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(Unaudited)**

This section of the Washington Suburban Sanitary Commission (WSSC) annual financial report presents our discussion and analysis of WSSC's financial performance for the fiscal years ended June 30, 2016 and 2015.

FINANCIAL HIGHLIGHTS

Fiscal Year 2016

- WSSC maintained AAA bond ratings from Fitch Ratings, Moody's Investors Service, and Standard & Poor's.
- In October 2015 and May 2016, WSSC issued \$390.0 million and \$145.0 million, respectively, of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.
- In November 2015 and May 2016, WSSC sold \$145.0 million and \$36.0 million of refunding bonds to refund \$148.0 million and \$42.0 million, respectively, of outstanding callable water supply, sewage disposal and general construction bonds. The November 2015 and May 2016 refundings will reduce WSSC's total debt service payments by \$13.0 million and \$5.0 million and provide an economic gain of \$12.0 million and \$5.0 million, respectively.
- The Commission redeemed \$90.0 million in Notes on November 18, 2015 as part of the water, sewer and general debt service amortization.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its eleventh year. The Consent Decree formally identifies the remedial measures to eliminate and/or reduce sanitary sewer overflows. In fiscal 2016, the U.S. District Court approved a six-year extension to the original term of the Consent Decree. Costs of the remedial measures are estimated at \$1,931.0 million and are to be expended over at least 18 years, \$888.0 million of which is expected to be incurred after fiscal year 2016. The costs for each fiscal year are or will be included in WSSC's budget and six-year capital improvements program.
- Under a Consent Decree executed by the District Court of Maryland on April 15, 2016, the Commission is required to undertake short-term operational changes and capital improvements at the Potomac Water Filtration Plant that will enable WSSC to reduce solids discharged to the river, and to plan, design and implement upgrades or new construction to achieve requirements established by MDE and incorporated in a new discharge permit. An Audit report and Long-Term Upgrade Plan are to be submitted by WSSC for consideration by January 2, 2017. Costs for implementation of improvements are estimated at \$43.0 million, and are to be expended over at least 7 years, all of which is expected to be incurred after fiscal year 2016. The costs are included in WSSC's budget and capital improvements program.
- WSSC's operating revenues rose \$3.4 million. Although average rates for water consumption and sewer use revenues increased 1.0%, billed consumption for the year decreased 4.5%. The enactment of a new Infrastructure Investment Fee and changes to the Account Maintenance Fee resulted in additional revenues from ready-to-serve charges.

- Operating expenses increased \$31.2 million, or 5.9%, during fiscal year 2016. Intermunicipal agency sewage disposal expenses decreased \$6.6 million, savings which are attributable to the recent construction of the digester at Blue Plains. WSSC continues to focus their efforts on meeting the requirements of the Consent Decree and incurred additional operating costs this year of \$5.0 million. Increased expenditures of \$6.1 million were realized in the implementation of the Information Technology Team's 5-Year Strategic Plan and data storage improvement projects. Merits, COLAs and the hiring of additional staff triggered a \$4.3 million increase in salaries. Emergency work to address the smooth operation of an aging infrastructure required an additional \$3.5 million. The majority of the remaining variance, or \$19.6 million, represents depreciation on capital assets placed in service in recent years, an abandonment of assets with planned replacements, and an impairment of the Western Branch incinerator.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by \$580.7 million, while overall debt increased \$334.2 million in comparison to the previous fiscal year.
- The increase in net position during the year included net income of \$79.3 million, and capital contributions of \$134.7 million.

Fiscal Year 2015

WSSC implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* in fiscal year 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The statement is effective for periods beginning after June 15, 2014. To comply with GASB Statement No. 68, prior year balances were restated resulting in a net \$130.1 million decrease in net position as of June 30, 2014. A summary of the transactions and the impact of the restatements are illustrated in Note P of the financial statements.

- WSSC maintained AAA bond ratings from Fitch Ratings, Moody's Investors Service, and Standard & Poor's.
- In December 2014, WSSC issued \$250.0 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer mains.
- In June 2015, WSSC issued \$35.0 million in Series A and \$55.0 million in Series B Bond Anticipation Notes.
- The Commission redeemed \$30.1 million in Notes on June 2, 2015 as part of the water, sewer and general debt service amortization.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its tenth year. The Consent Decree formally identifies the remedial measures to eliminate and/or reduce sanitary sewer overflows. Costs of these remedial measures are estimated at \$1,881.0 million and are projected to be expended over at least 12 years, \$1,071.0 million of which is expected to be incurred after fiscal year 2015. The costs for each fiscal year are or will be included in WSSC's budget and six-year capital improvements program.
- WSSC's operating revenues rose \$21.3 million due to a 6.0% increase in water and sewer billing rates.
- Operating expenses increased \$21.6 million, or 4.3%, during fiscal year 2015. Intermunicipal agency sewage disposal expenses increased \$16.9 million, \$7.0 million of which represents increased operations and maintenance costs of the Blue Plains facility in comparison to FY14, while the remainder is a result of the settlement and adjustment of WSSC's share of actual expenses in prior fiscal years. WSSC expended \$2.7 million on new programs for condition assessment of non-PCCP pipe and acoustic fiber optic monitoring. Also, an additional \$2.3 million was spent on roadways impacted by pipeline rehabilitation.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by \$493.6 million, while overall debt increased \$222.7 million in comparison to the previous fiscal year.

- The increase in net position during the year included net income of \$105.8 million, and capital contributions of \$87.1 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis, the required financial statements, and other required supplementary information. The required financial statements consist of:

- Balance sheets
- Statements of revenues, expenses, and changes in net position
- Statements of cash flows
- Notes to the financial statements

The balance sheets provide a snapshot of WSSC's financial position at June 30, the end of the fiscal year. WSSC's balance sheets present current and long-term assets and liabilities, deferred outflows and inflows of resources, as well as net position.

WSSC's statements of revenues, expenses and changes in net position reflect activity for the fiscal years. These statements measure operating revenues and expenses as well as non-operating revenues and expenses. The statements also present capital contributions as well as changes in net position.

The statements of cash flows present WSSC's inflows and outflows of cash. Cash flows from operating activities, capital and related financing activities, and investment activities are shown separately. Cash provided by operating activities is reconciled to operating income. WSSC uses the direct method for presenting the statements of cash flows.

The financial statements also include notes that provide more detailed data and explanations for some of the information in the financial statements.

WSSC operates as an enterprise fund, which is one type of proprietary fund. Enterprise funds operate similarly to private businesses in that charges for services to customers are expected to cover expenses. WSSC's financial statements are presented using the accrual basis of accounting and the economic resources measurement focus. All assets and liabilities are included in the financial statements. Revenue is recognized when water or other services are delivered. Expenses are recognized when goods and services are received. All revenues and expenses are recognized regardless of when cash is received or paid.

FINANCIAL ANALYSIS

Net Position

Fiscal Year 2016

WSSC's net position increased 4.9% to \$4,543.6 million (See Table A-1). The majority of this increase is attributable to the change in the net investment in capital assets. Capital assets, net of accumulated depreciation, increased 8.6% to \$7,329.7 million. There were no unused bond proceeds at the end of the year. During fiscal year 2016, developers constructed \$34.9 million of capital assets and donated them to WSSC. In addition, donated values for land and rights of way increased \$36.9 million. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased to \$2,651.2 million. Capital contributions of \$62.9 (net of donated capital assets) million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC needed to sell for construction of water and sewer projects. A more detailed description of WSSC's debt can be found in Notes J and K of the financial statements.

Fiscal Year 2015

WSSC's net position increased 4.7% to \$4,329.5 million (See Table A-1). The majority of this increase is attributable to the change in the net investment in capital assets. Capital assets, net of accumulated depreciation, increased 7.9% to \$6,749.0 million. Unused bond proceeds at the end of the year were \$15.2 million. Investments of unused bond proceeds are restricted and classified as non-current assets. During fiscal year 2015, developers constructed \$39.9 million of capital assets and donated them to WSSC. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased to \$2,317.0 million. Capital contributions of \$47.2 (net of donated capital assets) million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC needed to sell for construction of water and sewer projects. A more detailed description of WSSC's debt can be found in Notes J and K of the financial statements.

**TABLE A-1
WSSC's Condensed Balance Sheet
(in millions of dollars)**

	FY 2016	FY 2015	FY 2014 As Restated (Note P)	FY 2016 % Change	FY 2015 % Change
Current and other assets	\$ 321.9	\$ 353.5	\$ 437.0	(8.9)	(19.1)
Capital assets, net of accumulated depreciation	7,329.7	6,749.0	6,255.4	8.6	7.9
Total assets	7,651.6	7,102.5	6,692.4	7.7	6.1
Total deferred outflows of resources	92.3	16.6	17.9	456.0	(7.3)
Current and other liabilities	753.9	793.9	718.4	(5.0)	10.5
Bonds and notes payable, net of current maturities	2,395.2	1,968.4	1,807.7	21.7	8.9
Total liabilities	3,149.1	2,762.3	2,526.1	14.0	9.4
Total deferred inflows of resources	51.2	27.3	47.6	87.5	(42.6)
Net position:					
Net investment in capital assets	4,429.0	4,262.5	4,048.2	3.9	5.3
Restricted for growth construction	31.1	12.6	37.1	146.8	(66.0)
Unrestricted	83.5	54.4	51.3	53.5	6.0
Total net position	\$ 4,543.6	\$ 4,329.5	\$ 4,136.6	4.9	4.7

Changes in Net Position

Fiscal Year 2016

WSSC's operating revenues rose \$3.4 million (see Table A-2). Although average rates for water consumption and sewer use revenues increased 1.0%, billed consumption for the year decreased 3%. The enactment of a new Infrastructure Investment Fee and changes to the Account Maintenance Fee resulted in additional revenues from ready-to-serve charges. Conversely, income from front foot benefit assessments and house connection charges continued to decline. Front foot benefit extensions and related house connections have been built primarily by outside developers for in excess of fifteen years. Assessments for construction by WSSC prior to that time are collected over the remaining term of the debt utilized to finance the construction.

Operating expenses increased \$31.2 million, or 5.9%, during fiscal year 2016. Intermunicipal agency sewage disposal expenses decreased \$6.6 million, savings which are attributable to the recent construction of the digester at Blue Plains. WSSC continues to focus their efforts on meeting the requirements of the Consent Decree and incurred additional operating costs this year of \$5.0 million. Increased expenditures of \$6.1 million were realized in the implementation of the Information Technology Team's 5-Year Strategic Plan and data storage improvement projects. Merits, COLAs and the hiring of additional staff triggered a \$4.3 million increase in salaries. Emergency work to address the smooth operation of an aging infrastructure required an additional \$3.5 million. The majority of the remaining variance, or \$19.6 million, represents depreciation on capital assets placed in service in recent years, an abandonment of assets with planned replacements, and an impairment of the Western Branch incinerator.

The net changes in revenues and expenses during the year resulted in a 25.0% decrease in income before capital contributions to \$79.3 million. Capital contributions increased by 54.6% to \$134.7 million. Grant revenue increased \$13.4 million due to increased funding on WSSC's portion of costs incurred to upgrade the Blue Plains' Enhanced Nutrient Removal (ENR) and Tunnel projects. Donated assets, constructed and contributed by developers, decreased \$5.0 million. The methodology utilized to estimate acquisition values for donated land and rights of way was changed in fiscal year 2016 resulting in a \$36.9 million increase.

Fiscal Year 2015

WSSC's operating revenues rose \$21.3 million (See Table A-2) due to a 6.0% increase in water and sewer billing rates. Conversely, income from front foot benefit assessments and house connection charges continued to decline. Front foot benefit extensions and related house connections have been built primarily by outside developers for in excess of fifteen years. Assessments for construction by WSSC prior to that time are collected over the remaining term of the debt utilized to finance the construction.

Operating expenses increased \$21.6 million, or 4.3%, during fiscal year 2015. Intermunicipal agency sewage disposal expenses increased \$16.9 million, \$7.0 million of which represents increased operations and maintenance costs of the Blue Plains facility in comparison to FY14, while the remainder is a result of the settlement and adjustment of WSSC's share of actual expenses in prior fiscal years. WSSC expended \$2.7 million on new programs for condition assessment of non-PCCP pipe and acoustic fiber optic monitoring. Also, an additional \$2.3 million was spent on roadways impacted by pipeline rehabilitation.

The net changes in revenues and expenses during the year resulted in a 2.4% decrease in income before capital contributions to \$105.8 million. Capital contributions decreased by 12.9% to \$87.1 million. Grant revenue declined \$12 million due to the close out of Enhanced Nutrient Removal (ENR) construction projects for WSSC and Blue Plains wastewater facilities. Donated assets, constructed and contributed by developers, increased \$2.4 million.

TABLE A-2
WSSC's Condensed Changes in Net Position
(in millions of dollars)

	FY 2016	FY 2015	FY 2014 As Restated (Note P)	FY 2016 % Change	FY 2015 % Change
Operating revenues	\$ 649.0	\$ 645.6	\$ 624.3	0.5	3.4
Operating expenses	(560.3)	(529.1)	(507.5)	5.9	4.3
Net non-operating revenues (expenses)	(9.4)	(10.7)	(8.4)	(12.1)	27.4
Income before capital contributions	79.3	105.8	108.4	(25.0)	(2.4)
Capital contributions	134.7	87.1	100.0	54.6	(12.9)
Changes in net position	\$ 214.0	\$ 192.9	\$ 208.4	10.9	(7.4)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Fiscal Year 2016

As of June 30, 2016, WSSC had invested \$7,329.7 million, net of accumulated depreciation, in a broad range of capital assets including water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities. This amount represents a net increase of \$580.7 million, or 8.6%, over fiscal year 2015.

Fiscal Year 2015

As of June 30, 2015, WSSC had invested \$6,749.0 million, net of accumulated depreciation, in a broad range of capital assets including water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities. This amount represents a net increase of \$493.6 million, or 7.9%, over fiscal year 2014.

TABLE A-3
WSSC's Capital Assets
(net of depreciation and impairment losses, in millions of dollars)

	FY 2016	FY 2015	FY 2014 As Restated (Note P)	FY 2016 % Change	FY 2015 % Change
Land and rights of way	\$ 117.9	\$ 78.9	\$ 78.0	49.4	1.2
Construction in progress	1,439.6	1,366.5	1,359.4	5.3	0.5
Water supply	1,756.0	1,665.1	1,418.7	5.5	17.4
Sewage disposal	2,541.9	2,162.7	1,936.1	17.5	11.7
General construction	1,386.7	1,387.2	1,381.8	0.0	0.4
Intangible assets	42.3	42.5	38.8	(0.5)	9.5
Other	45.3	46.1	42.6	(1.7)	8.2
Total capital assets	\$ 7,329.7	\$ 6,749.0	\$ 6,255.4	8.6	7.9

Capital assets completed and placed in service in 2016 decreased \$18.1 million or 2.9%, in comparison to fiscal year 2015. Rehabilitation or replacement of water and sewer mains and related house connections decreased 41.2%, or \$133.3 million. Upgrades on wastewater treatment and water filtration plants increased \$258.2 million, while construction of joint-use facilities declined \$100.1 million. Major additions to capital assets being depreciated during fiscal year 2016 are illustrated in Table A-4.

Capital assets completed and placed in service in 2015 increased \$153.3 million or 32.6%, in comparison to fiscal year 2014. Rehabilitation or replacement of water and sewer mains and related house connections increased 56.9%, or \$127.8 million. Also, construction of joint-use facilities rose \$54.6 million. Major additions to capital assets being depreciated during fiscal year 2014 are illustrated in Table A-5.

Additional information relative to WSSC's capital assets is presented in Note D of the financial statements.

TABLE A-4
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2016
(in millions of dollars)

	Water Supply	Sewage Disposal	General Construction
Financed from proceeds of bonds, notes, operating revenues or capital contributions:			
Water and sewer mains	\$ 104.2	\$ 83.3	\$ 3.0
House connections	6.4	22.6	5.9
Water meters	1.2	1.1	
Water filtration plants	20.1		
Wastewater treatment facilities		238.4	
Wastewater pumping stations		2.3	
Multi-use facilities			6.1
Joint-use facilities		112.1	
Miscellaneous assets	0.1		
Constructed and contributed by developers:			
House connections			5.6
Water and sewer mains		1.3	28.0
Total fiscal year 2016 additions to capital assets being depreciated	\$ 132.0	\$ 461.1	\$ 48.6

TABLE A-5
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2015
(in millions of dollars)

	Water Supply	Sewage Disposal	General Construction
Financed from proceeds of bonds, notes, operating revenues or capital contributions:			
Water and sewer mains	\$ 270.6	\$ 49.9	\$ 3.3
House connections	7.0	17.7	4.1
Water meters	1.1	1.1	
Water filtration plants	0.2		
Water pumping stations	(2.2)		
Wastewater treatment facilities		0.1	
Water storage facilities	7.8		
Wastewater pumping stations			
Multi-use facilities		2.8	5.5
Joint-use facilities		212.2	
Miscellaneous assets	0.1	2.4	
Constructed and contributed by developers:			
House connections			6.5
Water and sewer mains			33.4
Total fiscal year 2015 additions to capital assets being depreciated	\$ 284.6	\$ 286.2	\$ 52.8

Bonds and Notes Payable

Fiscal Year 2016

At the end of fiscal year 2016, bonds and notes outstanding totaled \$2,651.2 million, a \$334.2 million increase in comparison to the previous fiscal year. In October 2015 and May 2016, WSSC issued \$390.0 million and \$145.0 million, respectively, of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.

The Commission redeemed \$90.0 million in Notes on November 18, 2015 as part of the water, sewer and general debt service amortization.

In November 2015 and May 2016, WSSC sold \$145.0 million and \$36.0 million of refunding bonds to refund \$148.0 million and \$42.0 million, respectively, of outstanding callable water supply, sewage disposal and general construction bonds. The November 2015 and May 2016 refundings will reduce WSSC's total debt service payments by \$13.0 million and \$5.0 million and provide an economic gain of \$12.0 million and \$5.0 million, respectively.

Fiscal Year 2015

At the end of fiscal year 2015, bonds and notes outstanding totaled \$2,317.0 million, a \$222.7 million increase in comparison to the previous fiscal year. In December 2015, WSSC issued \$250.0 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer mains.

On June 24, 2015, the Commission issued \$35.0 million in Series A and \$55.0 million in Series B Bond Anticipation Notes.

The Commission redeemed \$30.1 million in Notes on June 2, 2015 as part of the water, sewer and general debt service amortization.

TABLE A-6
WSSC's Bonds and Notes Payable
(in millions of dollars)

	FY 2016	FY 2015	FY 2014 As Restated (Note P)	FY 2016 % Change	FY 2015 % Change
Water supply	\$ 970.7	\$ 847.2	\$ 778.9	14.6	8.8
Sewage disposal	1,474.3	1,230.0	1,041.1	19.9	18.1
General construction	206.2	239.8	274.3	(14.0)	(12.6)
Total	2,651.2	2,317.0	2,094.3	14.4	10.6
Current maturities	256.0	348.5	286.6	(26.5)	21.6
Long-term portion	2,395.2	1,968.5	1,807.7	21.7	8.9
Total bonds and notes payable	\$ 2,651.2	\$ 2,317.0	\$ 2,094.3	14.4	10.6

Bond Ratings

Fitch Ratings, Moody's Investors Service, and Standard & Poor's assigned and affirmed ratings of 'AAA', 'Aaa', and 'AAA', respectively, on WSSC's outstanding water supply, sewage disposal and general construction general obligation bonds. The agencies identified strengths of the Commission in support of their ratings which include a sizeable, diverse tax base in Montgomery and Prince George's Counties, good finances characterized by the self-supporting nature of the water and sewer system, and a skilled management team.

Limitations on Debt

Maryland law limits the amount of bonds and notes WSSC may have outstanding at any time. This limitation is generally based on legislated percentages of the real property assessable tax base and personal property and operating real property assessments within the Washington Suburban Sanitary District. As of June 30, 2016 and 2015, the calculated limits were \$10,451.2 million and \$9,289.7 million, respectively. WSSC's outstanding debt was significantly below those limits.

Additional information relative to WSSC's Bonds and Notes activity is presented in Notes J and K of the financial statements.

BUDGET

WSSC's operating and capital budgets are prepared annually utilizing the debt service method of accounting. These financial statements are presented in accordance with accounting principles generally accepted in the United States. Because different methods of accounting are utilized, comparisons of budgeted and actual revenues and expenses have not been presented.

CONTACT INFORMATION

Any questions regarding this report can be directed to the Finance Office at 14501 Sweitzer Lane, Laurel, Maryland, 20707. A copy of the report is also available on WSSC's website at www.wsscwater.com.

WASHINGTON SUBURBAN SANITARY COMMISSION
BALANCE SHEETS
AS OF JUNE 30, 2016 AND 2015
(in thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash (Note B)	\$ 15,743	\$ 39,800
Investments (Note B)	129,639	132,494
Receivables, net (Note C)	121,650	128,684
State grants receivable	28,467	10,348
Prepaid expenses	628	1,521
Materials and supplies, net	16,065	15,663
Total current assets	<u>312,192</u>	<u>328,510</u>
Non-current assets:		
Capital assets, net of accumulated depreciation (Note D)	7,329,656	6,748,989
Investments restricted for capital construction (Note B)	-	15,225
Note receivable (Note E)	9,757	9,753
Total non-current assets	<u>7,339,413</u>	<u>6,773,967</u>
Total assets	<u>7,651,605</u>	<u>7,102,477</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount from pension differences between projected and actual plan investments (Note L)	43,213	-
Deferred amount from pension resulting from changes in assumptions (Note L)	26,882	-
Deferred amount from pension contributions (Note L)	11,173	10,483
Deferred amount from debt refunding (Note F)	11,016	6,138
Total deferred outflows of resources	<u>92,284</u>	<u>16,621</u>
Total assets and deferred outflows of resources	<u>\$ 7,743,889</u>	<u>\$ 7,119,098</u>

The accompanying notes are an integral part of these financial statements.

WASHINGTON SUBURBAN SANITARY COMMISSION
BALANCE SHEETS
AS OF JUNE 30, 2016 AND 2015
(in thousands)

	<u>2016</u>	<u>2015</u>
LIABILITIES		
Current liabilities:		
Bonds and notes payable, current maturities (Notes J and K)	\$ 256,015	\$ 348,542
Accounts payable and accrued liabilities	114,873	106,517
Accrued bond and note interest payable	8,871	14,469
Deposits and unearned revenue	2,951	2,843
Total current liabilities	<u>382,710</u>	<u>472,371</u>
Non-current liabilities:		
Bonds and notes payable, net of current maturities (Notes J and K)	2,395,189	1,968,428
Accounts payable and accrued liabilities	110,224	88,872
Net pension liability (Note L)	210,570	175,477
Other postemployment benefits liability (Note M)	20,875	27,458
Deposits, unearned revenue and other long-term liabilities (Note I)	29,545	29,691
Total non-current liabilities	<u>2,766,403</u>	<u>2,289,926</u>
Total liabilities	<u>3,149,113</u>	<u>2,762,297</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension differences between projected and actual plan investments (Note L)	-	19,560
Deferred amounts from pension differences between expected and actual experience (Note L)	51,226	7,696
Total deferred inflows of resources	<u>51,226</u>	<u>27,256</u>
Total liabilities and deferred inflows of resources	<u>3,200,339</u>	<u>2,789,553</u>
NET POSITION		
Net investment in capital assets	4,428,965	4,262,522
Restricted for growth construction	31,073	12,653
Unrestricted	83,512	54,370
Total net position	<u>4,543,550</u>	<u>4,329,545</u>
Total liabilities, deferred inflows of resources and net position	<u>\$7,743,889</u>	<u>\$7,119,098</u>

The accompanying notes are an integral part of these financial statements.

WASHINGTON SUBURBAN SANITARY COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(in thousands)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Water consumption, sewer use and service charges	\$ 589,014	\$ 585,109
Front foot benefit assessments	20,666	24,698
House connection charges	5,310	6,100
Other	34,034	29,737
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Total operating revenues	649,024	645,644
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OPERATING EXPENSES:		
Operations	98,666	97,155
Maintenance	156,161	147,881
Intermunicipal agency sewage disposal	53,206	62,529
Administrative and general	82,281	76,116
Depreciation and amortization	169,943	145,482
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Total operating expenses	560,257	529,163
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Net operating revenues	88,767	116,481
	<hr/>	<hr/>
NON-OPERATING REVENUES (EXPENSES):		
Interest on bonds and notes payable	(57,735)	(60,712)
Capitalized interest	35,252	31,640
Pension	11,032	16,460
Interest income on investments	452	185
Other interest income	1,583	1,765
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Net non-operating expenses	(9,416)	(10,662)
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Income before capital contributions	79,351	105,819
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Capital contributions (Note G)	134,654	87,124
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Changes in net position	214,005	192,943
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Net position, beginning of the year	4,329,545	4,136,602
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Net position, end of year	\$ 4,543,550	\$ 4,329,545
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The accompanying notes are an integral part of these financial statements.

WASHINGTON SUBURBAN SANITARY COMMISSION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(in thousands)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from water and sewer customers	\$ 602,302	\$ 576,992
Receipts from front foot benefit assessments	21,955	28,135
Receipts from house connection charges	4,785	5,691
Receipts from other customer and miscellaneous	69,555	72,356
Payments to employees	(178,432)	(173,697)
Payments to District of Columbia Water & Sewer Authority	(54,245)	(55,620)
Payments to suppliers and others	(190,788)	(193,568)
Net cash provided by operating activities	<u>275,132</u>	<u>260,289</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from bonds and notes	729,468	393,963
Capital contributions	116,286	105,361
Bond redemptions and note repayments	(431,197)	(175,833)
Interests payments, premiums and discounts on bonds and notes	(30,667)	(53,159)
Capital assets construction	(712,644)	(614,158)
Net cash used in capital and related financing activities	<u>(328,754)</u>	<u>(343,826)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investments	508,200	567,126
Purchases of investments	(489,997)	(501,744)
Pension	11,032	16,460
Interest income received	330	193
Net cash provided by investing activities	<u>29,565</u>	<u>82,035</u>
Net decrease in cash	(24,057)	(1,502)
Cash, beginning of year	39,800	41,302
Cash, end of year	<u>\$ 15,743</u>	<u>\$ 39,800</u>
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenue	\$ 88,767	\$ 116,481
Adjustments to reconcile net operating revenue to net cash provided by operating activities:		
Depreciation and amortization	178,988	159,735
Changes in assets, liabilities and deferred inflows and outflows of resources:		
Receivables, net	7,035	859
Materials and supplies	(402)	(2,150)
Prepaid expenses	893	(803)
Deferred outflows of resources	(70,584)	(183)
Accounts payable and accrued liabilities	16,306	3,896
Unearned revenue	207	370
Deferred inflows of resources	23,970	(20,329)
Net pension liability	35,092	6,821
Long-time OPEB liability	(5,140)	(4,408)
Net cash provided by operating activities	<u>\$ 275,132</u>	<u>\$ 260,289</u>

Noncash capital financing activities:

Capital assets of \$71,850 and \$39,919 were acquired through contributions from developers and others in 2016 and 2015, respectively.

The accompanying notes are an integral part of these financial statements.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington Suburban Sanitary Commission (WSSC) is a bi-county political subdivision of the State of Maryland, created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The financial statements are presented using the accrual basis of accounting and the economic resources measurement focus. Significant accounting policies are summarized below.

Operating and Non-operating Revenues and Expenses

Revenues and expenses derived from financing and investment activities are classified as non-operating revenues and expenses. All other revenues and expenses are classified as operating.

Water and sewer service rates are established to provide sufficient funds to recover operating costs and debt service relating to the water supply and sanitary sewer systems. Water and sewer revenues are recognized as water is delivered to the system.

Estimated intermunicipal agency sewage disposal expenses are paid quarterly. Adjustments resulting from audits and/or reconciliations of WSSC's share of estimated and actual expenses are recognized in the year of settlement.

Front foot benefit and house connection assessments levied on properties where water and/or sanitary sewer service is available are the principal source of funds to service general construction bond debt. Front foot benefit assessments are recorded as operating revenue ratably over the levy year; house connection assessments and fees are recognized as operating revenue over the life of the bonds issued to finance the house connections.

Capital Contributions

In July 1993, a system development charge (SDC) was established to help finance the cost of expanding water and sewage systems to accommodate growth in the Washington Suburban Sanitary District. System development charges are recorded as capital contributions when received.

Developer fees and charges are established to recover costs related to services provided to outside developers for the construction of capital assets. These fees are recorded as capital contributions when received.

Federal and State grants are recognized as capital contributions when related capital costs are incurred.

Donated assets consist principally of capital assets constructed by developers and subsequently donated to WSSC. Values are established by using developers' estimated costs to construct the assets or WSSC's estimated costs to construct similar assets. Donated land and rights of way are recorded at estimated acquisition values. The capital assets, and related capital contributions, are recognized upon completion of construction.

A small portion of capital assets is related to donated assets acquired or constructed under a Department of Defense (DOD) contract executed during fiscal 2005 to operate and maintain the water and sewer systems at Bolling Air Force Base. Costs incurred by WSSC to acquire or enhance these systems are reimbursed by DOD and, consequently, recognized as capital assets and capital contributions.

WSSC follows Governmental Accounting Standards Board Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*" (GASB No. 33). GASB No. 33 requires recognition of all contributions of capital assets, including donated assets, as revenues (capital contributions in the Statements of Revenues, Expenses and Changes in Net Position).

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets include water and sewer lines, water distribution, wastewater collection and multi-purpose facilities, capital equipment and fleet. Capital assets are stated at historical costs, which include related payroll, payroll taxes, fringe benefits, administrative costs and interest capitalized during construction if applicable. Costs incurred for the purchase of software and water and wastewater capacity are treated as intangibles and amortized over the estimated useful life of the asset or the term of the contractual agreement.

Depreciation and Amortization

Capital assets are depreciated using the straight-line method over the estimated service lives of the property, which averaged 48 and 49 years in fiscal 2016 and 2015, respectively.

Inventory

Materials and supplies inventory is recorded utilizing a perpetual (moving average) cost methodology and is reduced for estimated losses due to obsolescence.

Bond Refunding Costs

The difference between the reacquisition price and the carrying value of refunded bonds is deferred and amortized to operations (see Note F).

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the net position of the Washington Suburban Sanitary Commission Employees Retirement Plan (the Plan) and additions to/deductions from the Plan's net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

Employees earn annual leave based on length of service. Accumulated annual leave in excess of 360 hours at the end of each year is transferred to sick leave. At termination, employees will be paid for unused annual leave but will not receive any pay or time off for unused sick leave. At retirement, an employee may convert unused annual leave to sick leave. Unused sick leave at retirement may be credited to an employee's total service time for retirement benefit purposes. Annual leave earned but unused is accrued as a liability.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results may differ from these estimates.

Reclassifications

The 2015 financial statements reflect certain reclassifications to conform with the 2016 presentation.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

Capital assets, as defined above, net of related outstanding debt represent the largest portion of WSSC's net position, or net investment in capital assets.

Net position associated with unspent SDC proceeds is restricted for growth construction.

Unrestricted net position is the residual amount not included in the other classifications.

Accounting Changes

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* improved the accounting and financial reporting by state and local government employers about financial support for pensions that is provided by other entities. GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, addresses an issue relating to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. These statements were effective for periods beginning after June 15, 2014, and were implemented in fiscal year 2015. Corresponding balances in 2014 were restated (See Note P).

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for financial statements for periods beginning after June 15, 2015, and was implemented in fiscal 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 addresses the financial reports of defined benefit OPEB Plans that are administered through trusts that meet specified criteria. The Statement requires a statement of fiduciary net position, a statement of changes in fiduciary net position, more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rate of return on plan investments. Statement No. 74 also sets forth note disclosure requirements for defined contribution OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2016. The Commission's management is evaluating the impact of the pronouncement on its financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Among other things, Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for fiscal years beginning after June 15, 2017. The Commission's management is evaluating the impact of the pronouncement on its financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of the pronouncement does not have an impact on WSSC's financial statements.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

B. CASH AND INVESTMENTS

At June 30, 2016 and 2015, cash per WSSC's records amounted to \$15,743,000 and \$39,800,000, respectively, and per reported bank balances was \$24,252,000 and \$48,748,000, respectively. All collected bank balance funds were secured by Federal depository insurance or by collateral held in WSSC's name under a tri-party collateral agreement with M&T and BNY Mellon.

WSSC's investment policy conforms to Maryland laws on the investment of public monies. Consequently, WSSC is authorized to invest in the investment types identified in the table below. The table also identifies certain provisions of the Maryland law or WSSC investment policy, which address interest rate risk, credit risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Government securities	1 year	None	None
Federal agency securities	1 year	None	None
Bankers' acceptances	6 months	None	20%
Collateralized repurchase agreements	1 year	None	20%
Commercial paper	1 year	5%	None
Certificates of deposit	1 year	None	20%

Any investment with a maturity in excess of 1 year must be approved by the Treasurer and will be limited to U.S. Government and Federal agency securities. The aggregated value of investments with any one bank or broker will not exceed 20% of the total investment portfolio at the time of investment, unless approved by the Investment Manager or Treasurer.

Custodial credit risk is the risk that, in the event of a failure of a financial institution, WSSC would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. Maryland State law requires that collateral shall be maintained for all deposits and certificates of deposit with amounts in excess of Federal insurance coverage. State law also requires the securities collateralizing repurchase agreements have a market value of at least 102 percent of the principal of the investment plus accrued interest. At June 30, 2016 and 2015, all WSSC investments, or the collateral securities for such investments, were held by various Trust Companies in WSSC's name. None of these investments required securities to be held by a broker's or dealer's trust department or agent in WSSC's name.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2016 and 2015, all of WSSC's investments had remaining maturities of 1 year or less.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. WSSC may invest in bankers' acceptances and commercial paper having a short-term rating of the highest letter and numerical rating issued by at least one nationally recognized statistical rating organization. WSSC does not have a formal policy for other investment types; however virtually all remaining investments are in, or collateralized by, Federal agency securities. Actual ratings as of June 30, 2016 and 2015 are presented below for each investment type.

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Repurchase agreements are recorded at cost, which approximates fair value.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

B. CASH AND INVESTMENTS (continued)

Investments at June 30, 2016 (in thousands):

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Remaining Maturity</u>	<u>Cost</u>	<u>Fair Value</u>
Repurchase agreements	Aaa	1 year or less	\$ 29,680	\$ 29,680
Federal agency securities	Aaa	1 year or less	<u>99,828</u>	<u>99,959</u>
Total investments (includes \$31,074 restricted for capital projects none which is classified as non-current)			<u>\$129,508</u>	<u>\$129,639</u>

Investments at June 30, 2015 (in thousands):

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Remaining Maturity</u>	<u>Cost</u>	<u>Fair Value</u>
Repurchase agreements	Aaa	1 year or less	\$ 17,727	\$ 17,727
Federal agency securities	Aaa	1 year or less	<u>129,992</u>	<u>129,998</u>
Total investments (includes \$27,878 restricted for capital projects and \$15,225 which is classified as non-current)			<u>\$147,719</u>	<u>\$147,725</u>

Concentration of credit risk is the risk of loss due to the magnitude of WSSC's investment in the securities of any single issuer. The investment policy of WSSC contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer that represent 5% or more of total investments are as follows (in thousands):

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value Measurement (Level 1) June 30, 2016</u>
FHLB	Federal agency securities	\$ 89,966
FNMA	Federal agency securities	9,993

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value Measurement (Level 1) June 30, 2015</u>
FHLB	Federal agency securities	\$ 129,998

Investments classified in Level 1 within the fair value hierarchy are valued using prices quoted in active markets for identical assets. Level 2 investment valuations utilize inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. If fair value inputs are unobservable, the investments will be classified as Level 3. At June 30, 2016, FHLB and FNMA agency securities were identified as Level 1 investments, and repurchase agreements were identified as Level 2 investments.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

C. RECEIVABLES

Receivables consisted of the following at June 30 (in thousands):

	<u>2016</u>	<u>2015</u>
Front foot benefit assessments accrued and billed	\$ 11,858	\$ 13,313
Water and sewer services unbilled	49,764	55,758
Water and sewer services billed	56,023	57,873
Miscellaneous	15,602	13,186
	<u>133,247</u>	<u>140,130</u>
Less allowance for doubtful accounts	<u>(11,597)</u>	<u>(11,446)</u>
Total receivables, net	<u>\$ 121,650</u>	<u>\$ 128,684</u>

D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and rights of way	\$ 78,893	\$ 38,946	\$ -	\$ 117,839
Construction in progress	<u>1,366,478</u>	<u>696,384</u>	<u>(623,242)</u>	<u>1,439,620</u>
Total capital assets not being depreciated	<u>1,445,371</u>	<u>735,330</u>	<u>(623,242)</u>	<u>1,557,459</u>
Capital assets being depreciated:				
Water supply	2,305,097	132,025	-	2,437,122
Sewage disposal	3,052,107	461,092	(22,708)	3,490,491
General construction	2,508,398	48,615	(3,876)	2,553,137
Intangible assets	56,583	2,168	-	58,751
Other	<u>146,815</u>	<u>17,735</u>	<u>(7,585)</u>	<u>156,965</u>
Total capital assets being depreciated	<u>8,069,000</u>	<u>661,635</u>	<u>(34,169)</u>	<u>8,696,466</u>
Less accumulated depreciation for:				
Water supply	(640,016)	(41,082)	-	(681,098)
Sewage disposal	(889,418)	(71,363)	12,223	(948,558)
General construction	(1,121,209)	(47,397)	2,156	(1,166,450)
Intangible assets	(14,023)	(2,463)	-	(16,486)
Other	<u>(100,716)</u>	<u>(13,449)</u>	<u>2,488</u>	<u>(111,677)</u>
Total accumulated depreciation	<u>(2,765,382)</u>	<u>(175,754)</u>	<u>16,867</u>	<u>(2,924,269)</u>
Capital assets being depreciated, net	<u>5,303,618</u>	<u>485,881</u>	<u>(17,302)</u>	<u>5,772,197</u>
Total capital assets, net	<u>\$ 6,748,989</u>	<u>\$ 1,221,211</u>	<u>\$ (640,544)</u>	<u>\$ 7,329,656</u>

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

D. CAPITAL ASSETS (continued)

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and rights of way	\$ 78,013	\$ 880	\$ -	\$ 78,893
Construction in progress	<u>1,359,444</u>	<u>591,093</u>	<u>(584,059)</u>	<u>1,366,478</u>
Total capital assets not being depreciated	<u>1,437,457</u>	<u>591,973</u>	<u>(584,059)</u>	<u>1,445,371</u>
Capital assets being depreciated:				
Water supply	2,021,189	284,594	(686)	2,305,097
Sewage disposal	2,765,973	286,178	(44)	3,052,107
General construction	2,457,642	52,756	(2,000)	2,508,398
Intangible assets	51,091	5,492	-	56,583
Other	<u>135,940</u>	<u>16,690</u>	<u>(5,815)</u>	<u>146,815</u>
Total capital assets being depreciated	<u>7,431,835</u>	<u>645,710</u>	<u>(8,545)</u>	<u>8,069,000</u>
Less accumulated depreciation for:				
Water supply	(602,495)	(38,207)	686	(640,016)
Sewage disposal	(829,876)	(59,586)	44	(889,418)
General construction	(1,075,827)	(47,382)	2,000	(1,121,209)
Intangible assets	(12,309)	(1,714)	-	(14,023)
Other	<u>(93,344)</u>	<u>(13,160)</u>	<u>5,788</u>	<u>(100,716)</u>
Total accumulated depreciation	<u>(2,613,851)</u>	<u>(160,049)</u>	<u>8,518</u>	<u>(2,765,382)</u>
Capital assets being depreciated, net	<u>4,817,984</u>	<u>485,661</u>	<u>(27)</u>	<u>5,303,618</u>
 Total capital assets, net	 <u>\$ 6,255,441</u>	 <u>\$ 1,077,634</u>	 <u>\$ (584,086)</u>	 <u>\$ 6,748,989</u>

Purchased software and related development stage costs of \$2.1 million and \$5.5 million were capitalized in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* in fiscal years 2016 and 2015, respectively. Costs of \$9.0 million are included in the Construction in Progress balance as of June 30, 2016 and will commence amortization upon implementation of the software. Intangible assets include the balance of costs placed in service, net of accumulated amortization, of \$6.1 million and \$6.0 million in fiscal 2016 and 2015, respectively.

An intangible asset for purchased capacity has been established for WSSC's share of capital costs in the Jennings Randolph Reservoir (Bloomington Dam). The Reservoir provides backup and peak-day water supply to WSSC and is operated by the U.S. Army Corps of Engineers, Baltimore District. WSSC funds 50% of the capital costs, and intangible asset balances of \$27.7 million and \$27.9 million, for fiscal years 2016 and 2015, respectively, are included above.

In addition, WSSC participates in the funding of capital costs for the Mattawoman and Poolesville Wastewater Treatment Plants through agreements with Charles County and the Town of Poolesville, respectively. In exchange for this participation, WSSC obtains the right to discharge wastewater from the Washington Suburban Sanitary District into said facilities. Asset balances, net of accumulated amortization, totaling \$8.4 million and \$8.6 million, for fiscal years 2016 and 2015, respectively, are included in intangible assets above.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

D. CAPITAL ASSETS (continued)

The amount shown in the statements of revenues, expenses and changes in net assets for depreciation and amortization does not include depreciation of vehicles and equipment. Depreciation of these assets, \$13.2 million in fiscal 2016 and \$13.4 million in fiscal 2015, is classified with other related operating and maintenance costs.

E. NOTE RECEIVABLE

On April 4, 2007, WSSC entered into a Purchase and Sale Contract with Montgomery County for the County's purchase of WSSC's property which previously was the site of a biosolids composting facility. On January 15, 2009, the closing date of the sale, WSSC received a promissory note in the amount of \$10,000,000 from Montgomery County.

Interest accrues at a rate of 4.43%, commencing six months after the execution of the promissory note. Under the provisions of the promissory note, the minimum annual payment by Montgomery County is \$400,000 and is due on July 15, 2009 and annually thereafter. Payments shall be allocated first to interest, then to principal. At June 30, 2016 and 2015, the balance of this Note Receivable was \$9.7 million.

As Montgomery County develops the property, additional payments become due when a 'Payment Event' occurs. A 'Payment Event' is defined as a sale or ground lease of a parcel or the commencement of initial construction on a parcel. The additional payment shall be applied to the minimum annual payment amount. Montgomery County is obligated to pay additional payments for amounts in excess of the minimum annual payment.

The principal portion of additional payments shall be at least determined based upon the ratio of the developable square feet (DSF) of the sold or developed parcel to the sum of the DSF of the sold or developed parcel plus the total DSF of the unsold parcels. Interest shall be the outstanding unpaid interest accrued as of the date of the applicable Payment Event.

The promissory note matures upon the earlier of January 15, 2024, (fifteenth anniversary of the date of the note) or the date for the Payment Event for the last parcel for which an additional payment is due.

F. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred outflows of resources represent a consumption of net position that is applicable to a future period. Reported examples include:

- (a) Deferred losses on bond refundings resulting from the difference between the carrying value of the refunded debt and its reacquisition price
- (b) Contributions to the Retirement Plan subsequent to the measurement date of the net pension liability and before the end of WSSC's reporting period
- (c) Differences between expected and actual experience in the measurement of the total pension liability
- (d) Net difference between projected and actual earnings on pension plan investments
- (e) Results of changes in pension assumptions

Deferred inflows of resources represent an acquisition of net assets that is applicable to a future period. Reported examples include:

- (a) Differences between expected and actual experience in the measurement of the total pension liability
- (b) Net difference between projected and actual earnings on pension plan investments

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

G. CAPITAL CONTRIBUTIONS

Capital contributions consisted of the following for the years ended June 30 (in thousands):

	<u>2016</u>	<u>2015</u>
System development charges	\$ 27,734	\$ 25,884
Developer fees	4,293	3,978
Federal and State grants	30,777	17,343
House connections	5,612	6,467
Land and rights of way	36,939	-
Other construction projects	29,299	33,452
Total	<u>\$ 134,654</u>	<u>\$ 87,124</u>

H. COMPENSATED ABSENCE LIABILITY

Compensated absence liability activity consisted of the following for the years ended June 30 (in thousands):

	<u>2016</u>	<u>2015</u>
Compensated absence liability – beginning of year	\$ 11,287	\$ 11,154
Increases (incurred)	9,833	9,503
Decreases	(9,171)	(9,370)
Compensated absence liability – end of year	<u>\$ 11,949</u>	<u>\$ 11,287</u>

This liability is included in accounts payable and accrued expenses on the balance sheet.

I. DEPOSITS, UNEARNED REVENUE AND OTHER LONG-TERM LIABILITIES

Deposits, unearned revenue and other long-term liabilities, reflected as non-current liabilities on the Balance Sheet, consisted of the following at June 30 (in thousands):

	<u>2016</u>	<u>2015</u>
Unearned revenue for house connections	\$ 17,614	\$ 18,261
Unearned front foot benefit revenue	902	1,063
Other unearned revenue	2,135	1,187
Construction deposits	1,507	1,835
House connection deposits	4,585	4,773
Other	2,802	2,572
Total	<u>\$ 29,545</u>	<u>\$ 29,691</u>

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

J. BONDS AND NOTES PAYABLE

Bonds and notes payable activity for the year ended June 30, 2016 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Bonds and notes payable:					
Water supply	\$ 804,443	\$ 311,573	\$ (203,441)	\$ 912,575	\$ 112,883
Sewage disposal	1,166,390	357,923	(129,539)	1,394,774	112,125
General construction	227,734	59,971	(98,216)	189,489	31,007
	<u>2,198,567</u>	<u>729,467</u>	<u>(431,196)</u>	<u>2,496,838</u>	<u>256,015</u>
Plus unamortized premium/discount	<u>118,403</u>	<u>52,871</u>	<u>(16,908)</u>	<u>154,366</u>	<u>-</u>
Total bonds and notes payable	<u>\$ 2,316,970</u>	<u>\$ 782,338</u>	<u>\$ (448,104)</u>	<u>\$ 2,651,204</u>	<u>\$ 256,015</u>

Bonds and notes payable activity for the year ended June 30, 2015 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Bonds and notes payable:					
Water supply	\$ 736,643	\$ 140,000	\$ (72,200)	\$ 804,443	\$ 179,357
Sewage disposal	983,477	253,960	(71,047)	1,166,390	126,584
General construction	260,318	3	(32,587)	227,734	42,601
	<u>1,980,438</u>	<u>393,963</u>	<u>(175,834)</u>	<u>2,198,567</u>	<u>348,542</u>
Plus unamortized premium/discount	<u>113,852</u>	<u>18,933</u>	<u>(14,382)</u>	<u>118,403</u>	<u>-</u>
Total bonds and notes payable	<u>\$ 2,094,290</u>	<u>\$ 412,896</u>	<u>\$ (190,216)</u>	<u>\$ 2,316,970</u>	<u>\$ 348,542</u>

In accordance with GASB 65, deferred amounts from debt refundings are now illustrated as Deferred Outflows or Inflows of Resources on the Balance Sheet. This change was implemented in fiscal 2014.

The unamortized amounts above represent premiums received on outstanding debt issuances.

Bonds payable accrue interest at rates ranging from 0.7% to 5.0%, with an effective interest rate of 3.75% at June 30, 2016. All bonds payable at June 30, 2016, exclusive of refunded bonds, are due serially through the year 2046. Generally, the bonds are callable at a premium after a specified number of years.

In October 2015 and May 2016, WSSC issued \$390 million and \$145 million, respectively, of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.

In December 2014 and April 2014, WSSC issued \$250 million and \$150 million, respectively, of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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J. BONDS AND NOTES PAYABLE (continued)

In September 2009, WSSC issued \$180 million of Consolidated Public Improvement Bonds in two series; \$90 million in Tax-Exempt Bonds, Series 2009A and \$90 million in Taxable Build America Bonds - Direct Payment to the Issuer, Series 2009B. In September 2010, WSSC issued \$240 million of Consolidated Public Improvement Bonds in two series; \$120 million in Tax-Exempt Bonds, Series 2010A and \$120 million in Taxable Build America Bonds - Direct Payment to the Issuer, Series 2010B. The American Recovery and Reinvestment Act of 2009 created the Build America Bonds program. This program is intended to assist state and local municipalities in issuing debt. One provision of the program is for issuance of taxable Build America Bonds to finance capital expenditures while providing a federal subsidy of 35% of the interest payment to the issuer. Due to government sequestration enacted in March 2013, the December 1, 2014 and June 1, 2015 subsidies were reduced by 2.5%. The December 1, 2015 and June 1, 2016 subsidies were reduced by 2.38%. The subsidy is payable over the life of the issue, and in the schedule below it is assumed that the remainder of subsidy payments will be made at the original 35%.

Bond and note maturities and interest thereon, including Taxable Build America Bond subsidies, for the next five years are as follows (in thousands):

<u>Year ended</u> <u>June 30</u>	<u>Principal</u> <u>Maturities</u>	<u>Interest</u> <u>Requirements</u>	<u>Build America</u> <u>Bond Subsidies</u>
2017	\$256,015	\$ 92,729	\$ (3,279)
2018	139,072	86,553	(3,279)
2019	133,567	80,271	(3,279)
2020	138,310	76,260	(3,279)
2021	136,018	70,106	(3,142)

Bond and note maturities and interest thereon, including Taxable Build America Bond subsidies, in five-year increments for fiscal years after 2021 are as follows (in thousands):

<u>Year ended</u> <u>June 30</u>	<u>Principal</u> <u>Maturities</u>	<u>Interest</u> <u>Requirements</u>	<u>Build America</u> <u>Bond Subsidies</u>
2022-2026	\$610,158	\$ 273,178	(11,199)
2027-2031	479,089	165,551	(2,951)
2032-2036	228,318	94,585	-
2037-2041	202,216	56,124	-
2042-2046	174,075	15,628	-

Bond Anticipation Notes (the Notes) are remarketed weekly by WSSC's remarketing agent at prevailing weekly tax-exempt interest rates. Interest rates on the Notes ranged from 0.01% to 0.45% during fiscal 2016 and from 0.02% to 0.11% during fiscal 2015. Any or all buyers of the Notes may demand payment from WSSC's remarketing agent upon seven days' notice. WSSC's remarketing agents are prepared to remarket the Notes in such eventuality. The Notes were sold under a bank line of credit agreement which acts as a guarantee of liquidity for the Notes in the event that the Notes cannot be remarketed. On August 28, 2013, the Commission replaced the series "A" notes with two separate series (A&B), each backed by their own line of credit. The maximum amount available under each line of credit which expires in August 2019 and is subject to certain conditions is \$107.5 million. In aggregate, the total line of credit is \$215.0 million.

WASHINGTON SUBURBAN SANITARY COMMISSION
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J. BONDS AND NOTES PAYABLE (continued)

At June 30, 2016 and 2015, \$120.0 million and \$210.0 million respectively, of the Notes were outstanding. WSSC expects to redeem these Notes with proceeds of future bond issues or annual amortization. On June 24, 2015, the Commission issued \$35.0 million in Series A Notes and \$55.0 million in Series B Notes. On February 26, 2014, WSSC issued \$50.0 million in Series B Notes. The Commission redeemed \$90.0 million and \$30.1 million in Notes on November 18, 2015 and June 2, 2015, respectively, as part of the water, sewer and general debt service amortization. The Notes are treated as bonds, and as such, are expected to be amortized over a 20-year term. However, because these Notes are callable, the entire \$120.0 million has been included in current maturities (fiscal 2017 principal maturities), and an estimated \$4.2 million has been included in the fiscal 2017 interest requirements. Additional estimated interest requirements at prevailing rates through 2034 on these Notes, assuming future redemption from proceeds of bonds, would total \$48.1 million.

On July 15, 2005, WSSC commenced work on a utility service contract with the U.S. Department of Defense to operate and maintain the Bolling Air Force Base water distribution and wastewater collection systems. Under the terms of this contract, WSSC acquired the existing water and sewer systems for \$1.0 million and \$4.3 million, respectively. Corresponding notes payable accrue interest at 7.0% over a 30-year term.

Since November 1989, WSSC has participated in a loan program established by the State of Maryland to loan money to Maryland municipalities for local water and sewer projects. The program, known as the Maryland Water Quality Revolving Loan Fund, is designed to offer these municipalities loans at reduced interest rates. As of June 30, 2016, WSSC borrowed \$366.0 million from the program. The total principal balance outstanding as of June 30, 2016 and 2015 was \$245.4 million and \$248.0 million, respectively.

Proceeds of notes payable to the Federal government were used to make improvements to the Jennings Randolph Reservoir for backup and peak-day water supply. The note payable accrues interest at 3.25% and balances outstanding at June 30, 2016 and 2015 were \$22.2 million and \$22.8 million, respectively.

WSSC is in compliance with all terms of its debt agreements at June 30, 2016 and 2015.

K. BOND REFUNDINGS

In November 2015, WSSC sold \$145,325,000 of refunding bonds with interest rates ranging from 3.00% to 5.00% to refund \$148,100,000 of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 2.00% to 5.00%. The net proceeds of \$159,320,000 (including a premium of \$14,703,000) were used to purchase U.S. Government securities. Those securities were deposited with an escrow agent to provide for all future debt service payments and the early redemption of callable bonds. The November 2015 refunding will reduce WSSC's total debt service payments over the next 12 years by \$12,800,000 and provide an economic gain of \$12,143,000.

In May 2016, WSSC sold \$36,440,000 of refunding bonds with interest rates ranging from 4.00% to 5.00% to refund \$41,980,000 of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 4.00% to 4.25%. The net proceeds of \$42,087,000 (including a premium of \$5,751,000) were used to purchase U.S. Government securities. Those securities were deposited with an escrow agent to provide for all future debt service payments and the early redemption of callable bonds. The May 2016 refunding will reduce WSSC's total debt service payments over the next 9 years by \$5,086,000 and provide an economic gain of \$5,009,000.

As a result of the refundings, the refunded bonds are considered to be defeased and the liability is not reflected in the financial statements.

No refunding bonds were sold in fiscal year 2015.

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K. BOND REFUNDINGS (continued)

WSSC has sold refunding bonds totalling \$3,553,345,000 for the purpose of refunding and defeasing \$3,443,042,000 of outstanding bonds. The purpose of these refundings was to reduce total debt service payments over the remaining life of the refunded bonds and to obtain an economic gain (difference between the present value of the old and new debt service payments) from the transactions.

Prior to fiscal 1994, these refundings were accounted for in accordance with Statement of Financial Accounting Standards No. 76, *Extinguishment of Debt*. At the time of the respective refundings, WSSC recognized extraordinary losses aggregating approximately \$89,726,000 resulting from the issuance of additional principal. However, interest savings over the remaining terms of the refunded bonds are estimated to aggregate approximately \$191,863,000.

Effective July 1, 1993, WSSC adopted GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. GASB No. 23 requires deferral of the difference between the reacquisition price and the carrying amount of the old debt. The difference is reported in the accompanying financial statements as a deferred outflow of resources and is being amortized to interest on bonds and notes through the year 2029 using the proportionate-to-stated interest method. Amortization totaling \$1,625,000 and \$1,464,000 in fiscal 2016 and 2015, respectively, was recorded as interest on bonds and notes payable in the accompanying statements of revenues, expenses and changes in net position.

Details of the current and prior years' refunding are shown in the table below (in thousands):

Date of Refunding	Amount of Refunded Bonds	Remaining Term at Refunding Date	Amount of Refunding Bonds	Estimated Interest Savings	Extraordinary Loss Previously Recognized	Deferred Loss/(Gain)
11-24-15	\$ 148,100	12 years	\$ 145,325	\$ 10,025	\$ -	\$ 6,929
05-26-16	42,087	9 years	36,440	(455)	-	380
04-15-14	52,830	9 years	47,395	2	-	(663)
04-09-13	105,820	14 years	101,560	4,926	-	4,098
11-25-09	79,730	20 years	83,965	5,622	-	4,467
10-15-06	80,360	19 years	82,285	5,544	-	1,989
03-15-04	63,980	20 years	62,510	731	-	2,880
02-01-04	271,815	19 years	266,395	10,059	-	14,941
10-28-03	14,500	11 years	15,780	3,107	-	1,103
09-15-03	70,485	11 years	70,590	5,435	-	2,352
03-01-03	454,905	17 years	428,945	22,269	-	23,612
04-15-02	43,610	10 years	43,705	4,483	-	904
12-01-01	100,150	14 years	100,095	9,672	-	(110)
15-15-97	42,400	14 years	45,265	4,967	-	2,712
01-01-97	74,375	23 years	79,600	7,467	-	4,595
01-15-94	437,695	22 years	435,675	84,556	-	42,761
11-01-93	243,835	22 years	278,730	38,845	-	28,155
03-01-93	127,975	21 years	139,705	12,908	7,730	-
06-01-92	50,475	20 years	54,775	4,896	4,200	-
11-15-91	88,355	24 years	95,435	8,083	5,580	-
05-15-91	229,775	23 years	248,865	22,276	10,944	-
03-01-90	48,395	21 years	53,885	6,700	4,216	-
10-15-86	64,160	22 years	74,680	15,000	9,182	-
05-15-86	149,055	29 years	174,490	27,000	18,542	-
07-15-85	111,750	23 years	118,015	18,000	11,002	-
04-01-84	24,765	23 years	29,210	8,000	3,797	-
09-01-77	221,660	23 years	242,025	69,000	14,533	-

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

K. BOND REFUNDINGS (continued)

The refunded bonds continue to be general obligations of WSSC until redeemed or called. However, the net proceeds of the refunding bonds were applied toward the purchase of U.S. Government obligations (held in escrow) with maturities and interest sufficient to meet debt service and call premiums, if any, on the refunded bonds. The holders of the refunded bonds have first lien on all assets held in escrow. Refunded bonds outstanding at June 30, 2016 and 2015, which amounted to \$118.8 million and \$50.0 million, respectively, are considered to be defeased and are not reflected in the accompanying financial statements.

L. RETIREMENT PLAN

Plan Description

The Washington Suburban Sanitary Commission Employees' Retirement Plan (the Plan), a single employer contributory defined benefit retirement plan, was established in 1967 to provide retirement and death benefits for the employees of the Washington Suburban Sanitary Commission (WSSC) under conditions set forth in the Plan Document based on an employee's age, length of service, and compensation. The Retirement Plan Document is amended from time to time, with the Plan last amended on January 15, 2016. The Plan may be amended by Commission resolution or by the Executive Director on behalf of the Commission.

WSSC implemented the Open Version of the Plan on July 1, 1978. Members of the Plan as of June 30, 1978 had an option to be included in the Open Version. This option expired December 31, 1978. The Open Version is mandatory for new employees. It generally provides for reduced employee contributions and benefits.

As of December 31, 2015 and 2014, there were 1,577 and 1,540 employees, respectively, participating in the Open Version of the Plan, and 8 and 9 employees, respectively, participating in the Closed Version of the Plan, a total of 1,585 and 1549 employee participants, respectively.

As of December 31, 2015 and 2014, there were 1,580 and 1,542 retirees and/or beneficiaries, respectively, receiving benefits from the Plan, and there were 92 and 86 terminated vested employees, respectively, not yet receiving benefits. Ten and thirteen employees retired in fiscal years 2015 and 2014, respectively, and began receiving benefits in subsequent fiscal years.

Actuarial studies are performed at least once every two years as of June 30th and the measurement date for the net pension liability is December 31st.

Contributions

WSSC funds annual pension plan costs based upon a level percentage of payroll costs. WSSC's contribution, which is paid in a lump sum on July 1 each year, amounted to \$22.3 million and \$21.0 million on July 1, 2015 and 2014, respectively. At December 31, 2015 and 2014, \$11.2 million and \$10.5 million, respectively, of these contributions were recorded as deferred outflows of resources on the Balance Sheet. For the years ended December 31, 2015 and 2014, the Plan recognized WSSC's contributions of \$21.7 and \$20.7 million, respectively.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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L. RETIREMENT PLAN (continued)

Pension Benefits

The Plan provides for 100% vesting of retirement benefits after five years of credited service.

Generally, the normal retirement benefits payable to an eligible participant are equal to the sum of:

1. 2.1% of final average monthly compensation multiplied by the Closed Version credited service, plus
2. 1.4% of final average monthly compensation multiplied by the Open Version credited service where the sum of Closed Version credited service and Open Version credited service, exclusive of accumulated sick leave service is subject to a maximum of 36 years.

The Plan provides options for disability and early retirement to eligible participants or their surviving spouses.

The Plan provides for periodic cost of living increases to retirement benefits. Participants covered by the Closed Version will receive an increase two months following a sustained increase in the Consumer Price Index of 3% or more. Participants in the Open Version receive an increase each March 1, based on the preceding calendar year's increase in the Consumer Price Index. The first increase may be pro-rated depending on the time of retirement.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2015</u>	<u>2014</u>
Inflation	2.50%	3.50%
Salary increases		
Up to 5 years of Service	7.50%	5.00%
6+ years of service	2.75%	5.00%
Investment rate of return	7.00%	8.00%

The mortality rates for 2015 were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, with Blue Collar adjustments and one-year age set-forward, and projected to 2025 using Scale BB. The GAM83 tables with 10-year set forward were used for the valuation of disabled members.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience analysis covering 2011 through 2015. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience analysis prior to 2010.

There were several changes in actuarial assumptions since the prior year, including rates of mortality, retirement, and termination, as well as inflation, salary increases and investment return. Further details on assumptions are provided in the valuation report.

WASHINGTON SUBURBAN SANITARY COMMISSION
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L. RETIREMENT PLAN (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation and the final investment return assumption are summarized in the following tables:

Asset class:	<u>2015</u>	<u>2014</u>
U.S. Equity	5.70%	5.70%
Non-U.S. Equity	2.00%	6.04%
U.S. Fixed income	2.60%	2.74%
Real estate	4.10%	4.10%
Total Weighted Average Real Return	4.76%	4.82%
Plus Inflation	2.50%	3.50%
Total Return without Adjustment	7.26%	8.32%
Risk Adjustment	-0.26%	-0.32%
Total Expected Return	7.00%	8.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.00% and 7.65% for 2015 and 2014, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Commission contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Based on those assumptions, the pension plan's 2015 fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The pension plan's 2014 fiduciary net position was projected to be exhausted in the year 2066.

Therefore, the long-term expected rate of return on pension plan investments for 2015 was applied to all periods of projected benefit payments to determine the total pension liability. For the 2014 evaluation, the discount rate represents the single equivalent rate resulting from discounting at the long term expected rates of return until 2066 and discounting with the 20 year municipal bond index rate of 3.15% thereafter.

Other Key Actuarial Assumptions

The other key actuarial assumptions that determined the total pension liability as of December 31, 2015 and 2014 included:

Valuation date	July 1, 2015	July 1, 2014
Measurement date	December 31, 2015	December 31, 2014
Inflation	2.50%	3.50%
Salary increased including inflation	2.75% to 7.50%	5.00%

WASHINGTON SUBURBAN SANITARY COMMISSION
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L. RETIREMENT PLAN (continued)

Changes in the Net Pension Liability

Changes in the Net Pension Liability for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/14	\$ 919,442	\$ 743,965	\$ 175,477
Changes for the year:			
Service cost	9,828	-	9,828
Interest	61,611	-	61,611
Differences between expected and actual experience	(53,390)	-	(53,390)
Changes in assumptions	32,258	-	32,258
Contributions – employer	-	21,656	(21,656)
Contributions – employee	-	3,930	(3,930)
Net investment income	-	(10,372)	10,372
Benefit payments, including refunds of employee contributions	(56,673)	(56,673)	-
Administrative expense*	-	-	-
Net change	(6,366)	(41,459)	35,093
Balances at 12/31/15	\$ 913,076	\$ 702,506	\$ 210,570
Plan's fiduciary net position as a percentage of the total pension liability		76.94%	

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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L. RETIREMENT PLAN (continued)

	Increase (Decrease)		
	Plan		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/13	\$ 904,618	\$ 736,769	\$ 167,849
Changes for the year:			
Service cost	11,099	-	11,099
Interest	67,318	-	67,318
Differences between expected and actual experience	(8,658)	-	(8,658)
Contributions – employer	-	20,732	(20,732)
Contributions – employee	-	3,823	(3,823)
Net investment income	-	37,576	(37,576)
Benefit payments, including refunds of employee contributions	(54,935)	(54,935)	-
Administrative expense*	-	-	-
Net change	14,824	7,196	7,628
Balances at 12/31/14	\$ 919,442	\$ 743,965	\$ 175,477
Plan's fiduciary net position as a percentage of the total pension liability		80.91%	

*Administrative expenses are paid directly by WSSC

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00% and 7.65%, for 2015 and 2014, respectively, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate (in thousands).

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
WSSC's net pension liability (2015)	\$ 315,410	\$ 210,570	\$ 122,063
	1% Decrease 6.65%	Current Discount Rate 7.65%	1% Increase 8.65%
WSSC's net pension liability (2014)	\$ 279,342	\$ 175,477	\$ 87,246

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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L. RETIREMENT PLAN (continued)

Pension Expense

For the years ended June 30, 2016 and 2015, WSSC recognized pension expense as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Pension cost distributions:		
Operating	\$ 17,800	\$ 20,052
Non-operating	(11,032)	(16,460)
Capital	<u>4,933</u>	<u>5,476</u>
Total pension expense	<u>\$ 11,701</u>	<u>\$ 9,068</u>

Deferred Outflows (Inflows) of Resources

Deferred outflows of resources and deferred inflows of resources related to pensions were reported for the years ended June 30, 2016 and 2015 from the following sources (in thousands):

	<u>2016</u>	<u>2015</u>
Deferred Outflows		
Net difference between projected and actual earnings on pension plan investments	\$ 43,213	\$ -
Changes in assumptions	<u>26,882</u>	<u>-</u>
Deferred Outflows	<u>\$ 70,095</u>	<u>\$ -</u>
Deferred Inflows		
Differences between expected and actual experience	\$ (51,226)	\$ 7,696
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>(19,560)</u>
Deferred Inflows	<u>\$ (51,226)</u>	<u>\$ (27,256)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

<u>Year ended</u>	<u>Amortization</u>
<u>June 30</u>	
2017	(\$1,379)
2018	(\$1,379)
2019	(13,275)
2020	(9,243)
2021	4,484
Thereafter	1,923

Historical trend information showing the Plan's progress is presented in the Plan's December 31, 2015 comprehensive annual financial report, which can be requested from WSSC's offices.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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L. RETIREMENT PLAN (continued)

Retirement Restoration Plan

Effective July 1, 1995, WSSC established the Washington Suburban Sanitary Commission Employees' Retirement Restoration Plan (the Restoration Plan), a non-qualified plan. The purpose of the Restoration Plan is to restore most of the benefits foregone by participants in the WSSC Employees' Retirement Plan when such benefits are limited by the maximum benefit provisions of Section 415 of the Internal Revenue Code. During fiscal years 2016 and 2015, the Restoration Plan paid benefits totaling \$27,000 in each year.

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

WSSC provides healthcare, prescription drug, dental and life insurance benefits to retirees and their dependents, and pays a portion of the related costs. All full time active employees who retire or are disabled directly from WSSC and meet the eligibility criteria can participate. The Washington Suburban Sanitary Commission Other Postemployment Benefits Trust (the "Trust") is a single-employer contributory fund established in 2007 to provide life insurance and medical benefits for the Retiree Plan participants and beneficiaries of WSSC under conditions set forth by the Trust Agreement. The provision of postemployment benefits is determined under a set of personnel policies (herein referred to, collectively, as the "Plan").

Eligibility for post retirement health care benefits requires a minimum of two years participation in a WSSC sponsored plan immediately prior to retirement. At the end of fiscal 2016, substantially all of WSSC's retired employees (or beneficiaries) are eligible for those benefits. WSSC contributes up to 77% of the amount of health care insurance costs for eligible retired employees and their families.

Employees who retired in 1982 and after are eligible for life insurance benefits. The amount of retiree life insurance begins at 85% of the employee's salary as of the day immediately prior to retirement, and decreases over a four-year period, until coverage equals either 25% of that salary or \$5,000, whichever is greater.

Funding Policy

The required contribution is based on projected pay-as-you-go obligations, with an additional amount to prefund benefits as determined annually by WSSC.

For fiscal year 2016, WSSC contributed \$21.4 million, including \$11.4 million for current claims and/or premiums (approximately 53% of total claims and/or premiums) and an additional \$10.0 million to fund the Trust. Retirees receiving benefits contributed \$3.8 million or approximately 24% of total claims and/or premiums, through their required contributions.

For fiscal year 2015, WSSC contributed \$22.4 million, including \$12.4 million for current claims and/or premiums (approximately 55% of total claims and/or premiums) and an additional \$10.0 million to fund the Trust. Retirees receiving benefits contributed \$3.8 million or approximately 23% of total claims and/or premiums, through their required contributions.

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Annual OPEB Cost and Net OPEB Obligation

WSSC's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over thirty years, beginning with the year that the phase-in funding ends.

The long-term OPEB liability is estimated based on existing WSSC policies regarding retiree healthcare benefits. This level of coverage is not guaranteed in the future. The obligation will be periodically re-evaluated.

WSSC's annual OPEB cost and long-term liability for fiscal years 2016 and 2015 were (in thousands):

	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ 14,961	\$ 16,890
Correction to the prior year contribution	(2,068)	(2,604)
Interest on long-term OPEB liability	1,922	2,480
Annual OPEB cost	<u>14,815</u>	<u>16,766</u>
Phase-in funding	(10,000)	(10,000)
Benefits paid	<u>(11,398)</u>	<u>(12,379)</u>
Increase in long-term OPEB liability	(6,583)	(5,613)
Long-term OPEB liability – beginning of year	<u>27,458</u>	<u>33,071</u>
Long-term OPEB liability – end of year	<u>\$ 20,875</u>	<u>\$ 27,458</u>

WSSC's annual OPEB cost, the percentage of annual OPEB cost contributed and the long-term OPEB liability for fiscal years 2016 and 2015 were (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Long-term OPEB Liability
6/30/2016	\$14,815	144.4%	\$20,875
6/30/2015	16,766	133.5%	27,458

Funded Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the plan was 31.7% funded. The actuarial accrued liability for benefits at June 30, 2015 was \$218.2 million, and with assets of \$69.1 million, the resulting unfunded actuarial liability (UAAL) was \$149.0 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was \$118.1 million, and the ratio of the UAAL to the covered payroll was 124.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Trust and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements in Schedule B. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the last valuation, WSSC had 1,594 retired employees and 1,582 active employees who participated in health plans, excluding spouses and dependents. Life insurance plan participation was 1,207 and 1,424, respectively for retirees and active employees. The average age is 70.1 and 47.8 respectively for retirees and active employees.

Actuarial assumptions used in the most recent valuation, as of June 30, 2015, are as follows:

Actuarial cost method	Entry age normal.
Discount rate	7.0%
Yearly increase in medical/prescription costs	Medical claims and retiree premiums will increase at an annual trend rate of 8.0% pre-65 and 6.0% post-65 for 2013, grading down to an ultimate rate of 5.5% in 2018 for pre-65 and 5.5% in 2018 for post-65.
Mortality rates after retirement	Retirement Plan–2000 Health Mortality Tables, with Blue Collar adjustments and one year set forward for non-disability retirees; RP2000 Disabled Mortality Tables for disability retirees.
Retirement age assumptions	Ranging from 50 to 70+
Coverage	100% of current retirees are covered and 100% of current active employees will elect coverage at least two years prior to retirement age under the medical and life insurance plans.
Amortization method	30 year amortization of the unfunded Actuarial Accrued Liability as a level dollar.

N. DEFERRED COMPENSATION PLAN

WSSC offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan, available to all employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All of the assets of the deferred compensation plan are held in a trust for the exclusive benefit of participants and beneficiaries. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

O. COMMITMENTS AND CONTINGENCIES

Construction expenditures for fiscal 2017 are not expected to exceed \$685 million, a portion of which will be funded by capital contributions. Commitments in connection with this construction program approximated \$297 million at June 30, 2016.

The Commission, the District of Columbia (the District), the District of Columbia Water and Sewer Authority (DC Water), Fairfax County, Virginia, Montgomery County, Maryland, and Prince Georges County, Maryland are parties to a regional agreement (the Blue Plains Intermunicipal Agreement of 2012) that provides for dedicated allocation of sewage flow capacity for wastewater treatment at the Blue Plains facility in Washington DC. The parties have demonstrated their willingness to share in the burdens associated with the demands for regional wastewater collection and treatment and biosolids management. Therefore, WSSC has executed an equitable arrangement for determining WSSC's share of capital costs in relationship to its allocated flow capacity and for payment of the WSSC share of operating and maintenance costs related to its actual flow to Blue Plains. Currently, the Commission has a capacity entitlement of 169.60 MGD, which is approximately 45.8% of the Plant's total capacity of 370 MGD.

For fiscal years 2016 and 2015, the Commission paid \$102.7 million and \$135.7 million, respectively, to fund its share of construction costs. The Commission estimates its share of the construction costs over the next seven years to be \$409.8 million, of which \$88.9 million is expected to be incurred in fiscal year 2017 and the balance over fiscal years 2018 to 2023. In addition, for fiscal years 2016 and 2015, the Commission made total payments of \$55.7 million and \$54.3 million, respectively, to DC Water for its share of operating and maintenance costs.

WSSC receives several federal and state grants. The grant funds expended are subject to compliance audits by the grantors.

The United States Department of Justice, the United States Environmental Protection Agency and the Maryland Department of the Environment (collectively, "the Regulators") alleged, in previous years, that sanitary sewer overflows ("SSOs") from WSSC's sanitary sewer collection system were violations of the Federal Clean Water Act and analogous State law. Federal agencies have pursued similar enforcement actions nationally against public wastewater treatment system owners. WSSC contested this action and the initial remedial measures proposed by the Regulators. Negotiations to resolve the enforcement action through the entry of a mutually agreeable Consent Decree began in March 2002. In July 2005, a proposed Consent Decree was executed between WSSC, the Regulators and four environmental groups in which WSSC agreed to undertake certain remedial measures to eliminate and/or reduce SSO occurrences. The proposed Consent Decree was approved by the U.S. District Court with an official start date of December 7, 2005. In fiscal 2016, the U.S. District Court approved a six-year extension to the original term of the Consent Decree. Costs of these remedial measures are estimated at \$1,931 million and are to be expended over at least 18 years, \$888 million of which is expected to be incurred after fiscal year 2016. The costs are included in WSSC's budget and capital improvements program. WSSC also paid civil penalties totaling \$1.1 million. These costs were accrued in fiscal 2005, and paid in fiscal 2006.

In February 2014, the Potomac Riverkeeper, Inc. ("PR") and the Chesapeake Bay Foundation, Inc. ("CBF") filed a complaint for injunctive relief and penalties in U.S. District Court in Maryland alleging violations of the Clean Water Act ("CWA") by the Commission (the "Issuer"). Under a Consent Decree executed by the District Court of Maryland on April 15, 2016, the Commission is required to undertake short-term operational changes and capital improvements at the Potomac Water Filtration Plant that will enable WSSC to reduce solids discharged to the river, and to plan, design and implement upgrades or new construction to achieve requirements established by MDE and incorporated in a new discharge permit. An Audit report and Long-Term Upgrade Plan are to be submitted by WSSC for consideration by January 2, 2017. Costs for implementation of improvements are estimated at \$43 million, and are to be expended over at least 7 years, all of which is expected to be incurred after fiscal year 2016. The costs are included in WSSC's budget and capital improvements program.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

O. COMMITMENTS AND CONTINGENCIES (continued)

WSSC is involved in judicial and administrative proceedings. These actions include personal injury, property damage, personnel and environmental claims, and various claims filed by contractors against WSSC for cost overruns on construction contracts. While the outcomes of these matters are uncertain, it is the opinion of management and WSSC's General Counsel that resolution of all claims outstanding will not have a material adverse effect on the financial position or changes in net position of WSSC.

WSSC purchases insurance on its property (structures, contents, boiler and machinery, etc.) for physical damages where it has been determined that a reasonable amount of exposure exists. In addition, WSSC is self-insured for workers' compensation in accordance with the statutory requirements of the State of Maryland. The workers' compensation accrued liability includes an estimate for claims incurred but not yet reported to the claims administrator. WSSC also maintains crime and terrorism insurance and fiduciary liability policies having various self-insured retention levels.

WSSC is self-insured for all public liability. Each year, funds are budgeted for normal claims. However, should the past loss experience change, or should a catastrophic loss occur in excess of applicable insurance coverage, funds for such loss or losses would have to be obtained from ad valorem taxation or other sources of revenue since a self-insurance fund has not been established.

General liability and workers' compensation claim activity consisted of the following at June 30 (in thousands):

	<u>2016</u>	<u>2015</u>
Claim liability - beginning of year	\$20,554	\$19,265
Current year claims and changes in estimates	9,054	5,867
Claim payments	<u>(7,867)</u>	<u>(4,578)</u>
Claim liability - end of year	<u>\$21,741</u>	<u>\$20,554</u>

This liability is included in accounts payable and accrued expenses on the balance sheet.

During fiscal 2016 and 2015, WSSC leased a variety of equipment with annual rental payments of approximately \$763,000 and \$672,000, respectively.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

P. RESTATEMENTS

In fiscal year 2015, WSSC implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. The Statement improved accounting and financial reporting by state and local governments for pensions and was effective for periods beginning after June 15, 2014. To comply with GASB Statement No. 68, prior year balances were restated resulting in a net \$130.1 million decrease in net position as of June 30, 2014.

A summary of the transaction and the impact of the restatement are illustrated below:

- (1) The net pension liability, actuarially determined in accordance with GASB 68 requirements, has been reported. Additional pension costs and adjustments to the net pension liability were distributed across the organization based on current WSSC practice.
- (2) Contributions to the Plan from WSSC subsequent to the measurement date of the net pension liability and before the end of its reporting period have been reported as deferred outflows of resources.
- (3) WSSCs balances of deferred outflows of resources and deferred inflows of resources related to pensions, have been reported and classified as follows:
 - (a) Differences between expected and actual experience in the measurement of the total pension liability
 - (b) Net difference between projected and actual earnings on pension plan investments

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

P. RESTATEMENTS (continued)

	Fiscal 2014 as previously reported	Restatement As of July 1, 2013	Restatement As of June 30, 2014	Fiscal 2014 Restated
Current and other assets	\$ 437,048	\$ -	\$ -	\$ 437,048
Capital assets, net of accumulated depreciation	6,230,579	25,253	(391)	6,255,441
Total assets	<u>6,667,627</u>	<u>25,253</u>	<u>(391)</u>	<u>6,692,489</u>
Deferred outflows of resources	7,602	9,519	730	17,851
Total assets and deferred outflows	<u>\$ 6,675,229</u>	<u>\$ 34,772</u>	<u>\$ 339</u>	<u>\$ 6,710,340</u>
Current and other liabilities	\$ 600,899	\$ 182,333	\$ (64,741)	\$ 718,491
Bonds and notes payable, net of current maturities	1,807,662	-	-	1,807,662
Total liabilities	<u>2,408,561</u>	<u>182,333</u>	<u>(64,741)</u>	<u>2,526,153</u>
Deferred inflows of resources	-	-	47,585	47,585
Total liabilities and deferred inflows	<u>2,408,561</u>	<u>182,333</u>	<u>(17,156)</u>	<u>2,573,738</u>
Net investment in capital assets	4,078,030	(2,318)	(27,455)	4,048,257
Restricted for growth construction	37,069	-	-	37,069
Unrestricted	151,569	(145,243)	44,950	51,276
Total net position	<u>4,266,668</u>	<u>(147,561)</u>	<u>17,495</u>	<u>4,136,602</u>
Total liabilities, deferred inflows and net position	<u>\$ 6,675,229</u>	<u>\$ 34,772</u>	<u>\$ 339</u>	<u>\$ 6,710,340</u>
Operating revenues	\$ 624,358		\$ -	\$ 624,358
Operating expenses	(506,874)		(656)	(507,530)
Non-operating revenues (expenses)	(26,593)		18,151	(8,442)
Income before capital contributions	90,891		17,495	108,386
Capital contributions	99,982		-	99,982
Change in net position	<u>\$ 190,873</u>		<u>\$ 17,495</u>	<u>\$ 208,368</u>

Q. SUBSEQUENT EVENTS

The WSSC has evaluated events subsequent to June 30, 2016 and through the date the financial statements were available to be issued, and determined there have not been any events that have occurred that would require adjustments to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SCHEDULE A-1
Unaudited

Total Pension Liability	<u>2015</u>	<u>2014</u>	<u>2013</u>
Service cost	\$ 9,828,010	\$ 11,098,519	\$ 10,541,264
Interest on total pension liability	61,611,259	67,317,785	66,214,298
Effect of plan changes	-	-	-
Effect of assumption changes or inputs	32,257,956	-	-
Difference between expected and actual experience	(53,390,196)	(8,657,936)	-
Benefit payments, including refunds of contributions	<u>(56,672,851)</u>	<u>(54,934,361)</u>	<u>(53,545,268)</u>
Net change in pension liability	(6,365,822)	14,824,007	23,210,294
Total pension liability, beginning of the year	<u>919,442,048</u>	<u>904,618,041</u>	<u>881,407,746</u>
Total pension liability, end of year (a)	<u>913,076,226</u>	<u>919,442,048</u>	<u>904,618,040</u>
Plan Fiduciary Net Pension:			
Employer contributions	21,655,933	20,731,968	19,768,897
Member contributions	3,930,364	3,823,065	3,652,732
Investment income net of investment expenses	(10,371,882)	37,575,760	110,734,486
Benefit payments	(56,672,851)	(54,934,361)	(53,545,268)
Administrative expenses	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary position	(41,458,436)	7,196,432	80,610,847
Fiduciary net position, beginning of the year	<u>743,965,038</u>	<u>736,768,598</u>	<u>656,157,751</u>
Fiduciary net position, end of year (b)	<u>702,506,602</u>	<u>743,965,030</u>	<u>736,768,598</u>
Net Pension Liability, end of year (a-b)	<u>\$ 210,569,624</u>	<u>\$ 175,477,018</u>	<u>\$ 167,849,442</u>
Plan fiduciary net position as a percentage of total pension liability	76.94%	80.91%	81.45%
Covered payroll	\$ 128,141,615	\$ 122,674,367	\$ 116,975,722
Plan's net pension liability as a percentage of covered payroll	164.33%	143.04%	143.49%

See accompanying independent auditor's report.

*** This schedule is presented to illustrate the requirement to show information for 10 years. The Plan presents information for available years and additional years will be displayed as they become available. Information for the years prior to the implementation of GASB 67 and 68 are not available for display (2006 through 2012).*

Notes to Schedule of Changes in Net Pension Liability and Related Ratios:

Benefit changes – There have been no changes in benefit assumptions since the implementation of GASB 67 and 68.

Changes in assumptions – Information relative to actuarial assumptions is presented in Note L of the financial statements.

**WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
SCHEDULE A-2
Unaudited**

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2006	\$ 18,816,521	\$ 15,752,964	\$ 3,063,557	\$ 93,212,805	16.9%
2007	20,663,778	15,755,202	4,908,576	93,226,047	16.9%
2008	18,115,582	15,832,225	2,283,357	93,681,805	16.9%
2009	13,322,921	16,337,171	(3,014,250)	96,669,651	16.9%
2010	19,248,208	17,491,535	1,756,673	103,500,207	16.9%
2011	24,526,595	18,455,605	6,070,990	109,204,763	16.9%
2012	22,748,813	18,862,636	3,886,177	111,613,231	16.9%
2013	24,242,634	19,768,897	4,473,737	116,975,722	16.9%
2014	27,284,797	20,731,968	6,552,829	122,674,367	16.9%
2015	20,100,358	21,655,933	(1,555,575)	128,141,615	16.9%

See accompanying independent auditor's report.

Notes to Schedule of Contributions:

Valuation date:

Actuarially determined contribution rates are calculated as of July 1st of the fiscal year in which the contributions are reported. WSSC's policy is to complete an actuarial study at least once every two years.

**WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
SCHEDULE A-2
Unaudited**

Notes to Schedule of Contributions (Continued):

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age (funding valuation uses a fixed rate of contribution)
Amortization method	Not applicable
Amortization period	Not applicable
Amortization period at 01/01/2015	Not applicable
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	2.75% to 7.50%, including inflation
Investment rate of return	7.0% net of pension plan investment expenses, including inflation
Cost of living adjustments	2.50%
Retirement age	Table of rates by age and eligibility
Mortality	Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, with Blue Collar adjustments and one-year age set-forward, and projected to 2025 using Scale BB. The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience analysis covering 2011 through 2015.

WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF HISTORICAL OTHER POSTEMPLOYMENT BENEFITS (OPEB) INFORMATION
SCHEDULE B
Unaudited
(In thousands)

Actuarial Valuation Date <u>June 30</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2011	\$ 21,296	\$205,941	\$184,645	10.34%	\$113,634	162.5%
2013	41,300	217,196	175,896	19.02	103,943	169.2
2015	69,137	218,175	149,038	31.69	118,090	124.5

Fiscal Year Ended <u>June 30</u>	Annual OPEB Cost	Percentage of OPEB Contributed	Long-term OPEB Liability
2014	\$ 16,752	122.0%	\$ 33,071
2015	16,766	133.5	27,458
2016	14,815	144.4	20,875

According to policy, WSSC completes an actuarial study at least once every two years. No studies were performed in 2012 and 2014, consequently results are not displayed.

**SELECTED INFORMATION RESPECTING MONTGOMERY COUNTY
AND PRINCE GEORGE'S COUNTY****MONTGOMERY COUNTY****General**

The information contained under the heading "Montgomery County" has been provided by Montgomery County. The Commission has not undertaken to audit, authenticate or otherwise verify the information regarding Montgomery County set forth in this Appendix B. The Commission makes no guaranty, warranty or other representation respecting the accuracy and completeness of such information. The Commission is not in a position to, and will not, undertake to update any information set forth herein regarding Montgomery County.

Montgomery County is located adjacent to the nation's capital, Washington, D.C., and includes 496 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 Montgomery County near Damascus. Bordering Montgomery 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.

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 Montgomery 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 Montgomery 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.

Population

The population of Montgomery County, according to the 2010 Census, was 971,777, an increase of 10.6 percent since the 2000 Census. The Metropolitan Washington Council of Governments' (MWCOCG) estimates a population of 1,040,751 in 2015.

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Households and Population

	<u>Households</u>	<u>Population</u>	<u>Population Percent Change from Prior Census</u>
2015 (est.).....	377,500	1,040,751	7.1%
2014	364,854	1,030,447	6.0
2013	364,743	1,019,767	4.9
2012	361,116	1,006,547	3.6
2011.....	359,496	992,738	2.1
2010 (U.S. Census)	357,086	971,777	10.6
2009.....	345,301	959,013	9.1
2008.....	341,812	942,748	7.3
2007.....	343,540	931,694	6.0
2006.....	341,438	926,492	5.4
2005.....	339,628	921,531	4.9
2004.....	337,838	914,991	4.1
2000 (U.S. Census)	324,565	878,683	15.7

Note: Data for total population from 2004 to 2014 from the Bureau of Economic Analysis, U.S. Department of Commerce. Data from 2004 to 2009 are Census Bureau midyear population estimates. Data from 2010 to 2014 are estimates that reflect County population estimates available as of March 2015 and population estimate for 2015 derived from average annual rate from Metropolitan Washington Council of Government (MWCOG), Round 8.4. Data for households from 2004 to 2013 from the Census Bureau and American Community Survey (2011 to 2014) and defined as occupied housing units. The estimate of households in 2015 derived from using average annual rate from 2010 to 2015 from MWCOG (Round 8.4).

Median Age

	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2014</u>
Median Age.....	28.1	27.9	32.1	33.9	36.8	38.5	38.6

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

Employment

Montgomery County's economic structure reveals a diversified economy with a strong service sector. The total private sector (trade, information services, financial activities, professional services, education and health, and hospitality) employed 80.3 percent of the total workforce in 2013, the latest available annual data. The following tables present Montgomery County's employment by industrial sector.

Payroll Employment

	<u>2010</u>	<u>2013</u>	<u>2014</u>
TOTAL PRIVATE SECTOR	358,172	363,126	365,763
PUBLIC SECTOR EMPLOYMENT:			
Federal.....	45,072	46,854	46,678
State.....	1,199	1,122	1,207
Local	<u>37,140</u>	<u>40,707</u>	<u>41,695</u>
TOTAL PUBLIC SECTOR.....	<u>83,411</u>	<u>88,683</u>	<u>89,580</u>
GRAND TOTAL.....	<u>441,583</u>	<u>451,809</u>	<u>455,343</u>

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.

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

Payroll Employment Shares by Industry

	<u>2013</u>	<u>2014</u>
TOTAL PRIVATE SECTOR	80.4%	80.3%
PUBLIC SECTOR EMPLOYMENT:		
Federal.....	10.4	10.3
State.....	0.2	0.2
Local.....	<u>9.0</u>	<u>9.2</u>
TOTAL PUBLIC SECTOR.....	<u>19.6</u>	<u>19.7</u>
 GRAND TOTAL	 <u>100.0%</u>	 <u>100.0%</u>

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

Payroll Employment (NAICS Series)*

	<u>2013</u>	<u>2014</u>	<u>Difference</u>	<u>Percent Change</u>
TOTAL PRIVATE SECTOR.....	363,126	365,763	2,637	0.7%
GOODS-PRODUCING.....	34,840	35,270	430	1.2%
Natural Resources and Mining.....	258	304	46	17.8%
Construction.....	23,363	23,662	299	1.3%
Manufacturing.....	11,219	11,304	85	0.8%
SERVICE PROVIDING.....	328,286	330,493	2,207	0.7%
Trade, Transportation, and Utilities	57,607	57,824	217	0.4%
Information.....	12,359	12,608	249	2.0%
Financial Activities.....	30,479	30,040	(439)	-1.4%
Professional and Business Services	98,510	98,782	272	0.3%
Education and Health Services.....	66,767	67,618	851	1.3%
Leisure and Hospitality.....	40,257	41,005	748	1.9%
Other Services.....	22,307	22,616	309	1.4%
PUBLIC SECTOR EMPLOYMENT	88,683	89,580	897	1.0%
Federal Government.....	46,854	46,678	(176)	-0.4%
State Government.....	1,122	1,207	85	7.6%
Local Government.....	40,707	41,695	988	2.4%
GRAND TOTAL.....	451,809	455,343	3,534	0.8%

* North American Industrial Classification System.

During calendar year 2014 Montgomery County's unemployment rate averaged 4.4 percent. The following table presents the County's labor force, employment and unemployment for the calendar years 2006 through 2015.

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

	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment</u>
2015*.....	544,313	522,426	21,888	4.0%
2014**...	540,128	516,420	23,708	4.4%
2013**...	542,029	515,153	26,876	5.0%
2012**...	540,444	512,589	27,855	5.2%
2011**...	536,636	508,528	28,108	5.2%
2010**...	532,549	502,710	29,839	5.6%
2009**...	522,421	494,565	27,856	5.3%
2008**...	515,987	499,705	16,282	3.2%
2007**...	509,769	496,401	13,368	2.6%
2006**...	510,593	495,926	14,667	2.9%
	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment</u>
2015* ...	544,313	522,426	21,888	4.0%

Source: State of Maryland, Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics (BLS).

* Estimated by the Montgomery County Department of Finance.

** Data for 2006 through 2014 were revised by BLS.

Federal Government Employment

Montgomery County is home to 18 Federal agencies in which over 45,000 civilians are employed. The National Institutes of Health in Bethesda (part of the Department of Health and Human Services) is one of the nation's premier centers of medical research. The following is a partial list of Federal agencies in the County and their estimated employment in 2015.

Department of Health and Human Services (HHS)	28,200
National Institutes of Health	
Food and Drug Administration	
Department of Defense	11,700
Walter Reed National Military Center	
Carderock Naval Surface Warfare Center	
Department of Commerce.....	7,300
National Oceanic & Atmospheric Administration	
National Institute of Standards & Technology	
Nuclear Regulatory Commission	2,700
Department of Energy	1,800

Source: Maryland Department of Commerce.

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.

<u>Name of Firm</u>	<u>Est. No. of Employees</u>
Marriott International, Inc. (Headquarters).....	5,900
Adventist Hospital	5,300
Lockheed Martin	4,700
Holy Cross Hospital.....	3,200
Giant Food Corporation	3,200
Verizon	2,900
Kaiser Permanente of the Mid-Atlantic States.....	2,600
MedImmune/Astra Zeneca.....	2,300
Westat, Inc.....	2,300
Government Employee Insurance Company (GEICO)...	2,300
Henry M. Jackson Foundation	1,800
Suburban Hospital	1,700
Red Coats/Admiral Security Services.....	1,600

Source: Maryland Department of Commerce.

Personal Income

Actual personal income of County residents reached \$75.7 billion in calendar year 2014 which is an increase over the 2013 amount of \$72.9 billion. The County's total personal income experienced an increase of 3.9 percent in 2014, less than the nation's increase of 4.4 percent, but slightly greater than the State's rate of 3.8 percent. The County's total personal income increase of 3.9 percent is greater than the ten-year (2005-2014) annual average growth rate of 3.1 percent.

The County accounts for 23.4 percent of the State's personal income in 2015, which is a percentage that has ranged from a high of 23.8 percent in 2006 and 2012 to a low of 23.3 percent in 2009.

Total Personal Income (\$ millions)

<u>Calendar Year</u>	<u>Montgomery County</u>	<u>Maryland</u>	<u>U.S.</u>	<u>Montgomery County as Percent of Maryland</u>
2014	\$75,720	\$323,778	\$14,683,147	23.4 %
2013.....	72,887	312,054	14,064,468	23.4
2012.....	74,393	312,724	13,904,485	23.8
2011.....	71,162	302,712	13,233,436	23.5
2010.....	67,443	287,571	12,459,613	23.5
2009.....	64,973	279,294	12,079,444	23.3
2008.....	66,506	280,306	12,492,705	23.7
2007.....	63,582	269,714	11,995,419	23.6
2006.....	61,561	258,321	11,381,350	23.8
2005.....	57,151	242,155	10,610,320	23.6

Notes: Data for 2005 to 2014 from U.S. Department of Commerce, Bureau of Economic Analysis, revised November 2015 (County, State, and U.S.).

Average Household and Per Capita Personal Income

According to the Bureau of Economic Analysis, U.S. Department of Commerce, the County's total personal income reached \$75.7 billion in calendar year 2014, up from \$72.9 billion in 2013, while per capita income reached \$75,835 in 2014, up from \$72,746 in 2013. Average household income increased from \$202,770 in 2013 to \$212,339 in 2014.

Per Capita and Average Household Income, 2014

<u>County</u>	<u>Per Capita Income</u>	<u>County</u>	<u>Average Household Income</u>
Fairfield, CT.....	\$98,688	Fairfield, CT	\$270,406
Marin, CA.....	98,626	San Mateo, CA	260,909
San Mateo, CA.....	89,659	Westchester, NY	242,264
Westchester, NY.....	87,777	Marin, CA	241,634
Somerset, NJ.....	83,731	Somerset, NJ	233,609
Arlington, VA.....	83,170	Morris, NJ	226,899
Morris, NJ.....	82,810	Santa Clara, CA	223,900
Montgomery, MD.....	75,835	Nassau, NY	223,799
Fairfax, VA.....	75,007	Montgomery, MD	212,339
Santa Clara, CA.....	74,883	Loudon, VA	206,870
Norfolk, VA.....	74,851	Bergen, NJ	200,754
Collier, FL.....	73,869	Fairfax, VA	194,118
Nassau, NY.....	73,536	Norfolk, VA	193,864
Bergen, NJ.....	73,536	Chester, PA	192,881
Montgomery, PA.....	73,483	Collier, FL	191,320
Chester, PA.....	71,971	Montgomery, PA	189,585
Middlesex, MA.....	69,337	Howard, MD	189,294
Howard, MD.....	67,605	Lake, IL	186,188
Loudon, VA.....	67,384	Arlington, VA	184,637
Palm Beach,.....	66,914	Contra Costa, CA	181,055

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 200,000 where income levels are considerably higher than in the central city and other jurisdictions in the area.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, November, 2015, for total personal income and per capita data; the Department of Finance used data from the American Community Survey, U.S. Census Bureau.

Property Tax Information

Montgomery 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 and small business owners, with the semi-annual payments becoming delinquent after September 30 and December 31. Tax lien 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 (SDAT). Assessment 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. One-third of the real property base is reassessed every three years. An increase in full cash value arising from such reassessment is phased in over the ensuing three tax years in equal annual amounts. A decline in assessed valuation becomes fully effective in the first year.

As the level of new construction was less than \$1.5 billion in FY10, less than \$1.0 billion in FY11, less than \$0.6 billion in FY12, and less than \$1.5 billion in FY13, coupled with a decline in the valuation of properties, the real property taxable base decreased at an average annual rate of 2.9 percent, measured from FY11 to FY13, compared to the modest growth rate of 0.4 percent from FY10 to FY11. That two-year decline was attributed to the dramatic decreases in the reassessment rates in FY10, FY11, and FY12. As such real property taxable assessments declined 3.3 percent in FY12 and 2.4 percent in FY13. However, in FY14, the real property taxable assessment increased 1.0 percent. Due to a decline in business investment in personal property between FY10 and FY13, attributed to an adjustment by the SDAT to assessments of individual personal property, the personal property base decreased at an average annual rate of 4.4 percent during the four-year period (from FY10 to FY13). For FY14, personal property taxable assessment increased 2.9 percent. In FY15, real property taxable assessment increased 2.4 percent but personal property taxable assessment decreased 1.5 percent. The increase in real property taxable assessment is due to the increase in the triennial reassessment rates for residential and commercial properties in Group Two.

**Assessed Value of All Taxable
Property by Class and Fiscal Year**

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Assessed Value</u>	<u>Percent Change From Prior Year</u>	<u>Ratio of Assessment to Full Market Value</u>
2015.....	\$163,656,758,206	\$3,655,133,210	\$167,311,891,416	2.27%	92.55%
2014.....	159,891,865,334	3,709,327,508	163,601,192,842	1.06	91.77
2013.....	158,272,830,848	3,604,478,750	161,877,309,598	-2.43	93.05
2012.....	162,197,149,758	3,718,945,710	165,916,095,468	-3.34	93.05
2011.....	167,790,792,529	3,856,191,952	171,646,984,481	0.25	88.63

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

Tax--exempt properties are excluded from the above figures. In FY15, such exemptions for real property owned by Federal, State, County, and other governmental units, and certain non-profit organizations totaled \$18.7 billion at the beginning of the fiscal year based on data from the State Department of Assessments and Taxation. Tax-exempt real property constitutes 9.4 percent of the total assessable base. The SDAT 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 SDAT.

Tax Levies and Revenue

<u>Fiscal Year</u>	<u>General County Tax Levy</u>	<u>Revenue From Current Year Assessment</u>	<u>Ratio of Current Yr Revenue to Tax Levy</u>	<u>Revenue From Prior Year Assessment</u>	<u>Total Revenue</u>	<u>Ratio Of Total Revenue to Tax Levy</u>	<u>Accumulated Delinquent Taxes</u>	<u>Ratio of Accumulated Delinquent Taxes to Current Year Tax Levy</u>
2015...	\$1,133,030,658	\$1,108,320,647	97.82%	(\$21,354,590)	\$1,086,963,057	95.93%	\$15,573,609	1.37%
2014...	1,148,085,538	1,126,029,910	98.08	(18,755,733)	1,107,274,177	96.45	14,453,739	1.26
2013...	1,081,306,701	1,056,688,995	97.72	(23,627,793)	1,033,061,202	95.54	18,400,655	1.70
2012...	1,089,656,756	1,068,630,086	98.07	(26,293,427)	1,042,336,659	95.66	16,292,469	1.50
2011...	1,104,184,153	1,088,633,177	98.59	(25,571,510)	1,063,061,667	96.28	15,259,381	1.38

Tax Rates and Tax Levies, by Purpose

Fiscal Year	General County		Transit		State		Total	
	Rate	Levy	Rate	Levy	Rate	Levy	Rate	Levy
2015...	\$0.732	\$1,133,030,658	\$0.040	\$61,702,899	\$0.112	\$183,907,978	\$0.884	\$1,378,641,535
2014...	0.759	1,148,085,538	0.042	63,303,304	0.112	179,561,927	0.913	1,390,950,769
2013...	0.724	1,081,306,701	0.048	71,440,950	0.112	177,724,401	0.884	1,330,472,052
2012...	0.713	1,089,656,756	0.038	57,868,221	0.112	182,298,673	0.863	1,329,823,650
2011...	0.699	1,104,184,153	0.037	58,220,069	0.112	188,764,480	0.848	1,351,168,702

Note: Rates are per \$100 of assessed value. 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 \$1.830 in FY15, \$1.898 in FY14, \$1.810 in FY2013, \$1.783 in FY12, \$1.747 in FY11; the personal property rate for Transit was \$0.1 in FY15, \$0.105 in FY14, \$0.120 in FY13, \$0.095 in FY12, \$0.092 in FY11. (the State does not tax personal property).

Ten Highest Commercial Property Taxpayers' Assessable Base As of June 30, 2014

Taxpayer	Total	Real Property	Personal Property	Ratio: Taxpayer Base to Total Assessable Base
Potomac Electric Power Co.....	\$840,291,615	\$25,931,735	\$814,359,880	0.50%
Federal Realty Investment Trust...	457,777,107	455,381,667	2,395,440	0.27
Verizon-Maryland.....	403,670,743	46,038,233	357,632,510	0.24
Montgomery Mall LLC	361,099,693	359,049,933	2,049,760	0.22
WMATA	347,692,200	347,692,200	--	0.21
Street Retail Inc.....	266,755,357	266,755,357	--	0.16
Washington Gas Light Co.	259,010,920	--	259,010,920	0.15
Chevy Chase Land Co.....	225,743,666	225,743,666	--	0.13
Wheaton Plaza Reg Shop Center...	222,998,837	221,801,267	1,197,570	0.13
WP Project Developer LLC.....	214,089,411	214,089,411	--	0.13
Total.....	<u>\$3,599,129,549</u>	<u>\$2,162,483,469</u>	<u>\$1,436,646,080</u>	<u>2.14%</u>
Assessable Base (June 30, 2015)...	<u>\$167,311,891,416</u>			

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

ECONOMY

New Construction

Between FY14 and FY15, the number of new construction projects increased 5.1 percent. At the same time, the value of new construction added to the real property tax base increased 8.4 percent to \$1.419 billion. Over the prior nine-year period (from FY06 to FY14), the number of projects, both residential and non-residential increased from 1,580 to 1,775. During that same period, the value of new construction averaged \$1.294 billion between FY06 and FY14 and ranging from a high of \$1.605 billion in FY07 to a low of \$0.586 billion in FY12. The decline in the construction of residential properties beginning in FY07 and ending in FY12 reached its lowest level in seven fiscal years. Because of the depressed housing market beginning in late 2005, the value of new residential construction declined 76.8 percent between the peak in 2007 and 2012, but since 2012, new residential construction increased nearly 174 percent.

New Construction Added to Real Property Tax Base

Montgomery County (\$ millions)

Fiscal Year	Construction				Commercial/		All	Total
	Starts	Residential	Apartments	Condominiums	Industrial	Other		
2015...	1,866	\$659.9	\$30.9	\$27.6	\$696.5	\$3.8	\$1,418.7	
2014...	1,775	652.4	73.5	59.1	517.6	6.8	1,309.4	
2013...	1,497	537.2	91.9	123.8	651.8	3.0	1,407.7	
2012...	839	241.5	39.0	60.7	241.3	3.1	585.6	
2011...	863	540.2	20.6	56.6	226.9	75.5	919.8	
2010...	833	599.4	19.7	180.3	354.7	226.6	1,380.7	
2009...	738	724.1	5.8	455.4	229.5	0.0	1,414.8	
2008...	952	882.7	25.8	318.5	256.6	0.0	1,483.6	
2007...	985	1,040.1	22.0	211.4	312.6	19.5	1,605.6	
2006...	1,580	978.3	41.2	132.9	384.6	4.8	1,541.8	
10-Year Summary		\$6,855.8	\$370.4	\$1,626.3	\$3,872.1	\$343.1	\$13,067.7	

Categories as Percent of Total	52.5%	2.8%	12.4%	29.6%	2.6%	100.0%
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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 Act, 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. A second district, Kingsview Village Center, was created on July 28, 1998.

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 (currently marketed as Arora Hills). The Clarksburg Town Center development district was created on March 4, 2003. However, in October 2010, the Council adopted Resolution 16-1544 which effectively terminated the Clarksburg Town Center development district.

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.

Overview of Montgomery County

The County is divided into two major commercial real estate areas: the core and non-core markets. The core markets include the Bethesda/Chevy Chase and Silver Spring submarkets. These two are characterized by high-density, mass transit-serviced areas. Historically, they are some of the most highly demanded areas in Suburban Maryland.

The non-core markets include all of the remaining submarkets in Montgomery County including the technology based I-270 corridor. Each of the submarkets is outside of the Capital Beltway and generally exhibits more suburban traits with a few pockets of dense development.

Technology Corridors

The I-270 Technology Corridor is an internationally recognized life sciences and advanced technology center. It is home to over 1,000 biotechnology and advanced technology companies, including GlaxoSmithKline (formerly Human Genome Sciences), Lockheed Martin, MedImmune/Astra-Zeneca, IBM and Hughes Communications. Some of the highlights of the Technology Corridor include the following:

- A new hospital, Holy Cross Germantown Hospital, brought much-needed health care services to the most rapidly growing and aging region in the county. The six-story, 237,000 square-foot hospital that opened in 2014 offers medical, surgical, obstetric, emergency and psychiatric care and created thousands of new jobs.
- The White Flint Sector Master Plan, which targets future growth along Rockville Pike, with development clustered around 430 acres near the White Flint Metro Station. This revitalized, new urban neighborhood that is well underway includes residences, offices, service-oriented businesses, restaurants and entertainment venues. The redevelopment of the White Flint Mall will produce a street-grid town of several million square feet, with multiple office buildings, 2,500 new residences, a hotel and over a million square feet of retail. The design also includes nearly two dozen buildings, a two acre square, and an elementary school site.
- 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, most notably the FDA Headquarters campus that includes over 2.1 million square feet of office, lab and support facilities.

Central Business Districts

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

Downtown Silver Spring

Since 1998, the State and Montgomery County invested a total of approximately \$200 million in the redevelopment of downtown Silver Spring. Downtown Silver Spring transformed into a vibrant business, retail and entertainment hub with the American Film Institute (AFI) and Discovery Communications leading the way. Other prominent locations in this district are:

- The Fillmore Silver Spring has been a huge success and brings the tradition of legendary and diverse lineups of performers across many genres of music to the 23,000 square foot venue that can host 2,000 patrons.
- The Silver Spring Civic Building and Veterans Plaza add a new dimension to the arts & entertainment economy in the area. The facility has transformed what it means to be in a public space in Silver Spring and is an economic engine for the nearby retail community.
- The new Silver Spring Library is 63,000 square feet, almost four times bigger than the current Silver Spring Library, and is designed to allow for a Purple Line station.

- Public transportation is being bolstered with the planned Purple Line light rail, which will add new transit options to the region, with two stations in downtown Silver Spring – and nine in the Silver Spring Regional Area.

Wheaton

The limited size of Wheaton’s Central Business District (CBD), 76 acres, combined with the number of small commercial property parcels and multiple property owners, presents a challenge in redeveloping Wheaton, given the cost of land aggregation necessary for larger-scale development. However, the County recognized that it and other public entities held enough real estate assets in Wheaton to accommodate larger development projects. The County determined that some of these assets might be used to stimulate redevelopment in Wheaton as listed below:

- The Wheaton CBD and Vicinity Sector Plan promotes transit-oriented “smart growth” development in downtown Wheaton. Such development will enhance Wheaton’s strong retail base, which includes a newly renovated Westfield Wheaton regional shopping mall and over 300 locally owned and operated small businesses, including more than 80 restaurants. A 148,000 square foot Costco Wholesale opened alongside the Westfield shopping mall in 2013.
- Patriot Realty Co., Foulger-Pratt Construction, and Safeway, Inc. have constructed an 800,000 square foot mixed-use residential/retail project – The Exchange at Wheaton Station – directly across from the WMATA Red Line subway station.

Bethesda

Downtown Bethesda is one of the County’s major urban business and entertainment centers, with nearly 200 restaurants combined with the density of both high-rise office and residential buildings. Downtown Bethesda is a thriving destination offering residents, visitors, and its workforce multi-cultural dining, live theater, cinema, unique shops, and numerous special events and festivals.

- Residents and visitors alike continue to enjoy the artistic and enriching performances provided at the Bethesda Round House Theatre, Imagination Stage, Bethesda Row Landmark Theatre, and Bethesda Blues and Jazz Super Club. These marquee entertainment organizations highlight classical plays, children’s theatre, live music, and independent and foreign films.
- Bethesda has a workforce of nearly 44,000 and includes employees who work for some of the region’s most notable employers, including Capital One (formerly Chevy Chase Bank), Clark Construction Group, Calvert Investments, and Cohn Reznick.
- In the popular Bethesda Row section of downtown Bethesda, StonebridgeCarras completed the redevelopment of County Parking Lot 31. The development, which added 250 residential units in two buildings and a new 940-space underground County parking garage, was a joint venture with PN Hoffman. Across the street from Lot 31, JBG has plans to break ground on a 230-room boutique hotel, 25,000 square feet of shops and cafes, and nearly 270,000 square feet of office space.
- The National Capital Planning Commission has approved final details of the first phase of a \$300 million intelligence campus being developed at the former National Geospatial-Intelligence Agency headquarters in Bethesda. The Army Corps of Engineers is working with the Defense Intelligence Agency on the large-scale \$300 million, 40-acre overhaul, which will be developed in two phases. When complete, the site will be home to roughly 3,000 employees from the federal government’s intelligence gathering agencies, including the Office of the Director of National Intelligence. As proposed, the military wants to keep all but one of the five buildings at the site, which now has about 700,000 square feet. In addition, it plans to add 170,000 square feet and create connections so the complex would be turned into one large facility rather than a cluster of separate buildings.

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. 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 has the first top-tier luxury shopping center on the east coast outside of New York City. The Collection at Chevy Chase, part of the Chevy Chase Center mixed-used development, is a 112,000 square foot project facing Wisconsin Avenue.
- The second and third components of Chevy Chase Center consist of 100,000 square feet of neighborhood-oriented retail, and a 200,000 square foot office tower.
- The final project in Friendship Heights, completed in 2009, is Wisconsin Place, a one million square foot mixed-used development on Wisconsin Avenue. Wisconsin Place consists of 305,000 square feet of retail (Bloomingdale’s and Whole Foods are the anchor tenants), 432 luxury apartments, 295,000 square feet of office space, a 20,500 square foot community center and a 1,765 space underground parking garage.

Existing Office/R&D/Commercial Space

As of November 2015, Montgomery County has more than 138 million square feet of commercial real estate space (office, flex, industrial, and retail).

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 104 million square feet of commercial space. Notable buildings along the I-270 corridor include the 1.2 million square foot MedImmune building in Gaithersburg and 800,000 square foot Marriott headquarters in North Bethesda. The Route 29 corridor connects Silver Spring to Burtonsville and includes over 14 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.

**Office/Flex/Industrial/Retail Space Availability by Major Submarkets
as of October 2014**

	Total Inventory (Square Feet)	Direct Vacant (Square Feet)	Direct Vacancy Rate	Vacancy Rate w/Sublet
<u>Montgomery County Market</u>				
Bethesda/Chevy Chase	16,239,969	1,410,923	8.7%	11.4%
Gaithersburg	21,790,123	1,824,602	8.4	8.6
Germantown	7,866,933	755,141	9.6	10.2
Kensington/Wheaton	6,995,968	684,549	9.8	9.8
North Bethesda/Potomac.....	16,486,626	2,718,739	16.5	16.8
North Rockville	22,686,497	3,113,374	13.7	15.4
North Silver Spring/Rt 29	8,849,870	696,346	7.9	8.8
Rockville	19,205,033	1,960,152	10.2	10.6
Silver Spring	11,673,605	919,154	7.9	8.7
Other Markets*	<u>6,236,481</u>	<u>875,641</u>	<u>12.9</u>	<u>22.5</u>
Total County	138,031,105	14,958,621	10.8	12.2

Note: CoStar Property, the County’s source for commercial real estate information.

*Other Markets include I-270 North, Outlying Montgomery County East, and Outlying Montgomery County West submarkets.

Agriculture

Agriculture in Montgomery County is a diverse industry that occupies about one-quarter of the County land area. The County’s agriculture industry contributes over \$287 million to the local economy. Over \$85 million comes from the County’s thriving equine industry, about \$154 million from horticulture, and \$48 million from traditional agriculture. There are more than 540 farms and 350 horticultural enterprises in the County. Forty-two (42) percent of the County’s 540 farms

are farmed as a primary occupation. Cash grain farms are the predominant agricultural use in the County covering over 45,000 acres. There are 219 farms, or forty (40) percent, that produce table food crops-products for direct human consumption. 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 \$19.7 million in Rural Legacy Program grant awards.

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). Currently, Montgomery County is ranked second nationally in acres of farmland protected through easements (72,479 acres), and has the highest percentage of land in farms preserved in the nation (94 percent).

In 1980, sixty (60) percent of the farmland in the Agricultural Reserve was owned by speculators. Through farmland preservation programs, this trend was significantly reduced as more farms are now owned and operated by farmers. 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.

The Department of Economic Development-Agricultural Services Division supports retail and wholesale agricultural marketing programs, such as the County-sponsored farmer's markets and annual farm tour, and promotion of wholesale and cooperative marketing. The Division also provides programs and technical assistance for farmers; these initiatives include Fuel-Energy Tax Relief, Deer Donation Program, Weed Control Services, Agricultural Product and Farm Logo Program, and many more.

Major capital assets acquired during the current fiscal year included approximately \$4,263,108 for purchasing preservation easements on farmland in agricultural zones. These assets enhance the preservation of farmland protected by Transferable Development Rights easements (TDRs) including other agricultural lands not protected by agricultural easements. An additional \$472 thousand dollars is earmarked for pending FY16 easement settlements in association with the County and State Agricultural Easement Programs.

Office/Industrial Projects

Summary

A few large commercial projects continued in Montgomery County in 2015. Construction was completed on NIH's National Institute of Allergy and Infectious Diseases (NIAID). Additionally, Montgomery County continued to make significant progress developing two strategic Science and Technology Centers. Details on these projects appear below.

Developers and local government officials broke ground on the Crown project in October 2012. The 182-acre tract is now the site of 320,000 square feet of retail and commercial space, plus 2,250 residential units, being built by Bozzuto Group and called "Cadence at Crown". In June 2015, the retail portion of Downtown Crown was sold for \$162.8 million

Public/Private Projects

LifSci Village

The White Oak Science Gateway Master Plan is also being developed, which will provide a unique opportunity to capitalize on the presence of U.S. Food and Drug Administration (FDA), and transform this region of the County into a vibrant hub for technological advancement.

The proposed 300-acre development is a public-private partnership between the County and Percontee, Inc. The goal is to create a world-class life sciences, education and research campus that will be an economic engine in the eastern portion of the County, and complement nearby Federal agencies, most notably the consolidated FDA headquarters. The County enrolled the property in the State's Voluntary Clean-Up Program; environmental remediation was completed in late 2014. Infrastructure planning is now underway.

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 was 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 Park 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 Park 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. Once built out, the Science and Technology Park will be home to nearly 4,000 employees. As the anchor tenant of the Montgomery College Science & Technology Park, Holy Cross Germantown serves as a valuable educational resource for aspiring health care workers. To complement the Science and Technology Park, the College provided space for a 35,000 square foot County-operated business incubator on campus, which is fully occupied with science and technology early stage companies. To complete this three part science and technology project, the 127,000 square foot Bioscience Education Center opened September 2014.

Montgomery County Business Innovation Network

The Montgomery County Business Innovation Network is a program of four business incubator facilities that has successfully assisted start-up technology and professional services companies to grow and expand in the County. To date, over 220 companies have graduated from the County's incubators, with over 85% of those graduates successfully transitioning to commercial spaces within Montgomery County. The Maryland Technology Development Center opened its doors in 1998. After helping over 100 start-up companies to grow, the center has been successfully converted into the coveted National Cybersecurity Center of Excellence, scheduled to have a grand opening in January 2016. The County opened a second incubator in 2004, called the Silver Spring Innovation Center (SSIC). The SSIC is nearly fully leased to start-up information technology companies. The success of and demand for the incubator program spurred the County to develop three additional incubators since the opening of the SSIC. The Wheaton Business Innovation Center (WBIC) opened in 2006, and the Rockville Innovation Center (RIC) opened in 2007. The latest addition to the incubator program is the Germantown Innovation Center (GIC), which opened in October 2008. A part of the Rockville Innovation Center was converted to an Accelerator Program in August 2015 to expose early-stage companies to an intensive product-focused curriculum to "accelerate" their business, connect their founders with a strong support network, and help founders grow their company to be ready for pilot testing and investment by the end of the program.

National Institute of Allergy and Infectious Diseases (NIAID)

The National Institute of Allergy and Infectious Diseases brought a projected 2,000 workers to a new 491,000 square-foot building on Fishers Lane in Twinbrook under a lease signed by the U.S. General Services Administration. Chevy Chase-based JBG Companies constructed and leased the 10-story office at 5601 Fishers Lane, near where NIAID already had 150,000 square feet of laboratory space. There is also a 5-story parking garage located adjacent to the building. NIAID signed a 15-year lease for its new quarters, which was completed in 2014.

Downtown Rockville

Construction was completed on a new mixed-use development project in Rockville Town Center. The \$100 million development includes approximately 17,000 square feet of retail space, 465 apartments, a 140-room Cambria Suites Hotel and 600 parking spaces. The project is expected to generate \$10.18 million in revenue for the county and nearly \$3.8 million for the city during the next 15 years. The property is across the street from Choice Hotels International's new headquarters thus realizing the long-time vision for the headquarters and the flagship hotel brand to be located in close proximity.

New Business Additions and Expansions

Montgomery County's Department of Economic Development continues to work with companies interested in starting-up, expanding, or relocating to the County. Highlights of this activity include:

- **Rapid Financial Services** – headquarters retention and its current 87 jobs; the company plans to add 124 new jobs.
- **HedgeCheck** – attraction to the County with 21 new jobs projected.
- **TSC Advantage** – attraction to the County with 38 initial jobs and planning to add 18 new jobs.
- **Salsa Labs** - attraction to the County with 47 initial jobs and planning to add 27 new jobs.

- **Sucampo** – headquarters retention and its current 55 jobs; the company plans to add 100 new jobs.
- **VariQ** – headquarters retention and its current 17 jobs; the company plans to add 158 new jobs.
- **Teaching Strategy** – headquarters retention and its current 80 jobs; the company plans to add 48 new jobs.
- **innoScience** – attraction to the County with 3 initial jobs and planning to add 32 new jobs.

General Obligation Bonds

Montgomery 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 a maximum of 30 years.

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 the table below.

General Obligation Bonded Debt Ratios 2006 – 2015

<u>Fiscal Year</u>	<u>Net Direct Debt to Market Value</u>	<u>GO Bond Debt</u>		<u>Fiscal Year</u>	<u>Net Direct Debt to Market Value</u>
		<u>Service to General Fund Expenditures</u>	<u>Net Direct Debt Per Capita</u>		
2006.....	1.30	7.77	1,701	2006	1.30
2007.....	1.30	7.83	1,861	2007	1.30
2008.....	1.18	7.95	1,848	2008	1.18
2009.....	1.13	7.31	1,997	2009	1.13
2010.....	1.22	7.92	2,277	2010	1.22
2011.....	1.27	8.58	2,507	2011	1.27
2012.....	1.46	8.87	2,625	2012	1.46
2013.....	1.58	8.88	2,737	2013	1.58
2014.....	1.61	8.96	2,819	2014	1.61
2015.....	1.57	9.62	2,761	2015	1.57

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**Statement of Direct and Overlapping Debt
As of June 30, 2015
And Including 2015 General Obligation Bonds***

Direct Debt:	
General Obligation Bonds Outstanding.....	\$2,544,750,000
General Obligation Variable Rate Demand Obligations	100,000,000
Short-Term BANs/Commercial Paper Outstanding**.....	200,000,000
2015 General Obligation Bonds	300,000,000
Revenue Bonds Outstanding.....	<u>187,775,000</u>
 Total Direct Debt.....	 \$3,332,525,000
 Overlapping Debt as of June 30, 2015	
Washington Suburban Sanitary Commission.....	1,560,982,000
Applicable to Montgomery County	
Housing Opportunities Commission.....	748,333,387
Montgomery County Revenue Authority.....	96,930,097
Maryland-National Capital Park and Planning Commission	
Applicable to Montgomery County.....	41,330,000
Kingsview Village Center Development District	1,296,958
West Germantown Development District.....	12,025,000
Towns, Cities and Villages within Montgomery County.....	<u>144,473,252</u>
Total Overlapping Debt.....	<u>2,605,370,694</u>
 Total Direct and Overlapping Debt	 5,937,895,694
 Less Self-Supporting Debt as of June 30, 2015	
County Government Revenue Bonds	187,775,000
Washington Suburban Sanitary Commission	
Applicable to Montgomery County	1,560,982,000
Housing Opportunities Commission.....	748,333,387
Montgomery County Revenue Authority.....	<u>96,930,097</u>
Total Self-Supporting Debt.....	<u>(2,594,020,484)</u>
Net Direct and Overlapping Debt	<u>\$3,343,875,210</u>
Ratio of Debt to June 30, 2015 Assessed Valuation of (100% Assessment):	\$167,311,891,416
Direct Debt.....	1.99%
Net Direct Debt ***	1.88%
Direct and Overlapping Debt.....	3.55%
Net Direct and Overlapping Debt	2.00%
Ratio of Debt to June 30, 2015 Market Value of:.....	\$180,772,836,896
Direct Debt.....	1.84%
Net Direct Debt ***	1.74%
Direct and Overlapping Debt	3.28%
Net Direct and Overlapping Debt	1.85%

* On November 18, 2015, the County issued General Obligation Bonds (Tax-Exempt Series A) in the amount of \$300,000,000.

** Net of amount retired with proceeds of General Obligation Bonds.

*** Net Direct Debt of \$3,144,750,000 is derived by subtracting direct self-supporting debt, which consists only of County Government Revenue Bonds, from Total Direct Debt.

PRINCE GEORGE'S COUNTY

Overview

The information contained under the heading “Prince George’s County” has been obtained from Prince George’s County. The Commission has not undertaken to audit, authenticate or otherwise verify the information regarding representation respecting the accuracy and completeness of such information. The Commission is not in a position to, and will not, undertake to update any information regarding Prince George’s County.

Prince George’s County, with a 2014 population of 904,430, encompasses an area of 483 square miles and lies between Washington D.C., and Baltimore, Maryland. Bordering Prince George’s County are Howard, Anne Arundel and Calvert Counties to the north and east, Montgomery County and Washington, D.C. to the west and Charles County to the south. Across the Potomac River in Virginia are Arlington and Fairfax Counties. Prince George’s County is part of the Washington, D.C. Metropolitan Statistical Area (MSA). The County seat for Prince George’s County is Upper Marlboro, Maryland.

Prince George’s County is a body corporate and politic and a political subdivision of the State of Maryland. Services provided or paid for by the County from local, State and federal sources include police, fire and emergency services; programs for the aged; public works; stormwater management; and court and correctional services. The County also is responsible for adoption and maintenance of building codes and regulation of licenses and permits; collection of taxes and revenues; maintenance of public records; conducting elections; and collection and disposal of refuse.

Health care, elementary, secondary and community college education and library services are provided by other entities and are partially financed by the County. Public transit, planning, parks, recreation, water, sewer and public housing are provided by related entities. Public assistance is provided by the State of Maryland. Hospital services are provided by a nonprofit corporation under a lease arrangement with the County. For accounting purposes, certain of these governmental entities are included in the County’s financial statements.

County residents enjoy a diversity of leisure options, including a park system encompassing almost 28,000 acres of parkland and open space. Leisure facilities and services provided by the Maryland-National Capital Park and Planning Commission (the “M-NCPPC”) include a sports and concert facility (Show Place Arena); a 10,000 seat AA Minor League Baseball stadium (Bowie Baysox); community centers; recreational buildings; aquatic facilities; ice rinks; golf courses; an equestrian center; tennis courts; a performing arts and cultural center; and a gymnastic center. Other major recreational facilities include an 87,052-seat National Football League stadium (FedEx Field – Home of the Washington Redskins); an amusement park (Six Flags of America) featuring rides, attractions and shows; and a 240,000 square foot Olympic-quality recreational Sports and Learning Complex. In addition, recreational and cultural opportunities of the nation’s capital, Washington, D.C., are located just across the County line. National Harbor, Brickyards, Carrollton Station, Towne Centre at Laurel, and Woodmore Town Centre at Glenarden are recent, high-quality mixed-use developments in Prince George’s County. The County is home to six universities and colleges, including the flagship campus of the University System of Maryland. Prince Georgians enjoy an excellent road system and some of the most affordable housing in the Washington area as well as convenient access to three major airports and the Port of Baltimore.

Government

The County operates under a Charter which was adopted in November 1970. The powers of Prince George’s County are provided in the County Charter and in the Constitution and the laws of the State of Maryland, including Article 25A of the Annotated Code of Maryland. Under the County Charter, the County is composed of an executive and a legislative branch. The executive branch implements and enforces the laws and administers the day to day business of Prince George’s County. It consists of a County Executive (who is elected by the qualified voters of the entire County) and all other officers, agents, and employees under the County Executive’s supervision and authority, including the Chief Administrative Officer, who is responsible for the day to day administration of the County. The legislative branch of the County consists of a nine-member County Council (elected from Councilmanic Districts) and its staff. The County Executive and the County Council are elected for coterminous four-year terms by qualified voters of the County and are limited by the County Charter to two consecutive four-year terms in office.

Each member of the County Council has one vote. Five votes generally are required to pass legislation and six votes are needed to enact emergency bills and to override a veto by the County Executive. The County Council customarily elects from among its members a Chairman and a Vice-Chairman to serve one-year terms.

The court system for the County was established by and is operated under the authority of the State. District and Circuit Court judges are appointed by the Governor, but Circuit Court judges must thereafter run for election. Other State court officials are directly elected for various terms.

There are 27 incorporated municipalities in the County. These municipalities levy taxes on their own authority and are not subject to the limitations set forth in Sections 812 and 813 of the County Charter. Property in these areas is subject to County taxation and the County provides certain public services to residents of the incorporated municipalities. County ordinances and regulations also are applicable to them. These municipalities may incur general obligation bonded indebtedness and levy taxes without the approval of the County. Bonds issued by these municipalities are the legal responsibility of each municipality and are not guaranteed in any way by the County. Maryland law mandates that the County recognize either through a reduced County tax rate or through a direct grant payment, those governmental services and programs which municipal governments perform in lieu of similar County government services funded through the property tax.

The Maryland-National Capital Park and Planning Commission (the “M-NCPPC”) is a bi-county agency established by State law. It acquires and develops land and facilities for park or recreational use and provides planning for physical development in Montgomery and Prince George’s counties. It also operates the park and recreational systems in Prince George’s County. The operations of the M-NCPPC are financed by separate *ad valorem* property taxes levied and collected by each of the two counties on its behalf. Bonds issued by the M-NCPPC for land or improvements located in Prince George’s County are guaranteed by Prince George’s County.

Population

From 1980 to 2010 the County has grown at an average rate of approximately 66,116 people every 10 years. Between 2000 and 2010 the population growth in the County increased 7.7%. The County’s growth has been slightly slower than the population growth in Maryland (9.0%) and the United States (9.7%) between 2000 and 2010. The population for 2014 is estimated to be 904,430, an increase of 1.1% from the 2013 population of 894,199.

In 2014, 66.1% of the County’s residents were between the ages of 18 and 64 years old, which was slightly higher than the State of Maryland (63.6%) and the United States (62.4%). The share of the County’s population that was 65 years and older (11.2%) was lower compared to the State of Maryland (13.8%) and the United States(14.5%).

Population				
<i>1980 – 2010</i>				
Year	County	State of Maryland	United States	
2010	863,420	5,773,552	308,745,538	
2000	801,515	5,296,486	281,421,906	
1990	729,268	4,798,000	248,769,873	
1980	665,071	4,216,000	226,505,000	
Percent Change (2000-2010)	7.7%	9.0%	9.7%	
2014	904,430	5,976,407	318,857,056	

Source: Decennial Census, Bureau of the Census, Department of Commerce (as of March 2016)

Income

In 2013, the County’s aggregate personal income totaled \$38.6 billion. The per capita personal income in the County during 2013 was \$43,362. The County’s per capita personal income increased 4.0% between 2009 and 2013. This percentage increase was lower than in the United States (13.7%) and the State of Maryland (9.2%).

The County's median household income in 2014 was \$72,290 compared to \$70,019 in 2010, an increase of 3.2% in the 5-year period. Jurisdictional comparisons are shown below:

Median Household Income			
<i>2010 and 2014</i>			
Metro Jurisdiction	Median Household Income		
	2010	2014	% Change
State of Maryland	\$68,854	\$73,971	7%
Washington Metro Area:			
Prince George's County	70,019	72,290	3.2%
Calvert County	88,862	95,110	7.0%
Charles County	87,007	88,803	2.1%
Frederick County	82,133	84,203	2.5%
Montgomery County	89,155	97,654	9.5%
Baltimore Metro Area:			
Anne Arundel County	81,455	87,217	7.1%
Baltimore City	38,346	42,665	11.3%
Baltimore County	62,543	68,257	9.1%
Carroll County	82,077	85,274	3.9%
Harford County	71,835	79,649	10.9%
Howard County	101,771	107,490	5.6%

Source: U.S. Census Bureau, American Community Survey 1 Year Estimates (as of March 2016).
Inflation-adjusted.

Employment

A comparison between the employment distribution of the County and the State of Maryland is shown in the following chart.

Comparative Distributions of Non-Agricultural Employment by Industry						
<i>2010 - 2014</i>						
Industry	Prince George's County				Maryland	
	(2010)		(2014)		(2014)	
	Sectoral Employment	% of Total	Sectoral Employment	% of Total	Sectoral Employment	% of Total
Government Employment	86,791	29%	87,236	29%	485,989	19%
Private Employment	212,436	71%	215,953	71%	2,067,344	81%
Natural Resources and Mining	140	0%	158	0%	6,435	0%
Construction	25,365	8%	24,853	8%	149,622	6%
Manufacturing	9,114	3%	6,638	2%	103,562	4%
Trade, Transportation and Utilities	57,386	19%	59,287	20%	449,318	18%
Information	3,197	1%	4,418	1%	38,801	2%
Real Estate and Financial Activities	11,816	4%	11,217	4%	137,176	5%
Professional, Business & Administrative Services	39,549	13%	37,594	12%	424,517	17%
Education and Health Services	29,159	10%	31,729	10%	408,350	16%
Leisure and Hospitality	27,188	9%	30,467	10%	260,369	10%
Other Services	9,522	3%	9,592	3%	89,184	3%
Unclassified	0	0%	0	0%	0	0%
Total	299,227	100%	303,189	100%	2,553,333	100%

Source: Maryland Department of Labor, Licensing and Regulations Employment and Payroll - County Industry Series (as of March 2016)

Between 2006 and 2015, the unemployment rate for the County generally remained close to the State of Maryland's unemployment rate and below that of the United States as shown in the following table and the subsequent chart.

Labor Market Characteristics					
2006-2015					
Year	County Residents		Unemployment Rate		
	Civilian Labor Force	Resident Employment	Prince George's County	State of Maryland	United States
2006	444,907	426,421	4.2	3.9	4.6
2007	445,492	429,521	3.6	3.5	4.6
2008	450,361	430,909	4.3	4.2	5.8
2009	457,576	425,799	6.9	7.0	9.3
2010	479,606	443,635	7.5	7.7	9.6
2011	481,902	446,839	7.3	7.2	8.9
2012	483,956	449,798	7.1	7.0	8.1
2013	484,066	451,466	6.7	6.6	7.4
2014	482,279	453,982	5.9	5.8	6.2
2015	487,094	462,219	5.2	5.2	5.3

Source: U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey and Local Area Unemployment Statistics Program. *Not seasonally adjusted. (as of March 2016)

The County's diversity in employment is shown in the following table reflecting the 10 largest private and 10 largest public sector employers in the County.

Prince George's County Principal Employers		
2015		
Employer	Product or Service	Number of Employees
LARGEST PRIVATE SECTOR EMPLOYERS		
United Parcel Service	Package Delivery (Regional Headquarters)	4,220
Giant Food, Inc.	Retail Grocery Chain	3,000
Verizon	Communications Services	2,738
Dimensions Healthcare System	Health Services/Nursing Homes	2,500
Marriott International/Gaylord Resort and Convention Center	Hotels and Motels	2,412
Shoppers Food Warehouse	Retail Grocery Chain (National Headquarters)	1,975
MedStar Southern Maryland Hospital Center	Medical Services	1,709
Safeway Store, Inc.	Retail Grocery Chain (Regional Headquarters)	1,605
Target	Consumer Goods (Retail)	1,400
Doctors Community Hospital	Medical Services	1,300
LARGEST PUBLIC SECTOR EMPLOYERS		
Prince George's County Public Schools	Education	18,873
University of Maryland ¹	Higher Education	18,726
Joint Base Andrews Naval Air Facility Washington ²	Defense Installation (civilian and military employees)	17,500
Prince George's County	Local Government	7,001
United States Internal Revenue Service ²	Revenue Collection/Data Processing	5,539
United States Bureau of the Census ²	Demographic and Economic Surveys	4,414
NASA/Goddard Space Flight Center ²	Space Satellite Design and Tracking	3,397
Prince George's Community College	Education	2,785
United States Department of Agriculture ²	USDA Library/Agricultural Research	1,850
National Maritime Intelligence-Integration Office ²	Maritime Intelligence Analysis	1,724

¹Includes University of Maryland College Park, University of Maryland University College and Bowie State University

²Excludes contractors

Source: Maryland Department of Commerce; Prince George's County Economic Development Corporation, October 2015 (as of March 2016).

Retail Sales

The Maryland sales and use tax rate is 6% on all taxable sales other than certain vehicle rentals and sales of mobile homes. Beginning July 1, 2011, the tax rate for alcoholic beverages, including mixtures, increased from 6% to 9%. Most sales of food by substantial grocery or market businesses are not subject to the sales tax. Other exemptions include medicine, energy for residential use, manufacturing machinery and equipment, and certain agricultural equipment and supplies. In fiscal year 2014, the County generated an estimated \$489.7 million in sales taxes. From fiscal year 2010 to fiscal year 2014 the sales taxes generated by the County increased 11.0%.

Prince George’s County’s diversity in employment is shown in the following table reflecting the 10 largest private and 10 largest public sector employers in the County.

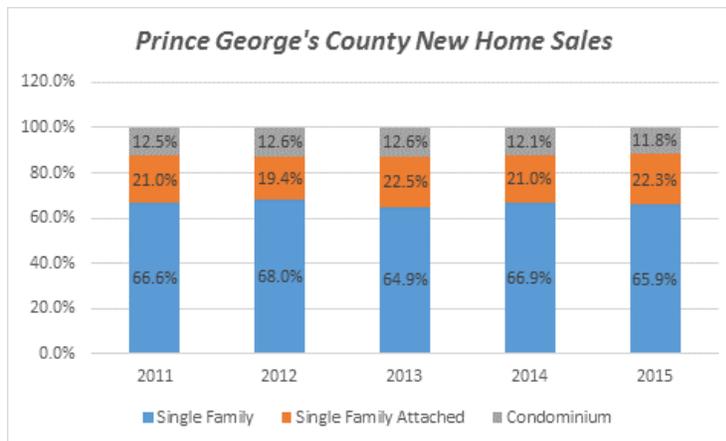
Housing

The composition of the County’s housing market is displayed in the following table. Between 2010 and 2014, total housing units increased by 0.6% (an increase of approximately 2,117 units). During this time period, single family homes decreased by 0.4% and multi- family homes increased by 2.7%.

Housing Units by Type of Structure					
	2010	2011	2012	2013	2014
Single Family					
Number of Units	221,898	224,870	222,668	221,589	221,044
Percent of Market	67.6%	68.2%	67.7%	67.3%	66.9%
Multi-Family					
Number of Units	106,499	104,985	106,376	107,778	109,470
Percent of Market	32.4%	31.8%	32.3%	32.7%	33.1%
Total Units	328,397	329,855	329,044	329,367	330,514

Source: U.S. Census Bureau, American Community Survey 1-Year Estimates (as of March 2016)

Historically, single family detached homes have made up a majority of new home sales in the County. Single family detached homes have averaged 66.5% of new total sales from 2011 to 2015.



Source: Metro Study (Accessed March 2016)

Median residential sales in the County have increased by an average of 22.7% comparing the first three quarters of Fiscal Year 2014 to 2015. The median sales price of owner-occupied residential properties in the County has also increased during this time period from an average of \$250,966 in 2014 to \$284,833 in 2015.

The following table shows the number of residences distributed within certain housing value ranges. During 2014, the majority of residences were valued between \$200,000 and \$499,999.

Estimated Market Value of Owner-Occupied Residential Property

Value Range	2013		2014		Increase (Decrease)
	Number of Residences	Share of Residences	Number of Residences	Share of Residences	Number of Residences
Less than \$50,000	5,420	2.9%	8,015	4.3%	2,595
\$50,000 to \$99,999	4,531	2.4%	5,662	3.1%	1,131
\$100,000 to \$149,999	11,254	5.9%	13,325	7.2%	2,071
\$150,000 to \$199,999	26,063	13.7%	27,922	15.1%	1,859
\$200,000 to \$299,999	68,077	35.9%	64,780	34.9%	(3,297)
\$300,000 to \$499,999	61,201	32.3%	55,935	30.2%	(5,266)
\$500,000 to \$999,999	11,837	6.2%	9,043	4.9%	(2,794)
\$1,000,000 or more	1,376	0.7%	820	0.4%	(556)
Total Owner-Occupied Units	189,759		185,502		(4,257)

Source: U.S. Census Bureau, American Community Survey, 1-Year Estimates (as of March 2016).

Note: Due to rounding, percentages may not total 100 percent.

Commercial and Industrial Growth

A summary of building permit activity, including residential as well as commercial and industrial (non-residential) projects, is provided in the following table.

Between 2006 and 2015, the value of new residential construction within the County has averaged approximately \$317.2 million annually. Non-residential construction has averaged approximately \$555.3 million per year. The value of new residential construction within the County in 2015 was \$261.7 million as compared to \$264.6 million in 2014. The value of new non-residential construction within the County in 2015 was \$1,600.0 million as compared to \$364.5 million in 2014.

Calendar Year	Residential			Commercial			Total		
	Permits Issued	Total Valuation (\$K)	Average Valuation (\$K)	Permits Issued	Total Valuation (\$K)	Average Valuation (\$K)	Total Permits Issued	Total Valuation (\$K)	Average Valuation (\$K)
2006	3,350	696,373	208	377	285,550	757	3,727	981,923	263
2007	3,068	650,330	212	367	522,425	1,424	3,435	1,172,755	341
2008	2,177	216,459	99	325	1,910,146	5,877	2,502	2,126,605	850
2009	2,220	255,011	115	198	294,894	1,489	2,418	549,905	227
2010	1,405	205,514	146	205	104,220	508	1,610	309,734	192
2011	1,394	166,440	119	157	103,627	660	1,551	270,067	174
2012	1,247	190,332	-	178	235,578	1,323	1,425	425,910	299
2013*	1,642	264,814	161	224	131,814	588	1,866	396,628	213
2014**	1,727	264,638	153	359	364,466	1,015	2,086	629,104	302
2015***	1,669	261,672	157	294	1,600,038	5,442	1,963	1,861,710	948
Total CY 06-15	19,899	\$3,171,583	\$137.11	2,684	\$5,552,758	\$19,086	22,583	\$8,724,341	\$3,810
Average Annual	1,990	\$317,158	\$137.11	268	\$555,276	\$1,909	2,258	\$872,434	\$381

* Prince George's County Department of Permitting, Inspections and Enforcement (DPIE) Opens July 1, 2013

** First full year of DPIE Existence

*** Major design-build commercial developments under construction in CY 2015: MGM Resort Casino \$1,300,000 and College Park Hotel \$130,000

Source: Bureau of the Census and Prince George's County Department of Permitting, Inspections and Enforcement (Updated May 4, 2016)

During 2015, approximately 1,349,364 square feet of new commercial space was delivered to the market in Prince George’s County. In 2015, Prince George’s County accounted for 22.98% of all the new commercial space delivered in the Washington Metropolitan Region. The total square footage of commercial space delivered by type during the calendar years 2011 through 2015 is shown below:

Commercial Square Feet Delivered, by Type					
Type	2011	2012	2013	2014	2015
Office	0	268,762	58,994	0	160,000
Retail	279,706	140,361	472,246	569,468	76,309
Flex	0	0	24,000	0	49,949
Industrial	0	69,567	639,466	179,569	1,063,106
Total Square Footage	279,706	478,690	1,194,706	749,037	1,349,364
Metropolitan Area	11.69%	7.94%	14.58%	9.23%	22.98%

Source: CoStar (Accessed March 2016).

Economic Activity

Contracting opportunities with government, research, technology and defense industry anchors contributed to the maintenance of a relatively stable market. The federal government and the County’s mixed commercial base cushion the impact of economic downturns, but also moderate the rate of recovery.

There are fourteen federal agencies mostly with research-focused activities within the County. These agencies attract technology companies as partners/contractors for their operations. The NASA Goddard Space Flight Center, the USDA Beltsville Agricultural Research Center, the Army Research Laboratory, the Institute for Defense Analysis, the Internal Revenue Service, and the U.S. Census Bureau Supercomputer Center support the local technology business base. The University of Maryland at College Park is building several new facilities, some for national security-related tenants, on its 100-acre Enterprise Campus research park. The completion of the NOAA Center for Weather and Climate Control at the Enterprise Campus was delivered in mid-2012 and involved a \$76.5 million capital expenditure.

Below is additional information about certain significant retail, commercial, and/or entertainment projects that are pending or have been completed recently:

Prince George’s County Economic Development Corporation

The County contracts with the Prince George’s County Economic Development Corporation (EDC) to promote economic development. The EDC works in the following areas:

- Market the County as a great business location – regionally and globally
- Retain, expand and grow existing businesses
- Attract new businesses
- Promote the growth and development of small, minority and disadvantaged businesses
- Operate a business incubator to nurture advanced technology and life sciences firms
- Promote strategic retail development
- Serve as the “front door” for applications to the \$50M Economic Development Incentive Fund
- Promote international trade and investment with businesses interested in doing business in the United States involving import-export trade and foreign direct investment
- Secure funds necessary to implement economic development strategies, FTZ, and expand incubator/accelerator program
- Provide workforce services and training to County businesses, job seekers and residents

- Prince George’s County negotiated a \$30 million grant from the Maryland Department of Transportation for the construction of the major access road serving the proposed Konterra Development, a major economic development project in the northern portion of the County that is expected to create jobs and strengthen the County’s commercial tax base. The access road connects Konterra to the new Contee Road Interchange at I-95, as well as to the new Intercounty Connector (MD Route 200) interchange at Virginia Manor Road. The realignment and reconstruction of the roadway provides access to undeveloped and previously inaccessible areas in northern Prince George’s County. The proposed Konterra Town Center development adjacent to the new road has the ability to accommodate about two million square feet of commercial space and 2,000 residential units, where construction is scheduled to begin in 2018.

- 2U, a technology company in Lanham that provides a cloud based platform for institutions of higher learning nationwide to deliver online courses to its students, has leased additional office space to accommodate an additional 650 employees for a total of 1,300 near the New Carrollton Metro Station.
- Aquilent of Laurel, which provides cloud computing services to the federal government, has increased its workforce to 400 employees and has leased an additional 34,000 square feet of office space in adjacent buildings in the 95 Office Center Business Park in 2015 to accommodate future job growth of 200 information technology professionals by mid-2018.
- Westphalia Town Center is a planned mixed-use town center in Upper Marlboro that will offer 347 townhomes, over 400 apartments, a 150-room hotel and 500,000 square feet of retail shopping on 479 acres during phase one. The project broke ground in June 2013. Infrastructure development is in process. At completion, the development will have 15,000 homes, one million square feet of retail, four million square feet of office space and three hotels -- making it one of the largest developments in Prince George's County.
- Maryland Department of Housing and Community Development relocated its headquarters from Crownsville, Maryland to New Carrollton. The Department, employing 400 individuals, will be the anchor tenant of a mixed use, transit-oriented development at the New Carrollton Metro Station. Phase one of the project has begun for the construction of 550 residential units and 65,000 square feet of retail space will be constructed.
- The Federal Bureau of Investigation (FBI) through the United States General Services Administration (GSA) solicited proposals throughout the region for the relocation of the agency, now in downtown Washington, D.C. Two of the three finalist sites are located in Prince George's County, one at Greenbelt Metro Station and the other at Landover Mall. The project will consist of the construction of a 2.1 million square foot security level five office complex with 11,000 employees.
- Thompson Creek is a window manufacturing company in the process of consolidating its facilities in Prince George's County into an expanded build-to-suit facility in Upper Marlboro to retain more than 400 employees and increase employment to 500.
- MGM Resorts is constructing the MGM National Harbor Casino on 23 acres. The \$1.3 billion casino is scheduled to open in mid-2016 and create 3,600 jobs.
- Susan Gage Catering, a commercial caterer, relocated from Oxon Hill to a new location in Landover, with 110 employees.
- In Hyattsville, Echo-UTC, LLC has completed construction of a 52,105 square foot Safeway grocery store and will soon complete construction of adjacent commercial/retail, restaurant and office space totaling another 33,419 square feet. The project will create 282 new jobs over the next three years. With an investment of \$23.5 million, the project has the potential to revitalize and stabilize the existing University Town Center development.
- The Kane Company has consolidated their operations to a newly constructed 100,000 square foot facility currently being constructed in Lanham. The property serves as the company's headquarters and is expected to cost approximately \$13 million and house 200-300 employees.
- Relay Foods, an on-line grocery store, relocated from Washington, D.C. to Landover with 35 employees.
- Famous Dave's Restaurant opened a new location at the Boulevard at the Capital Centre shopping center in Largo creating 50 jobs.
- Well Dunn Catering has relocated from Washington, D.C. to Hyattsville with 40 employees.
- Metropolitan Meat and Seafood has consolidated the company's Washington, D.C. operation into the company's Landover facility and added 85 additional employees.

- EBA Engineering has consolidated its Baltimore and Laurel operations into a new location in Laurel and added 109 employees to the company's Prince George's County workforce.
- AlSCO, a commercial laundry business with 180 facilities worldwide, has relocated its Washington, D.C. operation to Lanham with a workforce of 250 employees at the company's new 84,000 square foot facility.
- FlexEL, a developer and manufacturer of ultra-high capacity flexible thin-film batteries, graduated from the University of Maryland's business incubator and has leased commercial space to remain in College Park with 32 employees.
- Panda Power Funds is scheduled to begin construction of the \$1.7 billion 884 Mega-Watt Mattawoman natural gas electric power plant in Brandywine in 2016.
- UPS acquired an additional seven acres of land adjacent to the company's distribution facility in Laurel to accommodate future growth beginning with 25 new jobs in addition to the current 1,019 full-time employees.
- The County's second Harris Teeter grocery store is under construction as the anchor for the 130,000 square foot shopping center located at the Bowie Marketplace redevelopment project in Bowie.
- The County's first Whole Foods grocery store is under construction as the anchor for the 60,000 square foot retail center located at the new 37 acre mixed-use Riverdale Park Station development project in University Park.
- The County's first Dave & Busters is now open at Ritchie Station in Capitol Heights bringing a \$20 million, 40,000 square foot indoor arcade and restaurant to the 120,000 SF retail center.

Economic Development Program Initiatives

The following initiatives support economic development in the County:

- Economic Development Incentive Fund (EDIF). This is a \$50 million, one-time appropriation to support expansion of the County's commercial tax base, job retention and attraction, support for small and local businesses, promotion of development and redevelopment opportunities, transit-oriented development and growth of key industry sectors. The EDIF, which launched in March 2012, has a fiscal year appropriation of \$7-11 million annually. As of December 2015, 33 applications for funding have been approved, with a value in excess of \$23.3 million. An additional 18 projects are at various stages in the review and underwriting process; these projects have a value of over \$17.5 million. See Economic Development Incentive Fund chart of this Official Statement – under heading "Description of Services."
- The Transforming Neighborhood Initiative (TNI). TNI is an effort by the County to focus on uplifting six neighborhoods in the County that face significant economic, health, public safety, and educational challenges. Through this initiative, the County seeks to improve the quality of life in these neighborhoods while identifying ways to improve service delivery throughout the County to all residents. The communities are East Riverdale/Bladensburg, Hillcrest Heights/Marlow Heights, Langley Park, Glassmanor/Oxon Hill, Kentland/Palmer Park, and Suitland/Coral Hills.

- Enterprise Zone. The County's Enterprise Zone continues to provide incentives for new investment and new job creation in targeted areas of the County. The existing Enterprise Zones were expanded in 2014 by an additional 152.86 acres. The Focus Areas within the Enterprise Zones were also expanded and redesignated in eligible areas.
- Gaming. The Maryland General Assembly approved Governor O'Malley's Gaming Bill in August 2012. This bill, which received favorable County and statewide referendum votes in November 2012, authorized the construction of a sixth casino in the County. MGM Resorts was selected among the contenders by the Maryland Gaming Commission to be the operator of the casino that will be located at National Harbor. Construction of the new casino is expected to be complete in the fall of 2016.
- New County Department of Permits, Inspections and Enforcement. The new Department of Permits, Inspections and Enforcement opened July 1, 2013. The goal of this new department is to increase efficiency and improve consistency, predictability, and streamlined communications to both commercial and residential stakeholders with respect to permitting, inspections and code enforcement, thereby resulting in a more customer-friendly process for businesses and residents. Developers have frequently cited the current lengthy, repetitive and costly permitting and review system as an impediment to investment in the County.
- International Trade. The international trade objectives for the county shifted in 2015 from BRICS nations (Brazil, Russia, India, China, and South Africa) to a global market strategy. Regions interested in doing business in the United States in terms of import-export trade or foreign direct investment are of interest to the County. The EDC has joined the State in business missions to India (2012) and Brazil (2013). County Executive Rushern L. Baker, III led County missions to China in 2014 and in September 2015, and will lead another county mission China in September 2015. The County also opened the India Business Center at the EDC.
- Foreign-Trade Zone 63. Companies that import components and products from overseas will find hundreds of thousands of dollars in savings by participating in the County's foreign-trade zone. Originally designated to the Collington Industrial Business Park, companies can now determine where they want to warehouse inventory, or set-up light manufacturing in the County near Washington, D.C., Baltimore, or south near Charles County. Foreign-Trade Zones eliminate or defer duties on imports and provide cash flow management protections; eliminate tariffs on exports; reduce record of entry payments; and speed processing through the port.
- Hospital Memorandum of Understanding. Under this multi-party agreement, the County, the University of Maryland Medical System Corporation, and the University System of Maryland worked with Dimensions Health Corporation and State health officials to establish an analysis of the County's health facility needs to determine the scale, cost and feasibility of constructing a new regional medical center and health sciences campus. In late August 2013, the Board of Directors of Dimensions Health Corporation approved the selection of the Largo Town Center site as the location of the new campus. The certificate of need application that was originally submitted in October 2013 was updated and resubmitted to the State of Maryland in January 2015. Following the certificate of need approval, groundbreaking for the \$645 million project could occur in 2016 with occupation by 2019.

- Strengthened Minority Business and Local/Small Business Outreach and Certification. Driven in part by procurement opportunities in professional services, such as architectural and engineering services, as well as information technology and construction, the number of participants currently certified as Minority Business Enterprises in the County has reached 900 firms, the highest number of minority-owned firms that have been certified in the County since the Minority Business Program was created more than 25 years ago. This program is designed to give access to procurement opportunities to the minority business community and expand competition in the procurement process. It was renamed the Supplier Development and Diversity Division (SDDD) Program in early 2013. Effective January 1, 2013, the County began certifying local/small County-based businesses and effective July 1, 2013, SDDD began implementing the provisions of CB-17-2011 (the Jobs First Act) that gives preference for County contracts to County-based businesses. The Jobs First Act was amended in 2015 to also give preference to County-located businesses to encourage businesses headquartered outside the County to establish facilities in the County and hire local County residents.
- Economic Development Strategy. The Maryland-National Capital Park and Planning Commission, and its consultant, Battelle Technology Partnership Practice, completed work on a targeted economic development strategy for the County in May 2013. The strategy focuses on identifying and targeting key high-growth industries that have the greatest potential to contribute to economic growth and development in Prince George's County; leveraging the County's unique assets to capture economic development opportunities; and setting forth targeted strategies and actions to maximize economic development. The high-growth industry sectors are Healthcare and Life Sciences, Business Services, ICE (Information, Communications and Electronics) and the federal government.
- Transit Oriented Development (TOD). In March 2014, County Executive Rushern L. Baker, III kicked-off the Jump Start TOD initiative to focus attention on attracting commercial and residential development at five of the County's 15 Metro Stations (Largo, New Carrollton, Prince George's Plaza, Branch Avenue, and Suitland). These high priority TOD locations will receive needed public infrastructure improvements and development projects will be fast-tracked through regulatory approval processes and given priority consideration for County incentives. Each of the five high priority TOD locations will receive market branding and the County government will take a leadership role in working with local, state, regional and federal partners to implement Transit Oriented Development.
- Purple Line Light Rail Transit System. In April 2016, the State of Maryland approved contracts to build and operate a new \$2 billion light rail transit system that will connect New Carrollton in Prince George's County to Bethesda in Montgomery County via a 16-mile light rail line with 21 passenger stations. The light rail system is scheduled to begin operating in 2022.

Major Economic Development Projects

Several projects, reflecting a range of commercial development in the County, are listed in the following chart.

Major Commercial Projects Recently Completed, Under Construction, or in Development Stage

As of April 2016

<u>Project Name</u>	Location Number in Map	New or Expansion	Expected Occupancy	Capital Investment (\$ Millions)	Size (Square Feet) at Full Build-Out
A. <u>Projects Completed or Under Construction</u>					
The Brickyard	3	New	Completed	N/A	1,300,000
Enterprise Campus (UMCP) 2 Office Buildings	6	New	Completed	25.0	120,000
Bowie Marketplace (Retail)	8	New	2016	22.0	130,000
The Hotel at the University of Maryland	9	New	2016	115.0	519,900
New Carrollton Metro Area (Mixed-Use) - Phase 1	10	New	2017	N/A	2,000,000
Melford (formerly MD Science and Tech Center)	11	New	Completed	18.0	40,000
Steeplechase 95 International Business Park (Retail Phase II)	12	New	Completed	13.8	46,000
Ritchie Station (Phase I)	13	New	2017	76.2	381,000
MGM National Harbor, LLC	15	New	2016	1,300.0	1,079,000
Brandywine Crossing (phase 2)	16	New	Completed	14.2	71,000
Andrews Federal Campus (Phase I)	17	New	Completed	30.0	125,079
Cafritz Property (Retail)	18	New	Jul-05	250.0	370,000
Westphalia Town Center (Phase I)	21	New	2018	N/A	5,900,000
Sub-Total A				\$1,864.20	12,081,979
B. <u>Projects in Development Stage</u>					
Konterra (Town Center East)	1	New	N/A	N/A	5,300,000
Laurel Commons	2	Expansion	July 2016	N/A	665,000
Greenbelt Metro Area (Mixed-Use)	4	New	N/A	N/A	3,000,000
University of Maryland Innovation District	5	New	N/A	N/A	2,804,000
Enterprise Campus (UMCP)	6	New	N/A	N/A	2,000,000
College Park Metro (Mixed-Use)	7	New	N/A	N/A	N/A
Branch Ave. Metro (Office and Residential)	14	New	N/A	N/A	400,000
Andrews Federal Campus (Phase II)	17	New	N/A	N/A	167,033
Regional Medical Center	19	New	2017	650.0	150,000
Brandywine Village	20	New	N/A	N/A	218,500
Walmart (Duvall Village)	22	New	N/A	N/A	110,000
Panda Mattawoman (Natural Gas Electric Power Plant)	23	New	2018	1,000.0	N/A
Keys Energy Center (Natural Gas Electric Power Plant)	24	New	N/A	850.0	N/A
Purple Line Transit Light Rail (Prince George's County Section)	25	New	2022	1,000.0	N/A
Hampton Mall (Redevelopment)	26	New	N/A	250.0	N/A
Sub-Total B				\$3,750.00	14,814,533
Total (A+B)				\$5,614.20	26,896,512

Source: Prince George's County Economic Development Corporation

Transportation

The County is located near three major airports: Baltimore Washington International Thurgood Marshall Airport; Washington Dulles International Airport; and Ronald Reagan Washington National Airport. Interstate 95 provides the County with access to the nation's eastern seaboard, including the major commercial centers in Baltimore, Philadelphia and New York City. Interstate 495 (the Capital Beltway) circles Washington, D.C. and provides access both to that city and to nearby suburban jurisdictions. Other major highways in the County include the Baltimore-Washington Parkway (Route 295), U.S. Route 50 (access to Maryland's eastern shore) and U.S. Route 3/301 (access to Baltimore and Virginia). The Washington Metropolitan Area Transit Authority (WMATA) Metrorail system operates a 117 mile subway system. The system serves Washington, D.C. and nearby suburban areas, including five lines and 15 stations that serve the

County. WMATA's local bus system has more than 70 routes serving County residents. The County supplements WMATA's bus service with "TheBus."

The County is served by CSX Transportation, Norfolk Southern, Amtrak (including a station at New Carrollton on Amtrak's Northeast Corridor service), and the MARC (Maryland Area Regional Commuter) rail system which has two lines that run through the County, both of which provide service between Baltimore City (and surrounding areas) and Washington, D.C.'s Union Station, with 9 stations in the County. More than 90 freight lines serve the County. Most of the County lines lie within the Washington commercial zone as defined by the Interstate Commerce Commission.

Utilities

Baltimore Gas & Electric Company (BGE), Potomac Electric Power Company (PEPCO), Southern Maryland Electric Cooperative, Inc. (SMECO), and Allegheny Power provide the County with electricity services. County residents have the option of choosing their electric supplier. Natural gas is supplied by Washington Gas or BGE; however, County residents have the option of buying natural gas directly from natural gas suppliers. BGE is owned by Exelon Corporation and Exelon is in the process of acquiring PEPCO which would make both entities subsidiaries of Exelon Corporation. Washington Suburban Sanitary Commission provides the water supply to the entire County and wastewater treatment services for part of the County. The District of Columbia Water and Sewer Authority also provides wastewater treatment services for parts of the County. Storm drainage for the County is provided by the County Department of Environmental Resources.

Property Taxes

The County levies real and personal property taxes on all taxable property within its boundaries. Taxes are due in full on July 1 and become delinquent on the following October 1 with the exception of those taxes owed by (1) small business owners for which annual property taxes do not exceed \$100,000 who qualify for a semi-annual payment plan (effective July 1, 2012); and (2) and homeowners living in their properties who qualify for a semi-annual payment plan. Semi-annual taxpayers must pay one-half of the annual taxes by September 30 and the remaining one-half in a second installment by December 31 of the fiscal year. No discount is allowed for early payment. Interest at the rate of 2/3% per month and a penalty of 1% per month are charged after September 30 (December 31 for the second semi-annual payment), except that 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 May in the fiscal year taxes are due and payable. Legal action may be taken to enforce payment of both real and personal property taxes.

An independent state agency, the State Department of Assessments and Taxation (SDAT), assesses all real and tangible personal property on a rolling basis every three years for purposes of property taxation by State and local governmental units. Prior to tax year 2001, real property had been valued at market value and assessed in each year at 40% of phased-in market value. Beginning in tax year 2001, property tax rates are applied to 100%, instead of 40%, of the value of real property.

By law, the annual taxable assessment growth of owner-occupied residential property is capped at the lesser of the percentage of increase in the Consumer Price Index (CPI) for the previous 12 months or 5% of the prior year's taxable assessment. The cap for fiscal year 2016 is set at 102%, based on the CPI and remains unchanged from fiscal year 2015. State law also provides that certain owner occupants of residential property may receive certain property tax credits based on various criteria including their income and net worth. The County is reimbursed by the State for some of these tax credits. Certain real estate developments inside the Capital Beltway within census tracts where the median household income does not exceed 100% of the median household income for the County based on census numbers (Revitalization Tax Credit Districts) are eligible to receive tax credits. This provides tax incentives for revitalization projects, with a long-term goal of enhancing the communities and preserving the tax base.

Tangible personal property and commercial and manufacturing businesses are assessed annually at fair market value with no inflation allowance, based upon annual reports filed with SDAT. Public utility property is assessed at fair market value determined by reference to both income and property values, with the exception that power-generating personal property has been subject to a phased-in partial assessment due to

the State's electricity deregulation. The County grants some personal property tax credits for research and development property, designed to stimulate economic development.

The following tables set forth both the growth rate of and the assessed and estimated actual value of real and personal property in the County.

Annual Growth Rates		
<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>Estimated Actual Value</u>
2016 ⁽¹⁾	3.4%	0.6%
2015	1.2%	2.4%
2014	-3.8%	-3.2%
2013	-6.8%	-7.3%
2012	-13.2%	-13.0%
2011	-1.0%	0.1%
Six-Year Average:	-3.4%	-3.4%

⁽¹⁾ Estimated for the year ending June 30, 2016 as of March 31, 2016

Source: Office of Finance

Assessed and Estimated Actual Value of Taxable Property						
(\$ millions)						
	Real Property		Other Property		Total	
Fiscal Year	Assessed Value	Estimated Actual Value	Business Personal Property ⁽¹⁾	Public Utilities	Assessed Value	Estimated Actual Value
2016 ⁽²⁾	\$ 76,675.5	\$ 76,699.0	\$ 1,554.2	\$ 1,458.7	\$ 79,688.4	\$ 79,711.9
2015	74,172.4	76,307.1	1,420.0	1,485.6	77,078.0	79,212.7
2014	73,425.4	74,563.6	1,361.4	1,393.9	76,180.7	77,318.9
2013	75,993.6	76,633.2	1,840.0	1,364.6	79,191.1	79,837.8
2012	82,964.5	83,404.3	1,380.4	1,332.9	84,930.8	86,117.6
2011	95,135.1	96,199.1	1,415.1	1,334.1	97,884.3	98,948.3

⁽¹⁾ Effective Fiscal Year 2003, "Unincorporated Personal Property" has been combined with "Incorporated Ordinary Business" and is reported as "Business Personal Property" on estimates prepared for the County Assessable Base by the Maryland State Department of Assessments and Taxation.

⁽²⁾ Estimated for the year ending June 30, 2016 as of March 31, 2016

Source: Maryland State Department of Assessments and Taxation

The total General Fund property tax revenues included in the County’s proposed operating budget for fiscal year 2017 are \$787.3 million (adjusted for tax credits, assessment abatements and deletions, allowance for municipal tax differential and uncollectible taxes). Total property tax revenues in fiscal year 2016 are estimated to total \$776.0 million.

Real and Personal Property Taxes					
<i>(Levies and Collections)</i>					
Fiscal Year	Assessed Value (\$ millions)	Tax Rate per \$100 Assessed Value	Tax Levy Excluding Adjustments	Collected During Fiscal Year	Percent Collected as of June 30
2016 ⁽¹⁾	\$ 79,688.4	\$1.00	\$781,337,312	\$767,607,287	98.2%
2015	77,078.0	0.96	791,690,172	787,981,697	99.5
2014	76,180.7	0.96	778,008,663	773,446,612	99.7
2013	79,191.1	0.96	803,094,590	798,920,671	99.8
2012	84,930.8	0.96	869,334,583	866,278,838	99.9
2011	97,884.3	0.96	987,400,083	981,984,336	99.9

⁽¹⁾Estimated for the year ending June 30, 2016 as of March 31, 2016

Source: Office of Finance

The following table provides a breakdown of the property tax rate into its component parts. The “General” rate is the only listed component that is subject to the limitations of Section 812 of the County Charter. Pursuant to Section 812, the County shall not levy “a real property tax which would result in a total collection of real property taxes greater than the amount collected in fiscal year 1979.” Section 812 further provides that “the County may levy a real property tax which would result in a total collection of real property taxes greater than the amount collected in fiscal year 1979 if the real property tax rate does not exceed two dollars and forty cents (\$2.40) for each One Hundred Dollars (\$100.00) of assessed value.” In 2000, Maryland Senate Bill 626 provided that beginning in tax year 2001, property tax rates shall be applied to 100%, instead of 40%, of the value of real property and that the real property tax rate be adjusted to make the impact revenue neutral. The bill also stipulated that any limit on a local real property tax rate in a local law or charter provision shall be constructed to mean a rate equal to 40% times the rate stated in the local law or charter provision. As a result, the nominal real property rate of the County was adjusted to \$0.96/\$100 of assessed value in FY2002. In 2012, the Maryland Senate passed Bill 848 that provides for the property tax rate to be set higher than the rate authorized under the County’s Charter. Any additional revenue generated as a result of the higher property tax rate is for the sole purpose of funding the approved budget of the local school board. The FY2016 Budget set the County’s nominal real property rate at \$1.00/\$100 of assessed value. The “Stormwater Management” component pays debt service on bonds issued to provide funds for, and other expenses pertaining to, stormwater management facilities. The Washington Suburban Transit Commission (WSTC) component pays for the County’s contribution to WSTC and other related mass transit costs. The Maryland State and the Maryland-National Capital Park and Planning Commission (M-NCPPC) components identify taxes collected by the County on behalf of those entities.

FY 2016 Property Tax Rates in Dollars/\$100 of Assessed Value

PRINCE GEORGE'S COUNTY		OVERLAPPING TAXING ENTITIES		
<u>General</u>	<u>Stormwater Management</u>	<u>WSTC</u>	<u>Maryland State</u>	<u>M-NCPPC</u>
\$1.00	\$0.054	\$0.026	\$0.112	\$0.294

Source: Office of Finance

Property Tax Levies

(\$ thousands)

Fiscal Year	PRINCE GEORGE'S COUNTY		OVERLAPPING TAXING ENTITIES		
	General	Stormwater Management	WSTC	Maryland State	M-NCPPC
2016 ⁽¹⁾	\$ 781,337	\$ 39,442	\$ 21,789	\$ 85,751	\$ 236,074
2015	725,143	38,102	21,050	82,832	216,026
2014	704,813	37,592	20,734	81,875	212,594
2013	769,416	39,600	21,652	84,913	222,092
2012	831,246	43,283	23,381	92,218	239,655
2011	941,591	47,915	26,501	105,560	270,974

⁽¹⁾Estimated for the year ending June 30, 2016 as of March 31, 2016

Source: Office of Finance

The top 10 principal taxpayers within the County for fiscal year 2015 are as follows:

Principal Taxpayers

June 30, 2015

Taxpayer	Real Property Assessment	Personal Property Assessment	Total Assessment
Potomac Electric Power Co	\$ 7,777,900	\$ 603,123,800	\$ 610,901,700
Gaylord National LLC	562,000,000		562,000,000
Verizon-Maryland		297,879,330	297,879,330
Empirian Village of Maryland, LLC	274,190,368	1,565,870	275,756,238
Washington Gas Light Company	6,276,400	241,405,500	247,681,900
JKC Stadium (FedEx Field)	208,927,300		208,927,300
Greenbelt Homes, Incorporated	181,544,483		181,544,483
Genon Chalk Point LLC	166,602,400		166,602,400
Baltimore Gas & Electric Company		165,459,430	165,459,430
Summerfield Housing LTD Partnership	150,929,700		150,929,700
Totals	\$1,558,248,551	\$ 1,309,433,930	\$2,867,682,481
Percentage of Assessable Base	5.4%	4.5%	9.9%

Source: Office of Finance

Statutory Debt Limit

Pursuant to Section 5 of the Express Powers Act, the statutory debt limit of the County is a total of 6% of the assessable base of real property of the County and 15% of the County’s assessable base of personal property and operating real property described in Section 8-109(c) of the Tax-Property Article of the Annotated Code of MD, as amended. State law authorizes certain exclusions. Obligations issued by the Revenue Authority, the Industrial Development Authority and the Local Government Insurance Trust are excluded from the County’s statutory limit. The current debt limit of the County is shown in the following table.

Statutory Debt Limit	
<i>June 30, 2015⁽¹⁾</i>	
County General Obligation Bonds	\$ 1,458,930,000
Maryland Development Debt	49,867
Maryland CDA Infrastructure Financing Bonds	339,000
County Solid Waste Revenue Bonds	-
Total Debt of the County	1,459,318,867
<u>Less: Portion of Debt Excludable by State Law:</u>	
County General Obligation Bonds for:	
Mass Transit Facilities	9,025,576
Stormwater Facilities	153,060,000
Solid Waste Projects	36,923,000
School Facilities Surcharge-Supported	291,880,000
School Facility Supported by Telecommunication Tax	23,115,000
Maryland Development Debt	49,867
Maryland CDA Infrastructure Financing Bonds	339,000
County Solid Waste Revenue Bonds	-
Total Excludable Debt	514,392,443
County Debt Subject to Statutory Debt Limitation	944,926,424
Assessable Base of Real Property Taxation (FY2015)	76,307,098,100
Assessable Base of Personal Property and Operating	
Real Property Taxation (FY2015)	2,905,626,768
Debt Limit (a total of 6% of Real Property Assessable Base	
and 15% of Assessable Base of Personal Property) (FY2015)	5,014,269,901
<u>Less: County Debt Subject to Debt Limitation</u>	<u>944,926,424</u>
County Debt Margin	4,069,343,477

⁽¹⁾Unaudited

Source: Office of Finance

Direct, Overlapping and Underlying Debt Statement

(\$ millions)

June 30, 2015⁽¹⁾

	Gross Debt Principal Amount	Self-Supporting Debt	Net Tax-Supported General Fund Debt Principal Amount
Direct Debt			
County General Obligation Bonds:			
General Purpose	944.9	-	944.9
Mass Transit	9.0	9.0	-
Stormwater Management	153.1	153.1	-
Solid Waste Management	36.9	36.9	-
School Facilities Surcharge-Supported	291.9	291.9	-
School Facilities Supported by Telecommunication Tax	23.1	23.1	-
County Solid Waste Revenue Bonds	-	-	-
Maryland CDA Development Debt	0.1	0.1	-
Maryland CDA Infrastructure Financing Bonds	0.3	0.3	-
Maryland Local Government Insurance Trust Obligations Issued for County Account	-	-	-
Total Direct Debt	1,459.3	514.4	944.9
Overlapping and Underlying Debt			
Washington Suburban Sanitary Commission	631.2	631.2	-
Maryland-National Capital Park and Planning Commission	57.5	57.5	-
Industrial Development Authority of Prince George's County Lease Revenue Bonds	50.8	-	50.8
Underlying Towns and Cities Within County	50.0	50.0	-
Total Overlapping and Underlying Debt	789.5	738.7	50.8
Total Direct, Overlapping Debt and Underlying Debt	2,248.8	1,253.1	995.7
⁽¹⁾ Unaudited			

Source: Office of Finance

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of _____, 2016 (the “Disclosure Certificate”), is executed and delivered by the Washington Suburban Sanitary Commission (the “Commission”) in connection with the issuance and delivery of its \$_____ Washington Suburban Sanitary District, Maryland (Montgomery and Prince George’s Counties, Maryland) Consolidated Public Improvement Bonds of 2016 (Second Series) (the “Bonds”). The Commission hereby covenants and agrees as follows:

SECTION 1. *Purpose of the Disclosure Certificate.* This Disclosure Certificate is being executed and delivered by the Commission for the benefit of the holders from time to time of the Bonds and the beneficial owners from time to time of the Bonds and in order to assist the Underwriter (defined below) in complying with the Rule (defined below).

SECTION 2. *Definitions.* In addition to the definitions set forth above, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Commission pursuant to, and as described in, Sections 4 and 5 of this Disclosure Certificate.

“Disclosure Representative” shall mean the Chief Financial Officer of the Commission or her designee, or such other person as the Commission shall designate from time to time.

“Dissemination Agent” shall mean the Commission or any Dissemination Agent designated in writing by the Commission.

“EMMA” means the Electronic Municipal Market Access system maintained by the MSRB for purposes of the Rule.

“Listed Events” shall mean any of the events listed in Section 6(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, and its successors.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Underwriter” shall mean the original underwriter(s) of the Bonds required to comply with the Rule in connection with the offering or sale of the Bonds.

SECTION 3. *Scope of Agreement.*

(a) The disclosure obligations under this Disclosure Certificate relate solely to the Bonds. Such disclosure obligations are not applicable to any other securities issued or to be issued by the Commission.

(b) The Commission is the only “obligated person” with respect to the Bonds within the meaning of the Rule.

SECTION 4. *Provision of Annual Reports.* The Commission shall, not later than March 31 after the end of the fiscal year, commencing with the fiscal year ending June 30, 2017, provide to the MSRB in an electronic format and accompanied by identifying information as prescribed by the MSRB an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Certificate. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Certificate; provided that the audited financial statements of the Commission may be submitted separately from the balance of the Annual Report.

If the Commission is unable to provide the annual financial information and operating data within the applicable time periods specified herein, the Commission shall send in a timely manner a notice of such failure to the MSRB.

SECTION 5. *Content of Annual Reports.* The Commission's Annual Report shall contain or incorporate by reference the following:

- Comprehensive audited financial statements for the immediately preceding fiscal year, prepared in accordance with generally accepted accounting principles, unless the audited financial statements are not available on or before the date of such filing, in which event said audited financial statements will be promptly provided when and if available and the Commission will provide unaudited financial statements as part of the Annual Report; and
- The information provided in the Official Statement prepared and delivered by the Commission with respect to the Bonds, under the headings "Washington Suburban Sanitary District - Employees' Retirement Plan," "- Leases and Agreements," "Bonded Indebtedness of the District," "District Financial Data," "Summary of District Ad Valorem Taxes and Other Charges and Revenues Therefrom," "Capital Improvements Program," and "Water and Sewerage Facilities, Service Centers and Statistics," and updated as of a date no earlier than the last day of the immediately-preceding fiscal year.

SECTION 6. *Reporting of Significant Events.*

(a) In a timely manner, not in excess of 10 business days, the Commission will provide to the MSRB notice of the occurrence of any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations;
- (vii) modifications to rights of holders of the Bonds, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the Commission;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the Commission or the sale of all or substantially all of the assets of the Commission, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Commission hereby acknowledges that certain of the above-enumerated events do not, and are not ever expected to, apply to the Bonds. Nevertheless, the Commission intends to provide the Underwriter with complete assistance

in complying with the Rule. Therefore, the Commission covenants to provide notice of all of the above-enumerated events should they occur.

SECTION 7. *Termination of Reporting Obligation.* The Commission's obligations under this Disclosure Certificate shall terminate when there are no longer any Bonds outstanding.

SECTION 8. *Dissemination Agent.* The Commission may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. *Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the Commission may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) said amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Commission, or type of business conducted by the Commission;

(b) said provision, as amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the initial offering of the Bonds after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) said amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by nationally recognized bond counsel or by an approving vote of the holders of 25% of the outstanding aggregate principal amount of the Bonds.

The reasons for any amendment and the impact of the change, if any, in the type of operating data or financial information being provided will be explained in information provided with the Annual Report containing the amended operating data or financial information.

SECTION 10. *Additional Information.* Nothing in this Disclosure Certificate shall be deemed to prevent the Commission from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Commission chooses to include any information in any Annual Report or notice of occurrences of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Commission shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. *Default.* Failure to comply with this Disclosure Certificate shall not be deemed to be a default or an event of default with respect to the Bonds.

SECTION 12. *Filing with EMMA.* Unless otherwise required by the MSRB, all filings with the MSRB shall be made with EMMA and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 13. *Beneficiaries.* This Disclosure Certificate shall inure solely to the benefit of the Commission, the Dissemination Agent (if any), the Underwriter, and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. *Limitation of Forum.* Any suit or other proceedings seeking redress with regard to any claimed failure by the Commission to perform its obligations under this Disclosure Certificate must be filed in the Circuit Court of Montgomery County, Maryland or the Circuit Court of Prince George's County, Maryland.

SECTION 15. *Law of Maryland.* This Disclosure Certificate and any claims made with respect to performance by the Commission of its obligations under this Disclosure Certificate shall be subject to and be construed according to the laws of the State of Maryland (without regard to provisions on conflict of laws) or federal laws.

WASHINGTON SUBURBAN
SANITARY COMMISSION

By: _____
Joseph F. Beach
Chief Financial Officer

FORM OF OPINION OF BOND COUNSEL

**Proposed Opinion of Bond Counsel related to
Washington Suburban Sanitary District, Maryland (Montgomery and Prince George’s Counties, Maryland)
Consolidated Public Improvement Bonds of 2016
(Second Series)**

[Closing Date]

Washington Suburban Sanitary Commission
Laurel, Maryland

Ladies and Gentlemen:

In connection with the issuance and sale of \$381,810,000 Washington Suburban Sanitary District, Maryland (Montgomery and Prince George’s Counties, Maryland) Consolidated Public Improvement Bonds of 2016 (Second Series) dated December 1, 2016 (the “Bonds”), maturing annually on June 1 in the years 2017 through 2046, inclusive, in the amounts set forth therein and bearing interest, payable semi-annually on June 1 and December 1 in each year, beginning June 1, 2017, we have examined:

- (i) Titles 16 through 25, inclusive, of Division II of the Public Utilities Article of the Annotated Code of Maryland, as amended (herein sometimes called the “Act”);
- (ii) Resolution No. 2017-2138, adopted by the Washington Suburban Sanitary Commission (the “Commission”) on September 21, 2016 (the “Resolution”);
- (iii) the form of Bond;
- (iv) relevant provisions of the Internal Revenue Code of 1986, as amended (the “Code”); and
- (v) other proofs submitted to us relative to the issuance and sale of the Bonds.

The terms of the Bonds are contained in the Resolution and the Bonds.

We have made no investigation of, and are rendering no opinion regarding, the title to real or personal property.

In rendering this opinion, we have relied without independent investigation on certifications provided by the Commission with respect to certain material facts within the knowledge of the Commission relevant to the tax-exempt status of interest on the Bonds. We have not examined any documents or other information concerning the business or financial resources of the Washington Suburban Sanitary District, Montgomery County, Maryland, or Prince George’s County, Maryland and we express no opinion as to the accuracy or completeness of any information that may have been relied upon by holders of the Bonds in making their decision to purchase the Bonds.

Based upon the foregoing, we are of the opinion that, under existing statutes, regulations and decisions:

- (a) The Commission is a validly created and existing public corporation of the State of Maryland.
- (b) The Bonds are valid and legally binding general obligations of the Washington Suburban Sanitary District, all the assessable property within which is subject to the levy of an ad valorem tax, without limitation of rate or amount, to pay the Bonds and the interest thereon.

(c) Interest on the Bonds is forever exempt from taxation by the State of Maryland and its counties and municipalities; no opinion is expressed as to estate or inheritance taxes or any other taxes not levied or assessed directly on the interest on the Bonds.

(d) Assuming compliance with the covenants referred to herein, interest on the Bonds will be excludable from gross income for federal income tax purposes. It is noted that under the provisions of the Code, there are certain restrictions that must be met subsequent to the delivery of the Bonds in order for interest on the Bonds to remain excludable from gross income for federal income tax purposes, including restrictions that must be complied with throughout the term of the bonds of the issue of bonds of which the Bonds are a part. These include the following: (i) a requirement that certain earnings received from the investment of the proceeds of the bonds of the issue of bonds of which the Bonds are a part be rebated to the United States of America under certain circumstances (or that certain payments in lieu of rebate be made), (ii) other requirements applicable to the investment of the proceeds of the bonds of the issue of bonds of which the Bonds are a part, and (iii) other requirements applicable to the use of the proceeds of the Bonds and the facilities financed or refinanced with the proceeds of the bonds of the issue of bonds of which the Bonds are a part. Failure to comply with one or more of these requirements could result in the inclusion of the interest payable on the Bonds in gross income for federal income tax purposes, effective from the date of their issuance. The Commission has made certain covenants regarding actions necessary to maintain the exemption of interest on the Bonds from federal income taxation purposes of interest on the Bonds. It is our opinion that, assuming compliance with such covenants, the interest on the Bonds will remain excludable from gross income for federal income tax purposes under the provisions of the Code.

(e) Interest on the Bonds is not includable in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment. However, for purposes of calculating the corporate alternative minimum tax, a corporation subject to such tax will be required to increase its alternative minimum taxable income by 75% 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 such purposes, "adjusted current earnings" would include, among other items, interest income from the Bonds. In addition, interest income on the Bonds will be subject to the branch profits tax imposed by the Code on foreign corporations engaged in a trade or business in the United States.

The opinions expressed above are limited to the matters set forth above, and no other opinions should be inferred beyond the matters expressly stated. We assume no obligation to supplement this opinion if any applicable laws or interpretations thereof change after the date hereof or if we become aware of any facts or circumstances that might change the opinions expressed herein after the date hereof.

Very truly yours,

Book-Entry System

General. The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds in principal amount equal to the aggregate principal amount of the Bonds of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, 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 and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“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. Beneficial Owners are, however, 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Bond Registrar and Paying Agent, on payable date in accordance with their respective holdings shown on DTC's. Payments by Direct and Indirect 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 Direct or Indirect Participant and not of DTC, DTC's nominee, the Bond Registrar and Paying Agent or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or its Bond 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.

Book-Entry Only System — Miscellaneous. The information in the Section "Book-Entry Only System — General" has been obtained from DTC. The Commission takes no responsibility for the accuracy or completeness thereof. The Commission will have no responsibility or obligations to DTC Participants or the persons for whom they act as nominees with respect to the payments to or the providing of notice to the DTC Participants, or the Indirect Participants, or Beneficial Owners. The Commission cannot and does not give any assurance that DTC Participants or others will distribute principal and interest payments paid to DTC or its nominees, as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

Discontinuation of Book-Entry Only System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commission. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The Commission may also decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

In the event that the Book-Entry Only System is discontinued, the Bonds in fully certificated form will be issued as fully registered Bonds without coupons in the denomination of \$5,000 each or any integral multiple thereof. Such Bonds will be transferable only upon the registration books kept at the principal office of the Bond Registrar and Paying Agent, by the registered owner thereof in person, or by an attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer in the form attached thereto and satisfactory to the Bond Registrar and Paying Agent, and duly executed by the registered owner or a duly authorized attorney. Within a reasonable time of such surrender, the Commission shall cause to be issued in the name of the transferee a new registered Bond or Bonds of any of the authorized denominations in an aggregate principal amount equal to the principal amount of the Bond surrendered and maturing on the same date and bearing interest at the same rate. The new Bond or Bonds shall be delivered to the transferee only after due authentication by an authorized officer of the Bond Registrar and Paying Agent. The Commission may deem and treat the person in whose name a Bond is registered as the absolute owner thereof for the purpose of receiving payment of or on account of the principal or redemption price thereof and interest due thereon and for all other purposes.

In the event that the Book-Entry Only System is discontinued, the Bonds may be transferred or exchanged at the principal office of the Bond Registrar and Paying Agent. Upon any such transfer or exchange, the Commission shall execute and the Bond Registrar and Paying Agent shall authenticate and deliver a new registered Bond or Bonds without coupons of any of the authorized denominations in an aggregate principal amount equal to the principal amount of the Bond exchanged or transferred, and maturing on the same date and bearing interest at the same rate. In each case, the Bond Registrar and Paying Agent may require payment by any holder of Bonds requesting exchange or transfer of Bonds of any tax, fee or other governmental charge, shipping charges and insurance that may be required to be paid with respect to such exchange or transfer, but otherwise no charge shall be made to the holder of Bonds for such exchange or transfer.

The Bond Registrar and Paying Agent shall not be required to transfer or exchange any Bond after the mailing of notice calling such Bond or portion thereof for redemption as previously described; provided, however, that the foregoing limitation shall not apply to that portion of a Bond in excess of \$5,000 which is not being called for redemption.

NEITHER THE COMMISSION NOR THE BOND REGISTRAR AND PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO 1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; 2) THE PAYMENT BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS; 3) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; 4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER; OR 5) THE SELECTION BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF BONDS.